

## REGULATORY ACCOUNTS

### 1. INTRODUCTION

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

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

Hydro One Transmission's outstanding deferral and variance accounts balances are summarized in Table 1 below:

**Table 1: Summary of Regulatory Accounts Balances Outstanding**  
(\$ Million)<sup>1</sup>

| Description                                       | Balance as at Dec 31, 2016 | Balance as at Dec. 31, 2017 | Balance as at Dec. 31, 2018 (Forecast) | Balance as at Dec. 31, 2019 (Forecast) |
|---|----------------------------|-----------------------------|--|--|
| Total Regulatory Accounts Seeking Disposition     | (126.5)                    | (83.6)                      | (23.0)                                 | 14.5                                   |
| Total Regulatory Accounts Not Seeking Disposition | 15.9                       | 81.5                        | 73.8                                   | 74.1                                   |
| Total Regulatory Accounts                         | (110.7)                    | (2.2)                       | 50.8                                   | 88.6                                   |

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<sup>1</sup> Note that rounded numbers presented in charts may not add to the total due to rounding.

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1 The forecast interest for 2018 is calculated by applying interest on the December 31,  
2 2017 year-end principal balances less any amounts approved for disposition in 2018  
3 using the OEB prescribed interest rate of 1.89%, as per the Bankers' Acceptances three-  
4 month rate plus a spread of 25 basis points, and adjusted by forecast activity during 2018.

5  
6 The forecast interest for 2019 is calculated by applying interest on the forecast December  
7 31, 2018 year-end principal balances less any amounts approved for disposition in 2019  
8 using the OEB prescribed interest rate of 2.17%, as per the Bankers' Acceptances three  
9 month rate plus a spread of 25 basis points.

10  
11 Information on each account and its balance is described in Section 2.0 and Section 3.0 of  
12 this Exhibit. Details on regulatory accounts requested are found in Exhibit H, Tab 1,  
13 Schedule 2. Details on the proposed disposition of the account balances are found in  
14 Exhibit H, Tab 1, Schedule 3. Further details on deferral and variance accounts are  
15 provided in:

- 16 • Exhibit H, Tab 1, Schedule 4: Schedule of Annual Recoveries
- 17 • Exhibit H, Tab 1, Schedule 5: Continuity Schedule Regulatory Accounts

18  
19 No adjustments have been made to deferral and variance account balances that were  
20 previously approved by the OEB on a final basis.

## 22 **2. REGULATORY ACCOUNTS**

23  
24 The EB-2016-0160 Decision approved or required the establishment or continuance of  
25 certain regulatory accounts. Table 2 below provides a list of the Transmission Regulatory  
26 Account balances requested for approval and disposition as part of 2020-2022  
27 transmission rates. Hydro One Transmission is requesting an adjustment to its revenue  
28 requirement over a three year period commencing in 2020. Note that the below table

Witness: Samir Chhelavda

1 represents forecasted balances for 2018. Hydro One Transmission will be submitting a  
2 Blue Page Update that will reflect the 2018 actual audited balances being requested for  
3 disposition.

4 **Table 2: Transmission Regulatory Accounts Requested for Approval (\$ Millions)**

| Description  | US of A<br>Account<br>Ref. | Balance<br>as at<br>Dec 31, 2016 | Balance<br>as at<br>Dec 31, 2017 | Balance<br>as at<br>Dec 31, 2018<br>(Forecast) | Balance<br>as at<br>Dec 31, 2019<br>(Forecast) |
|--|----------------------------|----------------------------------|----------------------------------|--|--|
| Excess Export Service Revenue                                      | 2405                       | (28.3)                           | (15.6)                           | (0.9)  | 5.7  |
| External Secondary Land Use Revenue                                | 2405                       | (37.2)                           | (29.0)                           | (16.0)   | (0.2)  |
| External Station Maintenance, E&CS and Other External Revenue      | 2405                       | 1.2                              | (1.7)                            | (2.1)  | (0.0)  |
| Tax Rate Changes   | 1592                       | 0.1                              | 0.5                              | 0.4  | 0.0  |
| Rights Payments  | 2405                       | (3.6)                            | 0.1                              | 1.6  | 0.0  |
| Pension Costs Differential   | 2405                       | (3.9)                            | (9.8)                            | (18.0)   | (5.3)  |
| Long-Term Transmission Future Corridor Acquisition and Development | 1508                       | 0.6                              | 0.3                              | 0.0  | 0.0  |
| LDC CDM and Demand Response Variance Account                       | 1508                       | (54.1)                           | (27.5)                           | 12.5   | 13.6   |
| External Revenue – Partnership Transmission Projects Account       | 2405                       | (0.9)                            | (0.5)                            | (0.0)  | (0.0)  |
| OEB Cost Differential Account                                      | 1508                       | (1.1)                            | (1.2)                            | (1.3)  | (0.0)  |
| North West Bulk Transmission Deferral                              | 1508                       | 0.6                              | 0.7                              | 0.7  | 0.8  |
| <b>Total Regulatory Accounts Seeking Disposition</b>               |                            | <b>(126.5)</b>                   | <b>(83.6)</b>                    | <b>(23.0)</b>                                  | <b>14.5</b>                                    |
| East West Tie Deferral   | 1508                       | 2.8                              | 7.2                              | 7.2  | 7.2  |
| SECTR Deferral   | 1508                       | 13.0                             | 52.0                             | 52.0   | 52.0   |
| Transmission Forgone Revenue Deferral                              | 1508                       | 0.0                              | 22.3                             | 0.0  | 0.0  |
| In-Service Capital Additions Variance                              | 2405                       | 0.0                              | 0.0                              | 0.0  | 0.0  |
| OPEB Cost Deferral   | 1508                       | 0.0                              | 0.0                              | 14.6   | 14.9   |
| OPEB Asymmetrical Carrying Charge Account                          | 1522                       | 0.0                              | 0.0                              | 0.0  | 0.0  |
| <b>Total Regulatory Accounts Not Seeking Disposition</b>           |                            | <b>15.9</b>                      | <b>81.5</b>                      | <b>73.8</b>                                    | <b>74.1</b>                                    |
| <b>Total</b>   |                            | <b>(110.7)</b>                   | <b>(2.2)</b>                     | <b>50.8</b>                                    | <b>88.6</b>                                    |

Witness: Samir Chhelavda

1 **REGULATORY ACCOUNTS SEEKING CONTINUANCE AND DISPOSITION**

2  
3 **2.1 EXCESS EXPORT SERVICE REVENUE**

4  
5 This variance account was initially created as a result of the OEB's decision of May 28,  
6 2009 (EB-2008-0272). In the EB-2016-0160 Decision, the OEB approved continuance of  
7 this account. The OEB requested that Hydro One Transmission continue to capture any  
8 differences between forecast export service revenue approved by the OEB as part of 2017  
9 and 2018 Transmission Rates and the actual export service revenue. As part of its  
10 decision, the OEB approved an Export Transmission Services (ETS) rate of \$1.85/MWh  
11 and approved the Hydro One Transmission forecast at \$39.2 million and \$40.1 million in  
12 revenue for both 2017 and 2018 respectively. As at December 31, 2017, Hydro One  
13 Transmission had an excess export service revenue liability balance of \$15.6 million. The  
14 balance in this account is reported to the OEB on a quarterly basis, consistent with the  
15 OEB's Reporting and Record Keeping Requirements.

16  
17 Included in the balance submitted for approval is interest forecast through to December  
18 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
19 date, reduced by the \$9.2 million balance approved by the OEB for disposition in 2018 as  
20 part of the EB-2016-0160 Decision, adjusted by \$5.6 million forecast activity during  
21 2018, and reduced by \$6.5 million liability balance submitted for disposition in 2019.  
22 This will result in a forecast asset account balance of \$5.7 million at the end of 2019.

23  
24 **2.2 EXTERNAL SECONDARY LAND USE REVENUE**

25  
26 This variance account was created as a result of the OEB's decision of May 28, 2009  
27 (EB-2008-0272). In the EB-2016-0160 Decision, the OEB approved the continuance of  
28 this account requesting that Hydro One Transmission maintain a variance account to

Witness: Samir Chhelavda

1 capture any difference between the forecast external secondary land use revenues  
2 approved by the OEB, for each test year, as part of 2017 and 2018 transmission rates, and  
3 the actual secondary land use revenues for each of these years. The total external  
4 revenue, including secondary land use approved by the EB-2016-0160 Decision was  
5 \$28.2 million and \$28.5 million for 2017 and 2018 respectively. The portion related to  
6 secondary land use was \$15.4 million and \$15.6 million, respectively.

7  
8 As at December 31, 2017, Hydro One Transmission had an excess external secondary  
9 land use revenue liability balance of \$29.0 million, inclusive of accrued interest. This  
10 account is reported to the OEB on a quarterly basis consistent with the OEB's Reporting  
11 and Record Keeping Requirements.

12  
13 Included in the balance submitted for approval is interest forecast through to December  
14 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
15 date, reduced by the \$13.4 million balance approved by the OEB for disposition in 2018  
16 as part of the EB-2016-0160 Decision, and reduced by \$16.0 million liability balance  
17 submitted for disposition in 2019. This will result in a forecast liability account balance  
18 of \$0.2 million at the end of 2019.

19  
20 **2.3 EXTERNAL STATION MAINTENANCE, E&CS AND OTHER**  
21 **EXTERNAL REVENUE ACCOUNT**

22  
23 This variance account was created as a result of the OEB's decision of May 28, 2009  
24 (EB-2008-0272). In the EB-2016-0160 Decision, the OEB approved continuance of this  
25 account. The OEB requested that Hydro One Transmission continue to capture any  
26 differences between the OEB approved and actual net external station maintenance,  
27 engineering & construction services revenue and other external revenue. The total  
28 external revenue, including station maintenance, E&CS and other approved by the OEB

Witness: Samir Chhelavda

1 in the EB-2016-0160 Decision was \$28.2 million and \$28.5 million for 2017 and 2018  
2 respectively. The portion related to this account was \$12.8 million and \$12.9 million,  
3 respectively.

4  
5 As at December 31, 2017, Hydro One Transmission had an excess external station  
6 maintenance, engineering and construction services and other external net revenues  
7 liability balance of \$1.7 million, inclusive of interest accrued. The balance in this account  
8 is reported to the OEB on a quarterly basis consistent with the OEB's Reporting and  
9 Record Keeping Requirements.

10  
11 Included in the balance submitted for approval is interest forecast through to December  
12 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
13 date, adjusted for the \$0.4 million asset balance approved by the OEB for recovery in  
14 2018 as part of the EB-2016-0160 Decision, and reduced by \$2.1 million liability balance  
15 submitted for disposition in 2019. This will result in a forecast liability account balance  
16 of \$0.0 million at the end of 2019.

## 17 18 **2.4 TAX RATE CHANGE**

19  
20 This variance account was created as a result of the OEB's decision of August 16, 2007  
21 (EB-2006-0501). In the EB-2016-0160 Decision, the OEB approved continuance of this  
22 account. The variance account captures the tax impact to Hydro One Transmission of:

- 23 • differences that result from a legislative or regulatory change to the tax rates or  
24 rules; and
- 25 • differences that result from a change in, or a disclosure of, a new assessment or  
26 administrative policy that is published in the public tax administration or  
27 interpretation bulletins by relevant federal or provincial tax authorities.

Witness: Samir Chhelavda

1 As at December 31, 2017, Hydro One Transmission had recognized an asset balance of  
2 \$0.5 million, inclusive of interest accrued. This account is reported to the OEB on a  
3 quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

4  
5 Included in the balance submitted for approval is interest forecast through to December  
6 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
7 date, reduced by the \$0.1 million balance approved by the OEB for disposition in 2018 as  
8 part of the EB-2016-0160 Decision, and reduced by \$0.4 million asset balance submitted  
9 for disposition in 2019. This will result in a forecast asset account balance of \$0.0 million  
10 at the end of 2019.

11  
12 **2.5 RIGHTS PAYMENTS**

13  
14 This account was established based on the OEB's decision on Hydro One's Transmission  
15 Rates for 2011 and 2012 (EB-2010-0002). In the EB-2016-0160 Decision, the OEB  
16 approved continuance of this account. The OEB requested that Hydro One Transmission  
17 use a variance account to capture the difference between the forecast Rights Payments  
18 approved by the OEB for 2017 and 2018 Transmission Rates and the actual Rights  
19 Payments.

20  
21 As at December 31, 2017, Hydro One Transmission has recorded an asset balance of \$0.1  
22 million, inclusive of interest accrued. This account is reported to the OEB on a quarterly  
23 basis consistent with the OEB's Reporting and Record Keeping Requirements.

24  
25 Included in the balance submitted for approval is interest forecast through to December  
26 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
27 date, adjusted for the \$1.5 million liability balance approved by the OEB for disposition  
28 in 2018 as part of the EB-2016-0160 Decision, and reduced by \$1.6 million asset balance

Witness: Samir Chhelavda

1 submitted for disposition in 2019. This will result in a forecast account balance of \$0.0  
2 million at the end of 2019.

## 3 4 **2.6 PENSION COSTS DIFFERENTIAL**

5  
6 This account tracks the difference between the OM&A pension cost estimates based on  
7 actuarial assessments used for this Application and the actual OM&A pension  
8 contributions. This account was established based on the OEB's decision on Hydro One  
9 Transmission's Rates for 2011 and 2012 (EB-2010-0002). In the EB-2016-0160  
10 Decision, the OEB approved continuance of this account.

11  
12 As at December 31, 2017, Hydro One Transmission has recognized a liability balance of  
13 \$9.8 million, inclusive of interest accrued. This account is reported to the OEB on a  
14 quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

15  
16 Included in the balance submitted for approval is interest forecast through to December  
17 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
18 date, adjusted for the \$3.0 million asset balance approved by the OEB for disposition in  
19 2018 as part of the EB-2016-0160 Decision, adjusted by \$5.0 million forecast activity  
20 during 2018, and reduced by \$13.0 million liability balance submitted for disposition in  
21 2019. This will result in a forecast liability account balance of \$5.3 million at the end of  
22 2019.

## 23 24 **2.7 LONG-TERM TRANSMISSION FUTURE CORRIDOR ACQUISITION** 25 **AND DEVELOPMENT ACCOUNT**

26  
27 This deferral account approved during EB-2012-0031, records transmission planning and  
28 study costs associated with preliminary corridor routing considerations for new

Witness: Samir Chhelavda



1 transmission infrastructure. In order to ensure land corridor availability in near-urban  
2 areas, long term investment planning is required. The costs recorded in the account will  
3 be associated with land assessment work such as environmental studies and assessments,  
4 preliminary engineering studies, public and First Nations/Métis consultations, etc. The  
5 outcome of this work will be helpful in making siting determinations for new corridors  
6 and in setting aside the required land for planning purposes, thus ensuring its availability  
7 and affordability when the project proceeds.

