REVENUE REQUIREMENT AND CHARGE DETERMINANT ORDER

EB-2019-0082

HYDRO ONE NETWORKS INC.

Application for electricity transmission revenue requirements beginning January 1, 2020 until December 31, 2022

BEFORE: Emad Elsayed
Presiding Member

Lynne Anderson
Member

Robert Dodds
Vice Chair and Member

July 16, 2020

TABLE OF CONTENTS

1 INTRODUCTION AND SUMMARY

This is a Revenue Requirement and Charge Determinant Order (Order) of the Ontario Energy Board (OEB) on an application filed by Hydro One Networks Inc. (Hydro One) for electricity transmission revenue requirements beginning January 1, 2020 until December 31, 2022.

The OEB has reviewed Hydro One's draft rate order (DRO) and proposed revenue requirement and charge determinants, and is satisfied that they accurately reflect the OEB's Decision and Order (Decision), with one revision for regulatory taxes.

Hydro One also provided the estimated bill impacts for 2020, indicating that a typical residential customer using 750 kWh of electricity per month would experience a bill increase of $0.54 per month, or 0.4% from existing 2019 levels. A General Service less than 50 kW customer using 2000 kWh per month would experience a bill increase of $1.28 per month, or 0.3%, from existing 2019 levels.

2 THE PROCESS

On April 23, 2020, the OEB issued its Decision outlining its findings that Hydro One was to use to calculate electricity transmission revenue requirements beginning January 1, 2020 until December 31, 2022 with rates to be effective January 1, 2020 and implemented on July 1, 2020.

On May 28, 2020, Hydro One filed a DRO implementing the OEB's Decision. The DRO included detailed supporting information showing the calculation of the proposed electricity transmission revenue requirements. OEB staff and intervenors were given an opportunity to make comments on the DRO.

On June 11, 2020, OEB staff and a number of intervenors filed submissions providing comments on the DRO.

On June 25, 2020, Hydro One filed a reply submission responding to these comments. The OEB accepts Hydro One's explanations for the matters raised in the submissions by OEB staff and the intervenors subject to the qualifications in the following sections.

Hydro One is one of five licensed electricity transmitters in Ontario that recover their revenues through Ontario's Uniform Transmission Rates (UTRs). The OEB approves the revenue requirements and charge determinants for the individual transmitters and uses them to calculate the UTRs. The final 2020 amounts determined in this Order for Hydro One will be used in the determination of the 2020 UTRs, along with the related amounts approved for the other four Ontario transmitters.

In its June 25, 2020 filing, Hydro One also included the calculations and supporting schedules that are used in determining the 2020 UTRs. While not addressed in this Decision, the OEB will incorporate this information in the proceeding in which it will determine the 2020 UTRs.

3 2020 TO 2022 REVENUE REQUIREMENT

The OEB has reviewed the information provided in support of Hydro One's revised DRO and proposed electricity transmission revenue requirements beginning January 1, 2020 until December 31, 2022.

Based on the observations described herein, the OEB finds that Hydro One has accurately and appropriately calculated the revenue requirement and charge determinants based on OEB's Decision, with one exception for regulatory taxes. The following sections address specific issues raised by the parties in relation to the DRO.

The 2020 electricity transmission rates revenue requirement is shown in Revised Exhibit 2.4 in Schedule A. This has not been revised for the amendment related to regulatory taxes, as this will be recorded in a deferral account for future disposition.

The OEB makes the following comments and findings on issues raised in the submissions from parties to provide context for this overall conclusion.

In-service additions in relation to capital reductions

In the Decision, the OEB found that a reduction of $400 million should be made to Hydro One's proposed capital expenditure budget for the 2020-2022 period. This reduction consisted of $390.0 million in System Renewal, $5.7 million in System Service, and $4.3 million in General Plant.

The OEB required Hydro One to provide a preliminary estimate of the breakdown of the $400 million reduction over the 2020-2022 period along with the corresponding rate impacts, as part of the draft revenue requirement/charge determinant process.[1]

Hydro One proposed to implement the $390 million System Renewal reduction by decreasing the proposed capital expenditures in this category by $55.1 million for 2020, $120.4 million for 2021, and $214.5 million for 2022.

