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DECISION AND ORDER

EB-2021-0169

HYDRO ONE NETWORKS INC.

Application for an accounting order to establish a new regulatory account effective May 28, 2021

BEFORE: Pankaj Sardana
Presiding Commissioner

Emad Elsayed
Commissioner

October 7, 2021



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1 OVERVIEW

This is a Decision and Order of the Ontario Energy Board (OEB) on an application (the Application) filed by Hydro One Networks Inc. (Hydro One) under section 78.1 of the *Ontario Energy Board Act, 1998* (OEB Act) for an accounting order authorizing Hydro One to establish a new regulatory account, the Affiliate Transmission Projects Account (ATP Account). Hydro One also requested an order of the OEB to establish the ATP Account on an interim basis, effective May 28, 2021, in advance of the OEB's final decision on this matter.

Hydro One proposed that the ATP Account be used to record and track costs for transmission line projects where both of the following criteria apply:

- a) Hydro One has or will receive a letter from the Independent Electricity System Operator (IESO) identifying transmission system needs, and/or an Order in Council or direction of the Minister of Energy (the Ministry) in respect of Hydro One or its OEB Transmission Licence for the development or construction of a transmission project
- b) All or part of the project is expected to be owned by and included in the rate base of a new partnership between Hydro One and one or more partners, as a licensed transmitter, and will not form part of Hydro One's rate base¹

Hydro One proposed to use the ATP Account for the Waasigan Transmission Line, the Chatham to Lakeshore Transmission Line, and the Lambton to Chatham Transmission Line, which are projects that are currently under development, as well as for future projects that meet the above criteria.

Hydro One proposed that the ATP Account consist of two sub-accounts, the (i) ATP - Project Development, Preliminary Engineering and Planning Work deferral account (the Deferral Sub-Account), and the (ii) ATP – Project Construction Costs tracking account (the Tracking Sub-Account). Each of these sub-accounts would record costs by individual project.

Hydro One stated that the Deferral Sub-Account would “record costs related to project preparation work conducted by Hydro One prior to the point from where costs qualify to be recorded in construction work-in-progress (CWIP)....”² Hydro One also stated that costs recorded in the Deferral Sub-Account would “be maintained with interest accrued

¹ Amended Evidence, p.1.

² Amended Evidence, p.4.

until disposition, consistent with the OEB's guidelines for Deferral and Variance Accounts (DVAs)..."³ The Tracking Account would be used to track costs after a project meets Hydro One's capitalization criteria. Project costs would be capitalized in CWIP and those CWIP costs would be tracked until they are transferred to a partnership, once a project is at or near its in-service date.

A deferral account for the Waasigan Transmission Line project, which was originally called the North West Bulk Transmission Line, was established by an OEB decision issued on March 27, 2015.⁴ On September 12, 2019, the OEB issued a decision approving Hydro One's request to change the account from a deferral account to a tracking account. At the same time, the account was renamed the Waasigan Transmission Tracking Deferral Account (WTTDA).⁵

Hydro One has requested that if the ATP Account is approved, the WTTDA will be closed and any previous balances tracked in the WTTDA will be transferred to and tracked in the ATP Tracking Sub-Account, along with any future capital expenditures related to the Waasigan Transmission Line.

The OEB approves Hydro One's request to establish the ATP Account effective May 28, 2021. The OEB finds that the establishment of this account will improve transparency and regulatory efficiency and will avoid negatively impacting Hydro One's ability to plan and execute its own capital program.

³ Amended Evidence, p.4.

⁴ EB-2014-0311, Decision and Order, March 27, 2015.

⁵ EB-2019-0151, Decision and Order, September 12, 2019.

2 PROCESS

Hydro One filed the Application on May 28, 2021. The OEB issued a Notice of Hearing on June 24, 2021. The Association of Major Power Consumers in Ontario (AMPCO), Energy Probe Research Foundation (Energy Probe), the School Energy Coalition (SEC) and Power Workers' Union (PWU) applied for intervenor status.

The OEB issued Procedural Order No. 1 and Decision on Interim Order on July 12, 2021. It granted intervenor status to AMPCO, Energy Probe, SEC and PWU, confirmed that AMPCO, Energy Probe and SEC were eligible to apply for an award of costs and established the Application's procedural schedule up to and including Hydro One's filing of its reply argument. In its interim decision, the OEB found it acceptable to establish the ATP Account on an interim basis to enable Hydro One to record costs as of May 28, 2021, and in advance of a final OEB decision.

Hydro One submitted updated evidence on July 20, 2021. On July 21, 2021, the OEB issued a Decision on Issues List approving an issues list for the proceeding.

On July 22, 2021, Gwayakocchigewin Limited Partnership (GLP) wrote to the OEB requesting intervenor status. On July 26, 2021, the OEB granted GLP intervenor status.

