



Ontario
Energy
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BY EMAIL

May 21, 2020

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

**Re: Hydro One Networks Inc.
Application for leave to upgrade existing transmission line facilities in the
Barrie-Innisfil area
OEB Staff Submission on Draft Accounting Order**

Ontario Energy Board File Number: EB-2018-0117

In accordance with the Decision and Order, please find attached the OEB staff submission on the draft accounting order in the above proceeding. This document has been sent to Hydro One Networks Inc. and to all other registered parties to this proceeding.

Hydro One Networks Inc. is reminded that its reply submission is due by June 4, 2020, should it choose to file one.

Yours truly,

Original Signed By

David Martinello
Advisor, Generation & Transmission

Encl.



OEB Staff Submission on Draft Accounting Order

Application for leave to upgrade existing transmission line facilities in the Barrie-Innisfil area

Hydro One Networks Inc.

EB-2018-0117

May 21, 2020

1 INTRODUCTION

Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) under section 92 of the *Ontario Energy Board Act, 1998* (OEB Act) for leave to construct transmission facilities that will increase transmission and transformation capacity to accommodate load growth in the Barrie/Innisfil area of Ontario (BATU Project). Hydro One also made a request, among other things, pursuant to section 78 of the OEB Act, to establish a generic regulatory deferral account – the Capital Contribution Recovery Differential Account, with two sub-accounts.

The OEB issued its Decision and Order with respect to Hydro One’s BATU Project application on April 23, 2020 (Decision). Hydro One was granted leave to construct the BATU Project, however, the OEB did not approve the establishment of the Capital Contribution Recovery Differential Account on a generic basis. Instead, the OEB determined that the deferral account be established specifically for the BATU Project. In the Decision, the OEB ordered Hydro One to file a draft accounting order reflecting the OEB’s findings regarding the Capital Contribution Recovery Differential Account. On May 7, 2020, Hydro One filed its draft accounting order.

2 OEB STAFF SUBMISSION REGARDING DRAFT ACCOUNTING ORDER

A capital contribution for the BATU Project will be paid by InnPower Corporation (InnPower) to Hydro One over a five-year period. The OEB determined that the capital contribution shall be recorded in a regulatory deferral sub-account to be drawn down as InnPower makes payments. A second regulatory deferral sub-account shall be established to record the interest difference between the construction work in progress (CWIP) and the weighted average cost of capital (WACC) rates on the unpaid capital contribution. The OEB also permitted Hydro One to exclude interest income earned on unpaid capital contributions in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.¹

Submission

OEB staff has identified two concerns with the draft accounting order, discussed below.

First, OEB staff notes that in the draft accounting order journal entry to record interest improvement on the principal balance of the Capital Contribution Recovery Differential Account, Hydro One proposes that the offsetting account to Account 1508 – Other Regulatory Assets, Sub-account BATU Capital Contribution Recovery Differential Account, be Account 6035 – Other Interest Expense. Given that Hydro One’s approved WACC is expected to be higher than the CWIP rate, OEB staff expects interest income to be recorded by Hydro One.

Therefore, OEB staff submits that the appropriate account to record this interest income would be Account 4405 – Interest and Dividend Income and not Account 6035 – Other Interest Expense. Using Account 4405 – Interest and Dividend Income would be consistent with the *Accounting Procedures Handbook for Electricity Distributors* (APH)². OEB staff notes that Article 490 – Retail Services and Settlement Variances of the APH shows that interest income on deferral and variance accounts is recorded in Account 4405 – Interest and Dividend Income.

Second, in the draft accounting order, the calculation for Account 1508 – Other Regulatory Assets, Sub-account BATU Contribution is the difference between: (i) the revenue requirement on the outstanding capital contribution at Hydro One’s approved WACC and associated corporate tax gross-up; and (ii) the interest income received from InnPower at CWIP. OEB staff submits that the tax gross-up is should apply to the

¹ EB-2018-0117 / Decision and Order / April 23, 2020 / p. 2

² *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012 is applicable to transmitters as per transmitters’ licenses.

difference of the two items noted above, and not to the WACC. This is in accordance with the initial evidence Hydro One submitted on the sample calculation of the Loan Methodology.³

In reviewing the draft accounting order, OEB staff suggests the changes as outlined in track changes in Appendix A. These changes reflect the above two noted changes and include other editorial changes to provide for greater clarification and consistency with past accounting orders approved by the OEB.