8  
9 As at December 31, 2017, Hydro One Transmission has recognized an asset balance of  
10 \$0.3 million, inclusive of interest accrued. This account is reported to the OEB on a  
11 quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

12  
13 Included in the balance submitted for approval is interest forecast through to December  
14 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
15 date, reduced by the \$0.3 million balance approved by the OEB for disposition in 2018 as  
16 part of the EB-2016-0160 Decision, and reduced by \$0.0 million asset balance submitted  
17 for disposition in 2019. This will result in a forecast account balance of \$0.0 million at  
18 the end of 2018.

19  
20 **2.8 LOCAL DISTRIBUTION COMPANY (“LDC”), CONSERVATION AND**  
21 **DEMAND MANAGEMENT (“CDM”), AND DEMAND RESPONSE**  
22 **VARIANCE ACCOUNT**

23  
24 This account was established upon the Settlement Agreement approved by the OEB in  
25 EB-2012-0031 relating to Hydro One Transmission’s 2013 and 2014 rates. The account  
26 tracks the difference between the forecast and actual CDM savings and Demand  
27 Response results of the Ontario Power Authority (“OPA”)-funded, LDC-delivered  
28 programs for 2013 and 2014.

Witness: Samir Chhelavda

1 Hydro One used the annual results reported for the previous year by the OPA in  
2 September of 2014 and 2015 (for 2013 and 2014 results, respectively) and recorded to  
3 this variance account the difference between the actual CDM savings reported by the  
4 OPA and the forecast for 2013 and 2014. As at December 31, 2017, Hydro One  
5 Transmission has recognized a liability balance of \$27.5 million, inclusive of interest  
6 accrued. This account is reported to the OEB on a quarterly basis consistent with the  
7 OEB's Reporting and Record Keeping Requirements.

8  
9 As per the EB-2016-0160 Decision, Hydro One has maintained this account to record a  
10 variance for 2017 and 2018 as directed by the OEB. The OEB noted that the IESO will  
11 no longer be providing the data required to calculate the variance amounts and as such,  
12 the OEB directed Hydro One to use its best efforts to determine a methodology to  
13 calculate the variance. Refer to Exhibit H, Tab 1, Schedule 2 Attachment 11 for more  
14 information.

15  
16 Included in the balance submitted for approval is interest forecast through to December  
17 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
18 date, reduced by the \$27.0 million balance approved by the OEB for disposition in 2018  
19 as part of the EB-2016-0160 Decision, adjusted by \$13.2 million forecast activity during  
20 2018, and adjusted by \$0.8 million liability balance submitted for disposition in 2019.  
21 This will result in a forecast asset account balance of \$13.6 million at the end of 2019.

22  
23 **2.9 EXTERNAL REVENUE – PARTNERSHIP TRANSMISSION PROJECTS**  
24 **ACCOUNT**

25  
26 This account was approved by the OEB in EB-2012-0031 to allow Hydro One to record  
27 costs related to services provided by Hydro One employees to partnership companies,  
28 e.g. for work not directly to the benefit of Hydro One Transmission's ratepayers. These

Witness: Samir Chhelavda

1 costs would be invoiced to the appropriate partnered company, and current transmission  
2 revenues equal to the invoiced amount would be recorded in this account for reduction of  
3 future transmission revenue requirements.

4  
5 The balance in this account reflects the external revenue garnered as a result of the  
6 services provided to and on behalf of B2M LP to create the partnership. Most all of these  
7 services were provided before B2M LP was an established entity and, as such, B2M LP  
8 had no ability to procure these services independently. B2M LP has subsequently paid  
9 Hydro One for the services rendered.

10  
11 All amounts submitted to this account were provided on a cost basis in compliance with  
12 the Affiliate Relationship Code.

13 As at December 31, 2017, Hydro One Transmission has recognized a liability balance of  
14 \$0.5 million, inclusive of interest accrued. This account is reported to the OEB on a  
15 quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

16  
17 Included in the balance submitted for approval is interest forecast through to December  
18 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
19 date, reduced by the \$0.4 million balance approved by the OEB for disposition in 2018 as  
20 part of the EB-2016-0160 Decision, and reduced by \$0.0 million liability balance  
21 submitted for disposition in 2019. This will result in a forecast liability account balance  
22 of \$0.0 million at the end of 2019.

Witness: Samir Chhelavda

1 **2.10 OEB COST DIFFERENTIAL ACCOUNT**

2  
3 In a letter from the OEB dated February 9, 2016, entitled “Revisions to the Ontario  
4 Energy OEB Cost Assessment Model”; the OEB authorized the establishment of Account  
5 1508 ‘Other Regulatory Assets’, Sub-Account ‘OEB Cost Assessment Variance’.

6 The OEB authorized this account to record any material differences between the annual  
7 OEB cost assessment currently approved in rates and the actual OEB cost assessment  
8 amounts charged to Hydro One Transmission that will result from the application of the  
9 new cost assessment model effective April 1, 2016.

10  
11 As at December 31, 2017, Hydro One Transmission has recorded a liability balance of  
12 \$1.2 million, inclusive of interest accrued. This account is reported to the OEB on a  
13 quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

14  
15 Included in the balance submitted for approval is interest forecast through to December  
16 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
17 date, and reduced by \$1.3 million liability balance submitted for disposition in 2019. This  
18 will result in a forecast liability account balance of \$0.0 million at the end of 2019.

19  
20 **2.11 NORTH WEST BULK TRANSMISSION DEFERRAL ACCOUNT**

21  
22 This account was approved by the OEB in EB-2014-0311, to establish a deferral account  
23 that records expenses relating to the North West Bulk Transmission Line (“NWBTL”)  
24 associated with preliminary design/engineering, cost estimation, public  
25 engagement/consultation, routing and siting, and Environmental Assessment preparation  
26 work. These costs would not qualify as Construction Work In Progress (“CWIP”) and  
27 therefore would be OM&A costs. These OM&A costs were not included in the rates,  
28 thereby necessitating the establishment of this deferral account.

Witness: Samir Chhelavda

1 As at December 31, 2017, the account has a balance of \$0.7 million. This account is  
2 reported to the OEB on a quarterly basis consistent with the OEB's Reporting and Record  
3 Keeping Requirements.

4  
5 On October 24, 2018 the IESO issued a letter, "Update of the Need and Scope for the  
6 Northwest Bulk Transmission Line", confirming the need for additional electricity  
7 capacity in the area. The IESO recommended that Hydro One begin development work  
8 on Phase 1 and 2 of the NWBTL Project as soon as possible to shorten the Project lead  
9 time required to have the assets ready to be in-serviced in order to meet the electricity  
10 capacity needs when they materialize (expected mid-2030s but could occur earlier). As  
11 the IESO has now determined that supply needs West of Thunder Bay and North of  
12 Dryden will be met by electricity infrastructure (a 'wires' solution), Hydro One believes  
13 that it is now able to record its development expenditures in CWIP. On December 21,  
14 2018, Hydro One requested the OEB to change the nature of the North West Bulk  
15 Transmission Line Deferral Account from a deferral account to a tracking deferral  
16 account. Hydro One would continue to report the balance of this account through the  
17 quarterly Reporting and Record Keeping Requirements. Hydro One requested the change  
18 in this account be effective from January 1, 2019. Refer to Exhibit H, Tab 1, Schedule 2  
19 Attachment 9 for a copy of this submission. The request is currently under review by the  
20 OEB.

21  
22 Included in the balance submitted for approval is interest forecast through to December  
23 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
24 date. This will result in a forecast asset account balance of \$0.8 million at the end of  
25 2019.

Witness: Samir Chhelavda

1 **3. REGULATORY ACCOUNTS NOT BEING REQUESTED FOR**  
2 **DISPOSITION**

3  
4 **3.1 EAST WEST TIE DEFERRAL ACCOUNT**  
5

6 This account was approved by the OEB on July 12, 2012 in Hydro One's application  
7 (EB-2012-0180) to establish a deferral account related to the East-West Tie Line  
8 proceeding (EB-2011-0140).  
9

10 Hydro One was permitted to track costs in the EWTDA that relate to the following two  
11 categories:

- 12 1. costs incurred by Hydro One Transmission as incumbent transmitter to support  
13 the OEB through the designation process and to eventually facilitate the line's  
14 connection; and
- 15 2. expenditures incurred relating to preliminary engineering and other station  
16 connection work required to accommodate the East West Tie line.  
17

18 At December 31, 2017 the account has an asset balance of \$7.2 million. Hydro One is  
19 not requesting disposition of the balance in this account at this time, as this is currently a  
20 tracking account.  
21

22 **3.2 SECTR DEFERRAL ACCOUNT**  
23

24 This account was approved by the OEB in its decision on EB-2013-0421 relating to the  
25 Supply to Essex County Transmission Reinforcement project (SECTR project). This  
26 account was established to record all construction project costs relating to the SECTR  
27 project.

Witness: Samir Chhelavda

1 Hydro One is tracking costs relating to the SECTR project in this deferral account and at  
2 December 31, 2017 the account has an asset balance of \$52.0 million. As this is a  
3 tracking account, Hydro One is not requesting disposition of the balance in this account.  
4

### 5 **3.3 TRANSMISSION FORGONE REVENUE DEFERRAL ACCOUNT**

6

7 Hydro One filed an accounting order with the OEB (dated October 10, 2017) pursuant to  
8 the OEB's decision on Hydro One's transmissions revenue requirement for 2017 and  
9 2018 in the EB-2016-0160 Proceeding, which established this deferral account for the  
10 purpose of recording the differences between revenue earned by Hydro One  
11 Transmission under the interim 2017 rates set at the 2016 Uniform Transmission Rates  
12 (UTR) level and the revenues that would have been received under the approved 2017  
13 UTR based on the OEB-approved 2017 load forecast (i.e. foregone revenue). The  
14 accounting order was approved on November 9, 2017. In addition, Hydro One  
15 Transmission also booked into this account the difference between the revenue earned by  
16 Hydro One Transmission on the approved UTR in a given year and the revenue that  
17 would have been received based on Hydro One's position in its Motion to Review and  
18 Vary the Decision (EB-2017-0336).  
19

20 As at December 31, 2017, the account has an asset balance of \$22.3 million. A  
21 disposition of -\$10.6 million of the balance at December 31, 2017 was made through the  
22 2018 UTR. The residual balance in this account for 2017 represents the difference  
23 between the revenue earned by Hydro One Transmission on the approved UTR in a given  
24 year and the revenue that would have been received based on Hydro One's position noted  
25 in the Motion to Review and Vary the Decision. Pursuant to the OEB Decision from the  
26 Review Motion, Hydro One removed the remaining balance from the Transmission  
27 Foregone Revenue Deferral Account. As at December 31, 2018, there is a \$0 balance  
28 after the removal.

Witness: Samir Chhelavda

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**3.4 IN SERVICE CAPITAL ADDITIONS VARIANCE ACCOUNT**

As per the Settlement Agreement approved by the OEB, relating to Hydro One Transmission’s 2015 and 2016 rates in EB-2014-0140, parties agreed that Hydro One would establish a net cumulative asymmetrical variance account for 2014, 2015 and 2016 to track the impact on revenue requirement of any in-service addition shortfall compared to OEB approved amounts, for disposition in a future rates application. The cumulative in service additions for those years exceeded the OEB-approved amount and therefore no entry was recorded.

As part of the EB-2016-0160 Decision, the OEB approved the continuance of this account to record the impact on 2017 and 2018 Transmission Revenue Requirement due to an actual amount for 2016 in-service additions that is less than \$911.7 million, along with the difference between the 2017 and 2018 in-service additions embedded in 2017 and 2018 rate base and actual in-service additions in each of those years. As at December 31, 2017, the account has a balance of \$0.0 million, as the cumulative in-service additions for 2017 including the impact on 2017 Transmission Revenue Requirement due to an actual amount for 2016 in-service additions that is less than \$911.7 million exceeded the OEB approved amount. This account is reported to the OEB on a quarterly basis consistent with the OEB's Reporting and Record Keeping Requirements.

**3.5 OPEB COST DEFERRAL ACCOUNT**

Refer to Exhibit H, Tab 1, Schedule 2 for details regarding this account.

Witness: Samir Chhelavda



1 Included in the balance submitted for approval is interest forecast through to December  
2 31, 2019 to reflect carrying charges anticipated through to the proposed implementation  
3 date. There is a forecast asset account balance of \$14.9 million at the end of 2019.

4

5 **3.6 OPEB ASYMMETRICAL CARRYING CHARGE ACCOUNT**

6

7 Refer to Exhibit H, Tab 1, Schedule 2 for details regarding this account.

8

9 Hydro One Transmission calculated the reference amount using the proposed modified  
10 approach. As at December 31, 2018, the balance in this account is \$0.

**REGULATORY ACCOUNTS REQUESTED**

**1. INTRODUCTION**

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

- Excess Export Service Revenue
- External Secondary Land Use Revenue
- External Station Maintenance, E&CS Revenue and Other Revenue
- Tax Rate Changes
- Rights Payments
- Pension Cost Differential
- East West Tie Deferral Account
- Long-Term Transmission Future Corridor Acquisition and Development Account
- North West Bulk Transmission Line (NWBTL) Account
- Supply to Essex County Transmission Reinforcement (SECTR) Account
- External Revenue – Partnership Transmission Projects Account
- In-Service Capital Additions Variance Account
- LDC CDM and Demand Response Variance Account
- Transmission Foregone Revenue Deferral Account
- ESM Deferral Account
- CCRA True-up Variance Account
- Revenue Cap Index Parameters Differential Account
- Other Post-Employment Benefit (OPEB) Asymmetrical Carrying Charge Account
- Other Post-Employment Benefit (OPEB) Cost Deferral Account

Witness: Samir Chhelavda

1 The need for these accounts and the accounting and control process are described in  
2 further detail in the remainder of this Exhibit.

3  
4 **2. DISCONTINUED REGULATORY ACCOUNT**

5  
6 Hydro One is not seeking to discontinue any deferral accounts.

7  
8 **3. DESCRIPTION OF REGULATORY ACCOUNTS REQUESTED**

9  
10 **3.1 EXCESS EXPORT SERVICE REVENUE**

11  
12 Hydro One Transmission proposes to continue to record the difference between the actual  
13 export service revenue and the revenues approved by the OEB as part of 2020-2022  
14 transmission rates. Export transmission revenues are directly dependent on the findings  
15 of the OEB on the Export Transmission Service Rate.