AMPCO, Energy Probe, GLP, OEB staff, PWU and SEC submitted interrogatories by July 27, 2021, in accordance with the timeline established through Procedural Order No. 1. Hydro One's responses to all interrogatories were received by the OEB on August 11, 2021.

On August 26, 2021, Chippewas of Kettle and Stony Point First Nation (CKSPFN) wrote to the OEB requesting intervenor status. On August 27, 2021, the OEB granted CKSPFN intervenor status. CKSPFN did not file interrogatories and stated in its submission, dated August 31, 2021, that it accepted the record.

CKSPFN, Energy Probe, GLP, OEB staff, PWU and SEC filed submissions on August 31, 2021. AMPCO filed a submission on September 7, 2021.

On September 1, 2021, Hydro One wrote to the OEB requesting a five-day extension for its reply submission. On September 2, 2021, the OEB granted Hydro One's request. Hydro One filed its reply submission on the extended deadline of September 15, 2021.

3 DECISION ON THE ISSUES

This decision is structured according to the issues list approved by the OEB on July 21, 2021.

Issue 1: Is the proposed regulatory account appropriate?

Most submissions were supportive of the ATP Account. CKSPFN and GLP introduced the caveat that in addition to transmission line costs, stations costs should be included in the ATP Account. Energy Probe and SEC questioned why the ATP Account is necessary, given that the Bruce to Milton transmission line and the Niagara Reinforcement transmission line projects were developed by Hydro One and then transferred to a partnership, without the use of similar accounts.⁶ SEC was the only party to submit that the Application should be denied.

AMPCO submitted that establishing the ATP Account is appropriate and has benefits due to “the non-discretionary, material nature, span and uncertainty of the current and future transmission projects”, stating that “the account provides enhanced transparency and is an improvement over the current methodology used to track project costs.”⁷

The PWU submitted that the OEB should approve the ATP Account because it would improve transparency, improve regulatory efficiency, and increase the efficiency of project execution.

OEB staff submitted that the proposed regulatory account is appropriate but emphasized that the ability to record and track costs in the ATP Account would not guarantee cost recovery, as these costs would be subject to a prudence review at the time of disposition. OEB staff also distinguished between projects initiated by an Order in Council or direction from the Minister of Energy and projects initiated by a letter from the IESO, submitting that a letter from the IESO “does not carry the same weight” as an Order in Council or direction from the Minister of Energy, and that “Hydro One must determine whether a letter from the IESO contains sufficient information, consistent with the level of information that could be known at the time of the letter, to support a future application for leave to construct.”⁸

⁶ EB-2013-0079, Decision and Order, November 28, 2013 and EB-2018-0276, Decision and Order, September 12, 2019

⁷ AMPCO Submission, p.5.

⁸ OEB staff Submission, p.6.

As noted above, CKSPFN submitted that it had “no issue with the general approach proposed for the regulatory account, provided that the regulatory account is inclusive of both Line costs and Station costs.”⁹

Energy Probe accepted the objectives and purpose of the ATP Deferral Account but submitted that Hydro One has not established a need for the ATP account. Energy Probe noted that in the past, Hydro One has built other affiliate transmission projects without an ATP account, and in its view, nothing has changed that would justify a need for this account now.¹⁰

SEC submitted that the OEB should deny approval of the proposed ATP Account because Hydro One’s proposal is inconsistent with the existing approved transmission rate framework that is in place until the end of 2022. SEC further stated that the ATP Account is neither needed nor appropriate.¹¹

SEC disagreed with Hydro One’s evidence that the ATP Account is necessary because without the account, Hydro One must either delay initiating work on projects until it receives capital expenditure approval, or re-prioritize projects included in approved revenue requirements.

SEC noted that compared to the status quo where the ATP Account does not exist, establishing the ATP Account provides Hydro One with the benefit of potential cost recovery if a project that has costs recorded and tracked in the account is not built. SEC submitted that this benefit is small because the risk that projects which meet the account criteria will not be built is small. SEC submitted that “...it is unclear why the intention to transfer the projects requires a deferral account to protect Hydro One from the financial risk that these projects do not ultimately get constructed.”¹²

Like Energy Probe, SEC pointed out that Hydro One was able to develop, construct and transfer the Bruce to Milton and the Niagara Reinforcement projects to partnerships without the use of regulatory accounts. For these reasons, SEC submitted that the ATP Account is not necessary.

SEC submitted that while the account may offer some transparency benefits if Hydro One applies to the OEB to transfer ownership of a project to a partnership, a deferral

⁹ CKSPFN Submission, p. 1.

¹⁰ Energy Probe Submission, p. 3.

¹¹ SEC Submission, p. 1.

¹² SEC Submission, p. 4.

account is not required for transparency, and transparency is not a reason for a deferral account.

SEC noted that ATP Account projects are still Hydro One projects until a transfer of ownership is approved by the OEB. If the ATP Account is established, Hydro One will not include forecast expenditures for projects being recorded and tracked in the ATP Account in its transmission rate applications. SEC submitted that it is essential for the OEB and customers to see all of Hydro One's transmission expenditures as part of its transmission rate applications so that they can "properly consider potential tradeoffs" between transmission line expenditures and other areas of spending.¹³

Finally, SEC stated that "...the OEB should consider, by way of policy consultation or otherwise, the proper rate-making approach, for any one-asset entity before these assets go in service, and before these new entities file their initial rate applications."¹⁴

In its reply submission, Hydro One submitted that the ATP Account is appropriate and should be approved as proposed, arguing that the projects that will be subject to the ATP Account are large, complex greenfield projects that have a long time to completion, with uncertain timing and magnitude of expenditures, and that these expenditures will be outside of the base upon which Hydro One's revenue requirement is derived.

Regarding the Bruce to Milton and Niagara Reinforcement projects that were completed without the use of deferral accounts, Hydro One submitted that these were not appropriate comparisons to ATP Account projects because "both projects were undertaken with the intention that they form part of Hydro One's rate base and were at or near completion of construction when an equity interest was offered to Indigenous-owned entities."¹⁵ In contrast to these two projects, Hydro One's intention is to transfer ATP Account projects to a partnership from the outset.

Confirming the distinction made by OEB staff, Hydro One stated in its reply submission that projects initiated by an Order in Council or direction from the Minister of Energy are non-discretionary, but a letter from the IESO "does not have the same binding force as a Ministerial directive."¹⁶ In response to OEB staff concern about the threshold of analysis for an IESO letter, Hydro One noted that:

¹³ SEC Submission, p.5.

¹⁴ SEC Submission, p.5.

¹⁵ Hydro One Reply Submission, p.7.

¹⁶ Hydro One Reply Submission, p.4.

...the IESO is providing such a letter as part of its responsibility to conduct system planning in the public interest and as part of its regulatory obligations, which one can reasonably conclude that the IESO would not lightly discharge. Accordingly, such a request cannot be ignored and project planning and development activity must be undertaken with Hydro One acting prudently in that regard.¹⁷

In reply to SEC's submission that the ATP Account is not needed, Hydro One reiterated that "Hydro One attempts to manage its business planning process within approved capital envelopes" and introducing large projects that were not part of the capital expenditure budget would redirect funds away from the budgeted work and have a negative impact on those projects.¹⁸

In response to SEC's submission that all of Hydro One's transmission expenditures should be included in a single transmission rate application, Hydro One replied that this argument could be extended to imply that the OEB would need to assess all Ontario transmitters' applications at the same time, which is not OEB's practice. Hydro One submitted that:

What is relevant to the OEB's consideration for each transmitter is the transmitter's revenue requirement and the prudent and reasonable costs that underpin that revenue requirement. In this regard, the revenue requirements of other transmitters on the assessment of the reasonableness and prudence of costs is entirely irrelevant.¹⁹

In reply to SEC's comment that the OEB should consider a policy consultation, Hydro One stated that it "takes no position at this time in regard to the appropriateness of a generic proceeding."²⁰

Findings

The OEB notes that the costs that are to be recorded in this account are for projects which are the subject of an Order in Council or direction from the Minister of Energy or a letter from the IESO. These projects are expected to be fully or partially owned by, and

¹⁷ Hydro One Reply Submission, p. 4.

¹⁸ Hydro One Reply Submission, pp. 6-7.

¹⁹ Hydro One Reply Submission, p. 21.

²⁰ Hydro One Reply Submission, p. 23.

included in the rate base of, a partnership between Hydro One and one or more partners.

The key advantage of this approach is that Hydro One's financial records are separated from those involving partnerships with other entities. Hydro One does not expect to include project costs that are recorded and tracked in the ATP Account as part of its own future revenue requirement applications. Costs booked into the ATP Account will form part of a future revenue requirement application by a partnership between Hydro One and one or more partners. It is the OEB's view that this will improve transparency and regulatory efficiency.

The OEB also finds that the use of the ATP Account for what will likely be unplanned, high cost, long timeline projects will avoid having Hydro One re-prioritize its own capital program to accommodate these projects. This re-prioritization could have negative consequences for Hydro One's ability to maintain the reliability and integrity of its assets.

Regarding some parties' argument that other affiliate transmission projects were built without the need for an ATP Account (i.e., Bruce to Milton transmission line and the Niagara Reinforcement transmission line), the OEB finds the reasons provided by Hydro One in its reply submission to be persuasive (e.g., the initial intent was to have these two projects form part of Hydro One's rate base with the equity interest coming at or near the end of project construction, as opposed to planning at the outset to have the projects transferred to a New Partnership as is the general premise in this Application).

SEC's suggestion that the OEB consider a generic proceeding to consider policy aspects of rate-making treatment for single asset transmitters is beyond the scope of the current proceeding.

The OEB notes that approval to establish the ATP Account does not guarantee that incurred project costs will be recovered from ratepayers.

Based on the above, the OEB finds that the proposed ATP Account is appropriate provided that its use is limited to projects that are developed with the intention of being included in the revenue requirement of a partnership.

Issue 2: Has Hydro One complied with all the filing requirements necessary to establish an Accounting Order, including, without limitation, the eligibility criteria of causation, materiality, and prudence?

Chapter Two of the OEB's *Filing Requirements for Electricity Transmission Applications* (Filing Requirements) states that a new deferral account must satisfy the eligibility criteria of causation, materiality, and prudence.

AMPCO and Energy Probe submitted that Hydro One has complied with the eligibility criteria of causation, materiality, and prudence.

CKSPFN submitted that Hydro One “has not provided sufficient detail on its rationale and approach for choosing to separate Station costs from Line costs.”²¹

SEC submitted that the requirements set out in Chapter 2 are not a valid basis for approval of the ATP Account because the Filing Requirements are for revenue requirement applications and are not meant for mid-framework applications.²² SEC submitted that the appropriate time for Hydro One to apply for the ATP Account is when it seeks approval of its next rate framework.

OEB staff made a submission on each of the eligibility criteria. First, OEB staff submitted that the proposed ATP Account met the causation criterion because, while utilities are typically expected to live within a custom IR framework for the duration of the approved term, “the circumstances of the three projects for which Hydro One plans to use the ATP Account are exceptional, akin to Z-factor events...”²³ Likewise, OEB staff noted that Hydro One cannot foresee projects that will be the subject of a letter from the IESO and/or an Order in Council or direction of the Minister of Energy. OEB staff also submitted that because Hydro One plans to transfer projects that have costs recorded and tracked in the ATP Account to a partnership, these costs will be outside of the rate base upon which Hydro One’s revenue requirement requirements are derived.

With respect to materiality, OEB staff submitted that the materiality thresholds for each of the partnerships that are expected to own a transmission line project in the future will likely be lower than Hydro One’s materiality threshold of \$3 million and a lower threshold “is more relevant, because the intent of the ATP Account is to separate costs

²¹ CKSPFN Submission, p.1.

²² SEC Submission, p.3.

²³ OEB Staff Submission, p.8.

for projects that meet the Account Criteria from Hydro One's accounts."²⁴ Nonetheless, OEB staff submitted that the expenditures to-date that were provided by Hydro One for the three projects for which the ATP Account will initially be used indicate that costs for projects recorded and tracked in the ATP Account will exceed the partnerships' and Hydro One's materiality thresholds.

OEB staff submitted that the ATP Account met the prudence criterion, stating that it is in the public interest for transmitters to initiate development work on transmission line projects in a timely and prudent manner and that the criteria Hydro One has proposed for the ATP Account are appropriate screening criteria to identify development projects.

In its reply submission, Hydro One stated that the ATP Account satisfies the OEB eligibility criteria. Hydro One submitted that the OEB should reject SEC's submission that the Application is inconsistent with the approved 2020-2022 rate framework, stating that "SEC, in making its submissions, has ignored an essential aspect of the ATP Account – the costs in question will not form part of the rate recovery by Hydro One and is therefore outside the regulatory framework applicable to Hydro One."²⁵ With respect to the Z-factor, Hydro One stated that "The premise of Z-factor relief is that the utility seeking such relief requires rate recovery of costs incurred."²⁶ Hydro One submitted that this is not the circumstance dealt with by the ATP Account, the driver of the ATP Account being that ATP Account projects will not form part of Hydro One's transmission rate base.

In response to SEC's submission, Hydro One also noted several examples of regulatory accounts that have been established by the OEB in the middle of an approved rate-setting period, including the Waasigan Transmission Line Deferral Account.²⁷

With respect to causation, Hydro One submitted that costs recorded and tracked in the ATP Account will be outside the base upon which Hydro One's revenue requirement is derived because Hydro One does not intend to include these costs in any revenue requirement application. Hydro One submitted that the amounts recorded and tracked in the ATP Account will exceed Hydro One's materiality threshold of \$3 million. Finally, regarding prudence, Hydro One submitted that costs to be recorded and tracked are for activities that are necessary for developing, obtaining approvals, and constructing projects that "fulfill the priority and system planning needs underpinning the Minister's

²⁴ OEB Staff Submission, p.9.

²⁵ Hydro One Reply Submission, p. 17.

²⁶ Hydro One Reply Submission, p. 17.

²⁷ Hydro One Reply Submission, p. 19.

direction or IESO letter” and that ATP Account costs “will be subject to an OEB prudency review upon an application for disposition and recovery...”²⁸

Findings

Causation:

For the three projects presented in this proceeding and for similar future projects, the costs will be transferred to, and/or tracked in, the ATP Account. The development costs of the Waasigan Transmission Line project have already been separated from Hydro One’s revenue requirement and are being held in a deferral account. If the ATP Account is approved in this proceeding, the balance in that deferral account will be transferred to, and tracked in, the ATP Account.

Costs related to developing the Chatham to Lakeshore Transmission Line and the Lambton to Chatham Transmission Line would be tracked in the ATP Account. This will also be the case for future similar projects.

SEC argued that approval of the ATP Account should be denied and that the appropriate time for the OEB to consider such an account is in the context of Hydro One’s rate application such as the current Joint Rate Application (JRAP)²⁹. The OEB finds that including such an account within the JRAP proceeding or other future Hydro One rate proceedings would not be appropriate as the costs of the subject projects would ultimately form part of the rate base of another transmitter. In addition, Hydro One provided a number of examples where regulatory accounts have been established by the OEB outside of a revenue requirement application.

As a result, the forecast costs for these projects will be clearly outside of the base upon which Hydro One’s revenue requirement is derived. The OEB, therefore, finds that the proposed ATP Account meets the causation criterion.

Materiality:

Given the \$3 million materiality threshold for Hydro One and the magnitude of the project costs to be tracked in the proposed regulatory account, the OEB finds that the total development and construction costs for these types of projects to significantly exceed Hydro One’s materiality threshold.

²⁸ Hydro One Reply Submission, p. 9.

²⁹ EB-2021-0110

Prudence:

The OEB finds that Hydro One's description of what constitutes "development work" represents a prudent approach to the execution of large complex projects. This approach provides the basic information required to examine project alternatives, define the project scope, identify the necessary approval requirements, and perform preliminary engineering and planning tasks.

The OEB finds that the ATP Account meets the prudence criterion. Final determination of prudence shall be made at the time that Hydro One or the New Partnership applies for disposition of all or part of the ATP Account.

Issue 3: Is the draft accounting order filed by Hydro One, including the proposed accounting entries set out therein, appropriate?

AMPCO, Energy Probe and OEB staff submitted the draft accounting order is appropriate.

Findings

The OEB finds that the draft accounting order, including the proposed accounting entries in Appendix 1 of the Application, is appropriate.

Issue 4: Is the proposed methodology of allocation of Hydro One's direct and indirect costs to a project that is subject to the proposed account appropriate; and is the allocation methodology of common costs to Lines and Stations appropriate?

With respect to its proposed methodology for allocation of direct and indirect costs, Hydro One stated in its evidence that direct costs for a project are recorded in Hydro One's financial system using the project's respective project code and that indirect costs are applied by using Hydro One's overhead capitalization methodology that was approved by the OEB as part of Hydro One's most recent revenue requirement application.³⁰

With respect to its proposed methodology for allocating common costs to lines and stations, Hydro One's evidence stated that the costs for transmission line work and associated station work will be tracked separately for each project. Finally, Hydro One

³⁰ Exhibit I / Tab 1 / Schedule 5, p.1.

stated that costs that encompass both transmission line and station work are not expected to be material; however, when such costs do exist, Hydro One “contemplates these will be allocated using a pro-rata methodology, using actual lines and stations costs for the project as the ratio.”³¹

AMPCO and OEB staff submitted that Hydro One’s proposed methodologies for allocating direct and indirect costs and for allocating common costs to lines and stations are appropriate.

Energy Probe submitted that a clear system for identifying and allocating both Direct and Indirect project costs is required. Energy Probe asked for Hydro One to demonstrate in its reply argument that there are adequate systems in place to identify and record indirect costs throughout the ATP cycle.³²

CKSPFN and GLP took issue with Hydro One’s proposal to only include line costs in the ATP Account. CKSPFN submitted that:

Hydro One has not proposed a specific cost allocation methodology for both Lines and Stations that reflects the interests of CKSPFN and a prospective First Nation partner in the new capital assets required to operate the transmission lines, inclusive of both Line and Station assets.³³

Referencing correspondence from Hydro One to the OEB related to the WTTDA, GLP submitted that “Based on Hydro One’s filings for EB-2019-0151, transmission station work appears to be included in the EB-2019-0151 deferral account and would be transferred to the EB-2021-0169 ATP account if the Board approves the current application.”³⁴ GLP points out that while the Application states that only line costs will be captured in the ATP Account, the application also states that the sub-account for project development, preliminary engineering and planning work will record and track costs similar to the Waasigan Transmission Line Deferral Account.³⁵

Regarding whether costs for station assets are recorded and tracked in the ATP Account, GLP stated that:

³¹ Exhibit I / Tab 1 / Schedule 4.

