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BY COURIER

July 30, 2015

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-2013-0421 – Hydro One Networks Inc. Draft Accounting Order – Supply to Essex County Transmission Reinforcement (“SECTR”) Project Costs

The Ontario Energy Board (“Board”) July 16, 2015 Decision and Order on Phase 1 for EB-2013-0421 (Leave to construct a new transmission line and facilities in the Windsor-Essex Region, Ontario), orders Hydro One to “prepare a draft accounting order for each of the deferral accounts requested, and file it with the OEB on or before July 30, 2015.” Accordingly, Hydro One is submitting a Draft Accounting Order authorizing Hydro One to establish a new deferral account, “Supply to Essex County Transmission Reinforcement Deferral Account (“SECTRDA”)”, for the purpose of recording construction costs relating to the Board-approved SECTR Project.

The intention is that these costs incurred by Hydro One are recoverable from the appropriate parties, as to be determined by Phase 2 of the hearing, regarding cost allocation of the SECTR Project. Hydro One submitted that once the OEB’s new cost allocation rules are in place, Hydro One would apply them retroactively in accordance with the OEB’s decision on Phase 2. In the event the SECTR Project’s facilities are not ultimately placed in service, Hydro One would seek future disposition of any balance in the deferral account. Any Board approved deferral account amounts would be recovered through the Ontario Uniform Transmission Rates.

As long as it remains reasonable to assume the project will be completed and placed in-service, Hydro One will record the construction costs in Construction Work in Progress (CWIP) and also track the construction costs in the SECTRDA while recording an equal offsetting contra entry. The tracking and offsetting contra entries will result in a zero balance of the deferral account. However, if at any time it becomes evident that the SECTR Project will not proceed, is cancelled, or is not completed for reasons beyond the control of Hydro One, the project’s CWIP

would then be transferred to the SECTR Project Construction Costs Deferral Account, where the account balance will be interest improved. Interest will be applied consistent with the Board-approved rate. Hydro One would establish the prudence and materiality of the costs recorded in the Deferral Account, and seek Board approval for recovery at a future rate filing.

The effective date of the deferral account would correspond with the Board decision on Phase 1, which is July 16, 2015.

Draft accounting entries for all transactions related to the **SECTRDA** are provided in Attachment A.

Sincerely,

ORIGINAL SIGNED BY ODED HUBERT

Oded Hubert

ATTACHMENT A
PROPOSED ACCOUNTING ENTRIES

SECTR Project Construction Costs Deferral Account

During the construction phase of the SECTR project where Hydro One's management remains confident that the project will be placed in-service, the following accounting entries will be recorded;

USofA #	Account Description
Dr: 2055	Construction Work in Progress – Electric
Cr: 2205	Accounts Payable

To record construction expenditures incurred by Hydro One relating to the approved SECTR project.

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account “SECTR Project Construction Costs Deferral Account”
Cr: 1508	Other Regulatory Assets – Sub account “SECTR Project Construction Costs Deferral Account – Contra Account”

To record the amount in the regulatory deferral account and contra-account to track the construction costs incurred by Hydro One on the SECTR project. The deferral account at this stage is used as tracking account until the project is placed in-service. No interest improvement is applicable during the period where the regulatory account and contra account effectively result in a nil regulatory account balance.

In the event that the SECTR project is ultimately not placed in-service, Hydro One would record the following accounting entries;

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account “SECTR Project Construction Costs Deferral Account – Contra Account”
Cr: 2055	Construction Work in Progress – Electric

To effectively remove the construction costs for the SECTR project from Construction Work in Progress, to the SECTR Project Construction Costs Deferral Account. At this point, the deferral account will have a positive debit balance (the ‘Contra Account’ balance is reduced to nil) and the account no longer functions as a ‘tracking’ account. The balance would be held in this account until Hydro One can apply to the Board for disposition at a future rate filing.

USofA #	Account Description
Dr: 1508	Other Regulatory Assets – Sub account “SECTR Project Construction Costs Deferral Account - Interest Improvement”
Cr: 6035	Other Interest Expense

To record interest improvement on the debit principal balance of the “SECTR Project Construction Costs Deferral Account”.