



EB-2014-0311

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an accounting order to establish a deferral account to be effective October 1, 2014.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

DECISION and ORDER
March 27, 2015

Hydro One Networks Inc. (Hydro One) filed an accounting order application with the Ontario Energy Board, (the OEB) on October 3, 2014 under section 78.1 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B). The application sought approval to establish a deferral account for the purpose of recording expenses relating to the North West Bulk Transmission Line (NWBTL) Project.

The OEB approved intervenor status for the Vulnerable Energy Consumers Coalition (VECC), School Energy Coalition (SEC), Power Workers Union (PWU), Ontario Power Generation (OPG), Association of Major Power Consumers of Ontario (AMPCO), Energy Probe Research Foundation (Energy Probe), Canadian Manufacturers and Exporters (CME) and the Ontario Power Authority (OPA). VECC, SEC, AMPCO, CME, and Energy Probe were found eligible to apply for an award of costs under the OEB's *Practice Direction on Cost Awards*. The OEB dealt with this application by way of a written hearing.

Background

In the application for the NWBTL deferral account, Hydro One indicated that it will be undertaking preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and Environmental Assessment preparation work associated with the NWBTL Project before the costs qualify to be recorded in transmission construction work in progress (“CWIP”).

Hydro One also indicated that these OM&A costs are not included in its current 2014 transmission rates (EB-2012-0031), nor were they included in the 2015-2016 proposed transmission rates revenue requirement (EB-2014- 0140), and as such are outside the base upon which rates were derived. Hydro One’s intention is that these costs, incurred by Hydro One to facilitate the NWBTL Project, would be recovered through the Ontario Uniform Transmission Rates.

Hydro One’s pre-filed evidence identified the NWBTL Project as a priority project identified in the 2013 Long-Term Energy Plan (LTEP). The purpose of this project is to augment the capacity and maintain the reliability of electricity supply to the area of northwestern Ontario located west of Thunder Bay to support forecast electricity demand growth.

Hydro One provided a letter from the Ministry of Energy in December 2013 (Attachment A to the application) about Hydro One undertaking the development phase of the project and subsequent to that letter, the OEB included this activity as a condition to Hydro One Transmission’s license in January 2014 (EB-2013-0437).

In general, submissions by OEB staff and intervenors were framed by the 3 criteria for the granting of a deferral account, found in the OEB’s *Filing Requirements of Electricity Transmission Applications*: causation, materiality and prudence.

Causation

Most intervenors submitted that the costs were not outside of the base upon which the rates were derived, saying that these costs were reasonably foreseeable at the time the rates were set. The arguments were largely based on the fact that Hydro One knew of the potential of NWBTL costs at the time of the 2015/16 transmission rates application was filed in September of 2014.

While Hydro One submitted that the OPA letter advising it to initiate preliminary development work was only provided on October 1st, 2014 and therefore initiated the need for the deferral account, intervenors felt it was not credible that this was the first time Hydro One knew that these preliminary development costs would likely need to be incurred during the 2015-2016 period.

Intervenors pointed to the fact that the NWBTL was first outlined in the Long-Term Energy Plan and that discussions between Hydro One and the OPA would have taken place long before the issuance of the October 1st letter. In addition, it was pointed out that the Minister of Energy's directive to the OEB to amend Hydro One's license, dated December 11, 2013, specifically required Hydro One to "immediately work in co-operation with the Ontario Power Authority ("OPA") to establish the scope and timing of the North West Bulk Transmission Line Project."

Intervenors also submitted that Hydro One's own 2015-2016 application material in the EB-2014-0140 case, which was provided to intervenors in early summer 2014, indicated that there would be significant NWBTL costs undertaken during the test period. In the description of its forecast capital expenditures, Hydro One recognized specifically that the NWBTL could require significant capital expenditures in the test years. Intervenors submitted that this showed that such costs were reasonably foreseeable and to be incurred in the 2015 and 2016 test period. Two parties, the PWU and OEB staff, submitted that the causation criteria had been satisfied.

In its reply submissions, Hydro One acknowledged that it was aware of the NWBTL Project at the time of the 2015/16 Transmission Rates application, however it maintained that until the OPA's letter was received on October 1, 2014, it did not have direction to proceed with the NWBTL Project, and, if it had included any costs in its revenue requirement, this would not have been prudent. Hydro One indicated that it believes that rate payers should not pay for a project where the need has yet to be established, where the timing is uncertain, and where Hydro One is not able to reasonably forecast the magnitude of costs.