³² Energy Probe Submission p. 4.

³³ CKSPFN Submission, p. 2.

³⁴ GLP Submission, p. 3.

³⁵ GLP Submission, p. 4.

This issue is of particular concern to GLP as there are potentially significant benefits for New Partnerships in designing and operating both transmission and station assets and having both in the New Partnership's rate base from which First Nation partners receive their equity distributions. Ratepayers as well may benefit from efficiencies of having both in the same management regime and rate base.³⁶

In terms of Hydro One's proposed pro-rata methodology for allocating costs encompassing work related to both line and station assets, GLP stated that "It is not clear to GLP how the mechanics of this approach will work in practice. This should be made clear."³⁷

In its submission, GLP requested that Hydro One "stipulate in a transparent and fact-based manner, all its rationale and justifications for any separation of transmission and station assets and the exclusion of the latter from a New Partnership."³⁸ Further, GLP requested that it be provided with the opportunity to reply to Hydro One's reply submission.

Hydro One addressed Energy Probe's concern about identifying and allocating direct and indirect costs in its reply submission with a description of its processes and policies for allocating costs to specific projects, including its common corporate costs allocation methodology.³⁹

In reply to CKSPFN and GLP, Hydro One addressed the issue of whether station costs should be included in the ATP Account, and clarified the station versus line cost allocation methodology. In response to the latter, Hydro One submitted that:

Hydro One's proposal is that common costs incurred to develop and construct these assets (such as costs related to joint public information centres) would be allocated based upon the actual costs incurred. For instance, if the actual stations costs incurred were 30% of total project costs, then 30% of indirect costs would be allocated to stations. As mentioned in Exhibit I, Tab 1, Schedule 5, all costs that are directly associated with stations or lines only, would be coded directly to that specific project code. Each project that is expected to be included

³⁶ GLP Submission, p. 4.

³⁷ GLP Submission, p. 4.

³⁸ GLP Submission, p. 4.

³⁹ Hydro One Reply Submission pp. 10-11.

in the ATP Account will have a unique project code for both station and line costs.⁴⁰

In response to the issue of whether station costs should be included in the ATP Account, Hydro One stated that the negotiation of economic benefits are outside of the scope of this proceeding.⁴¹ Hydro One also submitted that “there is no regulatory basis for tracking station costs in the ATP Account. Accordingly, the ATP Account should be approved to track solely transmission line costs as sought in the Application.”⁴²

Further, Hydro One stated that:

From a practical and operational perspective, Hydro One would like to clarify that transmission stations serve multiple transmission lines, and their operations are in support of Ontario’s entire electricity transmission system. In other words, they are not discrete to one particular transmission line. While new station assets may be required to connect a new line, the station assets inherently provide operational benefit to the overall station and to all lines egressing to the station meaning that the benefit is socialized across the entire station and not discrete to the new line subject to a partnership. There are real safety, physical security, operating and reliability considerations that are alleviated when incumbent transmitters continue to operate station facilities that comprise the integrated transmission network. As the station forms the backbone of connection and serves the broader transmission network and not just a single transmission line, Hydro One’s submissions are that from a safety, security, and operations perspective, the entire station should be owned by one entity to ensure the reliability of the integrated transmission system and maximize efficiency in operations.⁴³

In response to GLP’s request for a further reply, Hydro One submitted that a further reply is not required by GLP, because Hydro One’s position has not changed from that presented in the Application, and Hydro One’s reply submissions “are consistent with the stated policy of Hydro One and current practice.”⁴⁴ Hydro One added that if GLP is provided with a reply opportunity, Hydro One reserves its right of sur-reply.⁴⁵

⁴⁰ Hydro One Reply Submission, p. 11.

⁴¹ Hydro One Reply Submission, pp. 14 and 16.

⁴² Hydro One Reply Submission, p. 15.

⁴³ Hydro One Reply Submission, pp. 15-16.

⁴⁴ Hydro One Reply Submission, p.16.

⁴⁵ Hydro One Reply Submission, p.16.

Findings

Hydro One's proposed treatment of project costs for the projects using the ATP Account is consistent with the treatment of all of Hydro One's regulated projects including both direct and indirect costs, as well as the allocation of common transmission lines and stations costs.

The OEB finds that Hydro One's proposed cost allocation methodologies are appropriate.

Regarding the concern raised by some parties about the proposed ATP Account only including costs related to transmission line development, but not station assets, Hydro One's response supporting its position was three-fold. First, the negotiation of economic benefits with its potential partners is outside the scope of this proceeding. Second, there are practical and safety limitations associated with the fact that transmission stations serve multiple transmission lines. Third, there are safety, reliability and security risks that are mitigated by having the incumbent transmitter continue to operate station facilities.