16  
17 **3.2 EXTERNAL SECONDARY LAND USE REVENUE**

18  
19 Hydro One Transmission proposes to continue to record the difference between the actual  
20 External Secondary Land Use Revenues and the revenues approved by the OEB as part of  
21 2020-2022 Transmission Rates.

22  
23 **3.3 EXTERNAL STATION MAINTENANCE, E&CS REVENUE AND**  
24 **'OTHER' EXTERNAL REVENUE**

25  
26 Hydro One Transmission proposes to continue to record the difference between the actual  
27 External Station Maintenance, E&CS Revenues and Other External Revenues against the  
28 estimated revenues approved by the OEB as part of 2020-2022 Transmission Rates.

Witness: Samir Chhelavda

1 **3.4 TAX RATE CHANGES**

2  
3 Hydro One Transmission will continue to use this account to track the revenue  
4 requirement impact of legislative or regulatory changes to tax rates or rules compared to  
5 costs approved by the OEB as part of 2020-2022 Transmission Rates.

6  
7 **3.5 RIGHTS PAYMENTS**

8  
9 Hydro One Transmission proposes to continue to record the difference between the actual  
10 Rights Payments paid and those approved by the OEB as part of 2020-2022 Transmission  
11 Rates.

12  
13 **3.6 PENSION COSTS DIFFERENTIAL**

14  
15 Hydro One Transmission proposes to continue to record the difference between the actual  
16 OM&A pension costs and the forecast OM&A pension costs approved by the OEB as  
17 part of 2020-2022 transmission rates.

18  
19 **3.7 EAST-WEST TIE DEFERRAL ACCOUNT**

20 This account is a continuation of the account accepted in EB-2012-0031. However,  
21 following the EB-2016-0160 Decision, Hydro One has only continued the second  
22 category of the prior approved account whereby, as the incumbent transmitter, Hydro  
23 One will track costs for expenditures incurred relating to preliminary engineering and  
24 other station connection work required to accommodate the East West Tie line.

1 **3.8 LONG-TERM TRANSMISSION FUTURE CORRIDOR ACQUISITION**  
2 **AND DEVELOPMENT ACCOUNT**  
3

4 This account is a continuation of the account approved in proceeding EB-2012-0031.  
5 This deferral account records transmission planning and study costs associated with  
6 preliminary corridor routing considerations for new transmission infrastructure.  
7

8 Due to the variable and unpredictable nature of the work and the low materiality of the  
9 costs, Hydro One Transmission has not included the costs for the above-noted unplanned  
10 work as part of its 2020-2022 requested revenue requirement. Hydro One Transmission  
11 continues to collect the costs in this deferral account and will seek its disposition in a  
12 future rates application.  
13

14 **3.9 NORTH WEST BULK TRANSMISSION LINE (NWBTL)**  
15

16 On October 24, 2018 the IESO issued a letter, "Update of the Need and Scope for the  
17 Northwest Bulk Transmission Line", confirming the need for additional electricity  
18 capacity in the area. The IESO recommended that Hydro One begin development work  
19 on Phase 1 and 2 of the NWBTL Project as soon as possible to shorten the Project lead  
20 time required to have the assets ready to be in-serviced in order to meet the electricity  
21 capacity needs when they materialize (expected mid-2030s but could occur earlier). As  
22 the IESO has now determined that supply needs West of Thunder Bay and North of  
23 Dryden will be met by electricity infrastructure (a 'wires' solution), Hydro One believes  
24 that it is now able to record its development expenditures in CWIP. On December 21,  
25 2018, Hydro One requested the OEB to change the nature of the North West Bulk  
26 Transmission Line Deferral Account from a deferral account to a tracking deferral  
27 account. Hydro One would continue to report the balance of this account through the  
28 quarterly Reporting and Record Keeping Requirements. Hydro One requested the change

Witness: Samir Chhelavda

1 in this account be effective from January 1, 2019. Refer to Attachment 9 for a copy of  
2 this submission. The request is currently under review by the OEB.

3  
4 If the OEB approves the change in status from a deferral account to a tracking deferral  
5 account, Hydro One proposes to continue the use of this account on that basis to record  
6 the expenses incurred for preliminary design/engineering, cost estimation, public  
7 engagement/consultation, routing and siting, and environmental assessment preparation  
8 work associated with the NWBTL Project.

9  
10 **3.10 SUPPLY TO ESSEX COUNTY TRANSMISSION REINFORCEMENT**  
11 **(SECTR)**

12  
13 This account was approved by the OEB in EB-2013-0421 for the purpose of recording  
14 construction costs relating to the OEB-approved SECTR Project. The major portions of  
15 the SECTR project was completed and placed in-service during 2018. Work on certain  
16 minor portions of the project continues in 2019. Hydro One proposes to continue the  
17 account until the SECTR cost allocation issue that gave rise to this account is resolved.

18 **3.11 EXTERNAL REVENUE – PARTNERSHIP TRANSMISSION PROJECTS**  
19 **ACCOUNT**

20  
21 The intent of this deferral account is to record costs for services provided by Hydro One  
22 employees for work they are performing for partnership companies, whether partnered  
23 with Hydro One Networks Inc. or Hydro One Inc., working on competitive or other  
24 partnership transmission projects.

25  
26 Hydro One has and will identify specific employees to work with partnership companies  
27 in which it has a vested interest. Hydro One will track employee time and any expenses

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1 and the resulting costs will be invoiced to the appropriate partner. The amount of  
2 invoiced costs will be recorded in the External Revenue Partnership Transmission Project  
3 Account for reduction to future revenue requirements.

### 4 5 **3.12 IN SERVICE CAPITAL ADDITIONS VARIANCE ACCOUNT**

6  
7 Hydro One proposes the continuation of this variance account to record the net  
8 cumulative variance over 2020-2022 between the OEB-approved in-service capital  
9 additions forecasts and the actual amounts.

10  
11 Hydro One proposes to track the impact on revenue requirement of any capital in-service  
12 additions that are 98% of the OEB-approved amount or less for each year of the three-  
13 year term, on a cumulative basis. For cumulative in-service additions that are 98% of the  
14 OEB-approved level or less, the associated revenue requirement impact will be computed  
15 and reported on an annual basis in the variance account. The variance account will be  
16 asymmetrical to the benefit of the ratepayer. An illustrative example is included as  
17 Attachment 5 to this Exhibit.

### 18 **3.13 LDC CDM AND DEMAND RESPONSE VARIANCE ACCOUNT**

19  
20 This account was established as part of the Settlement Agreement that pertained to 2013  
21 and 2014 transmission rates. In Hydro One's 2015 and 2016 rates application, the parties  
22 accepted Hydro One's CDM forecast in the load forecast and did not request that Hydro  
23 One record any variance for 2015 and 2016. In the EB-2016-0160 Decision, the OEB  
24 directed Hydro one to continue recording a variance relating to 2017 and 2018 and noted  
25 that this account should not be closed as previously requested by Hydro One.

Witness: Samir Chhelavda

1 As per the EB-2016-0160 Decision, Hydro One has maintained this account to record a  
2 variance for 2017 and 2018 as directed by the OEB. The OEB noted that the IESO will  
3 no longer be providing the data required to calculate the variance amounts and as such,  
4 the OEB directed Hydro One to use its best efforts to determine a methodology to  
5 calculate the variance. Please refer to Attachment 11 to this Exhibit.

6  
7 **3.14 TRANSMISSION FOREGONE REVENUE DEFERRAL ACCOUNT**

8  
9 Hydro One filed an accounting order with the OEB (dated October 10, 2017) pursuant to  
10 the EB-2016-0160 Decision, which established this deferral account for the purpose of  
11 recording the differences between revenue earned by Hydro One Transmission under the  
12 interim 2017 rates set at the 2016 Uniform Transmission Rates (UTR) level and the  
13 revenues that would have been received under the approved 2017 UTR based on the  
14 OEB-approved 2017 load forecast (i.e. foregone revenue). The accounting order was  
15 approved on November 9, 2017. Hydro One proposes the continuation of this variance  
16 account to record the differences between revenue earned under any interim UTR and the  
17 final UTR arising from OEB's final determination in this proceeding in the event that  
18 UTR are not available on time for January 1, 2020 implementation. A draft accounting  
19 order is provided as Attachment 1 to this Exhibit.

20  
21 **3.15 ESM DEFERRAL ACCOUNT**

22  
23 Hydro One proposes a new earnings sharing mechanism deferral account, effective  
24 January 1, 2020, to record any over-earnings realized during any year of the three-year  
25 term through Hydro One's transmission revenue. Hydro One proposes to share with  
26 customers 50% of any earnings that exceed the regulatory return on equity reflected in  
27 this Application by more than 100 basis points in any year of the three-year term.

Witness: Samir Chhelavda



1 The customer share of the earnings will be adjusted for any tax impacts and will be  
2 credited to a new deferral account that will be put forward for disposition at the time of  
3 Hydro One's next rates rebasing application. A draft accounting order is provided as  
4 Attachment 3 to this Exhibit.

5  
6 **3.16 CCRA TRUE-UP VARIANCE ACCOUNT**

7  
8 Hydro One proposes to create a new variance account to track the differences between  
9 components of revenue requirement and actual results related to load true-ups performed  
10 in accordance with Transmission System Code section 6.5.3. Please refer to Exhibit C,  
11 Tab 7, Schedule 1 for more information. A draft accounting order is provided as  
12 Attachment 4 to this Exhibit.

13  
14 **3.17 REVENUE CAP INDEX PARAMETERS DIFFERENTIAL**

15  
16 In EB-2018-0130, Hydro One proposed the establishment of a new "Revenue Cap Index  
17 Parameters Differential Account (RCI)" to track the revenue requirement difference  
18 between the proposed revenue cap index (RCI) parameters in the 2019 Transmission  
19 Application, and the final values that are approved by the OEB in EB-2018-0218. EB-  
20 2018-0130 is currently under review by the OEB.

21  
22 **3.18 OTHER POST-EMPLOYMENT BENEFIT (OPEB) ACCOUNTS**

23  
24 Two prior proceedings dealing with other post-employment benefits (OPEBs) have given  
25 rise to issues for determination in this proceeding, as follows:

26 EB-2015-0040 – In the OEB's generic proceeding on the regulatory treatment of  
27 pension and OPEBs utilities were directed, among other things, to establish a variance  
28 account to track the difference between the forecasted OPEB accrual amount in rates

1 and actual cash payments made, with a carrying charge applied to the differential, or  
2 “reference amount”. In its distribution rate application (EB-2017-0049), Hydro One  
3 applied for an alternative method of calculating the reference amount given that it  
4 capitalizes a portion of its OPEB costs. During the course of the distribution  
5 proceeding in June 2018, Hydro One agreed to defer the determination of the issue  
6 for both its transmission and distribution businesses to this transmission proceeding.  
7 Correspondence between Hydro One and the OEB on this subject are included at  
8 Attachment 6 to this Exhibit.

9  
10 EB-2017-0338 – In March 2017, the Financial Accounting Standards Board (FASB)  
11 issued Accounting Standard Update ASU 2017-07 to amend the US GAAP  
12 accounting standard for pension and OPEB costs to preclude the capitalization of the  
13 non-current service component of pension and OPEB costs. Hydro One requested  
14 approval to establish a deferral account for its transmission business to record the  
15 financial impact of the new standard (the “OPEB Cost Deferral Account”), indicating  
16 that it intended to seek future approval for the capitalization of its OPEB costs. The  
17 OEB approved the OPEB Cost Deferral Account and found that the panel in Hydro  
18 One’s next transmission rate application (this proceeding) could “consider... whether  
19 Hydro One should continue to capitalize OPEBs”. The OEB also directed the  
20 company to propose an approach for the disposition of the OPEB Cost Deferral  
21 Account as part of this proceeding and suggested that it may be appropriate to amend  
22 the calculation and treatment of interest depending on the selected approach to the  
23 disposition of the account.

24  
25 In light of the direction received in the prior proceedings, Hydro One submits as follows:

- 26 i. EB-2015-0040 – Hydro One requests that the OEB approve the methodology  
27 proposed in section 3.19.1 below to calculate the “reference amount” (i.e. the

- 1 difference between the forecasted OPEB accrual amount in rates and actual cash  
2 payments made) for both its transmission and distribution businesses; and
- 3 ii. EB-2017-0338 – Hydro One requests that the OEB approve the capitalization of  
4 the non-service component of OPEB costs for the reasons set out in section 3.19.2  
5 below for both its transmission and distribution businesses, with the following  
6 contingent requests:
- 7 a. If the OEB approves the request, Hydro One proposes to dispose of the  
8 audited 2018 OPEB Cost Deferral Account principal and interest balances  
9 in the manner described below; and
- 10 b. If the OEB denies the request, Hydro One proposes that the OPEB Cost  
11 Deferral Account be continued and disposed of in the manner described  
12 below.

13

14 **3.18.1 OPEB ASYMMETRICAL CARRYING CHARGE ACCOUNT (EB-**  
15 **2015-0040)**

16

17 The Ontario Energy Board (OEB) issued a report on September 14, 2017 titled  
18 Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs.<sup>1</sup>  
19 In the report, the OEB determined that it would set rates for the recovery of pension and  
20 OPEB costs using the accrual method of accounting and directed utilities to establish a  
21 variance account to track the difference between the forecasted accrual amount in rates  
22 and actual cash payments made, with a carrying charge applied to the differential, or  
23 “reference amount”.

