



September 6, 2021

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

Re: Hydro One Networks Inc. New Affiliate Transmission Projects Deferral Account
AMPCO Final Submissions
Board File No. EB-2021-0169

Dear Ms. Long:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Best Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson
President
Association of Major Power Consumers in Ontario

Copy to: Hydro One Networks Inc.

Hydro One Networks Inc.

**Application for an accounting order to establish a new
regulatory account effective May 28, 2021**

AMPCO Final Submissions August 31, 2021

Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) on May 28, 2021 under section 78.1 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Schedule B, for an accounting order authorizing Hydro One to establish a new regulatory account, referred to as the Affiliate Transmission Projects Account (ATP Account).

The ATP Account will apply where Hydro One has, or will, receive project direction from the Independent Electricity System Operator, or an Order in Council or directive from the Minister of Energy, Northern Development and Mines for the development or construction of a transmission project, and all or part of the project is expected to be owned by and included in the rate base of a transmission-licenced New Partnership, and will not form part of Hydro One's rate base.¹

Purpose of the Account

The ATP Account will (i) capture the development costs incurred prior to the point where capitalization is appropriate, and (ii) track a project's expenditures once Hydro One's capitalization criteria has been met.²

Prior to the approval of the ATP account any previously incurred costs are recorded in a CWIP account.

Hydro One proposes the following criteria for utilization of the ATP Account:

- i. Hydro One has or will receive a project direction from the Independent Electricity System Operator or an Order in Council or direction of the Minister of Energy in respect of Hydro One or its Transmission Licence for the development or construction of a transmission project; and
- ii. 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.

¹ ATP Account Page 1

² ATP Account Page 3

Structure of the Account

The ATP Account would have two sub-accounts, the (i) ATP - Project Development, Preliminary Engineering and Planning Work deferral account, and the (ii) ATP – Project Construction Costs tracking account. Each of these sub-accounts will record costs by individual project.³

(i) **The ATP - Project Development, Preliminary Engineering and Planning Work deferral account sub-account** will record costs related to project preparation work conducted by Hydro One prior to the point from where costs qualify to be recorded in construction-work-in-progress (CWIP) including:

- preliminary design/engineering and planning,
- planning,
- cost estimation,
- public engagement/consultation,
- routing and siting,
- real estate assessment costs, and
- environmental assessment.

Costs recorded in this account would be maintained with interest accrued until disposition.

(ii) **The ATP – Project Construction Costs tracking account** will record capitalized costs. These costs will be transferred by way of sale to the New Partnership once the project is at or near its in-service date, following the OEB's approval and at that time cost tracking in the ATP Account will cease.

This account is a cost tracking sub-account, which will have a nil balance on Hydro One's balance sheet.⁴ Costs would be recorded in Hydro One's CWIP balance sheet account and at the point of project completion the assets tracked in that account will form part of the rate base of the New Partnership. Hydro One will apply to the OEB under section 86 of the OEB Act for approval of this transaction.⁵

On July 12, 2021, the OEB ordered that the ATP Account be established on an interim basis until the final determination of this Application, therefore costs incurred after May 28, 2021 will be transferred to ATP Account and either recorded (via the deferral sub-account) or tracked (in tracking sub-account).⁶

³ ATP Account Page 4

⁴ Exhibit I Tab 3 Schedule 3

⁵ Exhibit I Tab 3 Schedule 4

⁶ Procedural Order No. 1

The ATP Account is proposed to apply to future projects that meet this criteria as well as three projects currently underway as follows:

- Waasigan Transmission Line
- Chatham to Lakeshore Transmission Line
- Lambton to Chatham Transmission Line

All three of these projects are expected to be owned by a new, yet to be established, Partnership and are not expected to be included in the rate base of Hydro One Transmission.⁷ All three projects are in the development phase.⁸

Hydro One is currently tracking costs for the above projects. Costs are captured in each Project's respective project code and Hydro One can run reports to detail the costs in each project code. It seems to AMPCO this process could reasonably continue if the account was not established and Hydro One indicates if there was no account it would continue to track costs in this manner.⁹ Hydro One did not have a similar DVA for the assets transferred to Bruce to Milton Project (B2MLP) or Niagara Reinforcement Project (NRLP).¹⁰

Hydro One indicates large transmission projects have higher levels of risk and uncertainty due to their size, impact on landowners, environmental impacts and lengthy timelines in both the development and construction phase. These projects incur costs over an extended period of time and at the same time can be exposed to changes that impact their schedule, costs and need. Large Greenfield transmission lines tend to traverse larger portions of traditional lands and provide an excellent investment opportunity for Indigenous communities to partner with Hydro One. The ATP Account will allow Hydro One to manage both its responsibilities as they relate to system planning and to recognize the importance of engaging with Indigenous communities by offering to partner with them in the large Greenfield projects contemplated in this account.¹¹

In the event the project does not proceed to completion as a result of circumstances that are beyond Hydro One's control, Hydro One would seek to recover its prudently incurred development costs, construction costs and reasonable wind-up costs recorded in the ATP Account to the extent that the amount meets the established materiality threshold. If approved, the disposition would follow the same process and protocols of other regulatory accounts.