Findings

The OEB has determined that Hydro One has met the criteria for causation, largely on the strength of the reference to the NWBTL project in the Long Term Energy Plan and in the condition added to Hydro One's transmission licence. The OEB accepts Hydro

One's argument that it did not have specific direction to proceed with the project at the time it applied for its 2015 and 2016 transmission rates. However, Hydro One is urged to make efforts to provide fuller disclosure in the future if it is aware of a large project such as the NWBTL project that is potentially on its planning horizon.

Materiality

The OEB's filing requirements for the establishment of a new deferral or variance account stipulate that the amounts to be recorded must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

While most intervenors argued that the materiality threshold had not been met, OEB staff and the PWU submitted that it had been met, largely on the evidence that the \$3 million threshold was exceeded.

In response to OEB staff Interrogatory #1 Hydro One indicated that it expected that the costs in this account will exceed \$5 million. Hydro One did not specify over what time period this amount would be incurred.

In response to OEB staff Interrogatory #8, Hydro One indicated that these costs would not have a materially adverse effect on Hydro One's financial risk profile or financial metrics. Most intervenors maintained that this response indicated that these costs would not be material, or at least would not be material for each of the test years. Some intervenors also submitted that the \$5M estimate was poorly substantiated.

In its reply argument, Hydro One indicated that it was in discussions with Infrastructure Ontario to negotiate the cost and scope of the work each party will potentially undertake to support the development phase of the NWBTL Project and that current indications are that those costs will be in excess of \$5 million. Hydro One submitted that the level of these costs is reasonable and clearly above the materiality threshold.

Findings

With regard to the materiality threshold, the OEB accepts Hydro One's estimate of costs that potentially could be incurred and entered into this account and that these costs will exceed the materiality threshold of \$3 million. The OEB acknowledges that Hydro One

could have been more specific in expressing the time period over which these costs are expected to be incurred and urges Hydro One to provide more specific evidence in the future.

Prudence

Parties generally agreed that Hydro One had established prudence largely on account of the reference in the Long Term Energy Plan and the condition placed in Hydro One Transmission's license. All costs in the deferral account will be reviewed for reasonableness at the time of disposition.

Findings

The OEB agrees with the parties and finds that prudence was demonstrated.

The OEB therefore approves the establishment of the NWBTL deferral account. The OEB notes that Hydro One requested the account be established effective October 1, 2014. However, the OEB also notes that in response to OEB Staff Interrogatory #4 where Hydro One confirms there are no costs incurred to-date that will need to be recorded in the proposed NWBTL deferral account. Therefore, the OEB will order the effective date of the NWBTL deferral account to be the date of the issuance of this Decision.

In addition, the OEB notes that Appendix C to the application, Proposed Accounting Entries, includes:

Dr: 1508 Other Regulatory Assets – Sub account “North West Bulk
Transmission Line Deferral Account - Preliminary Engineering and Planning
Costs”

This account should be clearly designated as an Interest Expense account. The interest rate that will apply to this account is the prescribed rate applicable to approved deferral and variance accounts, which is updated quarterly by the Board.

THE BOARD ORDERS THAT:

1. Hydro One's application for the NWBTL deferral account is approved to be effective on March 27, 2015.

2. Hydro One shall file a draft Accounting Order with the OEB and intervenors no later than April 7, 2015.
3. OEB staff and intervenors shall file any comments on the draft Accounting Order with the OEB and forward to Hydro One no later than April 14, 2015.
4. Hydro One shall file with the OEB and forward to intervenors responses to any comments on its draft Accounting Order within 4 days of the date of receipt of intervenor comments.

COST AWARDS

The OEB will issue a separate decision on cost awards once the following steps are completed:

1. Intervenors VECC, SEC, AMPCO, CME, and Energy Probe shall submit their cost claims no later than **7 days** from the date of issuance of the final Accounting Order.
2. Hydro One shall file with the OEB and forward to intervenors any objections to the claimed costs within **17 days** from the date of issuance of the final Accounting Order.
3. Intervenors VECC, SEC, AMPCO, CME, and Energy Probe shall file with the OEB and forward to Hydro One any responses to any objections for cost claims within **24 days** from the date of issuance of the final Accounting Order.
4. Hydro One shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

All filings to the OEB must quote the file number, EB-2014-0311 and be made electronically through the OEB's web portal at www.pes.ontarioenergyboard.ca/eservice in searchable / unrestricted PDF format. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca/OEB/Industry. If the

web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

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Attention: Board Secretary

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DATED at Toronto, March 27, 2015

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary