

REGULATORY ASSETS

1.0 INTRODUCTION

The purpose of this evidence is to provide a description of Hydro One Transmission's Regulatory Assets.

All of the Regulatory Assets reported by Hydro One Transmission have been established consistent with the Board's requirements as set out in the Accounting Procedures Handbook, subsequent Board direction, or as per specific requests initiated by Hydro One Transmission.

The Transmission Regulatory Asset balances are summarized in Table 1 below:

Table 1
Transmission
Summary of Regulatory Asset Balances For Approval (\$ Millions)

Description	Balance as at Dec 31, 2008	Balance as at Dec. 31, 2009	Balance as at Dec. 31, 2010
Total Regulatory Assets	0.4	(7.4)	(7.4)

Hydro One Transmission is requesting approval of actual Regulatory Asset values as at December 31, 2009, plus forecasted interest for 2010 on the principal balances as at December 31, 2009.

The actual Regulatory Asset values are calculated by applying simple interest to the monthly opening principal balance in the accounts using the Board prescribed interest rate. The forecasted interest for 2010 is calculated by applying simple interest on the

1 December 31, 2009 year-end principal balance using the forecasted bankers'
2 acceptances-3 month rate of 0.84% plus 0.25% spread.

3
4 It is expected that new Transmission rates will be implemented at the start of January
5 2011, and that disposition of these accounts will commence on that implementation date.
6 Details on these balances are described for each account in Section 2.0 of this Exhibit.
7 Disposition of the assets is discussed in Exhibit F1, Tab 2, Schedule 1. Further details on
8 deferral and variance accounts are provided in:

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10 ■ Exhibit F2, Tab 1, Schedule 1, Regulatory Assets for Approval, and
11 ■ Exhibit F2, Tab 1, Schedule 2, Planned Disposition of Regulatory Assets: Schedule of
12 Annual Recoveries.
13 ■ Exhibit F2, Tab 1, Schedule 3, Continuity Schedule – Regulatory Assets

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15 **2.0 REGULATORY ASSETS REQUESTED FOR APPROVAL**

16
17 The Board's decision on Hydro One's Transmission Rates for 2009 and 2010 (EB-2008-
18 0272) approved or required the establishment or continuance of the following accounts.
19 Table 2, below, provides a listing of the Transmission Regulatory Assets requested for
20 approval as part of 2011 and 2012 Transmission Rates:

Table 2
Transmission
Regulatory Assets Requested for Approval (\$ Millions)

Description	US of A Account Ref.	Balance as at Dec. 31, 2008	Balance as at Dec 31, 2009	Balance as at Dec 31, 2010
Export Service Credit Revenue	2405	0.0	(4.8)	(4.9)
External Secondary Land Use Revenue	2405	0.0	(3.2)	(3.2)
External Station Maintenance and E&CS Revenue	2405	0.0	(4.4)	(4.4)
IPSP & Other LT Project Planning Costs	1508	0.0	1.9	2.0
Pension Cost Differential	2405	0.4	3.1	3.1
Total Regulatory Assets		0.4	(7.4)	(7.4)

2.1 Export Service Credit Revenue Account

This variance account was created as a result of the Board's decision of May 28, 2009 (EB-2008-0272). The Board requested that Hydro One Transmission establish a variance account to capture any difference between the \$12.0 million forecast export service credit revenue approved by the OEB as part of 2009 and 2010 Transmission Rates and the actual export service credit revenue.

As at December 31, 2009, Hydro One Transmission had excess export service revenue in the amount of \$4.8 million, inclusive of interest accrued. This account is reported to the Board on a quarterly basis consistent with the Board's Reporting and Record Keeping Requirements.

Simple interest is applied to the monthly opening principal balance in this account according to the Board prescribed interest rate.

Included in the balance submitted for approval is interest forecasted through to December 31, 2010 to reflect carrying charges anticipated through to the proposed implementation date.