The OEB finds that requiring Hydro One to include transmission stations in the scope of the proposed ATP Account would be inappropriate. Should Hydro One wish to include transmission station ownership in any future project development with a New Partnership, Hydro One would have to seek OEB's approval regarding the expansion of the proposed ATP Account scope.

In light of these findings, the OEB does not find it necessary to grant GLP an opportunity to reply to Hydro One's argument about this issue.

Issue 5: Are the notification and reporting requirements for the proposed regulatory account appropriate?

In its Application, Hydro One proposed to notify the OEB that it intends to begin recording and tracking costs for a project to the ATP Account by providing the following information:

- a) Project description
- b) Expected in-service date

- c) Direction provided to Hydro One to commence development activities and confirmation that the project is in accordance with the direction set forth by the Ministry and/or a letter received by Hydro One from the IESO
- d) Confirmation that project costs will be included in any revenue requirement applications
- e) Confirmation that project costs are expected to meet Hydro One's materiality threshold of \$3 million⁴⁶

Hydro One also stated that it intends to notify the OEB by letter when the status of a project changes from using the Deferral Sub-Account to using the Tracking Sub-Account.

With respect to reporting, Hydro One stated that the ATP Account will be "managed in the same manner as existing Hydro One variance, deferral and tracking accounts" with balances reported to the OEB as part of the annual reporting process.⁴⁷

AMPCO and Energy Probe submitted that the notification and reporting requirements for the proposed regulatory account are appropriate.

CKSPFN submitted that it has no issues with the notification and reporting requirements.

OEB staff submitted that the notification and reporting requirements proposed by Hydro One were appropriate; however, OEB staff suggested that the wording of item (d) be changed to "Confirmation that by the time the project enters service all or part of the project is expected to be owned by and included in the rate base of a partnership between Hydro One and one or more partners" to more closely align it with the criteria for the ATP Account.⁴⁸

In its reply submission, Hydro One accepted OEB staff's modification to the notification requirements.

⁴⁶ Amended Evidence, pp.12-13.

⁴⁷ Amended Evidence, p.13.

⁴⁸ OEB Staff Submission, p.12.

Findings

The OEB finds that the notification and reporting requirements proposed by Hydro One, in addition to those proposed by OEB staff and accepted by Hydro One, are appropriate.

Issue 6: Is the proposed manner and timing for disposition of this account appropriate?

In its evidence, Hydro One proposed that disposition of balances in the ATP Account will be requested as part of future Hydro One rate filings, or as part of partnerships' rate filings. If a project is transferred to a partnership, cost recovery will be sought as part of the rate base of the partnership. Otherwise, Hydro One would seek disposition of the account balance. In terms of timing, Hydro One stated that the disposition of the Deferral Sub-Account may be requested before an asset enters service if all pre-capitalization costs have been captured. If a project does not proceed to completion, Hydro One would seek to recover costs if these exceed the established materiality threshold.

AMPCO submitted that the proposed manner and timing for disposition of this account is appropriate. CKSPFN and OEB staff submitted that they had no issues with the proposed manner and timing for disposition of this account. OEB staff also submitted that:

...it would be undesirable for costs associated with a project that is not progressing toward completion to remain in the ATP Account indefinitely. OEB staff submits that Hydro One should be required to alert the OEB if there has been no material progress on a project for nine months. Nine months is suggested because it amounts to roughly three seasons of field work.⁴⁹

Under this issue, Energy Probe submitted that if a project resulting from a competitive bid, either from the IESO or under the Minister's Direction is cancelled, then Hydro One's shareholder should bear the responsibility for any such cancellation costs.⁵⁰

In response, Hydro One stated that:

⁴⁹ OEB Staff Submission, pp.13-14.

⁵⁰ Energy Probe Submission, p. 4.

The type of projects contemplated to be included in the ATP Account would be those that result from a directive of the Minister or a formal letter from the IESO. Hydro One has not, and will not, include costs associated with competitive transmission bids in this account. ...Consequently, with that clarification, it would appear on face that EP would agree with the proposed manner and timing for disposition of this account.⁵¹

Finally, in its reply submission Hydro One accepted OEB staff's proposed requirement that Hydro One inform the OEB if there has been no material progress on a project for nine months.

Findings

The OEB finds that Hydro One's proposed approach to disposition is appropriate. The OEB agrees with OEB staff that Hydro One should alert the OEB if there has been no material progress in a project for nine months. Hydro One agreed with this requirement.

⁵¹ Hydro One Reply Submission, p. 13.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Accounting Order attached as Schedule A to this Decision and Order is approved.
2. Intervenors shall submit their cost claims no later than **October 14, 2021**.
3. Hydro One shall file with the OEB and forward to intervenors any objections to the claimed costs no later than **October 21, 2021**.
4. Intervenors shall file with the OEB and forward to Hydro One any reply to any objections to the cost claims no later than **October 28, 2021**.

