



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2016-0262

WATAYNIKANEYAP POWER LP

**Wataynikaneyap Power LP – Application for an accounting order
to establish a deferral account**

BEFORE: Emad Elsayed
Presiding Member

Susan Frank
Member

March 23, 2017

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1 INTRODUCTION AND SUMMARY

1.1 The Application

2472883 Ontario Limited (Wataynikaneyap Power GP) filed an application on behalf of Wataynikaneyap Power LP (WPLP), for an accounting order authorizing the establishment of a new deferral account with an effective date of August 26, 2016 to record costs incurred in relation to the development of the Wataynikaneyap Transmission Project. The application was filed with the Ontario Energy Board (OEB) on August 26, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B).

1.2 Background

WPLP described in detail the events preceding its application.

A predecessor partnership involving 12 First Nations, the Central Corridor Energy Group (CCEG), was formed in 2008 to pursue reinforcement for the existing line to Pickle Lake, and transmission connection for remote First Nation communities north of Pickle Lake. CCEG met with representatives of other First Nations, the Ministers of Energy and Northern Development and Mines, the Ontario Power Authority (OPA) (now merged with the Independent Electricity System Operator), Hydro One Networks Inc., and Goldcorp Inc. during 2008 and 2009 to discuss options to meet these goals. The 2010 Long Term Energy Plan (2010 LTEP) issued by the Province identified the line to Pickle Lake as a priority, and in 2011, the Minister of Energy asked the OPA to develop a plan for connection of remote communities beyond Pickle Lake. In 2012 CCEG and Goldcorp Inc. began the environmental assessment process for the line to Pickle Lake. Wataynikaneyap Power was incorporated in 2013 by Goldcorp Inc. and 13 of the First Nations from CCEG. The 2013 Long Term Energy Plan identified the connection of remote communities in north-western Ontario as a priority.

WPLP was licensed as a transmitter by the OEB on November 15, 2015. On July 20, 2016 the Lieutenant Governor in Council made an order declaring that electricity transmission lines to Pickle Lake and extending north from Red Lake and Pickle Lake to connect 16 remote First Nation communities to the provincial electricity grid are needed

as priority projects¹. Power in these communities is currently provided by local diesel generation.

On July 29, 2016, the Minister directed the OEB to amend WPLP's licence to include a requirement that it proceed to develop and seek approvals for the following:

- A new three-phase single-circuit 230 kV overhead transmission line originating at a point between Ignace and Dryden and ending in Pickle Lake
- Transmission lines extending north from Red Lake and Pickle Lake required to connect the remote communities named in the directive to the provincial electricity grid.

These transmission projects together form the Wataynikaneyap Transmission Project (the Project). The new Line to Pickle Lake is expected to run approximately 300km in length. The Remotes Connection Project is expected to consist of a network of approximately 1500km of transmission lines.

WPLP indicates it intends to construct one part of the Project, running approximately 90km from Red Lake to connect Pikangikum First Nation, before commencing construction on other lines. Although WPLP intends to construct this part of the Project using 115kV transmission level conductors, WPLP intends to seek a distribution licence and operate the line at a distribution voltage (44kV) for a period of 3 to 4 years. This will enable WPLP to connect Pikangikum First Nation - one of the largest of the 16 named remote communities - as early as 2020. WPLP will later convert the line to operate at transmission voltage once it is possible to connect communities north of Pikangikum. The applicant did not seek to record in the deferral account costs associated with developing the line to Pikangikum².

¹ Order in Council 1157/2016.

² Response to IR Staff-S13(b). WPLP indicates that development costs have been 100% funded through an INAC Minor Capital funding stream in order to expedite grid-connection of Pikangikum as a stand-alone project.

2 THE PROCESS

The application was filed on August 26, 2016, and a Notice of Hearing was issued for this proceeding on October 19, 2016. Notice was translated and provided in Cree, Oji-Cree, French, and English. No requests for intervenor status were received in response to the notice.

The hearing was held entirely in writing. WPLP responded to two sets of interrogatories from OEB staff seeking further information on the application. The OEB received an argument in chief from WPLP on February 3, 2017, a responding submission from OEB staff on February 10, 2017 and a reply submission from WPLP on February 17, 2017.