2.2 External Secondary Land Use Revenue Account

This variance account was created as a result of the Board's decision of May 28, 2009 (EB-2008-0272). The Board requested that Hydro One Transmission establish a variance account to capture any difference between the \$11.0 million forecast external secondary land use revenue approved by the Board as part of 2009 and 2010 Transmission Rates and the actual secondary land use revenue.

As at December 31, 2009, Hydro One Transmission had excess external secondary land use revenue of \$3.2 million, inclusive of interest accrued. This account is reported to the Board on a quarterly basis consistent with the Board's Reporting and Record Keeping Requirements.

Simple interest is applied to the monthly opening principal balance in this account according to the Board prescribed interest rate.

Included in the balance submitted for approval is interest forecasted through to December 31, 2010 to reflect carrying charges anticipated through to the proposed implementation date.

2.3 External Station Maintenance and E&CS Revenue Account

This variance account was created as a result of the Board's decision of May 28, 2009 (EB-2008-0272). The Board requested that Hydro One Transmission establish a variance account to capture any difference between the \$4.9 million forecast external station maintenance and engineering and construction services (E&CS) revenue (net of the \$4.1 million of related cost of sales) approved by the Board as part of 2009 and 2010 Transmission Rates and the actual net external station maintenance and E&CS revenue.

1 As at December 31, 2009, Hydro One Transmission had external station maintenance and
2 engineering and construction revenue of \$17.9 million and related excess cost of sales of
3 \$12.7 million, which resulted in net excess external station maintenance and E&CS
4 revenue of \$4.4 million, inclusive of interest accrued. This account is reported to the
5 Board on a quarterly basis consistent with the Board's Reporting and Record Keeping
6 Requirements.

7
8 Simple interest is applied to the monthly opening principal balance in this account
9 according to the Board prescribed interest rate.

10
11 Included in the balance submitted for approval is interest forecasted through to December
12 31, 2010 to reflect carrying charges anticipated through to the proposed implementation
13 date.

14 15 **2.4 IPSP & Other Long Term Projects Planning Costs**

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17 This account was created as a result of the Board's decision of May 28, 2009 (EB-2008-
18 0272), which approved the establishment of this deferral account to capture preliminary
19 planning costs for IPSP and other long-term projects.

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21 Table 3, below, provides a list of the 2009 principal additions to this account related to
22 pre-engineering OM&A expenditures. The listing is provided by project, where the
23 projects noted are consistent with the Board's decision of May 28, 2009 (EB-2008-0272):
24

Table 3
Transmission
Summary of Development OM&A for Approval (\$ Millions)

Current Investment Description	Investment Description in EB-2008-0272	Balance as at Dec. 31, 2009	Balance as at Dec. 31, 2010
Northwest Transmission Line [Pickle Lake x Nipigon]	Lake Nipigon Enabler Line	1.2	1.3
Bowmanville x GTA	Incorporation of Darlington B GS	0.4	0.4
Manitoulin Island Enabler Line	Manitoulin Island Enabler Line	0.1	0.1
North-South Transmission Expansion	500kV Tx Line – Sudbury South x GTA	0.1	0.1
Goderich Area Enabler	Goderich Area Enabler	0.1	0.1
Total		1.9	2.0

This account is reported to the Board on a quarterly basis consistent with the Board's Reporting and Record Keeping Requirements.

Simple interest is applied to the monthly opening principal balance in this account according to the Board prescribed interest rate.

Included in the balance submitted for approval is interest forecasted through to December 31, 2010 to reflect carrying charges anticipated through to the proposed implementation date.

2.5 Pension Cost Differential

This account tracks the difference between the pension cost estimates based on actuarial assessments prepared by Mercer used for Hydro One's Transmission Rate applications and the actual pension costs.

This account was established based on the Board's decision on Hydro One's Transmission Rates for 2009 and 2010 (EB-2008-0272) which accepted the continuation

1 of the Pension Cost Differential account. This account is reported to the Board on a
2 quarterly basis consistent with the Board's Reporting and Record Keeping Requirements.

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4 As at December 31, 2009, Hydro One Transmission has recognized a balance of \$3.1
5 million, inclusive of interest accrued.

6
7 Simple interest is applied to the monthly opening principal balance in this account
8 according to the Board prescribed interest rate.

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10 Included in the balance submitted for approval is interest forecasted through to December
11 31, 2010 to reflect carrying charges anticipated through to the proposed implementation
12 date.

REGULATORY ASSET ACCOUNTS REQUESTED

1.0 INTRODUCTION

This Exhibit requests approval to continue or establish new deferral accounts for Hydro One Transmission as follows:

- Impact for Changes in IFRS Account (2012 only)
- IFRS - Gains and Losses Account (2012 only)
- IFRS Incremental Transition Costs Account
- Pension Cost Differential Account
- Long-term Project Development OM&A Account
- Tax Rate Changes Account
- OEB Cost Differential Account

The need for these accounts and the accounting and control process is described in further detail in the remainder of this exhibit.

2.0 IMPACT FOR CHANGES IN IFRS ACCOUNT

The account, which is identical to that approved by the Board for Hydro One Distribution in its recent EB-2009-0069 proceeding, is requested to record the aggregate impact on the 2012 revenue requirement resulting from any changes to existing IFRS standards or changes in the interpretation of such standards. Interpretation changes would include those originating with the International Accounting Standards Board or any of its arms (e.g. the International Financial Reporting Interpretations Committee or IFRIC), the professional accounting community including the large international accounting firms, and the Board or its Staff in terms of the application of modified IFRS for regulatory

1 purposes. The account is to permit Hydro One to record, for future disposition, those
2 revenue requirement impacts resulting from IFRS changes that arise before the next cost
3 of service proceeding.

4 5 **3.0 IFRS - GAINS AND LOSSES ACCOUNT**

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7 This deferral account will hold any gains and losses resulting from asset sales, and losses
8 resulting from premature asset component retirements, recorded after January 1, 2012.
9 Under IFRS, such gains and losses cannot reasonably be forecast (see Exhibit A, Tab 11,
10 Schedule 3). As a result, a deferral account is required to provide a mechanism to allow
11 net gains and losses to be included in rates and to allow for capital recovery. Prior to the
12 adoption of IFRS, most “losses” on premature retirement incurred by Hydro One
13 Transmission were charged to accumulated depreciation on the balance sheet and were
14 recovered within future depreciation expense. Under IFRS, such losses are recorded in
15 the Statement of Operations. Unless a deferral account is approved, net gains and losses
16 will be to the shareholder’s account as it is problematic to include a reasonable estimate
17 in the calculation of the revenue requirement.

18 19 **4.0 IFRS - INCREMENTAL TRANSITION COSTS ACCOUNT**

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21 The variance account is a continuation of the account established in 2009, as per the
22 Board’s guidance in the Accounting Procedures Handbook (APH) FAQ, October 2009.
23 As per the APH FAQ, the Board approved a variance account to use in circumstances
24 where there are Board-approved amounts designated for one-time IFRS transition costs
25 already included in rates.

1 Hydro One Transmission proposes to continue to track the difference between the actual
2 incremental IFRS costs incurred, and the estimated incremental IFRS costs approved by
3 the Board as part of 2011 and 2012 Transmission Rates.

4 5 **5.0 PENSION COST DIFFERENTIAL ACCOUNT**

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7 This account is a continuation of the account approved in EB-2008-0272.

8
9 Hydro One Transmission proposes to continue to track the difference between the actual
10 pension costs booked using the actuarial assessment provided by Mercer, and the
11 estimated pension costs approved by the OEB as part of 2011 and 2012 Transmission
12 Rates.

13 14 **6.0 LONG-TERM PROJECT DEVELOPMENT OM&A ACCOUNT**

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16 This account is a continuation of the account approved in EB-2008-0272, and consistent
17 with the updates approved in EB-2009-0416 to amend the account to include the OM&A
18 development costs for additional other long term projects.

19
20 As discussed in Exhibit C1, Tab 2, Schedule 4, Hydro One proposes to undertake \$159.5
21 million of preliminary development work to advance transmission projects requested by
22 the Ontario Government. Of this, \$82.4 million is proposed to be spent during the test
23 years.

24
25 At this time, Hydro One Transmission is not seeking to recover the costs for this
26 preliminary work as part of its base revenue requirement. Due to the variable nature of
27 this work and because this pre-engineering work is associated with capital programs not
28 yet approved by the Board, Hydro One Transmission proposes to collect these costs in a

1 deferral account for disposition and recovery at a future date in accordance with Board
2 direction. Please refer to Exhibit A, Tab 11, Schedule 4 for further discussion of the
3 approach Hydro One Transmission is considering for the recovery of costs being
4 recorded in this account.

6 **7.0 TAX RATE CHANGES ACCOUNT**

8 This account is a continuation of the account accepted in EB-2008-0272.

10 This account will track the effect of legislative or regulatory changes to the tax rates or
11 rules on the amount of costs approved by the Board as part of 2011 and 2012
12 Transmission Rates. As noted in the EB-2008-0272 Decision, this account would also
13 capture the impacts of tax rate changes arising from the harmonization of PST and GST.

15 **8.0 OEB COST DIFFERENTIAL ACCOUNT**

17 This account is a continuation of the account accepted in EB-2008-0272.

19 This account will track the difference between the annual OEB Cost Assessments,
20 intervenor cost awards, and costs associated with OEB-initiated studies and the amount
21 for these expenditures approved by the OEB as part of 2011 and 2012 Transmission
22 Rates.

24 **9.0 ACCOUNTING AND CONTROL PROCESS**

26 These accounts requested above will be managed in the same manner as existing Hydro
27 One Transmission variance and deferral accounts. They will be updated monthly and
28 interest applied consistent with the Board-approved rate. Balances will be reported to the

1 Board as part of the quarterly reporting process. The outstanding balances, whether in a
2 debit or credit position, will be submitted for approval by the Board as part of a future
3 Hydro One Transmission filing.

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PLANNED DISPOSITION OF REGULATORY ASSETS

1.0 INTRODUCTION

The purpose of this evidence is to outline the planned disposition of Hydro One Transmission's Regulatory Assets.

2.0 PLANNED DISPOSITION OF REGULATORY ASSETS

Hydro One Transmission's requested reduction to the Revenue Requirement of \$(7.4) million is detailed in Table 1:

Table 1
Transmission
Disposition of Regulatory Asset Balances (\$ Millions)

Description	Balance as at Dec 31, 2010
Export Service Credit	(4.9)
External Secondary Land Use Revenue	(3.2)
External Stations & E&CS Revenue	(4.4)
IPSP & Other Long Term Planning Costs ¹	2.0
Pension Cost Differential	3.1
Total Requested for Disposition	(7.4)

With the setting of new uniform Transmission rates in 2011 and 2012, Hydro One Transmission is requesting an adjustment to the Revenue Requirement over either a 12 month period or a 24 month period as shown in Table 2:

¹ To be renamed Long-Term Project Development OM&A Account in 2010.

Table 2
Transmission
Disposition Periods of Regulatory Asset Balances (\$ Millions)

Description	Balance as at Dec 31, 2010	Disposition Period
Export Service Credit	(4.9)	12 months
External Secondary Land Use Revenue	(3.2)	12 months
External Stations & E&CS Revenue	(4.4)	12 months
IPSP & Other Long Term Planning Costs	2.0	24 months
Pension Cost Differential	3.1	24 months
Total Requested for Disposition	(7.4)	

The Export Service Credit, External Secondary Land Use and External Stations and Engineering Construction Services Revenue balances are being requested to be disposed of over a 12 month period to mitigate the impact of the requested rate increase in 2011.

The IPSP & Other Long Term Planning Costs and Pension Cost Differential balances are being requested to be disposed of over the standard 24-month period, which is consistent with the test years of this application.

For 2011 and 2012, this reduction will be factored into the Revenue Requirement per Exhibit E1, Tab 1, Schedule 1.