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BY COURIER

June 20, 2019

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-2019-0151 Waasigan Transmission (formerly North West Bulk Transmission Line)  
Deferral Account**

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On December 21, 2018, Hydro One Networks Inc. (“Hydro One”) wrote to the Ontario Energy Board (“OEB”) requesting that the nature of its Waasigan Transmission Deferral Account (“WTDA”) be changed from a deferral account to a tracking deferral account (“WTTDA”), to be effective January 1, 2019. The Minister of Energy issued an Order in Council No. 1701/2013 and Directive to the OEB for Hydro One to commence development work on this project in 2013, and on October 24, 2018, the IESO confirmed the need for the Project.

On May 31, 2019, the OEB through email correspondence requested Hydro One to respond to questions to clarify certain information. This letter will address the questions posed.

The WTDA was approved by the OEB in EB-2014-0311 to record expenses related to Hydro One’s preliminary engineering, design and environmental assessment work that was required to be undertaken prior to the costs qualifying to be recorded in construction work in progress (CWIP). The account balance as of December 31, 2018 is \$800K. Hydro One in its Transmission Rates Application (EB-2019-0082) has asked for disposition of a forecast 2019 balance of \$900K (\$800K plus interest improvements). None of the costs recorded to date have been disposed of nor will the \$900K balance be transferred to the WTTDA.

## STAFF QUESTIONS:

### **This is a new account. What is the nature of costs that would be recorded?**

If this application is approved, as requested, Hydro One would record in the WTTDA, from January 1, 2019, the same types of costs as were tracked in the WTDA, e.g., preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and environmental assessment costs for Phase 1 and Phase 2 of the Project<sup>1</sup>. The core difference between the WTDA and the WTTDA is that the costs recorded from January 1, 2019 in the WTTDA would remain in CWIP to be capitalized and placed in rate base when the asset is in-serviced.

Hydro One's practice is to record development costs into CWIP once a project's need has been confirmed; this is also consistent with the treatment recently approved by the OEB for NextBridge's EWT Project<sup>2</sup>.

### **The IESO has only recommended development work, not construction. Clarification on why does Hydro One need this account now? Shouldn't Hydro One wait until the IESO tells them to start construction? Will not need new capacity until mid-2030's – per IESO.**

The IESO on October 24, 2018 confirmed the need for the Waasigan Transmission Line (WTL) and recommended that Hydro One begin development work on Phase 1 and 2 of the WTL as soon as possible to shorten the project lead time to ensure the project could be in-serviced to meet the electricity capacity needs when they materialize, expected in the mid 2030's.

“... 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 the 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.” [page 3]

A project's development work is a critical part of the overall project contributing to the advancement of the Project. Development work for a project the size of the WTL spans multi years prior to construction commencing. Without this development work construction cannot commence. This foundation work determines where the line will be built, timing of construction to mitigate environmental impact, the design and layout of the transmission line and station, etc. Hydro One will track development costs in the WTTDA. Once the IESO commits to the in-service timing of WTL, Hydro One will file a Leave to Construct application with the OEB.

<sup>1</sup> Phase 1 and Phase 2 are described in the IESO's October 24, 2018 letter.

<sup>2</sup> EB-2017-0182/0194/0364 – Decision and Order dated February 11, 2019 – page 10.

**Does Hydro One use deferral accounts or CWIP before a Leave to Construct project is approved? What has been the practice in the past? Does Hydro One have deferral accounts for all its projects? What has been the practice with respect to deferral accounts for such projects in the past? How does Hydro One account for costs for projects before a Leave to Construct project is approved?**

For most of Hydro One's transmission projects, Hydro One does not require a deferral account – costs prior to qualifying for CWIP would be included in our operating budget, and after meeting the criteria of Hydro One's capitalization policy would be recorded and capitalized through CWIP until the project is placed in-service. However, for certain projects Hydro One's past practice is to request a deferral account if Hydro One is asked to undertake work where a risk exists that the project will not proceed and/or other unknowns exist creating uncertainties with respect to cost recovery. This is also consistent with the deferral account entries recently approved by the OEB for NextBridge's EWT Project<sup>3</sup>.