3 ISSUES

3.1 Establishment of Deferral Account

OEB staff agreed with WPLP that the OEB should establish a deferral account for the recording of development costs for the Project, as the OEB's criteria for establishing a deferral account – causation, materiality, and prudence – have been met.

The applicant stated that it will seek disposition of amounts in the deferral account at the time it seeks to establish its initial transmission rates (or at another time as the applicant requests or the OEB orders). A final determination of prudence of the amounts recorded will be made at the time of disposition of the account.

WPLP acknowledged that the establishment of the account by the OEB, and the recording of costs in the account, is no guarantee of the eventual recovery of recorded costs from transmission ratepayers.

Findings

The OEB finds that a deferral account shall be established to record development costs for the Project. Development of the Project, which is deemed a priority project by the Province of Ontario, is a condition of WPLP's licence. The OEB's Accounting Order establishing the account is attached as Appendix A to this Decision.

The OEB also finds that WPLP shall be permitted to record carrying charges on the account in accordance with the OEB's approved methodology.

The effective date of the account shall be November 23, 2010, to coincide with the date from which costs may be recorded as detailed in Section 3.3 of this decision.

The OEB also finds that the cost categories proposed in WPLP's revised accounting order are appropriate, with the exception that section 14, "Start-up / partnership formation" must be eliminated for the reasons given in Section 3.2 of this decision.

The OEB recognizes that the Project is not being implemented in phases, but as a single project.

The OEB notes that WPLP has indicated that it will exclude any distribution related activities for the line from Red Lake to Pikangikum. The OEB agrees with this treatment

and will not accept any distribution related activities in this transmission variance account.

These findings are reflected in the Accounting Order attached as Appendix A.

3.2 Nature of Costs: Start-up and Formation Costs

OEB staff submitted that the start-up and formation costs of WPLP and its predecessor entities, as well as any costs for restructuring WPLP or its predecessor or successor entities, should be excluded from the deferral account. Staff submitted that the role of the OEB is to determine what costs should be recovered from transmission ratepayers, and that those ratepayers should bear only the costs of the activities required under WPLP's licence.

WPLP disagreed with OEB staff's analysis, and submitted that it should be permitted to record start-up and formation costs. WPLP argued that the activities reflected in the start-up and formation costs are fundamentally development activities consistent with the requirements in WPLP's licence.

Findings

The OEB finds that transmission ratepayers should only be responsible for the cost of the work required by the transmission licence, which requires WPLP to develop and seek approvals for the Project.

The OEB does not agree with WPLP that, due to the unique nature of the Project, the start-up and formation activities undertaken by WPLP and its predecessors are, fundamentally, development activities consistent with WPLP's licence. Development costs of a project typically include activities such as determination of location, site activities, preliminary engineering, regulatory approvals, stakeholdering, and duty to consult activities. Start-up and formation costs are costs of doing business and are generally borne by the shareholder or the proponent, not the ratepayers.

The degree of First Nations participation in a project of this nature and magnitude is certainly a necessary feature. However, this is part of forming the organizational structure of the proponent, which provides a significant advantage in being selected to

develop the project. In this case, there were other proponents seeking approval for a transmission line to Pickle Lake.³

A comparable case is the East-West Tie Project, in which the OEB did not allow costs related to the formation of the designated transmitter to be recorded in the development cost deferral account.

WPLP submitted that its circumstances are similar to those of B2M Limited Partnership, which was created to acquire a section of electricity transmission line owned by Hydro One Networks Inc. In its Decision in B2M's application for establishment of an initial revenue requirement,⁴ the OEB allowed certain start-up and formation costs incurred over the approximately three years preceding the application to be included in that revenue requirement. WPLP submitted that it should be permitted to recover start-up and formation costs dating back to 2008 on similar grounds.⁵