---

<sup>1</sup> EB-2015-0040, Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, Report of the Ontario Energy Board (September 14, 2017) (OPEB Report) [online](#)

1 In Appendix C of the report, the OEB indicated that the guidance provided was based on  
2 the assumption that the total gross accrual cost was reflected in utilities' total OM&A  
3 expense. It also recognized that where utilities capitalize a portion of their pension or  
4 OPEB amounts, this approach may not be appropriate and utilities were given the option  
5 to propose an alternative method of calculating the reference amount.<sup>2</sup> More specifically,  
6 the OEB stated that:

7  
8 *The forecast accrual reference amount that will be used to calculate the entries*  
9 *recorded in this new account assumes that the total gross accrual cost as*  
10 *determined by an actuarial valuation is what is recorded in a utility's total*  
11 *OM&A expense. If a utility capitalizes a material portion of its total pension and*  
12 *OPEB accrual costs, and there is sufficient incremental value to warrant the*  
13 *added complexity of tracking amounts that are capitalized separately from those*  
14 *that are expensed, any party may propose an enhanced methodology for*  
15 *determining the reference amount and the appropriate carrying charge to be*  
16 *applied, including journal entries consistent with the intent of the account as*  
17 *outlined in this report.*<sup>3</sup>

18  
19 While Hydro One recovers some of its OPEB costs through OM&A, it also capitalizes a  
20 material amount of the cost and recovers a portion through a regulatory account, as  
21 follows:

---

<sup>2</sup> OPEB Report at page 14

<sup>3</sup> OPEB Report at page 20

Witness: Samir Chhelavda

| <b>Allocation of OPEB Cost Recovery<sup>4</sup></b> | <b>Distribution<br/>(2018)</b> | <b>Transmission<br/>(2020 - forecasted)</b> |
|---|--------------------------------|---|
| Recovered through OM&A                              | 51%                            | 29%   |
| Capitalized to Property Plant and Equipment (PP&E)  | 23%                            | 33%   |
| Recorded in the OPEB Cost Deferral Account          | 26%                            | 38%   |

1

2 Given that a material portion of OPEB costs for Hydro One's distribution (49%) and  
3 transmission (71%) businesses is not recovered through OM&A, Hydro One proposes a  
4 modified approach that is more reflective of the actual amounts recovered in rates. Rather  
5 than determining the reference amount using the gross costs from the actuarial valuation,  
6 Hydro One proposes to calculate the reference amount based on the sum of the following,  
7 less cash expenses:

- 8 • The full amount of OPEB costs recorded in OM&A;
- 9 • The capitalized OPEB expense which is recovered as part of the depreciation of  
10 PP&E; and
- 11 • The annual recovery of the OPEB costs recorded in the OPEB Cost Deferral  
12 Account and recovered over a 20 year period as proposed below.

13

14 Hydro One proposes to track the difference between the sum of these amounts and the  
15 actual cash payments in the OPEB Asymmetrical Carrying Charge Account. With this  
16 change in calculating the reference amount, Hydro One would follow journal entries as  
17 outlined in Attachment 8 to this Exhibit.

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<sup>4</sup> 2018 Distribution split is based on EB-2017-0049 application; 2020 Transmission split is based on the current Transmission Application.

Witness: Samir Chhelavda

1     **3.18.2     OPEB COST DEFERRAL ACCOUNT (EB-2017-0338)**

2  
3     On November 2, 2017 Hydro One submitted its application for an accounting order  
4     establishing a deferral account to capture the financial impacts associated with a change  
5     to USGAAP accounting standards from the issuance of Accounting Standards Update  
6     (ASU) 2017-07, which related to the accounting for pension and OPEB (EB-2017-0338).  
7     Upon adoption of ASU 2017-07 on January 1, 2018, only the service cost component of  
8     the net periodic pension cost and net periodic post-retirement benefit cost is eligible for  
9     capitalization where applicable. As Hydro One currently accounts for pensions on a cash-  
10    basis, this change only impacts OPEBs. The proposed account will be used to record the  
11    net periodic post-retirement benefit cost other than service cost that would have been  
12    classified as capital prior to the adoption of ASU 2017-07. A draft accounting order is  
13    provided as Attachment 2 to this Exhibit.

14  
15    On May 10, 2018, the OEB approved the establishment of the deferral account, effective  
16    January 1, 2018 until the effective date of Hydro One's next transmission revenue  
17    requirement.<sup>5</sup> In the deferral account, Hydro One records the OPEB cost previously  
18    capitalized but no longer allowed to be capitalized as per Accounting Standards Update  
19    2017-07.

20  
21    On June 7, 2018, the OEB approved Hydro One's accounting order,<sup>6</sup> directed the  
22    company to propose an approach to the disposition of the deferral account and suggested

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<sup>5</sup> EB-2017-0338, Decision and Order, Hydro One Networks Inc., Application for an Accounting Order approving the establishment of a deferral account (May 10, 2018), online at: <http://www.rds.oeb.ca/HPECMWebDrawer/Record/608190/File/document>

<sup>6</sup> EB-2017-0338, Decision and Account Order, Hydro One Networks Inc., Application for an Accounting Order approving the establishment of a deferral account (June 7, 2018), online at: <http://www.rds.oeb.ca/HPECMWebDrawer/Record/610853/File/document>

Witness: Samir Chhelavda

1 that it may also be appropriate to amend the calculation and treatment of interest  
2 depending on the selected approach to the disposition of the deferral account.

3  
4 In the EB-2017-0338 proceeding, the OEB found that the panel in Hydro One's next  
5 transmission rate application (this proceeding) could "consider... whether Hydro One  
6 should continue to capitalize OPEBs". Hydro One requests approval to capitalize the  
7 non-service component of its OPEB costs and repeats and relies on its submissions in  
8 EB-2017-0338<sup>7</sup> (included at Attachment 7 of this Exhibit) that it is eligible to do so  
9 without the requirement of a deferral account, consistent with FERC guidelines. Such a  
10 decision would achieve the same objective as the requested deferral account without the  
11 additional regulatory overhead associated with the ongoing tracking and disposition of  
12 balances in the account and would avoid material adverse rate impacts to Hydro One's  
13 customers.

14 If the OEB does not approve the capitalization of the non-service cost component for  
15 OPEBs, Hydro One proposes that the OPEB Cost Deferral Account be approved for  
16 continuance and be disposed of on a twenty year rolling balance as shown in the example  
17 in Attachment 10 (as opposed to periodic clearances aligned with future rate  
18 applications). Twenty years is consistent with the US GAAP requirement that recovery of  
19 OPEB related amounts is not to exceed a period of twenty years. The twenty year rolling  
20 balance disposition method is also beneficial to ratepayers as it will minimize the impact  
21 on rates. Hydro One further proposes that the interest be calculated and treated in the  
22 same manner presented in the accounting example whereby interest improvement is  
23 recorded on the opening monthly balance of the principal amount.

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<sup>7</sup> EB-2017-0338, Hydro One Submissions, Application for an Accounting Order approving the establishment of a deferral account (April 16, 2018), online at: <http://www.rds.oeb.ca/HPECMWebDrawer/Record/605384/File/document>

- 1 Note that the current rate base proposed, which is inclusive of capital expenditures and
- 2 in-service additions, is based on the assumption that Hydro One is not capitalizing the
- 3 non-service cost component for OPEBs. If the OEB does approve the capitalization,
- 4 Hydro One will prepare an updated rate base during the draft rate order process.



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**ACCOUNTING ENTRIES**

**FOREGONE TRANSMISSION REVENUE DEFERRAL ACCOUNT**

This account records the differences between revenue earned by Hydro One Transmission under any interim Uniform Transmission Rates (UTR) level, and the revenues that would have been received under the approved 2020 UTR based on the OEB-approved 2020 load forecast (“Foregone Revenue”). The account will capture the Foregone Revenue from January 1, 2020 to the date when the approved 2020 UTR are reflected in the revenue earned by Hydro One Transmission. The accounting entries to be recorded are as follows:

| <b>USofA#</b> | <b>Account Description</b>   |
|---------------|--|
| Dr/Cr: 1508   | Other Regulatory Assets – Sub account “Foregone Transmission Revenue Deferral Account” |
| Cr/Dr: 4110   | Transmission Services Revenue  |

To record the Foregone Revenue.

| <b>USofA#</b> | <b>Account Description</b>   |
|---------------|--|
| Dr/Cr: 1508   | Other Regulatory Assets – Sub account “Foregone Transmission Revenue Deferral Account” |
| Cr/Dr: 6035   | Other Interest Expense   |

To record interest improvement on the principal balance of the “Foregone Transmission Revenue Deferral Account”.

**ACCOUNTING ENTRIES**  
**OPEB COST DEFERRAL ACCOUNT**

The OPEB Cost Deferral Account will record all elements of the net periodic benefit cost other than the service cost that would have been classified as capital prior to the adoption of ASU 2017-07.

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

The approach to disposition of the deferral account will be determined by the OEB in this proceeding. The final determination on the calculation and treatment of interest will be made in conjunction with the decision on the approach to disposition of the deferral account.

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>   |
|----------------|--|
| Dr: 1508       | Other Regulatory Assets – Sub-Account “OPEB Cost Deferral Account” |
| Cr: 6035       | Other Interest Expense   |

1

2 To record interest improvement on the principal balance of the “OPEB Cost Deferral

3 Account”.

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**ACCOUNTING ENTRIES**  
**ESM DEFERRAL ACCOUNT**

**Transmission Accounting Order – ESM Deferral Account**

Hydro One proposes the establishment of a new “Earnings Sharing Mechanism (“ESM”) Deferral Account” to record any over-earnings realized during any year of the three-year term through Hydro One’s transmission revenue.

The account will be established as Account 2435, Accrued Rate-Payer Benefit effective January 1, 2020. Hydro One will record interest on any balance in the sub-account using the interest rates set by the OEB. 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 deferral account.

| <b>USofA #</b> | <b>Account Description</b>            |
|----------------|---------------------------------------|
| DR: 4395       | Rate-Payer Benefit Including Interest |
| CR: 2435       | Accrued Rate-Payer Benefit            |

Initial entry to record the over-earnings realized in any year of the three-year term.

| <b>USofA #</b> | <b>Account Description</b>            |
|----------------|---------------------------------------|
| DR: 4395       | Rate-Payer Benefit Including Interest |
| CR : 2435      | Accrued Rate-Payer Benefit            |

To record interest improvement on principal balance of ESM deferral account.

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**ACCOUNTING ENTRIES**  
**CCRA TRUE-UP VARIANCE ACCOUNT**

**Transmission Accounting Order – CCRA True-up Variance Account**

Hydro One proposes to create a new variance account to track the differences between components of revenue requirement and actual results related to load true-ups performed in accordance with Transmission System Code section 6.5.3.

The account will be established as Account 1508, Other Regulatory Asset, subaccount “CCRA True-up Variance Account” effective January 1, 2020. Hydro One will record interest on any balance in the sub-account using the interest rates set by the OEB. 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 deferral account.

| <b>USofA #</b>                                     | <b>Account Description</b>  |
|--|---|
| Dr/Cr: 1508  | Other Regulatory Assets – Sub account “CCRA True-up Variance Account” |
| Cr/Dr: 4110  | Transmission Services Revenue   |
| Initial entry to record the CCRA true-up variance. |   |
| Dr/Cr: 1508  | Other Regulatory Assets – Sub account “CCRA True-up Variance Account” |
| Cr/Dr: 6035  | Other Interest Expense  |

Witness: Samir Chhelavda

Filed: 2019-03-21  
EB-2019-0082  
Exhibit H-1-2  
Attachment 4  
Page 2 of 2

- 1 To record interest improvement on principal balance of CCRA True-up Variance
- 2 Account.

Witness: Samir Chhelavda

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 2  
 3

**ILLUSTRATIVE EXAMPLE**  
**IN SERVICE CAPITAL ADDITIONS VARIANCE ACCOUNT**

**Tx ISAVA Calculation:**

\$ in millions

|   | 2020             | 2021             | 2022             |
|---|------------------|------------------|------------------|
| Tx ISA Actual                                 | 900              | 1,123            | 1,230            |
| Tx ISA Forecast                               | 920              | 1,145            | 1,206            |
| Cumulative ISA Percentage of Forecast:        | 97.8%            | 98.0%            | 99.4%            |
|   |                  |                  | No Entry         |
| <br>Impact on rate base:                      | <br>(10.0)       | <br>(30.7)       |                  |
| <br>Fixed Rate Debt                           | <br>(0.3)        | <br>(0.8)        |                  |
| Floating Rate Debt                            | (0.0)            | (0.0)            |                  |
| ROE   | (0.4)            | (1.1)            |                  |
| <br>Tax Gross Up on ROE                       | <br>(0.1)        | <br>(0.4)        |                  |
| <br>Depreciation                              | <br>(0.3)        | <br>(0.8)        |                  |
| <br>Total Revenue Requirement                 | <br>(1.0)        | <br>(3.2)        |                  |
| <br><b>Regulatory ISA VA Account Balance:</b> | <br><b>(1.0)</b> | <br><b>(4.2)</b> | <br><b>(4.2)</b> |

**Notes:**

- 1) ISA amounts and revenue requirement impact are intended for demonstrational purposes only.
- 2) Illustration assumes that there is no ISA actual to forecast impact flowing into opening 2020 rate base.
- 3) Interest improvement is not included in these calculations.

**Hydro One Networks Inc.**

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**Frank D'Andrea**

Vice President, Chief Regulatory Officer,  
Chief Risk Officer

Filed: 2019-03-21  
EB-2019-0082  
Exhibit H-1-2  
Attachment 6  
Page 1 of 6

BY COURIER

June 7, 2018

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

Dear Ms Walli:

**RE: Hydro One Distribution Rate Application EB-2017-0049 - Regulatory Treatment of Pension and Other Post-employment Benefits (OPEB) Costs (EB-2015-0040)**

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This letter is further to the Ontario Energy Board's (OEB) report dated September 14, 2017 titled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (EB-2015-0040) wherein the OEB determined that it would set rates for the recovery of pension and OPEB costs using the accrual method of accounting and directed utilities to establish a variance account to track the difference between the forecasted accrual amount in rates and actual cash payments made, with a carrying charge applied to the differential, or "reference amount". The OEB provided the option for alternative methods of calculating the differential to be proposed by utilities.

Hydro One filed its distribution rates application on March 31, 2017 and had intended to submit its proposal on the treatment of OPEB expenses in a subsequent application. However, after further review the company notes that it would have been more appropriate to make a submission as part of this application.



Given the timing of this submission, Hydro One respectfully suggests that it could be dealt with as part of the EB-2017-0049 hearing through written interrogatories and responses and final submissions to be made as part of the written argument. Hydro One is also prepared to provide a witness on the final day of the hearing to answer questions about its proposed methodology. Failing this Hydro One submits the final determination of this process may be dealt with in a subsequent application at the time of requested disposition of the carrying charges account.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

cc Parties to EB-2017-0049 (electronic)

## Pension and OPEB Asymmetrical Carrying Charge Account

### Background – EB-2015-0040

The Ontario Energy Board (OEB) issued a report on September 14, 2017 titled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (Report).<sup>1</sup> In the Report, the OEB determined that it would set rates for the recovery of pension and OPEB costs using the accrual method of accounting and directed utilities to establish a variance account to track the difference between the forecasted accrual amount in rates and actual cash payments made, with a carrying charge applied to the differential, or “reference amount”.

