

# **DECISION AND ORDER**

**EB-2019-0151**

## **HYDRO ONE NETWORKS INC.**

**Application for an accounting order approving the establishment  
of a tracking deferral account**

**By Delegation, Before: Theodore Antonopoulos**

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**September 12, 2019**

## INTRODUCTION AND SUMMARY

This Decision and Order deals with the application filed by Hydro One Networks Inc. (Hydro One) on December 21, 2018 requesting a name change for an existing deferral account, from North West Bulk Transmission Line (NWBTL) Deferral Account, to Waasigan Transmission Tracking Deferral Account. Hydro One has also requested that the nature of the account be changed from a deferral account to a tracking deferral account, effective January 1, 2019.

The OEB approved the original Deferral Account on March 27, 2015<sup>1</sup> to record expenses relating to Hydro One undertaking preliminary design and engineering costs, costs estimation, public engagement and consulting, 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.

Hydro One provided an Accounting Order with proposed accounting entries for the OEB's approval of the Waasigan Transmission Tracking Deferral Account (WTTDA) (see Schedule A).

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

## PROCESS

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 the North West Bulk Transmission Line (since renamed to Waasigan Transmission Line Project (the Project)) in 2013, and on October 24, 2018, the IESO confirmed the need for the Project. The findings in this Decision and Order involve only the implementation of the mechanics of the account by way of an Accounting Order. Therefore, the OEB has considered the application without holding a hearing pursuant to Section 6(4) of the OEB Act.

## THE APPLICATION

The original NWBTL Deferral Account was approved to record expenses related to Hydro One's preliminary engineering, design and environmental assessment work that was undertaken prior to the costs qualifying to be recorded in construction work in progress (CWIP). As of December 31, 2018, Hydro One has recorded \$800K in that account. Hydro One has proposed disposition of the account balance in that account in its current transmission rates proceeding (EB-2019-0082), and will subsequently close that account. Hydro One has proposed to replace this deferral account with a tracking deferral account. Expenditures would be recorded in a tracking deferral account so that in the event that the project does not go into service, the tracking account would provide a mechanism for Hydro One to apply to the OEB to recover the costs incurred.

Hydro One has proposed to record the same categories of costs in the new proposed tracking account that will replace the original pre-CWIP deferral account. Since the need for the project has been confirmed by the IESO, the development costs would now be eligible as CWIP costs<sup>2</sup>, and the costs are directly associated with constructing the asset.

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<sup>2</sup> The OEB's *Accounting Procedures Handbook for Electricity Distributors*, Issued December 2011, Effective January 1, 2012, 2055 Construction Work in Progress – Electric, p. 82

## FINDINGS

The OEB approves the requested WTTDA account effective January 1, 2019. Hydro One clarified that for most of Hydro One's transmission projects, Hydro One does not require a deferral account. Costs that are incurred prior to qualifying for CWIP would be included in Hydro One's operating budget. These costs would then be capitalized once they meet Hydro One's capitalization policy criteria, and would be recorded in CWIP until the project is placed in service. However, Hydro One's practice is to request a deferral account if Hydro One is asked to undertake work for a specific project where a risk exists that the project will not proceed and/or other unknowns exist creating uncertainties with respect to cost recovery.

Hydro One was approved a deferral account for the Waasigan Transmission Line in 2015 to record primarily development costs. The project has now reached the stage where costs will be capitalized and recorded in CWIP. Hydro One requests that in addition to its CWIP tracking, that it also tracks these same costs in a regulatory deferral account in order to reduce its exposure in the event the project is not completed and does not enter service. Since the costs are already being tracked in a CWIP account, the regulatory deferral account acts as a tracking account only for the time being, with no financial impact as a result of the use of a contra account.

The OEB does not expect utilities to routinely request tracking accounts. However, the OEB is satisfied with the reasons provided by Hydro One for the establishment of a new tracking account (in addition to the standard tracking in its CWIP) and will establish the tracking account as of January 1, 2019.

## 1 ORDER

### IT IS ORDERED THAT:

1. Hydro One shall implement the Waasigan Transmission Tracking Deferral Account as set out in Schedule A, effective January 1, 2019.

**DATED** at Toronto September 12, 2019

### ONTARIO ENERGY BOARD

*Original Signed By*

Kirsten Walli  
Board Secretary

**SCHEDULE A**  
**DECISION AND ORDER**  
**HYDRO ONE NETWORKS INC.**  
**EB-2019-0151**  
**SEPTEMBER 12, 2019**

**APPENDIX A**  
**Accounting Order for**  
**Account 1508 (Sub-account) Waasigan Transmission Tracking**  
**Deferral Account**

Effective January 1, 2019 during the development phase of the Waasigan Transmission Line (WTL - formerly 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 the development work costs incurred by Hydro One relating to the Order-In-Council for the WTL project.

<b>USofA #</b>	<b>Account Description</b>
Dr: 1508	Other Regulatory Assets – Sub account “WTL Project Construction Costs Deferral Account”
Cr: 1508	Other Regulatory Assets – Sub account “WTL Project Construction Costs Deferral Account – Contra Account”

To record the amount in the regulatory deferral account and contra-account to track the development work costs incurred by Hydro One relating to the WTL 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 WTL 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 “WTL Project Construction Costs Deferral Account – Contra Account”
Cr: 2055	Construction Work in Progress – Electric

To effectively remove the construction costs for the WTL project from Construction Work in Progress, to the WTL 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 OEB for disposition at a future rate filing. The difference in interest improvement amounts recorded in Account 2055 due to differences in OEB prescribed rates for DVAs and CWIP accounts would be written off.

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

To record monthly interest improvement on the debit principal balance of the “WTL Project Construction Costs Deferral Account”, as per the APH.