



DECISION AND ACCOUNTING ORDER

EB-2018-0117

HYDRO ONE NETWORKS INC.

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

BEFORE: Michael Janigan
Presiding Member

Robert Dodds
Vice Chair and Member

Susan Frank
Member

June 11, 2020

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1 INTRODUCTION AND SUMMARY

This is a Decision and Order of the Ontario Energy Board (OEB) on an application filed by Hydro One Networks Inc. (Hydro One) under section 92 of the *Ontario Energy Board Act, 1998*. Hydro One sought, among other things, 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) and 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 (April Decision). Hydro One was granted leave to construct the BATU Project, however, the OEB granted approval of the establishment of the Capital Contribution Recovery Differential Account specifically for the BATU Project, not on a generic basis. 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.

In the April Decision, the OEB directed Hydro One to file a draft accounting order reflecting the OEB's findings regarding the Capital Contribution Recovery Differential Account. Following OEB staff comments, Hydro One filed an updated draft accounting order on June 4, 2020.

The OEB has reviewed Hydro One's draft accounting order. The OEB approves the updated draft accounting order filed on June 4, 2020 (attached at Schedule A).

2 DECISION ON DRAFT ACCOUNTING ORDER

OEB staff identified two concerns regarding the draft accounting order filed by Hydro One on May 7, 2020. First, Hydro One proposed the offsetting account to Account 1508 – Other Regulatory Assets, Sub-account BATU Capital Contribution Recovery Differential Account to be Account 6035 – Other Interest Expense. OEB staff stated that as it expects interest income to be recorded in the account, the appropriate account to record the interest in would be Account 4405 – Interest and Dividend Income, not Account 6035.¹

The second issue identified by OEB staff pertained to the application of the tax gross-up to Account 1508 – Other Regulatory Assets, Sub-account BATU Contribution. Hydro One proposed the calculation for the account to be the difference between: (1) the revenue requirement on the outstanding capital contribution at Hydro One's approved weighted average cost of capital (WACC) and associated corporate tax gross-up; and (2) the interest income received from InnPower Corporation (InnPower) at construction work in progress. InnPower, the customer, will be paying a capital contribution of \$14.4 million for the BATU Project over a five-year period. OEB staff stated that the tax gross-up should apply to the difference between the two items noted above, and not to the WACC.

In the updated draft accounting order, dated June 4, 2020, Hydro One accepted all of the comments and editorial changes proposed by OEB staff.

Findings

The OEB is satisfied that the updated version of the draft accounting order filed by Hydro One on June 4, 2020 is consistent with the OEB's findings in its April Decision. The OEB approves the updated draft accounting order filed on June 4, 2020, and included as Schedule A to this Decision and Order.

¹ OEB Staff Submission / p. 3

3 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The draft accounting order set out in Schedule A of this Decision and Order is approved.

DATED at Toronto June 11, 2020

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary

SCHEDULE A
DECISION AND ACCOUNTING ORDER
HYDRO ONE NETWORKS INC.
EB-2018-0117
JUNE 11, 2020

Hydro One Networks Inc. Transmission

Draft Accounting Order

Account 1508 – Other Regulatory Assets, Sub-account 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 (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 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 (i.e., capital contribution outstanding) at Hydro One’s OEB-approved WACC, 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.

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.

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
- 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 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:

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

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
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: 4405 Interest and Dividend Income

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

² Undertaking EB-2018-0117 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.