Examples of Hydro One accounts requested and approved by the OEB, include the following:

- East West Tie Deferral Account – approved in EB-2012-0180 to track (i) costs incurred by Hydro One as the incumbent transmitter to support the Board through the designation process to facilitate connection of the line; (ii) expenditures incurred relating to preliminary engineering and other station connection work to accommodate the East West Tie line<sup>4</sup>.
- Long-Term Project Development Costs – approved in EB-2008-0272 to capture preliminary planning costs for transmission related projects identified in the Integrated Power System Plan (IPSP) and other long-term energy projects<sup>5</sup>. This account was closed in 2012.
- Long-Term Transmission Future Corridor Acquisition and Development Account – approved in EB-2012-0031 to record transmission planning and study costs associated with preliminary corridor routing considerations for new transmission infrastructure.

<sup>3</sup> EB-2017-0182/0194/0364 – Decision and Order dated February 11, 2019 – page 10 – recorded CWIP expenditures to the deferral account.

<sup>4</sup> The EWT Deferral Account – Development Work Associated with Stations and Other Supporting Assets was recorded in CWIP

<sup>5</sup> EB-2008-0272 Decision, page 59: Accounting principles dictate that expenditures for preliminary and planning work related to projects are to be capitalized. If the projects do not materialize, the pre-engineering expenditures cannot be capitalized, which poses a risk in this case for Hydro One. .... An important consideration in this specific request is that Hydro One's activities are clearly driven by current Ontario energy policy. Hydro One itself is not the driver behind these expenditures; as the largest transmission utility in the Province, it is responding to the policy drive by the Ontario government to meet certain objectives regarding new generation. Although project plans have not unfolded as originally conceived, there are clear expectations of the largest transmission utility that the planning work for these projects must continue.... As Hydro One points out, the alternative would have been a request for these expenditures to be treated as OM&A costs and expensed in the test years. This would have been a more difficult assessment to make for both the intervenors and the Board, as it would involve considerations and conclusions based on incomplete and inadequate information. Deferral of these costs protects the ratepayers from determinations that may be proved wrong.

- SECTR Deferral Account – approved in EB-2013-0421 to record all construction project costs related to the Supply to Essex County Transmission Reinforcement (SECTR) project until the OEB decides on the appropriate allocation of costs between transmitters and distributors.

**How was Hydro One accounting for costs for its SECTR project before the Leave to Construct project was approved? Did Hydro One use CWIP for SECTR or a deferral account?**

The SECTR project is a unique project as the need for the deferral account arose from proposed changes to the TSC which could alter the attribution of costs between the transmission customer (i.e., Hydro One Distribution) and the transmission network pool. The need for the project was not in question, just the recovery of the allocation of costs between ratepayer groups. Hydro One recorded all construction costs (including development costs) into CWIP once the project met Hydro One's capitalization policy criteria. A contra-tracking account was also maintained.

**How did Hydro One account for EW Tie before the Leave to Construct was approved? Did Hydro One use CWIP or a deferral account?**

This deferral account refers to the East-West Tie Line Development Designation proceeding (EB-2011-0140). For the incumbent transmitter support costs, Hydro One recorded these cost in the deferral account. For the station development work, Hydro One used CWIP but also maintained a contra tracking account. In the event that the project did not go in-service, this would allow for Hydro One to submit any balances in the deferral account for disposition.

**What is the timeframe for filing a Leave to Construct for North West Bulk Transmission Line (WTL) project?**

After the in-service date is determined by the IESO, Hydro One would file a Leave to Construct application as soon as possible.

**Would the new CWIP account attract interest, i.e. would Hydro One be recording CWIP interest or only interest on account 1508 cost account (not the contra)?**

For amounts recorded in CWIP, interest will be calculated and recorded in CWIP consistent with Hydro One's policies. The 1508 deferral account would only incur OEB prescribed interest in the event that the WTL project is ultimately not placed in service and the account reverts back to a deferral account.

The draft AO states:

“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; - the wording should be amended.

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

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

Need clarification and updated wording for the above. The IESO has only recommended that H1 begin work on the development of the project, so there would be no construction costs recorded in this account. Also, the wording “construction expenditures” and “approved NWBLT project” appears to be inconsistent with the scope of the account. Instead of “approved” probably “priority project” or the government directive should be used.

Updated wording:

USofA#	Account Description
Dr: 2055	Construction Work in Progress – Electric
Cr: 2205	Accounts Payable
To record development work incurred by Hydro One relating to the Order-in-Council – WTL (formerly NWBTL) Project	

**Update required for: Need an update on Figure 2 for 2017 historic load.**

As this is part of the IESO’s analysis, this should be dealt with through an interrogatory, if required.

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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