Hydro One implemented the $5.7 million reduction to System Service and the $4.3 million reduction to General Plant for the 2020 test year.

To comply with the OEB's finding that the non-service component of other post-employment benefits (OPEB) costs shall be recognized as operation, maintenance and

[1] Decision, p. 87.

administration (OM&A) costs, Hydro One removed the capitalized OPEB costs from the proposed capital expenditures in the amounts of $21.0 million for 2020, $22.9 million for 2021 and $23.3 million for 2022.

Hydro One reduced the proposed in-service additions over the 2020-2022 period by $364 million, including a $53.2 million reduction over the three-year period related to the removal of the non-service component of the OPEB costs.

OEB staff and SEC were the only parties to make submissions on this area.

Both parties expressed the view that it would be helpful to the OEB in determining the reasonableness of Hydro One's proposed capital reductions if more detail as to how these reductions were effected was provided, including in some cases additional project-specific detail.

OEB staff agreed with Hydro One that in-service additions generally lag behind capital expenditures for multi-year transmission projects, but expressed the belief that the question needing to be determined is whether Hydro One has appropriately translated the OEB-directed capital expenditure reductions into reductions in in-service additions.

OEB staff submitted that in determining the in-service reductions, Hydro One would have had to identify specific projects to implement the OEB's capital reduction so as to determine the impacts on in-service additions. As such, OEB staff submitted that it would be helpful to the OEB if Hydro One provided additional information as to how it made the $50 million mandated reduction to the System Renewal transmission stations sub-category.

OEB staff noted that for both the System Service and General Plant categories, overall in-service additions had increased in spite of the overall reductions in capital expenditures required by the OEB.

Where System Service is concerned, the OEB had ordered a reduction of $5.7 million to the Kapuskasing Area Reinforcement (KAR) project expenditures, but in the DRO, Hydro One had forecasted an increase of $3.8 million over 2020-2022 in in-service additions compared to the application as filed. OEB staff noted that this $3.8 million increase is after the reduction of $5.7 million to the KAR project, which indicates that there is a $9.5 million increase in the forecasted in-service additions (from non-KAR projects) in the DRO compared to the application as filed.

Similarly, with General Plant, the OEB had determined that a reduction of $4.3 million to the new Integrated System Operating Centre (ISOC) project in the General Plant category should be made, while in the DRO, Hydro One had forecasted an increase of $0.6 million over 2020-2022 in in-service additions compared to the application as filed. OEB staff noted that Hydro One had stated that this $0.6 million increase is after the disallowance of $4.3 million for the ISOC project, which indicated that there is a $4.9 million increase in the forecasted in-service general plant additions (from non-ISOC projects) in the DRO compared to the application as filed.

OEB staff submitted that Hydro One should explain the increases in these categories in its reply submission. OEB staff further submitted that had the changes to System Service and General Plant made by Hydro One noted above been more material, they could have raised an issue as they result in an increase to the rate base and therefore rates, when the OEB's direction was to reduce the proposed capital and hence rates. In the current case, where the changes are minimal, OEB staff submitted that this concern does not arise.

SEC stated that it had several concerns with Hydro One's adjustments related to changes in the timing of capital projects, some of which were similar to those expressed by OEB staff.

SEC argued that the DRO is meant to implement the OEB's Decision, but is not for further refinements and updates to Hydro One's capital plan. SEC submitted that this is especially important considering the OEB's approval is based on a forecast capital envelope and not specific projects. SEC expressed the concern that if the OEB determined that adjustment for more recent information on timing of certain projects is appropriate, no information has been provided in the DRO related to the reasons for the change in timing, their appropriateness, and how the changes have been calculated.

SEC stated that it is specifically concerned that while Hydro One may have moved originally forecast 2019 projects into 2020, it has not made the necessary corresponding adjustment to the 2019 closing rate base. SEC cited, as an example, that Hydro One had noted that for General Plant, the overall in-service addition variance from its application was only $0.6M over the 2020-2022 rate period, even though the in-service adjustment based on the OEB's disallowance was $4.3M. SEC noted that the difference was attributable to what Hydro One calls "project timing", which SEC stated it believes is a reference to projects supposed to be in-service pre-2020, but which are now expected to be in-service during this rate plan.