In Appendix C of the Report, the OEB indicated that the guidance provided was based on the assumption that the total gross accrual cost was reflected in utilities’ total OM&A expense. It also recognized that where utilities capitalize a portion of their pension or OPEB amounts, this approach may not be appropriate and utilities were given the option to propose an alternative method of calculating the reference amount.<sup>2</sup> More specifically, the OEB stated that:

*The forecast accrual reference amount that will be used to calculate the entries recorded in this new account assumes that the total gross accrual cost as determined by an actuarial valuation is what is recorded in a utility’s total OM&A expense. If a utility capitalizes a material portion of its total pension and OPEB accrual costs, and there is sufficient incremental value to warrant the added complexity of tracking amounts that are capitalized separately from those that are expensed, any party may propose an enhanced methodology for determining the reference amount and the appropriate carrying charge to be applied, including journal entries consistent with the intent of the account as outlined in this Report.*<sup>3</sup>

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<sup>1</sup> *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*, Report of the Ontario Energy Board (September 14, 2017) (the Report) available online at <https://www.oeb.ca/sites/default/files/Report-of-the-Board-Pension-OPEB-20170914.pdf>

<sup>2</sup> Report at page 14

<sup>3</sup> Report at page 20

### Hydro One Treatment of OPEB Costs

While Hydro One recovers some of its OPEB costs through OM&A, it also capitalizes a material amount of the cost and also recovers a portion through a regulatory account, as follows:

- (i) 51% recovered through OM&A;
- (ii) 23% capitalized to Property Plant and Equipment; and
- (iii) 26% recorded in a regulatory account<sup>4</sup> that Hydro One is proposing to recover over a twenty year rolling balance.

### Proposed Calculation of the Reference Amount

Given that a material portion (49%) of OPEB costs is not recovered through OM&A, Hydro One proposes a modified approach that is more reflective of the actual amounts recovered in rates. Rather than determining the reference amount using the gross costs from the actuarial valuation, Hydro One proposes to calculate this amount based on the sum of the following, less cash expenses:

- The full amount of OPEB costs recorded in OM&A;
- The annual recovery of the OPEB costs recorded in the regulatory account and recovered over a 20 year period; and
- The capitalized OPEB expense which is recovered as part of the depreciation of PP&E.

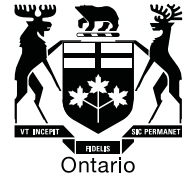
Hydro One proposes to track the difference between the sum of these amounts and the actual cash payments in the variance account. With this change in calculating the reference amount, Hydro One would follow journal entries as outlined in Appendix D of the Report.

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<sup>4</sup> The regulatory account was approved in EB-2017-0338 for Hydro One's application for an accounting order establish a deferral account and is being proposed in Hydro One's ongoing distribution application EB-2017-0049

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**BY E-MAIL**

June 27, 2018

**To: All Parties to EB-2017-0049**

**Re: Hydro One Networks Inc.  
Application for Rates  
Board File Number EB-2017-0049**

On June 7, 2018, Hydro One Networks Inc. (Hydro One) sent a letter to the OEB further to the OEB's report dated September 14, 2017 titled *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (EB-2015-0040).

Hydro One noted that it had filed its distribution rates application (EB-2017-0049) on March 31, 2017 and had intended to submit its proposal on the treatment of OPEB expenses in a subsequent application, but after further review, Hydro One suggested that it would have been more appropriate to make a submission as part of the present application. Hydro One then suggested a process that could be used to deal with this matter as part of the EB-2017-0049 hearing. Failing this, Hydro One submitted that the final determination of this process could be dealt with at the time of requested disposition of the carrying charges account.

The OEB notes that this matter is an issue that is relevant to both Hydro One Distribution and Transmission, and would therefore be best addressed in Hydro One's upcoming transmission filing where the OEB can order remedies that will apply to both transmission and distribution.

The OEB asked Hydro One if doing so would place any limitations on the OEB's discretion, and whether the full range of possibilities available now would still be available if this matter is dealt with later.<sup>1</sup> Hydro One responded that it did not believe

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<sup>1</sup> EB-2017-0049 Transcript Volume 1, p.195, L 22 - p.196, L13

that any restrictions or constraints would be placed on the OEB's ability to address this issue for both transmission and distribution in the transmission proceeding.<sup>2</sup> On this basis, the OEB will not further consider this matter in the current proceeding.

Yours truly,

*Original Signed by*

Kirsten Walli,  
Board Secretary

---

<sup>2</sup> EB-2017-0049 Transcript Volume 2, p.1, L 13 - p.2, L22

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**Frank D'Andrea**

Vice President  
Regulatory Affairs & Chief Risk Officer

Filed: 2019-03-21  
EB-2019-0082  
Exhibit H-1-2  
Attachment 7  
Page 1 of 6

BY COURIER

April 16, 2018

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**

On November 2, 2017, Hydro One Networks Inc. (“Hydro One”) submitted 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.

Pursuant to the Notice of Application and Hearing and Procedural Order No. 1, Hydro One is filing its written reply submission in this proceeding. The submission is attached to this letter and 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.

**Hydro One Networks Inc.**

**EB-2017-0338**

**Reply Submission**

On November 2, 2017, Hydro One Networks Inc. (“Hydro One”) filed an Application (“the Application”) with the Ontario Energy Board (“OEB”) seeking an accounting order to establish a deferral account for its transmission business to capture the financial impacts associated with a change to the Financial Accounting Standards Board’s accounting standard (ASU 2017-07) related to the accounting of pensions and other post-employment benefits (“OPEB”), effective January 1, 2018.

This is Hydro One’s written reply argument. It responds to the submissions filed by OEB staff, the Society of United Professionals (“the Society”) and the London Property Management Association (“LPMA”). For the reasons set out below, the continued capitalization of the affected costs should be approved consistent with Hydro One’s existing policy. In the alternative, the requested deferral account should be approved.

**Background**

In March 2017, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (ASU 2017-07) that affects the accounting for pension and OPEBs. The Update is effective January 1, 2018. As part of ASU 2017-07, Topic 715 – Compensation – Retirement Benefits of the USGAAP Accounting Standards Codification was 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. However, Hydro One accounts for OPEBs on an accrual basis. The amendments therefore result in a re-classification of the net periodic post-retirement benefit cost other than service cost to OM&A. This will materially affect Hydro One’s 2018 expenses.

**Request for Approval of Continued Capitalization**

Subsequent to the filing of the Application, Hydro One discussed with its auditor KPMG the requirements surrounding FASB standard ASU 2017-07, including the eligibility of utilities to

continue capitalizing OPEB costs, without the requirement of a deferral account, if approved to do so by its regulator. The Federal Energy Regulatory Commission (“FERC”) has provided such an approval for regulated entities under its jurisdiction.<sup>1</sup>

Hydro One submits that the OEB should approve the continued capitalization of the affected costs, consistent with the FERC guidance. Such a decision would achieve the same objective as the requested deferral account without the additional regulatory overhead associated with the ongoing tracking and disposition of balances in the account and would avoid material adverse rate impacts to Hydro One’s customers.

Hydro One notes that the submissions of the Society and LPMA both support the continued capitalization of the affected costs as proposed by Hydro One. The concerns raised by OEB staff are discussed in a separate section below.

### **Proposed Deferral Account**

In the alternative to continuing with Hydro One’s existing policy, Hydro One submits that the deferral account should be approved to track the impact of the accounting change in 2018 and beyond. All parties that filed submissions agree that the account meets the OEB’s criteria of need, materiality and prudence, as outlined by Hydro One on pages 4 and 5 of the Application.

OEB staff and LPMA submit, however, that, if approved by the OEB, the scope of the proposed account should be revised to reflect the net revenue requirement impact of the reduction to capitalized costs, not just the increase to OM&A expenses. These parties argue that Hydro One is disaggregating the impact of the accounting policy change and not fully capturing its impact. This is incorrect.

As noted in its response to OEB staff interrogatory #3, the capital-related revenue requirement impact of the accounting change will already be captured in Hydro One’s In-service Variance Account. Both LPMA and OEB ignore this in their submissions.

Hydro One’s In-service Variance Account, which was approved by the OEB in Hydro One’s 2017/2018 transmission rate proceeding<sup>2</sup>, tracks the revenue requirement impact of the difference between Hydro One’s forecast in-service additions and actual amounts that are placed in-service in 2017 and 2018. The forecast costs that will be used as the comparison for making entries in to this account reflect Hydro One’s evidence in that proceeding and thus reflect Hydro

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<sup>1</sup> A copy of the FRC guidance can be found at <https://www.ferc.gov/enforcement/acct-matts/docs/AI18-1-000.pdf>

<sup>2</sup> EB-2016-0160.



One's historical practice of capitalizing OPEB costs. All other things being equal, Hydro One's actual in-service costs will be lower than those forecast amounts as a result of the accounting change and the associated revenue requirement difference will be captured in the in-service variance account and refunded to customers.

If the OEB approves the change in scope of the proposed deferral account without adjusting Hydro One's In-Service Variance account, as proposed by LPMA and OEB staff, it would amount to the double counting of the capital-related revenue requirement impact of the accounting policy change. Hydro One submits that this outcome is neither just nor reasonable and should not be approved by the OEB.

As noted above, the proposed deferral account will track the impact of the ASU 2017-07 accounting policy going forward. OEB staff submits that the OEB should only allow the proposed deferral account to track the net revenue requirement impact of the accounting policy change in 2018 and that a decision on the regulatory treatment of the impacted costs for 2019 and beyond can be addressed in Hydro One's upcoming transmission rate application.

OEB staff's rationale in its submission is reproduced below:

In EB-2011-0188, Hydro One Networks Inc. received OEB approval to use US GAAP as the basis of its rate application filings, regulatory accounting and regulatory reporting requirements, instead of the OEB mandated Modified IFRS (MIFRS) framework that most utilities across Ontario follow. OEB staff notes that US GAAP allows for a more broad interpretation of what types of costs may be capitalized to assets, and therefore Hydro One Networks is already able to capitalize significantly more than they otherwise would be permitted to had they been following the OEB's MIFRS framework. For example, as part of the 2017 and 2018 transmission rates proceeding, the applicant indicated that on a consolidated basis, they would be able to capitalize approximately \$310 million less over the test period had they been required to follow MIFRS. On this basis, OEB staff submits that only the net revenue requirement impact of the accounting change on the 2018 approved transmission revenue requirement should be tracked in the proposed variance account. A decision on the regulatory treatment of the impacted costs for 2019 and beyond can be addressed in the applicant's upcoming transmission rates application.

In essence, OEB staff submits that the OEB should only approve the tracking of the impact of the accounting policy change in 2018 because USGAAP allows Hydro One to capitalize more costs

than would be allowed if Hydro One were required to follow MIFRS. OEB staff makes this submission after noting that the OEB itself has already determined Hydro One does not need to follow the MIFRS framework.

OEB staff made similar submissions in Hydro One's 2017/2018 transmission rate application. These were rejected by the OEB who approved the continued use of USGAAP, including the capitalization of overheads.

Hydro One submits that OEB staff has not provided any true rationale to justify limiting recovery of amounts in the proposed deferral account to 2018. Additionally, OEB staff has not provided any rationale that would justify a deviation from the findings made by the OEB in Hydro One's 2017/2018 transmission rate proceeding, as well as, prior proceedings where the OEB has approved the use of USGAAP by Hydro One. Hydro One submits that there is no reason to revisit the continued capitalization of these costs in Hydro One's upcoming transmission proceeding. Hydro One agrees with the submissions of the Society that any changes to current accounting practices should be considered broadly for all Ontario utilities under USGAAP as part of a broad policy consultation.

OEB staff further claims in its submission that Hydro One's capitalization policies are more "aggressive" than other OEB regulated utilities that follow USGAAP. The sole basis provided for this claim appears to be the fact that no other Ontario utility has yet filed any similar request to Hydro One's. OEB staff says:

as part the EB-2017-0307 proceeding (Union/Enbridge MADDs Application), OEB staff asked an interrogatory about the impact that ASU 2017-07 has on the 2019 revenue requirement. In the response, the applicants indicated that ASU 2017-07 is not expected to have a significant impact since Enbridge Gas does not currently capitalize pension and OPEB related costs, while Union Gas estimated its impact to be less than \$1 million.

Hydro One strongly questions OEB staff's comparison which solely considers the quantum of the impact of the accounting policy change and does not consider any relevant factors and differences between the comparators that would reasonably lead to such differences.

For example, OEB staff's analysis ignores the fact that some utilities, such as Enbridge Gas and Union Gas, outsource labour for capital work (e.g. construction projects, customer installs) rather than utilizing internal resources similar to Hydro One. Rather than capitalizing the pension and OPEB costs of their own internal employees, such utilities would capitalize the construction

charge from their contractors who would embed the pension and OPEB costs of their employees in the rate that they charge to the utility. Logically, a utility that places a higher reliance on outsourced labor would have a lesser financial impact due to the ASU 2017-07 standard.

OEB staff also ignore the differences in the size of the work force for each utility. A utility with a larger workforce will typically have higher OPEB costs on an overall basis. It stands to reason that the overall quantum of the impact of the accounting policy change would be higher for such a utility.

Hydro One submits that OEB staff has not provided any true evidentiary basis for its submission that Hydro One capitalizes more “aggressively” than any other OEB-regulated utility under USGAAP and that those unsubstantiated claims should not deter the OEB from approving the continued capitalization of the effected costs consistent with Hydro One’s past practice and with the FERC guidance.

### **Conclusion**

In conclusion, Hydro One submits that the OEB should approve the continued capitalization of the effected costs consistent with its past practices. Such an approval would avoid an adverse rate impact to customers and is appropriate as capitalization matches the recovery of these costs over the life of the assets which matches the period over which customers benefit from these assets.

Should the OEB not wish to approve the continued capitalization of the affected costs, consistent with the FERC guidance, Hydro One submits that the deferral account should be approved as proposed.

1 **ILLUSTRATIVE EXAMPLES**  
2 **PENSION AND OPEB ASYMMETRICAL CARRYING**  
3 **CHARGE ACCOUNT**  
4

5 The following are simplified examples that illustrate the accounting treatment for  
6 recording transactions in the sub-account Pension and OPEB Asymmetrical Carrying  
7 Charge Account. The figures in the assumptions in the example are to be considered  
8 solely for the purpose of illustrating the proposed accounting treatment.