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2021-0169** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the [OEB's online filing portal](#).

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at the [Filing Systems page](#) on the OEB's website
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the online filing portal can contact registrar@oeb.ca for assistance

All communications should be directed to the attention of the Registrar at the address below and be received by end of business, 4:45 p.m., on the required date.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto October 7, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar

SCHEDULE A
DECISION AND ORDER
HYDRO ONE NETWORKS INC.
EB-2021-0169
OCTOBER 7, 2021

1 **APPENDIX 1**

2
3 **Hydro One Transmission Draft Accounting Order**

4
5 **Accounting Entries**

6
7 **1) Large Transmission Project Costs Deferral Account – Development, Preliminary**
8 **Engineering and Planning Costs**

9

<u>USofA #</u>	<u>Account Description</u>
10 Dr 4XXX	Transmission Expense
11 Cr 2205	Accounts Payable

12
13

14 To record the preliminary recognition of Hydro One’s development, preliminary
15 engineering and planning costs incurred for Affiliate Transmission Projects prior to the
16 point where capitalization can occur.

17

<u>USofA #</u>	<u>Account Description</u>
18 Dr 1508	Other Regulatory Assets – Sub account “ATP Account – 19 Development, Preliminary Engineering and Planning 20 Costs”
21 Cr 4XXX	Transmission Expense

22
23

24 Where Hydro One incurs incremental costs due to Affiliate Transmission Projects, during
25 the phase prior to the point where costs can be capitalized, this entry will record the costs
26 for development, preliminary engineering and planning of the these Affiliate
27 Transmission Projects in a deferral account for future disposition.

<u>USofA #</u>	<u>Account Description</u>
Dr 1508	Other Regulatory Assets – Sub account “ATP Account – Development, Preliminary Engineering and Planning Costs”
Cr 6035	Other Interest Expense

To record interest improvement on the principal balance of the “Affiliate Transmission Projects Deferral Account”.

2) Affiliate Transmission Project Construction Costs Tracking Account

Once the project has moved into a phase where project costs can be capitalized per Hydro One’s capitalization policy and where it is expected that the project will be completed and placed in-service, the following accounting entries will be recorded;

<u>USofA #</u>	<u>Account Description</u>
Dr: 2055	Construction Work in Progress – Electric (“CWIP”)
Cr: 2205	Accounts Payable

To record project construction expenditures incurred by Hydro One relating to the Affiliate Transmission Project.

<u>USofA #</u>	<u>Account Description</u>
Dr: 1508	Other Regulatory Assets – Sub account “ATP Account – Project Construction Costs”
Cr: 1508	Other Regulatory Assets – Sub account “ATP Account – Project Construction Costs – Contra Account”

1 To record specific CWIP costs, along with a contra-entry to enable Hydro One to track
2 the construction costs incurred by Hydro One on Affiliate Transmission Projects where
3 the project is expected to be in-serviced outside Hydro One's rate base post-construction
4 completion. The regulatory account at this stage is used as a tracking account until the
5 project is placed in-service.

6
7 Depending on how the transfer of assets is structured (i.e – via equity or cash), Hydro
8 One will record the applicable journal entries to reflect this transfer.

9

<u>USofA #</u>	<u>Account Description</u>
Dr: 1605-1999 ¹⁷	Non-Current Property Plant and Equipment – Transmission Assets
Cr: 2055	Construction Work in Progress – Electric

10 New Partnership's entry to record the completion of project and the movement of the
11 construction costs of the project to in-service. This will trigger interest improvement on
12 the project to cease.

13
14 **Projects Not Completed and Placed In-Service**

15 In the event that a particular Affiliate Transmission Project that has received approval to
16 be recorded in the ATP Account is ultimately not placed in-service, Hydro One would
17 record the following accounting entries;

18

<u>USofA #</u>	<u>Account Description</u>
Dr: 1508	Other Regulatory Assets – Sub account “ATP Account – Project Construction Costs – Contra Account”
Cr: 2055	Construction Work in Progress – Electric

¹⁷ USofA account may vary

1 To effectively remove the construction costs for a specific project from CWIP, to the
2 ATP Account.

3 At this point, the deferral account will have a positive debit balance (the ‘Contra
4 Account’ balance is reduced to nil) and that sub-account no longer functions as a
5 ‘tracking’ account. The balance would be held in this account until Hydro One can apply
6 to the Board for disposition in a future rate rebasing application.

<u>USofA #</u>	<u>Account Description</u>
Dr: 1508	Other Regulatory Assets – Sub account “ATP Account – Project Construction Costs - Interest Improvement”
Cr: 6035	Other Interest Expense

7
8 To record interest improvement on the debit principal balance of the ATP Account –
9 Project Construction Costs account at the OEB’s published CWIP rate.