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August 31, 2021

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

Dear Ms. Long,

**RE: EB-2021-0169 – Hydro One Networks Inc. Request for an Accounting Order for a
Regulatory Account for Affiliate Transmission Projects
Argument submission of Energy Probe**

Attached is the argument submission of Energy Probe Research Foundation (Energy Probe) in the EB-2021-0169 proceeding, the application by Hydro One Networks Inc. to the Ontario Energy Board for the approval of its request for an accounting order for affiliate transmission projects.

Respectfully filed on behalf of Energy Probe,

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Patricia Adams (Energy Probe)
Roger Higgin (Sustainable Planning Associates Inc.)
Joanne Richardson (Hydro One)
Intervenors of Record

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Ontario Energy Board

IN THE MATTER OF the Ontario Energy Board Act,
under section 78 of the Ontario Energy Board Act, 1998,
S.O. 1998, c. 15 (Schedule B).

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an accounting order to establish a deferral
account for the purpose of recording and tracking
development and capital costs relating to large transmission
projects expected to in-service in an Affiliate company.

**Hydro One Networks Inc. Application for an Accounting Order to Establish a
Regulatory Account for Affiliate Transmission Projects**

Energy Probe Research Foundation

Argument Submission

August 31, 2021

Energy Probe Argument Submission

Background

On May 28, Hydro One Networks Inc. (“Hydro One”) applied to the Ontario Energy Board or an accounting order authorizing Hydro One Transmission to establish a new regulatory account referred to as the Affiliate Transmission Projects Account (“ATP Account”). Hydro One states¹ that the ATP Account will apply where:

- 1) Hydro One has or will receive a letter from the Independent Electricity System Operator (“IESO”) identifying transmission system needs, and/or an Order in Council or direction of the Minister of Energy, Northern Development and Mines (the “Ministry”) in respect of Hydro One or its OEB Transmission Licence for the development or construction of a transmission project; and;
- 2) all or part of the project is expected to be owned by and included in the rate base of a New Partnership, as a licenced transmitter, and will not form part of Hydro One’s rate base.

The ATP Account is proposed to apply to future projects that meet these criteria as well as three projects currently under development for which Hydro One has received a letter from the IESO and/or Ministry directive and will not form part of Hydro One’s transmission rate base, including:

- i. Waasigan Transmission Line
- ii. Chatham to Lakeshore Transmission Line;
- iii. Lambton to Chatham Transmission Line.

The ATP Account will record costs relating to transmission line development, but not station assets. This is because the stated intention of Hydro One is that station assets will always be owned by Hydro One

The ATP Deferral Account includes two Sub-Accounts

- *Development, Preliminary Engineering, and Planning Costs Deferral Account*, for recording project related costs incurred prior to the point where any expenditures meet the capitalization criteria.
- *Capital Tracking Account*, which will have a nil balance on Hydro One’s balance sheet. This sub-account will track all project costs that meet Hydro One’s capitalization criteria, and would therefore be recorded in Hydro One’s Construction Work-In-Progress balance sheet account. The future expectation of the costs tracked in the capital tracking sub-account is that at the point of project completion the assets tracked in that account will be transferred via sale to a New Partnership and form part its rate base.

According to Hydro One, the benefits of the ATP Account arise from two key aspects. First, the projects in question are required to be undertaken and will ultimately be part of a rate base of a

licensed transmitter other than Hydro One Transmission. If the ATP account was not approved, there would not be transparency as to costs that ultimately will not form part of Hydro One Transmission's revenue requirement. The approval of the ATP Account ensures that costs are properly tracked and understood at the time the project is transferred to the new partnership and also at the time when rate recovery or the account's disposition is considered by the OEB. The other benefits relate to transparency and regulatory efficiency.

Energy Probe Submission by Issue

1. Is the proposed regulatory account appropriate?

Energy Probe accepts the objectives and purpose of the ATP Deferral Account. However, Hydro One has not established a need for the ATP account. In the past, Hydro One has built other affiliate transmission projects without an ATP account. Nothing has changed that would justify a need for this account now.

2. Has Hydro One complied with all the filing requirements necessary to establish an Accounting Order, including, without limitation, the eligibility criteria of causation, materiality, and prudence?

Energy Probe believes that Hydro One has complied with the eligibility criteria of causation, materiality, and prudence.

3. Is the draft accounting order filed by Hydro One, including the proposed accounting entries set out therein, appropriate?

Energy Probe believes that the draft accounting order is appropriate.

4. Is the proposed methodology of allocation of Hydro One's direct and indirect costs to a project that is subject to the proposed account appropriate; and is the allocation methodology of common costs to Lines and Stations appropriate?

It is important to separate the costs of construction of non-regulated assets by Hydro One and its partners from Regulated Assets. However, the "devil is in the details". The identification and recording of such costs requires both a clear system for identifying and allocating both Direct and Indirect project costs.

Direct Costs are relatively straightforward - procurement of materials and components, delivery to the site. Construction costs are primarily labour and are also relatively straightforward.

Energy Probe's concern relates to Hydro One's indirect costs (engineering and back office costs) that support the ATP's. The recording and allocation of these costs must require a level of rigor that may not currently be in place at Hydro One. Such costs relate to employee time and associated overhead allocations.

We invite Hydro One to demonstrate in its reply argument that there are adequate systems in place to identify and record indirect costs throughout the ATP cycle, including Engineering Design, filing for Environmental and Leave to Construct Approvals etc.

5. Are the notification and reporting requirements for the proposed regulatory account appropriate?

Energy Probe believes that they are.

6. Is the proposed manner and timing for disposition of this account appropriate?

In response to an interrogatory from Energy Probe¹ Hydro One explained that it would seek recovery in the ATP account as follows:

a) For costs incurred prior to a project meeting Hydro One's capitalization criteria. These costs are expected to be recovered by Hydro One.

b) In the event a project is cancelled, due to factors beyond Hydro One's control, Hydro One would seek recovery of the balance in the ATP Account (after transferring the CWIP amount to the Deferral Account) at a future OEB hearing. If approved, the disposition would follow the same process and protocols of other regulatory accounts.

The above categorized costs would most likely be recovered through a regulatory account 26 mechanism, in the same manner as other Hydro One deferral and variance accounts have been in the past, i.e. the total regulatory account balance approved by the OEB would be 28 added to the revenue requirement Hydro One is approved to recover, and then included in the rates calculation for recovery from ratepayers.

If the ATP is the result of a directive from the IESO or the Minister then it is reasonable that ultimately in the event the project is cancelled, all transmission customers would be required to reimburse Hydro One's costs.

However, if the ATP results from a competitive bid, either from the IESO or under the Minister's Direction, then Hydro One's shareholder should bear the responsibility for any such cancellation costs. For example, Hydro One's proposals for the Lakehead to Wawa Transmission Line (awarded to UCT/NextBridge) should not be recovered from ratepayers. To do so, diminishes the competitive aspect of such procurements.

Respectfully submitted on behalf of Energy Probe by its consultants,

Roger Higgin
Sustainable Planning Associates Inc.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

¹ Exhibit I, Tab 3, Sch. 5, page 1