The OEB does not agree that the B2M situation is comparable to that of WPLP. In the B2M case, the transmission line was already in service, with costs related to the line included in Hydro One's transmission revenue requirement and the resulting Uniform Transmission Rate (UTR). The benefit to ratepayers from the change to an ownership structure in which a portion of the asset was owned by tax-exempt entities was clear and quantifiable, and the OEB found that "It was clear from the application for approval of B2M LP's licence and the asset transfer that the parties were seeking to include the transaction costs in B2M LP's future revenue requirement and hence in future UTRs.... The offsetting of transaction costs via tax savings was a key element in the OEB's approval of the transfer of the assets."⁶ In addition, B2M LP did not seek to recover the cost of earlier informal discussions incurred prior to 2012 which occurred while the line was being constructed and which led to the plan to form the partnership.⁷

In the WPLP case, there is no line yet in service or yet included in the UTR. In addition, there is no similar change in an existing organizational structure that will result in lower costs to ratepayers. If such a change in WPLP structure were to happen in the future, then it may be open to WPLP to apply for a deferral account to recover costs associated with that change.

³ Letter from Ministry of Energy dated February 13, 2013, attached as Appendix B to supplemental interrogatory 3.

⁴ EB-2015-0026

⁵ Response to IR Staff-9(a); Reply submission, p.5.

⁶ B2M Limited Partnership Decision (EB-2015-0026), page 17

⁷ EB-2015-0026 Exhibit J1.1 and Applicant Reply Submission

The OEB disagrees with the assertion made throughout WPLP's reply submission that making decisions in this proceeding to include or exclude specific cost categories from the deferral account would be to "pre-judge" the outcome of future OEB proceedings regarding the disposition of the deferral account contents and would therefore be "premature". Prudence is one of the criteria that the OEB has identified for the establishment of a deferral account. Although the final determination of prudence will be made at the time of disposition, the OEB requires that both the nature of the costs and forecasted quantum to be incurred are identified for the deferral account to be established.

If one is to take WPLP's argument to its extreme, then the OEB should accept all cost categories and amounts claimed by WPLP in this proceeding because doing otherwise would be pre-judging the outcome of a future proceeding. The OEB disagrees with this premise. The accounting order giving approval to establish a deferral account must include a description of what costs are to be recorded in the deferral account. The OEB finds that start-up / formation costs shall not be recorded in the deferral account.

3.3 Date for Recording Costs

WPLP's application was filed on August 26, 2016, and the applicant asked that the account be effective as of that date. However, WPLP asked that the OEB allow recording of development costs from September 2008, on the basis that development activities began at that time, and these activities contributed to the Province formally recognizing the Project as a priority in the 2010 LTEP.

OEB staff submitted that while costs from September 2012 were generally attributable to the development of the Project identified in WPLP's licence, costs incurred before the release of the 2010 LTEP were generally not directed to this specific Project. Staff submitted that costs between November 2010 and September 2012 represented a combination of development and non-development work, and that at least an amount of \$1.44 million identified as start-up and partnership formation costs should be excluded from the account.

WPLP replied that the costs incurred from 2008 were fundamental to the Project and of benefit to ratepayers, and that the Project was defined and being developed by CCEG in 2008. WPLP argued that for the OEB to decide now to exclude costs incurred prior to 2010 would be premature.

In its evidence, WPLP cited some examples of OEB cases where the OEB approved recovery of costs incurred prior to the effective date of the deferral account (Hydro One's North West Bulk Transmission Line and the East-West Tie Project).

Findings

As mentioned earlier, the OEB finds that the costs to develop and seek approval for the Project should be allowed in the deferral account. The question before the OEB here is the timeframe in which incurred costs were truly related to the development of the Project as defined in WPLP's licence. WPLP's activities can be viewed as differing over three time periods.

The OEB finds that most of the costs incurred since September 2012, when the Environmental Assessment work for the line to Pickle Lake was started, can be defined as development related costs. Although WPLP was not formally selected at that time as the party responsible for developing the Project⁸, the OEB finds that the Environmental Assessment and Aboriginal Consultation work started in 2012 was a critical part of the Project development work and contributed to the advancement of the Project. During this period, the Project was well defined and the tracking of development costs is appropriate.

