

**Hydro One Networks Inc.**

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**Frank D'Andrea**

Vice President  
Regulatory Affairs & Chief Risk Officer

BY COURIER

November 2, 2017

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**EB-2017-0338 Hydro One Networks Inc. (Transmission) – Application for an Accounting Order Establishing a Deferral Account**

Hydro One Networks Inc. (“Hydro One”) hereby submits its evidence in support of an application for an accounting order establishing a deferral account to capture the financial impacts associated with a change to USGAAP accounting standards related to the accounting of pension and other post-employment benefits for Hydro One’s transmission business, to be effective January 1, 2018.

Hydro One expects that the balance in this account, as well as the timing and manner of its disposition will be reviewed in future rate hearing. As such, there are no rate impacts at this time that arise from this Application.

This Application has also been filed through the Ontario Energy Board’s Regulatory Electronic Submission System (RESS).

If further clarification or additional information is needed please feel free to contact us at [Regulatory@HydroOne.com](mailto:Regulatory@HydroOne.com).

Sincerely,

ORIGINAL SIGNED BY FRANK D’ANDREA

Frank D’Andrea  
Encls.



1 given that the scope of this application is limited, Hydro One proposes that this  
2 Application proceed by way of a written hearing.

3  
4 The persons affected by this Application are the ratepayers of Hydro One's transmission  
5 business. It is impractical to set out their names and addresses because they are too  
6 numerous.

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8 Applicant's Name: Hydro One Networks Inc.  
9 Applicant's Address for Service: 7th Floor, South Tower  
10 483 Bay Street  
11 Toronto, Ontario  
12 M5G 2P5

13  
14 Contact information for this Application is as follows:

15  
16 Eryn MacKinnon  
17 Senior Regulatory Coordinator – Regulatory Affairs  
18 Telephone: 416-345-4479  
19 E-mail: [Regulatory@HydroOne.com](mailto:Regulatory@HydroOne.com)

20  
21 DATED this 2<sup>nd</sup> day of November, 2017.

22  
23 ORIGINAL SIGNED BY FRANK D'ANDREA

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FRANK D'ANDREA

26 Vice President – Regulatory Affairs and Chief Risk Officer

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## APPLICATION

The Applicant is Hydro One Networks Inc. (“Hydro One”), a corporation incorporated pursuant to the Ontario *Business Corporations Act* with its head office in the City of Toronto, ON. The Applicant carries on the business, among other things, of owning and operating transmission and distribution facilities in Ontario. This application seeks the establishment of a deferral account for Hydro One’s transmission business.

### Background

On May 31, 2016, Hydro One filed its transmission rate application for 2017 or 2018 rates (EB-2016-0160). The record for that proceeding closed on February 3, 2017 with the filing of Hydro One’s reply argument.

In March 2017, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard’s Update (ASU 2017-07) that affects the accounting for pensions and other post-employment benefits (“OPEBs”) effective January 1, 2018.

As part of ASU 2017-07, Topic 715 – Compensation – Retirement Benefits of the USGAAP Accounting Standards Codification has been amended. The amendments allow only the service cost component of the net periodic pension cost and net periodic post-retirement benefit cost to be eligible for capitalization when applicable. For rate-setting purposes, Hydro One accounts for its pension costs on a cash basis and therefore this amendment is not anticipated to affect the pension related amounts embedded in the OEB-approved revenue requirements for 2017 and 2018. The changes to the accounting for OPEB, which Hydro One accounts for on an accrual basis for rate-setting purposes, will result in a re-classification of the net periodic post-retirement benefit cost other than service cost to OM&A and will materially affect Hydro One’s 2018 expenses.

1 On September 28, 2017, the OEB issued its Decision and Order for the EB-2016-0160  
2 proceeding. The forecast costs used by the OEB to determine Hydro One's 2017 and  
3 2018 revenue requirements did not reflect the accounting standard changes issued by the  
4 FASB.

### 5 6 **Summary of Request**

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8 Hydro One proposes to establish a deferral account to record the net periodic post-  
9 retirement benefit cost other than service cost for its transmission business that would  
10 have been classified as capital prior to the issuance of ASU 2017-07 in a deferral account,  
11 effective January 1, 2018. A draft Accounting Order outlining the details of the proposed  
12 account has been provided as Appendix A.

### 13 14 **Eligibility Criteria for Deferral Accounts**

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16 Consistent with section 2.10 of Chapter 2 of the OEB's Filing Requirements for  
17 Electricity Transmission Applications ("the Filing Requirements"), an applicant seeking  
18 an accounting order to establish a new deferral account must meet the eligibility criteria of  
19 causation, materiality and prudence.

20  
21 In this instance, the forecasted expense is associated with an accounting change that was  
22 issued after the close of the record in the EB-2016-0160 proceeding and is therefore  
23 clearly outside of the base upon which Hydro One's 2018 revenue requirement was  
24 derived. As the accounting change was externally driven by a standard setting body, the  
25 FASB, it is beyond Hydro One's ability to control and can be deemed to have been  
26 reasonably incurred by Hydro One. Therefore, the causation and prudence criteria have  
27 been met. Hydro One understands that a final determination of prudence will be made at  
28 the time of disposition of balances in the proposed account.

1 As per section 2.1.1 of the Filing Requirements, the materiality threshold applicable to  
2 Hydro One's transmission business is \$3 million. Hydro One estimates that the impact of  
3 the accounting policy change to its transmission business will result in a \$11 million  
4 increase to OM&A above 2018 OEB-approved levels. The forecasted impact of this  
5 accounting policy change is well above the \$3M materiality threshold and poses a  
6 material impact on Hydro One's operations.

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8 **Conclusion**

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10 In summary, the proposed deferral account would address the material financial and  
11 operational impacts that will arise in 2018 as a result of an externally driven change to  
12 accounting standards related to pension and OPEB. Hydro One has demonstrated that the  
13 proposed deferral account meets the OEB's eligibility criteria and requests approval to  
14 establish the account to track the impact of ASU 2017-07, effective January 1, 2018.

## APPENDIX A

### Proposed Accounting Entries

Hydro One Networks Transmission proposes the establishment of a new “Other Post-Employment Benefit (OPEB) Cost Deferral Account” to record all elements of the net periodic benefit cost other than the service cost that would have been classified as capital prior to the issuance of ASU 2017-07, as noted in the Application.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account “OPEB Cost Deferral Account” effective January 1, 2018. Hydro One Networks Transmission will record interest on any balance in the sub-account using the interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this account:

<b>USofA #</b>	<b>Account Description</b>
Dr: 1508	Other Regulatory Assets – Sub-Account “OPEB Cost Deferral Account”
Cr: 2055	Construction Work In Progress - Electric

To record the capitalized elements of the net periodic post-retirement benefit cost other than service cost.

<b>USofA #</b>	<b>Account Description</b>
Cr: 1508	Other Regulatory Assets – Sub-Account “OPEB Cost Deferral Account”
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the “OPEB Cost Deferral Account”.