All of which is respectfully submitted.

³ Exhibit B / Tab 9 / Schedule 1 / Attachment 1 / pp. 3-4

Appendix A
Track Changes to Draft Rate Order

Hydro One Networks Inc. Transmission

Draft Accounting Order

Account 1508 – Other Regulatory Assets, Sub-account Capital Contribution Recovery Differential Account

Accounting Entries

Capital Contribution Recovery Differential Account

Hydro One shall establish the “Capital Contribution Recovery Differential Account”. In the Decision and Order in EB-2018-0117 dated April 23, 2020, the Ontario Energy Board (~~the “Board”~~OEB) approved, the establishment of a new deferral account, “Capital Contribution Recovery Differential Account” to capture the difference between the interest income Hydro One Networks Inc. (“Hydro One”) will receive at the ~~Board’s~~OEB’s prescribed Construction Work in Progress (“CWIP”)¹ rate and Hydro One Transmission’s OEB- approved Weighted Average Cost of Capital (“WACC”) on the unpaid capital contribution from the customer, who for this OEB-approved leave to construct project is InnPower Corporation (“InnPower”).

The first deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-account BATU Contribution, which will be used to track InnPower’s total capital contribution payable to Hydro One and will record the annual capital contribution payments made to Hydro One by InnPower. There will be a corresponding contra-sub-account.

The second deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-account BATU Capital Contribution Recovery Differential Account, which will record the amount related to the tax grossed-up difference between i) the required revenue requirement for the capital cost of the BATU Project that remains funded by Hydro One (~~excluding the amount included in InnPower’s rate base~~e.,

¹ Section 6.3.19 of the TSC requires the transmitter to charge a Distributor interest on the unpaid balance at the Board’s prescribed CWIP rate which is updated quarterly and published on the Board’s website.

capital contribution outstanding) at Hydro One’s OEB-approved WACC Cost of Capital and the associated corporate tax gross up on the capital contribution outstanding, and ii) the interest income received from InnPower in accordance with TSC 6.3.19.

Additionally, it is noted that the OEB ordered that interest income earned by Hydro One on the unpaid capital contribution balance shall be excluded from the calculation of amounts recognized in Hydro One transmission’s existing deferral account, External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

The deferral account sub-accounts will be established as follows:

- 1) Account 1508, Other Regulatory Assets – Sub-Account “BATU Contributions”
- 2) Account 1508, Other Regulatory Assets – Sub-Account “BATU Contribution”, Contra-account ~~(contra)~~
- 3) Account 1508, Other Regulatory Assets – Sub-Account “BATU Capital Contribution Recovery Differential Account”

These sub-accounts will be effective on the in-service date of the BATU Project. Hydro One will record interest on the balance in the Sub-Account “BATU Capital Contribution Recovery Differential Account” using the prescribed interest rates set by the Board 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:

USofA #	Account Description
Dr: 1508	Other Regulatory Assets, —Sub account “BATU Contribution”
Cr: 1508	Other Regulatory Assets, —Sub account “BATU Contribution” <u>Contra-account</u> (Contra)

To record InnPower’s total capital contribution payable to Hydro One at the BATU Project’s date of in-service

Dr: 1508 Other Regulatory Assets, —Sub account “BATU Contribution” Contra-
account(Contra)

Cr: 1508 Other Regulatory Assets – Sub account “BATU Contribution”

To record the annual capital contribution instalment payments, for the BATU Project, made by InnPower to Hydro One

Dr: 1508 Other Regulatory Assets – Sub account “BATU Capital Contribution Recovery
Differential Account”

Cr: 4110 Transmission Services Revenue

To record the difference between the interest income at the CWIP rate that Hydro One is to receive from the distributor (per the TSC) and the revenue requirement at Hydro One’s OEB-approved WACC for return on rate base on the balance of the deferred capital contribution outstanding.

Dr: 1508 Other Regulatory Assets – Sub account “BATU Capital Contribution Recovery
Differential Account”

Cr: 44056035 ~~Other Interest Expense~~ Interest and Dividend Income

To record interest improvement on the principal balance of the “Capital Contribution Recovery Differential Account”.²

² Undertaking EB-2018-01 Exhibit JT1.10 provides full details of all accounting entries related to the deferral of the capital contribution including entries not directly impacting the Regulatory Account. [Exhibit B-9-1, Attachment 1, pages 3-4 provides sample calculation using the Loan Methodology.](#)