The OEB finds that from November 23, 2010, when the 2010 LTEP was released, to September 2012, WPLP undertook a combination of development and non-development work. The 2010 LTEP identified the new line to Pickle Lake as a priority project. As a result, CCEG refined the scope of the project to include the transmission line south of Pickle Lake and continued its engagement efforts with First Nations. However, during this period, many activities continued which can be characterized as start-up and formation activities such as the agreement with Goldcorp and inclusion of Lac Seul and Slate Falls First Nations, which are not part of the 16 remote communities named in the Project defined in WPLP's licence.

The OEB finds that, prior to the 2010 LTEP, the Project described in WPLP's licence was not yet defined and, therefore, the activities that WPLP described during this period cannot be characterized as directed to the Project that WPLP is now required to develop. The activities during this period can be characterized as start-up and formation activities.

⁸ WPLP was selected through Order in Council 1158/2016 and the Minister's Directive to amend WPLP's licence dated July 20, 2016

The OEB does not agree with WPLP that excluding activities that started in September 2008 from the deferral account discounts or ignores the authority of the duly elected Chiefs of the First Nations who, through Resolutions of the Shibogama and Windigo Tribal Councils, authorized the formation of CCEG and the commencement of project-related activities by CCEG. As mentioned earlier, the OEB considers these activities to be better characterized as start-up and formation costs rather than development activities. Authorization of the proponent's formation of its corporate entity and commencement of start-up activities are legitimate activities for any business venture. However, as indicated in Section 3.2, these activities are not considered development activities for the Project required under WPLP's licence and do not ensure that the entity will be selected to develop the Project.

With respect to the examples cited by WPLP of approval of cost recovery prior to the effective date of a deferral account, the OEB does not agree that these cases are similar to WPLP's application.

In the case of Hydro One's North West Bulk Transmission Line, Hydro One did not incur any costs in the deferral account prior to applying for it in October 2014 even though the project was identified as a priority project in the 2013 LTEP and the directive from the Ministry of Energy to begin the development phase of the project was issued in December 2013.

In the case of the East-West Tie Project, the whole process for the project development was carried out under the direction of the OEB where there was a clear start and end point for the development phase. The deferral account granted by the OEB in this case recorded costs back to the OEB notice that initiated the proceeding and not to the formation of the proponent.

Based on the findings above regarding the nature of the costs, and the dissimilarities between this application and the examples of previous cases put forward by WPLP, the OEB will not permit recording of all costs from September 2008. The OEB finds that costs shall be recorded in the deferral account starting November 23, 2010 which is the date of the 2010 LTEP and subsequent initiation of some development activities by CCEG. In addition, start-up and formation costs, even if incurred after November 23, 2010, should not be recorded in the account.

3.4 Treatment of Development Costs if the Project is Discontinued

Prior to the reply submission of WPLP, the record was somewhat unclear as to whether WPLP was asking the OEB to find, as part of this application, that its prudently incurred development costs would be recoverable from ratepayers if discontinued for reasons outside WPLP's control. WPLP clarified that it is seeking such a finding now.

Findings

The OEB finds that, if the Project is discontinued for reasons beyond WPLP's control, WPLP should be able to apply to the OEB for an order to permit recovery of the Project development costs that the OEB finds to be prudent and the Project wind-up costs that the OEB finds to be reasonable. Final determination of the costs to be recovered under such circumstances will be made at the time of disposition. As WPLP is required by its licence to undertake development activities for this Project, it should be permitted to seek recovery of prudently incurred development and wind-up costs from ratepayers even if the project assets do not come into service, provided that the failure of the project to be completed was due to circumstances outside WPLP's control.

3.5 Treatment of Funding Received from Other Sources

OEB staff noted in its submission that WPLP should be recording all funding received from other sources, in the same manner as the costs are recorded, and the costs to be eventually considered for recovery from ratepayers should be reduced by the amount of this funding.

WPLP disagreed with OEB staff's submission, indicating that the question of whether or to what extent costs considered for recovery should be reduced by the amount of funding received from other sources is not a matter for consideration in this proceeding. WPLP further submitted that the presumption that all funding from other sources should result in a reduction in the amount sought for recovery should not be accepted by the OEB.