9  
10 Assumptions:

- 11
- 12 • Hydro One's transmission rates application include total OPEB cost recovery of  
13 \$16M in 2020; \$18M in 2021; and \$19M in 2022 as shown in the table below.  
14 The cash payments are estimated to be \$29M in 2020; \$31M in 2021; and \$32M  
15 in 2022.
  - 16 • Hydro One's distribution rate application includes total OPEB cost recovery of  
17 \$26M in 2018; \$27M in 2019; \$29M in 2020; \$30M in 2021; and \$31M in 2022  
18 as shown in the table below. The cash payments are estimated to be \$26M in  
19 2018; \$27M in 2019; \$28M in 2020; \$28M in 2021; and \$30M in 2022.
  - 20 • Assumes that the OEB approves the continuance of the OPEB Cost Deferral  
21 Account (EB-2017-0338) for Hydro One Transmission.
  - 22 • Deferred OPEB costs are recovered on a 20-year rolling balance in both  
23 examples.
  - 24 • Yearly capitalized OPEB costs are amortized over 40 years in both examples.
  - 25 • For illustrative purposes, instead of the required monthly journal entries, the  
26 journal entries below are simplified to reflect the cumulative annual amounts that  
27 would be recorded in the accounts in both examples.

Witness: Samir Chhelavda

1

**Hydro One Transmission Example:**

| <i>In millions \$CAD</i>  | <u>2020</u>  | <u>2021</u>  | <u>2022</u>  |
|---|--------------|--------------|--------------|
| <u>Modified Recovery</u>  |              |              |              |
| OM&A Recovery   | \$ 16        | \$ 16        | \$ 16        |
| Recovery of Capitalized OPEB (via depreciation)                 | 0            | 1            | \$ 1         |
| Recovery of deferred OPEB (regulatory deferral) - <b>Note 1</b> | -            | 1            | \$ 2         |
| Recovered Amounts (reference amount)                            | <u>\$ 16</u> | <u>\$ 18</u> | <u>\$ 19</u> |
| <br>  |              |              |              |
| OPEB Cash Payments  | <b>\$ 29</b> | <b>\$ 31</b> | <b>\$ 32</b> |
| <br>  |              |              |              |
| <u>Tracking Accounts</u>  |              |              |              |
| Excess recovery / (deficiency) vs benefits paid                 | \$ (13)      | \$ (13)      | \$ (13)      |
| <br>  |              |              |              |
| Cumulative excess recovery / (deficiency) vs benefits paid      | \$ (13)      | \$ (26)      | \$ (39)      |
| <b>Interest on Excess Recovery@ CWIP prescribed rate</b>        |              |              |              |
| <b>(3.35% as at Q4 2018 - assume constant)</b>                  | <b>\$ -</b>  | <b>\$ -</b>  | <b>\$ -</b>  |

2

3

4

5

6

*Note 1 - Note that this is the regulatory deferral account recently approved by the OEB (EB-2017-0338) to allow Hydro One Transmission to establish a deferral account to capture the financial impacts associated with a change to accounting standards for OPEB costs. Hydro One has assumed that the OEB will approve the continuance of this account. The costs will be recovered on a 20-year rolling balance.*

1 Journal entries are in millions \$CAD.

**2020**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 13

CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account - Contra Account” 13

2

3 To record the difference between the total OPEB accrual amount approved in rates  
4 (reference amount) and the actual cash amount paid.

5

**2021**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 13

CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account - Contra Account” 13

6

7 To record the difference between the total OPEB accrual amount approved in rates  
8 (reference amount) and the actual cash amount paid.

9

**2022**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 13

CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account - Contra Account” 13

10

11 To record the difference between the total OPEB accrual amount approved in rates  
12 (reference amount) and the actual cash amount paid.

13

14 Note that from 2020-2022, forecasted yearly OPEB cash payments are greater than  
15 recovered amounts (reference amount). Therefore, no carrying charges are calculated in  
16 accordance with the asymmetric nature of this account.

Witness: Samir Chhelavda

**Hydro One Networks Distribution Example:**

| <i>In millions \$CAD</i>   | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| <u>Modified Recovery</u>   |             |             |             |             |             |
| OM&A Recovery  | \$ 26       | \$ 26       | \$ 27       | \$ 27       | \$ 27       |
| Recovery of Capitalized OPEB (via depreciation)  | \$ -        | \$ -        | \$ 1        | \$ 1        | \$ 1        |
| Recovery of deferred OPEB (regulatory deferral) - <b>Note 1</b>                                      | \$ -        | \$ 1        | \$ 1        | \$ 2        | \$ 3        |
| Recovered Amounts (reference amount)   | \$ 26       | \$ 27       | \$ 29       | \$ 30       | \$ 31       |
| <br>   |             |             |             |             |             |
| OPEB Cash Payments   | \$ 26       | \$ 27       | \$ 28       | \$ 28       | \$ 30       |
| <br>   |             |             |             |             |             |
| <u>Tracking Accounts</u>   |             |             |             |             |             |
| Excess recovery / (deficiency) vs benefits paid  | \$ 0        | \$ 0        | \$ 1        | \$ 2        | \$ 1        |
| Cumulative excess recovery / (deficiency) vs benefits paid   | \$ 0        | \$ 0        | \$ 1        | \$ 3        | \$ 4        |
| <b>Interest on Excess Recovery@ CWIP prescribed rate<br/>(3.35% as at Q2 2018 - assume constant)</b> | \$ 0        | \$ 0        | \$ 0        | \$ 0        | \$ 0        |

*Note 1 - Note that this is the regulatory deferral account recently approved by the OEB (EB-2017-0338) to allow Hydro One Transmission to establish a deferral account to capture the financial impacts associated with a change to accounting standards for OPEB costs. Hydro One has assumed that a similar account will be approved for Hydro One Distribution. Hydro One has assumed that the costs will be recovered on a 20-year rolling balance.*

Journal entries are in millions \$CAD.

**2020**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account – Contra Account” 1  
 CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 1

**2021**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account – Contra Account” 2  
 CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 2

**2022**

DR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account – Contra Account” 1  
 CR. Other Regulatory Assets – Sub-Account “Pension and OPEB Accrual and Payment Differential Account” 1

Witness: Samir Chhelavda

**Hydro One Networks Inc.**

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**Joanne Richardson**

Director – Major Projects and Partnerships  
Regulatory Affairs



BY COURIER

December 21, 2018

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 27, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**EB-2014-0311 – North West Bulk Transmission Line Deferral Account**

On March 27, 2015, the OEB approved Hydro One Networks Inc.'s ("Hydro One") establishment of a deferral account to record expenses relating to the North West Bulk Transmission Line ("NWBTL")<sup>1</sup>. The account was approved to record costs related to Hydro One undertaking preliminary design/engineering, costs estimation, public engagement/consultation, routing and siting, and Environmental Assessment preparation work associated with the NWBTL Project prior to the point from which costs would qualify to be recorded in construction work in progress ("CWIP").

On October 24, 2018 the IESO issued a letter, "Update of the Need and Scope for the Northwest Bulk Transmission Line" (Attachment 1), confirming the need for additional electricity capacity in the area. The IESO recommended that Hydro One begin development work on Phase 1 and 2 of the NWBTL Project as soon as possible to shorten the Project lead time required to have the assets ready to be in-serviced in order to meet the electricity capacity needs when they materialize (expected mid-2030s but could occur earlier). As the IESO has now determined that supply needs West of Thunder Bay and North of Dryden will be met by electricity infrastructure (a 'wires' solution), Hydro One is now able to record its development expenditures in CWIP.

Hydro One requests that the nature of its North West Bulk Transmission Line Deferral Account be changed from a deferral account to a tracking deferral account. Hydro One will report the balance of this account through the quarterly Reporting and Record Keeping Requirements. Hydro One requests the change in this account be effective from January 1, 2019. Appendix A to this letter provides the proposed Accounting Entries.

---

<sup>1</sup> EB-2014-0311



If you require any further information, please contact me.

An electronic copy of this has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

**APPENDIX A**

**PROPOSED ACCOUNTING ENTRIES**

**North West Bulk Transmission Line Project Construction Costs Deferral Account**

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

| <b>USofA #</b> | <b>Account Description</b>               |
|----------------|--|
| Dr: 2055       | Construction Work in Progress – Electric |
| Cr: 2205       | Accounts Payable                         |

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

| <b>USofA #</b> | <b>Account Description</b>   |
|----------------|--|
| Dr: 1508       | Other Regulatory Assets – Sub account “NWBTL Project Construction Costs Deferral Account”                  |
| Cr: 1508       | Other Regulatory Assets – Sub account “NWBTL 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 NWBTL project. The deferral account at this stage is used as a tracking account until the project is placed in-service.

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

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

To effectively remove the construction costs for the NWBTL project from Construction Work in Progress, to the NWBTL 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.

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

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

October 24, 2018

Mr. Robert Reinmuller  
Director, Transmission Planning  
Hydro One Inc.  
483 Bay Street, 13<sup>th</sup> Floor, North Tower  
Toronto, Ontario M5G 2P5

Dear Robert,

### Update on the Need and Scope for the Northwest Bulk Transmission Line

The Independent Electricity System Operator (the “IESO”) recently updated its electrical load forecast and completed an assessment of the need for additional capacity to supply the West of Thunder Bay and North of Dryden areas (together, the “Region”), shown in Figure 1. The purpose of this letter is to describe the supply needs for the Region and the IESO’s recommended next steps for meeting those needs.

#### Supply Needs in the Region

Figure 2 below shows an updated electrical load forecast for the Region. The updated forecast considers new loads from potential mining developments, the connection of remote communities and the removal of loads from the cancelled Energy East pipeline conversion project.

Based on the forecast the Region is adequately supplied today; however, a need for additional capacity will arise in the mid-2030s.

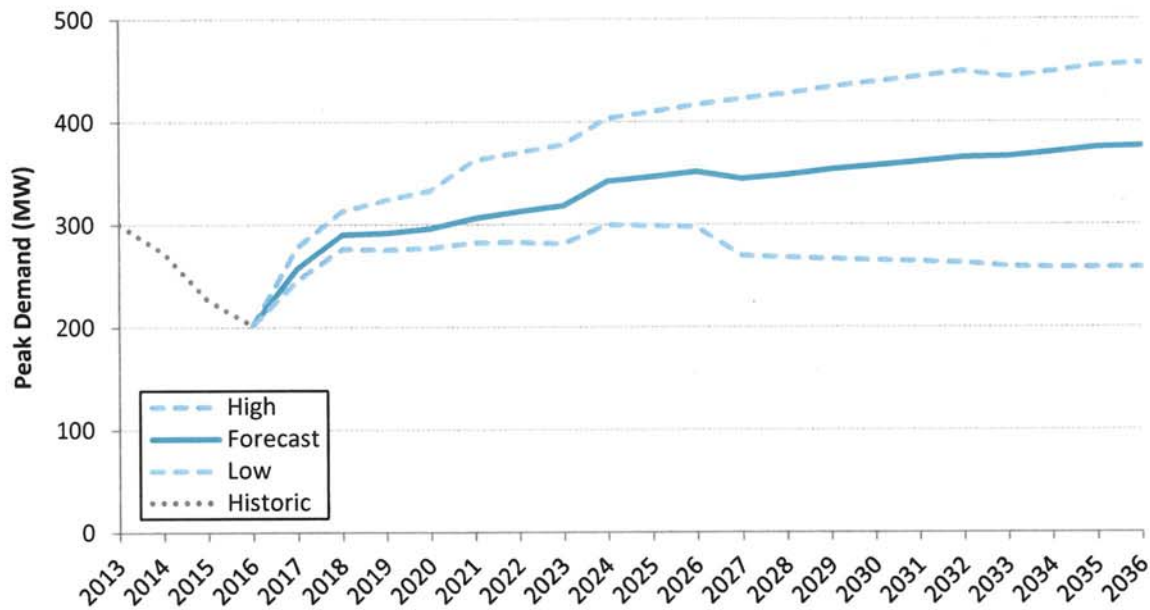
The IESO’s updated electrical load forecast also includes high and low growth scenarios to capture the uncertainty around industrial developments. Under the high growth scenario, which considers

**Figure 1 – The Region**



development of the Ring of Fire with electricity supplied by the Ontario transmission system, a capacity need could potentially arise in the early 2020s.

**Figure 2 - Electrical Load Forecast – the Region**



### Addressing the Need

The Northwest Bulk Transmission Line Project (the “Project”) was identified as a priority project in the 2017 Long-Term Energy Plan (the “LTEP”) and can address the capacity needs described above. The LTEP divides the Project into three phases:

Phase 1 – a line from Thunder Bay to Atikokan;

Phase 2 – a line from Atikokan to Dryden; and

Phase 3 – a line from Dryden to the Manitoba border.

An Order in Council issued December 11, 2013 directed the Ontario Energy Board to amend the Hydro One Networks Inc. Electricity Transmission License to require Hydro One to develop and seek approvals for the Project in accordance with the scope and timing recommended by the IESO. The IESO’s recommended scope and timing is outlined in the following paragraphs.

### Scope and Timing

Since the capacity need is not likely to materialize until the mid-2030s, a commitment for additional supply to the Region is not required at this time. However, the IESO recognizes the



risks associated with load forecast uncertainty and the potential for large industrial projects to add significant load to the Region utilizing the remaining capacity margin sooner than anticipated.

Therefore, to shorten the Project lead time if the need for additional capacity materializes earlier than expected, the IESO recommends that Hydro One begin development work on Phase 1 and Phase 2 of the Project as soon as possible. The scope of development work is to include preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and Environmental Assessment. At this time the IESO is not committing to a timeline for the construction of the line. The IESO will continue to monitor developments in the Region to determine when construction of the transmission line should begin.

To supply the Region under the high growth scenario, the Project must meet the following specifications:

- a) Consist of a new double circuit 230 kV line between Lakehead TS and Mackenzie TS (Phase 1) with a thermal capacity that is equal to or greater than the existing double-circuit 230 kV transmission between Lakehead TS and Mackenzie TS. This would achieve the required westbound transfer of at least 350 MW into Mackenzie TS and Moose Lake TS.
- b) Consist of a new single circuit 230 kV line from Mackenzie TS to Dryden TS (Phase 2) with a thermal capacity that is equal to or greater than the existing single-circuit 230 kV transmission line between Mackenzie TS and Dryden TS. This would achieve the required westbound transfer of at least 350 MW from MacKenzie and Moose Lake.
- c) Separate the necessary sections of F25A and D26A to ensure the circuits do not share a common structure over a distance that exceeds one mile.

Hydro One should consider various routing options as appropriate. Since requirements for switching and reactive facilities would depend on the configuration and line options, they are not specified at this time.

