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BY EMAIL, RESS

June 4, 2020

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

Dear Ms. Long:

Re: EB-2018-0117 – Hydro One Networks Inc.'s Section 92 – Barrie Area Transmission Upgrade – Response to OEB Staff Comments on Draft Accounting Order

In accordance with the Ontario Energy Board's ("OEB") Decision and Order, regarding Hydro One's leave to construct application for the Barrie Area Transmission Upgrade Project dated April 23, 2020, Hydro One has updated the attached Draft Accounting Order for the Capital Contribution Recovery Differential Account to address OEB Staff comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Joanne Richardson".

Joanne Richardson

cc.

Nancy Marconi – Ontario Energy Board - Manager of Transmission
David Martinello – Ontario Energy Board - Case Manager

1 **Hydro One Networks Inc. Transmission**
2 **Draft Accounting Order**

3
4 **Accounting 1508 – Other Regulatory Assets, Sub-account Capital**
5 **Contribution Recovery Differential Account**
6

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

15
16 The first deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-
17 account BATU Contribution, which will be used to track InnPower’s total capital
18 contribution payable to Hydro One and will record the annual capital contribution
19 payments made to Hydro One by InnPower. There will be a corresponding contra-sub-
20 account.

21
22 The second deferral sub-account established is Account 1508 – Other Regulatory Assets,
23 Sub-account BATU Capital Contribution Recovery Differential Account, which will
24 record the amount related to the tax grossed-up difference between i) the required revenue
25 requirement for the capital cost of the BATU Project that remains funded by Hydro One

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.

1 (i.e. - capital contribution outstanding) at Hydro One's OEB-approved WACC and ii) the
2 interest income received from InnPower in accordance with TSC 6.3.19.

3
4 Additionally, it is noted that the OEB ordered that interest income earned by Hydro One
5 on the unpaid capital contribution balance shall be excluded from the calculation of
6 amounts recognized in Hydro One transmission's existing deferral account, External
7 Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

8
9 The deferral account sub-accounts will be established as follows:

- 10 1. Account 1508, Other Regulatory Assets – Sub-Account BATU Contributions
- 11 2. Account 1508, Other Regulatory Assets – Sub-Account BATU Contribution, Contra-
12 account
- 13 3. Account 1508, Other Regulatory Assets – Sub-Account BATU Capital Contribution
14 Recovery Differential Account

15
16 These sub-accounts will be effective on the in-service date of the BATU Project. Hydro
17 One will record interest on the balance in the Sub-Account BATU Capital Contribution
18 Recovery Differential Account using the prescribed interest rates set by the OEB. Simple
19 interest will be calculated on the opening monthly balance of the account until the balance
20 is fully disposed.

21
22 The following outlines the proposed accounting entries:

23
24 USofA # Account Description

25
26 Dr: 1508 Other Regulatory Assets – Sub account BATU Contribution

27 Cr: 1508 Other Regulatory Assets – Sub account BATU Contribution Contra-account

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

3

4 Dr: 1508 Other Regulatory Assets – Sub account BATU Contribution Contra-account
5 Cr: 1508 Other Regulatory Assets – Sub account BATU Contribution

6

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

9

10 Dr: 1508 Other Regulatory Assets – Sub account BATU Capital Contribution
11 Recovery Differential Account
12 Cr: 4110 Transmission Services Revenue

13

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

18

19 Dr: 1508 Other Regulatory Assets – Sub account BATU Capital Contribution
20 Recovery Differential Account
21 Cr: 4405 Interest and Dividend Income

22

23 To record interest improvement on the principal balance of the Capital Contribution
24 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, Table B page 3 provides a sample calculation using the Loan Methodology.