WPLP submitted that, consistent with the draft accounting order filed as part of supplemental interrogatory 1, WPLP will record funding that has been "applied for and received by WPLP". WPLP proposed not to record funds that WPLP receives without

having to submit an application or funds that WPLP receives from entities that are related to it. In addition, WPLP does not propose to record funds received by entities other than WPLP.

Findings

The OEB disagrees with WPLP's position that this issue is not a matter for consideration in this proceeding (consistent with the finding in Section 3.2).

Although the determination of whether any component of the costs to be recovered from ratepayers should be offset by any funding received from other sources will be determined at the time of disposition, the recording of costs and funding in the deferral account has to be done in such a manner to facilitate a future determination.

The OEB finds that the funding sub-account identified in the accounting order should include all funding for development activities received from sources other than WPLP, and not just those funds "applied for and received by WPLP". If the costs associated with an activity are recorded in the deferral account then it is appropriate that the revenues received to fund the activity must also be recorded in the revenue deferral account. WPLP must record all funding received for development activities for the Project from November 23, 2010.

4 REPORTING

OEB staff generally agreed with the proposed requirements for reporting to the OEB as set out in the applicant's Argument in Chief. Staff submitted that reporting should be consistent with the recommendations of the *IESO Report: Recommended Scope for the new Line to Pickle Lake and Supported Scope for the Remotes Connection Project*, dated October 13, 2016, and should include any updates on additional funding applied for, received, and any prescribed restrictions on that funding.

Staff submitted that reporting twice a year should be adequate, and WPLP did not object to reporting less frequently than quarterly in reply. OEB staff also submitted that the reports should be held on the public record of this application.

Findings

The OEB agrees with WPLP's proposed reporting requirements as described in the answer to interrogatory 10. The OEB also agrees with OEB staff's suggestion that reporting should be consistent with the recommendations of the IESO, and should include any updates on additional funding received, including amounts received, the source of the funding, the activity to which the funding is directed and any prescribed restrictions on the funding.

As WPLP's licence requires it to notify the OEB of any material change that could adversely affect the transmitter's operations, the OEB agrees with WPLP that it is not necessary to require WPLP, as a condition of reporting, to inform the OEB if it becomes clear the Project will not proceed.

In terms of the frequency of reporting, the OEB agrees with staff that reporting twice a year would be adequate given the duration of the Project. Reporting is to begin on the 17th of July 2017 and approximately every six months thereafter.

The OEB also agrees with staff that these reports should be held on the public record of this application, and that if WPLP believes that some of the information in the report is confidential, it should make a request for confidential treatment.

The OEB notes that WPLP requested confidential treatment for one paragraph of supplemental interrogatory 5(b). The OEB will not require the information to be disclosed on the public record at this time.

OEB staff did not object to the request for confidentiality, and the OEB did not need to review the confidential information in order to reach its decision on the application. In these circumstances, it is not necessary for the OEB to consider the grounds put forward for confidential treatment. The fact that disclosure is not required in this case should not be regarded as any precedent for future rulings on requests for confidential treatment made by WPLP.

5 ORDER

THE BOARD ORDERS THAT:

1. A deferral account with appropriate sub-accounts will be established to allow WPLP to record development costs for the Wataynikaneyap Transmission Project. The OEB's Accounting Order establishing the account, consistent with the findings in this Decision, is attached as Appendix A to this Decision. Any questions regarding the implementation of the account should be directed to OEB staff.
2. WPLP shall file a report on the progress of the Wataynikaneyap Transmission Project with the OEB on July 17, 2017 and January 15, 2018, and every July 15 and January 15 following until the project is completed. If the 15th of a reporting month occurs on a weekend or holiday, the report will be due the next business day. The report must include the information recommended by the IESO in its Recommended Scope document for the project dated October 13, 2016, particularly:
 - Overall project progress
 - Cost forecast and variances as described in the IESO recommendation, as well as updates on funding received, including amounts received, the source of the funding, the activity to which the funding is directed, and any prescribed restrictions on such funding
 - Schedule and milestones. As no milestones have yet been identified by WPLP, the initial report filed June 15, 2017, must identify the milestones WPLP considers appropriate for the project.
 - Risks and Issues Log
3. WPLP shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto March 23, 2017