The 2014 letter from the Ontario Power Authority (the "OPA") to Hydro One indicated that the Project must be capable of 550 MW transfer west from the Thunder Bay area. At the time the letter was written, the OPA's electrical load forecast was significantly higher and included potential mining developments and the Energy East pipeline conversion project. If in the future additional transfer capability beyond 350 MW is needed, the solution would be to install dynamic reactive facilities in addition to the transmission lines indicated above.

The IESO will provide support to Hydro One as required, including discussion of possible routing alternatives. As well, the IESO will continue to monitor developments in the Region and confirm the best course of action to address supply needs, and will keep Hydro One apprised of this work.

Sincerely,

A handwritten signature in black ink, appearing to read "Ahmed Maria", with a long horizontal flourish extending to the right.

Ahmed Maria  
Director - Transmission Planning  
Independent Electricity System Operator

1        **OPEB COST DEFERRAL ACCOUNT - DISPOSITION EXAMPLE**

2

3        **\*\*\*Amounts reflected below are for illustrative purposes only**

|   | 2018    | 2019    | 2020    | 2021    | 2022    |
|---|---------|---------|---------|---------|---------|
| <b>Recovery of deferred OPEB Costs</b>            |         |         |         |         |         |
| <b>Capitalized to Regulatory Deferral Account</b> | \$ 22.0 | \$ 23.0 | \$ 23.0 | \$ 23.0 | \$ 24.0 |
|   |         |         |         |         |         |
| <b>Recovery (rolling 20 years, 1/20th per yr)</b> |         |         |         |         |         |
| <b>2018 deferred amount</b>                       | n/a     | \$ 1.1  | \$ 1.1  | \$ 1.1  | \$ 1.1  |
| <b>2019 deferred amount</b>                       | n/a     | n/a     | \$ 1.2  | \$ 1.2  | \$ 1.2  |
| <b>2020 deferred amount</b>                       | n/a     | n/a     | n/a     | \$ 1.2  | \$ 1.2  |
| <b>2021 deferred amount</b>                       | n/a     | n/a     | n/a     | n/a     | \$ 1.2  |
| <b>2022 deferred amount</b>                       | n/a     | n/a     | n/a     | n/a     | n/a     |
|   |         |         |         |         |         |
|   |         |         |         |         |         |
| <b>Recovery of deferred OPEB Costs</b>            | \$ -    | \$ 1.1  | \$ 2.3  | \$ 3.4  | \$ 4.6  |



1           **CALCULATION OF THE 2017 CDM AND DEMAND RESPONSE**  
2                                   **(DR) VARIANCE ACCOUNT**

3  
4           **1.       OVERVIEW**

5  
6           An LDC CDM and DR Variance Account for Transmission was established as part of the  
7           Settlement Agreement approved by the OEB in Hydro One's EB-2012-0031  
8           Transmission Application. As part of the Settlement Agreement, Hydro One agreed to  
9           track the difference between the forecasted and actual CDM and DR savings in 2013 and  
10          2014.

11  
12          In Hydro One's EB-2016-0160 Transmission Application, the OEB determined that this  
13          account should not be closed and the variances should continue to be recorded by Hydro  
14          One for 2017 and 2018. The OEB also recognized that that the IESO no longer provided  
15          actual peak savings information, and directed Hydro One to use its best efforts to obtain  
16          from other sources the peak savings information needed to determine the variances to be  
17          recorded in this account.

18  
19          **2.       2017 FORECASTED CDM PEAK SAVINGS**

20  
21          The CDM peak savings assumptions in HONI's load forecast includes the impact due to  
22          energy efficiency programs (EE), Code and standards (C&S) and DR programs, which  
23          include the impact from the Industrial Conservation Initiative (ICI), Dispatched Load  
24          program, and DR auctions. The forecasted savings due to EE and C&S programs was  
25          based on the 2016 IESO Ontario Planning Outlook (OPO) which includes savings due to  
26          the historical programs (2006-2014) and the conservation first framework (2015-2020).

1 Hydro One's 2017 load forecast approved by the OEB included the same total CDM peak  
2 savings amount assumed for 2016, as shown in Table 1.<sup>1</sup> As such, the 2017 target peak  
3 savings to be used for calculating the CDM and DR Variance Account balance is zero  
4 incremental EE and DR peak savings amounts in 2017 over 2016.

5  
6 **Table 1: 2015-2017 CDM peak saving assumptions in the approved**  
7 **2017 load forecast**

|                      | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|----------------------|-------------|-------------|-------------|
| CDM peak impact (MW) | 1,434       | 1,638       | 1,638       |

8  
9 **3. CALCULATION OF 2017 ACTUAL PEAK SAVINGS**

10  
11 EE Amounts

12 As recognized by the OEB in its EB-2016-0160 Decision, some of the information  
13 required to calculate the EE peak saving amounts is no longer reported by the IESO. At  
14 this time Hydro One has not yet determined the total EE actual peak savings compared to  
15 the assumptions included in the load forecast but will continue to work with the IESO to  
16 gather available information and expected to have the required data in time to allow the  
17 CDM and DR variance account to be updated as part of the planned evidence update to  
18 reflect 2018 audited actuals.

19  
20 ICI Amounts

21 Hydro One has calculated the ICI peak impacts using a methodology similar to that used  
22 by the IESO:

- 23 - Compared ICI participant consumption against a baseline consumption value.  
24 - Determined the baseline consumption by taking the hourly average for the  
25 previous 90 days excluding weekends, holidays and other ICI days.

---

<sup>1</sup> Exhibit E1, Tab 3, Schedule 1, pg.20 from EB-2016-0160.

- 1       - Used the 30 top peak demand days to capture the impact of customer actions  
2       related to the ICI program in recognition of the fact that Class A customers will  
3       take actions to reduce their demand on all potential peak days when the  
4       temperature is extremely high or low, and not just on the high-five peak days  
5       associated with the calculation of Global Adjustment costs.
- 6       - Class A customers include both transmission- connected and distribution-  
7       connected customers. Given that Hydro One only has meter data to estimate the  
8       ICI peak savings for its own distribution Class A participants, the calculation used  
9       Hydro One's 17.5% share of all distribution Class A participants in Ontario to  
10      estimate the total ICI peak savings from all distribution Class A customers.

11

12      The hourly peak data for transmission-connected and distribution-connected ICI  
13      participants required to determine the ICI peak impacts was collected from Hydro One's  
14      Iron Enterprise Edition (IEE) meter data management system.

15

16      The difference in ICI peak impacts observed in 2017 versus 2016 was used to calculate  
17      the revenue impact tracked in the CDM and DR Variance Account.

18

19      Dispatched Load and DR Auction Amounts

20      The information on Dispatched Load, as well as the DR auction activation date and  
21      capacity impacts, for 2016 and 2017 was provided by the IESO. The difference between  
22      2016 and 2017 is used to calculate the revenue impact tracked in the CDM and DR  
23      Variance Account.

24

25      Determination of the DR Peak Impacts (MW)

26      Table 2 shows the monthly actual peak savings for the DR programs in 2016 and 2017,  
27      and the calculation of the incremental peak savings achieved in 2017.

**Table 2: Actual Peak Savings Achieved (MW)**

| Month           | 2016 (MW)    |                 |            | 2017 (MW)    |                 |            | Incremental MW (2017 vs 2016) |                 |            | Total        |
|-----------------|--------------|-----------------|------------|--------------|-----------------|------------|-------------------------------|-----------------|------------|--------------|
|                 | ICI          | Dispatched Load | DR         | ICI          | Dispatched Load | DR         | ICI                           | Dispatched Load | DR         |              |
| JAN             | -            | 11              |            | 389          | 55              |            | 389                           | 44              | 0          | 434          |
| FEB             | -            | 50              |            | 252          | 40              |            | 252                           | (10)            | 0          | 242          |
| MAR             | -            | 42              |            | -            | 60              |            | -                             | 18              | 0          | 18           |
| APR             | -            | 54              |            | -            | 40              |            | -                             | (14)            | 0          | (14)         |
| MAY             | -            | 94              |            | -            | 40              |            | -                             | (54)            | 0          | (54)         |
| JUN             | 788          | 55              |            | 539          | 117             |            | (249)                         | 62              | 0          | (187)        |
| JUL             | 915          | 50              |            | 1,283        | 58              |            | 368                           | 8               | 0          | 376          |
| AUG             | 926          | 90              | 316        | 847          | 66              |            | (80)                          | (24)            | -316       | (420)        |
| SEP             | 735          | 94              |            | 1,495        | 105             | 240        | 761                           | 11              | 240        | 1,012        |
| OCT             | -            | 40              |            | -            | 83              |            | -                             | 42              | 0          | 42           |
| NOV             | -            | 40              |            | -            | 40              |            | -                             | -               | 0          | -            |
| DEC             | -            | 72              |            | 634          | 123             |            | 634                           | 51              | 0          | 685          |
| <b>Total MW</b> | <b>3,364</b> | <b>692</b>      | <b>316</b> | <b>5,440</b> | <b>826</b>      | <b>240</b> | <b>2,076</b>                  | <b>134</b>      | <b>-76</b> | <b>2,134</b> |

**4. Calculation of Variance Account Amount**

Given the forecasted 2017 incremental peak savings is zero, as discussed in Section 2, the 2017 incremental peaks savings to be used for determining the CDM and DR variance account balance are the values shown in Table 2.

The variance account balance is determined by multiplying the amounts in Table 2 by the approved Uniform Transmission Rates (\$/kW) and revenue allocation factors in effect over that period, which are shown in Table 3.

**Table 3: Uniform Transmission Rates and revenue allocation factors**

| Period          | Uniform Transmission Rates (\$/kW) |                 |                           | Hydro One's Revenue Allocator |                 |                           |
|-----------------|------------------------------------|-----------------|---------------------------|-------------------------------|-----------------|---------------------------|
|                 | Network                            | Line Connection | Transformation Connection | Network                       | Line Connection | Transformation Connection |
| Jan to Oct 2017 | 3.66                               | 0.87            | 2.02                      | 0.93219                       | 0.96648         | 0.96648                   |
| Nov to Dec 2017 | 3.52                               | 0.88            | 2.13                      | 0.92828                       | 0.96539         | 0.96539                   |

The resulting 2017 total dollar variance by transmission rate pool is summarized in Table

4.

1

**Table 4: Total Variance for 2017 DR Savings by Rate Pool (\$ Millions)**

2

|                                    | ICI             | Dispatched load | DR Auction       | Total           |
|------------------------------------|-----------------|-----------------|------------------|-----------------|
| Network Variance                   | \$ 6.99         | \$ 0.45         | \$ (0.26)        | \$ 7.18         |
| Line Connection Variance           | \$ 1.75         | \$ 0.11         | \$ (0.06)        | \$ 1.80         |
| Transformation Connection Variance | \$ 4.12         | \$ 0.27         | \$ (0.15)        | \$ 4.24         |
| <b>Total Variance \$</b>           | <b>\$ 12.86</b> | <b>\$ 0.83</b>  | <b>\$ (0.47)</b> | <b>\$ 13.22</b> |

1                   **PLANNED DISPOSITION OF REGULATORY ACCOUNTS**

2

3           **1.       INTRODUCTION**

4

5       The purpose of this evidence is to outline the planned disposition of Hydro One  
6       Transmission's regulatory accounts.

7

8           **2.       PLANNED DISPOSITION OF REGULATORY ACCOUNTS**

9

10       Hydro One is requesting disposition of the forecasted regulatory account values as at  
11       December 31, 2018 less dispositions requested in 2019 in EB-2018-0130 plus forecast  
12       interest improvement accrued in 2019. The final balances requested for disposition will  
13       be provided in the Blue Page update to reflect audited balances for 2018.

14

15       It is expected that new transmission rates will be effective and implemented on January  
16       1, 2020 and that disposition of the accounts requested will be effective as of that date.

1        **Table 1: Transmission Disposition of Regulatory Account Balances (\$ Millions)**

| <b>Description</b>  | <b>Forecast Balance<br/>as at<br/>Dec 31, 2019</b> |
|---|--|
| Excess Export Service Revenue   | 5.7  |
| External Secondary Land Use Revenue                                   | (0.2)  |
| External Stations Maintenance, E&CS & Other<br>External Revenue       | (0.0)  |
| Tax Rate Changes  | 0.0  |
| Rights Payments   | 0.0  |
| Pension Cost Differential   | (5.3)  |
| Long-Term Transmission Future Corridor<br>Acquisition and Development | 0.0  |
| CDM Variance Account  | 13.6   |
| External Revenue – Partnership Transmission<br>Projects Account       | (0.0)  |
| OEB Cost Differential Account   | (0.0)  |
| North West Bulk Transmission Line                                     | 0.8  |
| <b>Total Regulatory Accounts for Approval</b>                         | <b>14.5</b>  |

2

3 Hydro One is requesting an adjustment to its revenue requirement over a three year  
4 period commencing in 2020. Exhibit H, Tab 1, Schedule 5 contains details on the  
5 remaining regulatory accounts for which Hydro One is not proposing disposition in this  
6 Application.

1  
2

**SCHEDULE OF ANNUAL RECOVERIES**

**HYDRO ONE NETWORKS TRANSMISSION**  
**Planned Disposition of Regulatory Accounts**  
Schedule of Annual Recoveries\*

Year Ending December 31  
(\$ Millions)

|                                   | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>Total</b> |
|-----------------------------------|-------------|-------------|-------------|--------------|
| Adjustment to Revenue Requirement | 4.8         | 4.8         | 4.8         | 14.5         |

3 \* Note: Above figures do not include interest improvement during the recovery period.