Given the non-discretionary, material nature, span and uncertainty of the current and future transmission projects, AMPCO submits establishing the account now is appropriate and has benefits. The approval of the ATP Account ensures that costs are properly tracked and

⁷ Exhibit I Tab 1 Schedule 3 Page 2

⁸ Exhibit I Tab 1 Schedule 3 Page 2 (b)

⁹ Exhibit I Tab 1 Schedule 1 Page 1

¹⁰ Exhibit I Tab 4 Schedule 2

¹¹ Exhibit I Tab 1 Schedule 1

understood at the time the project is transferred to the New Partnership.¹² Or, amounts recovered by Hydro One if the project is cancelled. In AMPCO's view, the account provides enhanced transparency and is an improvement over the current methodology used to track project costs.

AMPCO provides the following comments on the approved issues list:

1. Is the proposed regulatory account appropriate?

The ATP Account will record prudently incurred development costs, construction costs and wind-up costs. As discussed above, AMPCO submits establishing the ATP Account is appropriate.

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?

As per Section 2.10 of the OEB's Filing Requirements for Electricity Transmission Applications, dated February 11, 2016, an applicant can propose a new deferral or variance account assuming that the eligibility criteria of Causation, Materiality and Prudence are met.¹³

Causation

The forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived.

Hydro One does not intend to include the costs captured in the ATP Account in any OEB-approved revenue requirement for Hydro One unless, for some reason the project does not proceed to completion as a result of circumstances that are beyond Hydro One's control.¹⁴

Over the past 10 years there have been 10 transmission infrastructure projects¹⁵ identified by the IESO and Ministry and none for Hydro One over the past ten years. None of the projects identified have been cancelled.¹⁶

¹² Exhibit I Tab 1 Schedule 1 Page 2 (b)

¹³ Filing Requirements For Electricity Transmission Applications Chapter 2 Revenue Requirement Applications February 11, 2016 P35

¹⁴ ATP Account Page 5

¹⁵ Includes the three projects underway

¹⁶ Exhibit I Tab 5 Schedule 1

AMPCO submits the ATP Account meets the causation criterion. The forecast expense is outside of the base upon which Hydro One's revenue requirement is derived.

Materiality

The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter. Otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

Hydro One's materiality threshold is \$3 million. Hydro One believes the amounts recorded in the proposed deferral account will be material and exceed this level of expenditure. The costs to date for the three projects underway are \$12.6 million for the Waasigan Transmission Line, \$7.8 million for the Chatham to Lakeshore Transmission Line, and \$0.1 million for the Lambton to Chatham Transmission Line (which was initiated in 2021).

AMPCO submits the ATP Account meets the materiality criterion. Transmission projects that are subject to a Ministerial direction or an IESO letter can be large transmission projects with costs in the hundreds of millions.

Prudence

The nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial cost) for ratepayers. In addition, applicants must include a draft accounting order with a description of the mechanics of the account, including examples of general ledger entries, and the manner in which the applicant proposes to dispose of the account at the appropriate time.

The final determination of prudence will be made at the time Hydro One or the New Partnership applies for disposition of all or part of the ATP Account.

AMPCO submits 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?

AMPCO submits that the proposed entries are 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?

Hydro One indicates direct labour costs are recorded through timesheets being coded in the financial system directly to the specific project code. Indirect costs (corporate overheads) are applied by using Hydro One's overhead capitalization methodology. Hydro One capitalizes costs that are directly attributable to capital work, such as the purchase price for materials and equipment, and costs directly incurred to bring materials and equipment to work sites and to install and otherwise make them ready for service, and capitalizes common corporate costs, or overheads, that relate to its capital work.¹⁷

Each project will track costs separately for the transmission line work, and associated station work.¹⁸ Station assets are expected to be owned by Hydro One and thus would be included within the Hydro One rate base and not in a New Partnership's rate base.¹⁹

AMPCO submits the proposed methodology of allocation of Hydro One's direct and indirect costs to a project is appropriate, and the allocation methodology of common costs to Lines and Stations is appropriate.

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

Hydro One proposes to file the following information, as required, prior to recording any amounts in the sub-accounts:

- a) project description and expected in-service date;
- b) direction provided to Hydro One to commence development activities and confirmation that the project is in accordance with the direction set forth by the Minister of Energy, Northern Development and Mines; and/or,
- c) a letter received by Hydro One from the IESO;
- d) confirmation that project costs will not be included in any revenue requirement applications;
- e) confirmation that project costs are expected to meet Hydro One's materiality threshold of \$3 million.

¹⁷ Exhibit I Tab 1 Schedule 5

¹⁸ Exhibit I Tab 1 Schedule 4 Page 1

¹⁹ Exhibit I Tab 2 Schedule 2 Page 1

Hydro One also intends to file a letter to inform the OEB regarding the change in a Project's status with respect to expenses being recorded in the ATP Account ceases recording costs in the deferral sub-account and begins tracking costs in the tracking sub-account?²⁰

AMPCO submits the notification and reporting requirements for the proposed regulatory account are appropriate.

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

For the reasons discussed above, AMPCO submits the proposed manner and timing for disposition of this account appropriate

²⁰ Exhibit I Tab 1 Schedule 6 Page 1