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX A
ACCOUNTING ORDER

ACCOUNTING ORDER
WATAYNIKANEYAP TRANSMISSION DEVELOPMENT
DEFERRAL ACCOUNT

WATAYNIKANEYAP POWER LP

**Accounting Entries for Wataynikaneyap Transmission
Development**

Deferral Account No. 1508
Effective Date: November 23, 2010

2472883 Ontario Limited, on behalf of Wataynikaneyap Power LP (“WPLP”), shall establish the following deferral account: Account 1508, Other Regulatory Assets. The deferral account shall be divided into three sub-accounts:

1. Account No. 1508.001, Other Regulatory Assets, sub-account: Wataynikaneyap Transmission Development (Principal Balance)
2. Account No. 1508.002, Other Regulatory Assets, sub-account: All funding received for development activities related to the Wataynikaneyap Transmission Project (Principal Balance)
3. Account No. 1508.003, Other Regulatory Assets, sub-account: Carrying Charges on Net Development Costs.

The effective date of the account is November 23, 2010. The actual development costs incurred for the Wataynikaneyap Transmission Project, all funding received for development activities and carrying charges shall be recorded in these sub-accounts from November 23, 2010 up to the effective date of the initial transmission rate order for WPLP, or such other time as WPLP may request and the Board may order.

The amounts recorded in the above accounts shall be brought forward for disposition in a future proceeding.

1. Account No. 1508.001, Other Regulatory Assets, sub-account : Wataynikaneyap Transmission Development (Principal Balance):

Debit: Account No. 1508.001

Other Regulatory Assets, sub-account: Wataynikaneyap
Transmission Development

Credit: Account No. 2205.001

Accounts Payable

To record as a debit in Account 1508.001, Other Regulatory Assets: sub-account Wataynikaneyap Transmission Development the actual costs incurred for development activities for the Wataynikaneyap Transmission Project. These costs are divided into the following sub-accounts:

Sub-account	Activity
1	Engineering, design and procurement
2	Permitting
3	Environmental assessments
4	Non-Aboriginal land rights acquisition and landowner engagement
5	Aboriginal engagement and communication
6	Non-Aboriginal community and other Stakeholder engagement costs
7	Regulatory activities and filings, and legal support
8	Interconnection Studies
9	Accounting, administration, and project management
10	Aboriginal land related costs
11	Aboriginal participation, training, and local distribution planning
12	Contingency costs incurred in excess of budgeted costs
13	Development activities not reflected in other sub-accounts

Start-up and formation costs are not considered development costs and should not be recorded.

Costs for electricity distribution related activities are not to be recorded in this account.

2. Account No. 1508.002, Other Regulatory Assets, sub-account: All funding received for development activities related to the Wataynikaneyap Transmission Project (Principal Balance):

Debit: Account No. 1005.001

Cash

Credit: Account No. 1508.002

Other Regulatory Assets, sub-account: All funding received for development activities related to the Wataynikaneyap Transmission Project

To record funding received for development activities as a credit in Account 1508.002, Other Regulatory Assets, sub-account all funding received for development activities for the Wataynikaneyap Transmission Project. Each entry to this sub-account should include the date the funding was received and the activity to which the funding relates.

3. Account No. 1508.003, Other Regulatory Assets, sub-account: Carrying Charges

With respect to Account No. 1508.001

Debit: Account No. 1508.003

Other Regulatory Assets, sub-account: Carrying Charges

Credit: Account No. 4405.001

Interest and Dividend Income: Wataynikaneyap Transmission Development

With respect to Account No. 1508.002

Debit Account No. 6035

Other Interest Expense

Credit Account No. 1508.003

Other Regulatory Assets, sub-account: Carrying Charges

To record carrying charges on principal balances of Account 1508.001, Other Regulatory Assets: sub-account Wataynikaneyap Transmission Development and 1508.002, Other Regulatory Asset, sub-account All funding received for development activities related to the Wataynikaneyap

Transmission Project. Separate monthly journal entries should be used to record the interest on the principal balances of accounts 1508.001 and 1508.002. Simple interest will be computed monthly on the opening balances of accounts 1508.001 and 1508.002 in accordance with the methodology approved by the Board in EB-2006-0117.