1           **CONTINUITY SCHEDULES - REGULATORY ACCOUNTS**

2

3   Please see the attached MS Excel file.



|  |                | 2017                                     |  |  |  |   |  |                             |   |                               |
|--|----------------|--|--|--|--|---|--|-----------------------------|---|-------------------------------|
| Account Descriptions   | Account Number | Opening Principal Amounts as of Jan-1-17 | Transactions Debit / (Credit) during 2017 excluding interest and adjustments 6 | Board-Approved Disposition during 2017 | Closing Principal Balances as of Dec 31-17 Adjusted for Dispositions | Opening Interest Amounts as of Jan-1-17 | Interest Disposition during 2017 - instructed by Board | Interest Jan-1 to Dec-31-17 | Closing Interest Balance as at Dec 31-17 balance adjusted for disposition during 2017 | 2017 total bal (for evidence) |
| Excess Export Service Revenue                                      | 2405           | (27,463,492)                             | 3,773,868  | (9,216,852)                            | (14,472,772)   | (816,178)                               |  | (282,811)                   | (1,098,989)   | (15,571,761)                  |
| External Secondary Land Use Revenue                                | 2405           | (36,398,227)                             | (4,738,428)  | (13,356,623)                           | (27,780,032)   | (838,718)                               |  | (381,309)                   | (1,220,026)   | (29,000,058)                  |
| External Station Maintenance, E&CS and Other External Revenue      | 2405           | 1,130,445                                | (2,502,765)  | 351,369                                | (1,723,689)  | 26,048                                  |  | 16,944                      | 42,992  | (1,680,697)                   |
| Tax Rate Changes   | 1592           | 164,941                                  | 395,981  | 63,969                                 | 496,953  | (35,864)                                |  | 1,603                       | (34,261)  | 462,691                       |
| Rights Payments  | 2405           | (3,510,391)                              | 2,247,289  | (1,513,465)                            | 250,363  | (115,225)                               |  | (33,761)                    | (148,985)   | 101,377                       |
| Pension Costs Differential   | 2405           | (4,091,564)                              | (2,817,142)  | 2,989,383                              | (9,898,089)  | 222,626                                 |  | (100,768)                   | 121,858   | (9,776,232)                   |
| Long-Term Transmission Future Corridor Acquisition and Development | 1508           | 611,184                                  |  | 309,981                                | 301,202  | 13,959                                  |  | 5,509                       | 19,467  | 320,670                       |
| LDC CDM and Demand Response Variance Account                       | 1508           | (52,490,000)                             |  | (26,991,283)                           | (25,498,717)   | (1,566,052)                             |  | (470,909)                   | (2,036,961)   | (27,535,678)                  |
| External Revenue – Partnership Transmission Projects Account       | 2405           | (870,000)                                |  | (444,358)                              | (425,642)  | (19,934)                                |  | (7,823)                     | (27,757)  | (453,399)                     |
| North West Bulk Transmission Deferral                              | 1508           | 620,693                                  | 89,100   |  | 709,793  | 3,226                                   | -  | 8,233                       | 11,460  | 721,253                       |
| OEB Cost Differential Account                                      | 1508           | (1,106,087)                              | (108,742)  |  | (1,214,829)  | (3,652)                                 | -  | (13,950)                    | (17,602)  | (1,232,431)                   |
| <b>Total Transmission Regulatory Accounts for Disposition</b>      |                | <b>(123,402,498)</b>                     | <b>(3,660,840)</b>   | <b>(47,807,878)</b>                    | <b>(79,255,459)</b>  | <b>(3,129,763)</b>                      | <b>-</b>   | <b>(1,259,042)</b>          | <b>(4,388,805)</b>  | <b>(83,644,264)</b>           |
| In-Service Capital Additions Variance Account                      | 2405           |  |  |  |  |   |  |                             |   |                               |
| OPEB Cost Deferral   | 1508           |  |  |  |  |   |  |                             |   |                               |
| East-West Tie Deferral Account (Tracking only)                     | 1508           | 2,838,718                                | 4,356,047  | -                                      | 7,194,765  | -                                       | -  | -                           | -   | 7,194,765                     |
| SECTR Deferral Account (Tracking only)                             | 1508           | 13,018,315                               | 38,990,124   | -                                      | 52,008,439   | -                                       | -  | -                           | -   | 52,008,439                    |
| Transmission Foregone Revenue                                      | 1508           |  | 22,219,539   |  | 22,219,539   |   |  | 65,002                      | 65,002  | 22,284,540                    |
| OPEB Asymmetrical Carrying Charge Account                          | 1522           |  |  |  |  |   |  |                             |   |                               |
| <b>Total Transmission Accounts NOT requesting Disposition</b>      |                | <b>15,857,033</b>                        | <b>65,565,710</b>  | <b>-</b>                               | <b>81,422,743</b>  | <b>-</b>                                | <b>-</b>   | <b>65,002</b>               | <b>65,002</b>   | <b>81,487,744</b>             |
| <b>Total Transmission Regulatory Accounts</b>                      |                | <b>(107,545,465)</b>                     | <b>61,904,870</b>  | <b>(47,807,878)</b>                    | <b>2,167,283</b>   | <b>(3,129,763)</b>                      | <b>-</b>   | <b>(1,194,040)</b>          | <b>(4,323,803)</b>  | <b>(2,156,520)</b>            |
|  |                |  |  |  |  |   |  |                             |   |                               |

| 2018   |                |  |  |  |  |   |  |                                       |   |                               |
|--|----------------|--|--|--|--|---|--|---------------------------------------|---|-------------------------------|
| Account Descriptions   | Account Number | Opening Principal Amounts as of Jan-1-18 | Transactions Debit / (Credit) during 2018 excluding interest and adjustments | Board-Approved Disposition during 2018 | Closing Principal Balances as of Dec 31-18 Adjusted for Dispositions | Opening Interest Amounts as of Jan-1-18 | Board-Approved Disposition during 2018 | Projected Interest Jan-1 to Dec-31-18 | Projected Interest Balance as at Dec 31 - 18 balance adjusted for disposition during 2018 | 2018 total bal (for evidence) |
| Excess Export Service Revenue                                      | 2405           | (14,472,772)                             | 5,589,664  | (8,499,877)                            | (383,231)  | (1,098,989)                             | (716,975)                              | (154,385)                             | (536,399)   | (919,630)                     |
| External Secondary Land Use Revenue                                | 2405           | (27,780,032)                             |  | (12,573,013)                           | (15,207,019)   | (1,220,026)                             | (783,610)                              | (404,006)                             | (840,422)   | (16,047,441)                  |
| External Station Maintenance, E&CS and Other External Revenue      | 2405           | (1,723,689)                              |  | 269,791                                | (1,993,480)  | 42,992                                  | 81,577                                 | (52,961)                              | (91,546)  | (2,085,026)                   |
| Tax Rate Changes   | 1592           | 496,953                                  |  | 100,972                                | 395,981  | (34,261)                                | (37,003)                               | 36,381                                | 39,122  | 435,103                       |
| Rights Payments  | 2405           | 250,363                                  |  | (1,455,277)                            | 1,705,639  | (148,985)                               | (58,188)                               | 16,218                                | (74,579)  | 1,631,060                     |
| Pension Costs Differential   | 2405           | (9,898,089)                              | (5,000,396)  | 2,746,956                              | (17,645,441)   | 121,858                                 | 242,427                                | (260,274)                             | (380,844)   | (18,026,285)                  |
| Long-Term Transmission Future Corridor Acquisition and Development | 1508           | 301,202                                  | -  | 296,976                                | 4,226  | 19,467                                  | 13,005                                 | 3,131                                 | 9,593   | 13,820                        |
| LDC CDM and Demand Response Variance Account                       | 1508           | (25,498,717)                             | 13,217,799   | (25,498,717)                           | 13,217,799   | (2,036,961)                             | (1,492,566)                            | (140,269)                             | (684,664)   | 12,533,135                    |
| External Revenue – Partnership Transmission Projects Account       | 2405           | (425,642)                                |  | (425,642)                              | -  | (27,757)                                | (18,716)                               | (4,370)                               | (13,411)  | (13,411)                      |
| North West Bulk Transmission Deferral                              | 1508           | 709,793                                  | -  | -                                      | 709,793  | 11,460                                  | -                                      | 13,632                                | 25,091  | 734,884                       |
| OEB Cost Differential Account                                      | 1508           | (1,214,829)                              |  | -                                      | (1,214,829)  | (17,602)                                | -                                      | (23,293)                              | (40,895)  | (1,255,724)                   |
| <b>Total Transmission Regulatory Accounts for Disposition</b>      |                | <b>(79,255,459)</b>                      | <b>13,807,067</b>  | <b>(45,037,830)</b>                    | <b>(20,410,562)</b>  | <b>(4,388,805)</b>                      | <b>(2,770,048)</b>                     | <b>(970,195)</b>                      | <b>(2,588,952)</b>  | <b>(22,999,515)</b>           |
| In-Service Capital Additions Variance Account                      | 2405           |  |  |  |  |   |  |                                       |   |                               |
| OPEB Cost Deferral   | 1508           |  | 14,460,082   | -                                      | 14,460,082   | -                                       |  | 136,648                               | 136,648   | 14,596,730                    |
| East-West Tie Deferral Account (Tracking only)                     | 1508           | 7,194,765                                | -  | -                                      | 7,194,765  | -                                       |  | -                                     | -   | 7,194,765                     |
| SECTR Deferral Account (Tracking only)                             | 1508           | 52,008,439                               | -  | -                                      | 52,008,439   | -                                       |  | -                                     | -   | 52,008,439                    |
| Transmission Foregone Revenue                                      | 1508           | 22,219,539                               | (32,790,612)   | 10,571,073                             | -  | 65,002                                  |  | (65,002)                              | -   | -                             |
| OPEB Asymmetrical Carrying Charge Account                          | 1522           |  |  |  |  |   |  |                                       |   |                               |
| <b>Total Transmission Accounts NOT requesting Disposition</b>      |                | <b>81,422,743</b>                        | <b>(18,330,530)</b>  | <b>10,571,073</b>                      | <b>73,663,286</b>  | <b>65,002</b>                           | <b>-</b>                               | <b>71,646</b>                         | <b>136,648</b>  | <b>73,799,934</b>             |
| <b>Total Transmission Regulatory Accounts</b>                      |                | <b>2,167,283</b>                         | <b>(4,523,462)</b>   | <b>(34,466,757)</b>                    | <b>53,252,724</b>  | <b>(4,323,803)</b>                      | <b>(2,770,048)</b>                     | <b>(898,550)</b>                      | <b>(2,452,305)</b>  | <b>50,800,419</b>             |

| 2019   |                |  |  |  |  |   |  |                                       |   |   |
|--|----------------|--|--|--|--|---|--|---------------------------------------|---|---|
| Account Descriptions   | Account Number | Opening Principal Amounts as of Jan-1-19 | Projected Transactions Debit/(Credit) during 2019 excluding interest and adjustments | Board-Approved Disposition during 2019 | Projected Closing Principal Balances as of Dec 31-19 Adjusted for Dispositions | Opening Interest Amounts as of Jan-1-19 | Interest Disposition during 2019 - instructed by Board | Projected Interest Jan-1 to Dec-31-19 | Projected Interest Balance as at Dec 31-19 balance adjusted for disposition during 2019 | Projected 2019 total bal (for evidence) |
| Excess Export Service Revenue                                      | 2405           | (383,231)                                |  | (5,972,895)                            | 5,589,664  | (536,399)                               | (565,259)  | 56,490                                | 85,349  | 5,675,013                               |
| External Secondary Land Use Revenue                                | 2405           | (15,207,019)                             |  | (15,207,019)                           | -  | (840,422)                               | (821,687)  | (164,996)                             | (183,730)   | (183,730)                               |
| External Station Maintenance, E&CS and Other External Revenue      | 2405           | (1,993,480)                              |  | (1,993,480)                            | -  | (91,546)                                | (71,900)   | (21,629)                              | (41,275)  | (41,275)                                |
| Tax Rate Changes   | 1592           | 395,981                                  |  | 395,981                                | -  | 39,122                                  | 10,243   | 4,296                                 | 33,176  | 33,176                                  |
| Rights Payments  | 2405           | 1,705,639                                |  | 1,705,639                              | -  | (74,579)                                | (73,267)   | 18,506                                | 17,194  | 17,194                                  |
| Pension Costs Differential   | 2405           | (17,645,441)                             |  | (12,645,045)                           | (5,000,396)  | (380,844)                               | (322,612)  | (245,707)                             | (303,939)   | (5,304,335)                             |
| Long-Term Transmission Future Corridor Acquisition and Development | 1508           | 4,226                                    |  | 4,226                                  | -  | 9,593                                   | 9,200  | 46                                    | 440   | 440                                     |
| LDC CDM and Demand Response Variance Account                       | 1508           | 13,217,799                               |  | -                                      | 13,217,799   | (684,664)                               | (772,927)  | 286,826                               | 375,089   | 13,592,888                              |
| External Revenue – Partnership Transmission Projects Account       | 2405           | -  |  | -                                      | -  | (13,411)                                | (12,856)   | -                                     | (555)   | (555)                                   |
| North West Bulk Transmission Deferral                              | 1508           | 709,793                                  | -  | -                                      | 709,793  | 25,091                                  | -  | 15,403                                | 40,494  | 750,287                                 |
| OEB Cost Differential Account                                      | 1508           | (1,214,829)                              |  | (1,214,829)                            | -  | (40,895)                                | (39,378)   | (13,181)                              | (14,698)  | (14,698)                                |
| <b>Total Transmission Regulatory Accounts for Disposition</b>      |                | <b>(20,410,562)</b>                      | <b>-</b>   | <b>(34,927,422)</b>                    | <b>14,516,860</b>  | <b>(2,588,952)</b>                      | <b>(2,660,444)</b>                                     | <b>(63,947)</b>                       | <b>7,544</b>  | <b>14,524,405</b>                       |
| In-Service Capital Additions Variance Account                      | 2405           | -  |  | -                                      | -  | -                                       | -  | -                                     | -   | -                                       |
| OPEB Cost Deferral   | 1508           | 14,460,082                               |  | -                                      | 14,460,082   | 136,648                                 | -  | 313,784                               | 450,432   | 14,910,514                              |
| East-West Tie Deferral Account (Tracking only)                     | 1508           | 7,194,765                                |  | -                                      | 7,194,765  | -                                       | -  | -                                     | -   | 7,194,765                               |
| SECTR Deferral Account (Tracking only)                             | 1508           | 52,008,439                               |  | -                                      | 52,008,439   | -                                       | -  | -                                     | -   | 52,008,439                              |
| Transmission Foregone Revenue                                      | 1508           | -  |  | -                                      | -  | -                                       | -  | -                                     | -   | -                                       |
| OPEB Asymmetrical Carrying Charge Account                          | 1522           | -  |  | -                                      | -  | -                                       | -  | -                                     | -   | -                                       |
| <b>Total Transmission Accounts NOT requesting Disposition</b>      |                | <b>73,663,286</b>                        | <b>-</b>   | <b>-</b>                               | <b>73,663,286</b>  | <b>136,648</b>                          | <b>-</b>   | <b>313,784</b>                        | <b>450,432</b>  | <b>74,113,718</b>                       |
| <b>Total Transmission Regulatory Accounts</b>                      |                | <b>53,252,724</b>                        | <b>-</b>   | <b>(34,927,422)</b>                    | <b>88,180,146</b>  | <b>(2,452,305)</b>                      | <b>(2,660,444)</b>                                     | <b>249,837</b>                        | <b>457,976</b>  | <b>88,638,122</b>                       |