SEC argued that if the OEB allows these adjustments to the test period in-service additions for timing, then a corresponding adjustment to the closing 2019/opening 2020 rate base will need to be made, as those projects were not in-service as originally forecast at the beginning of the year. SEC submitted that if these adjustments are not made, then Hydro One will be double counting the projects by treating the same capital as in-service when the rate period begins, and then adding them again to rate base during the rate period. SEC stated that similar adjustments would also have to be made for movements of projects within the 2020 to 2022 rate period.

SEC submitted that it is not clear from the DRO and its schedules if Hydro One has made all these necessary adjustments. SEC stated that it is possible Hydro One may have already done so, but because of the way it presents the rate base calculation in DRO exhibits (i.e., it only provides the average utility plant and not the opening and closing numbers as would normally be required in the OEB's Appendix 2-BA) there is no way to determine whether it has, and if so, correctly. SEC submitted that if it has not already done so, Hydro One must make these adjustments. SEC further submitted that if Hydro One has made these adjustments, it should provide the details, including the supporting calculations, in its reply submissions. SEC argued that regardless, Hydro One should provide detailed opening and closing annual rate base numbers and a full explanation of the adjustments made.

SEC stated that it is confused as to how Hydro One has implemented the OEB's System Renewal capital expenditure reduction. SEC noted that Hydro One's DRO calculation includes a $59.3M increase in 2020 in System Renewal in-service additions, even though it has allocated a $55.1M reduction in the 2020 System Renewal capital expenditures.

SEC noted that Hydro One's explanation is that there is a much lower capital expenditure to in-service addition ratio for transmission, as compared to distribution, because of the relative size and length of the capital work. It says that this results in the allocated $55.1M reduction in capital expenditures in 2020, which will equal an amount less than that on an in-service addition basis. SEC stated that this did not explain why there would be an increase in the in-service additions in 2020 for System Renewal work. SEC submitted that a reduction in 2020 capital expenditures should not equal an increase in 2020 in-service additions.

SEC concluded that since Hydro One has not provided a narrative to explain any adjustments, except for saying that it has translated the approved capital expenditures into in-service addition reductions, it lacks sufficient information to understand what

Hydro One has done that would cause the 2020 System Renewal in-service additions to increase. SEC submitted that if this is related to the timing of previously forecast 2019 in-service additions, then SEC's comments related to the same issue identified with the other categories of spending applies equally to the System Renewal category.

Hydro One, in its reply argument, reviewed the concerns raised by OEB staff and SEC and submitted that no adjustments were necessary in this area from its DRO filing. Hydro One stated that although the OEB made determinations related to capital expenditures on a category level, it is the overall portfolio level of in-service amounts on which revenue requirement and ultimately rates are based. Hydro One argued that intervenors and OEB staff had instead focused only on the category level and attempted to extrapolate the result to the portfolio level of in-service additions.

Hydro One concluded that it had delivered upon a capital and in-service addition portfolio that is materially consistent at the envelope level with OEB-approved category levels of spending. Hydro One noted that at the time of filing, it had forecasted 2019 in-service capital of approximately $951 million and in 2019, it had placed in-service approximately $960 million of capital expenditures, a 0.9% variance relative to the bridge year forecast. Hydro One therefore concluded that, contrary to SEC's submission that Hydro One could be double counting if adjustments are not made to the 2019 closing balance, the closing rate base is materially as filed and does not result in any double counting.

Findings

The OEB accepts Hydro One's projections of reductions to in-service additions as a result of the OEB-imposed capital budget reductions. The OEB recognizes the multi-year nature of Hydro One's capital projects and programs which may warrant some limited flexibility as long as the overall reductions in capital expenditures imposed by the OEB are implemented. In this case, this limited flexibility manifested itself in the following circumstances described by Hydro One in its reply submission.

- Shifting a $50 million reduction of the $390 million in the System Renewal category from the transmission lines sub-category to the transmission stations sub-category due to the constraints identified by Hydro One.
- The increase in the in-service additions in the System Service category primarily resulting from delays in two projects.
- The increase in in-service additions in the General Plant category due to the ongoing work associated with a hardware/software project.

The OEB is concerned that Hydro One updated the 2019 in-service forecast without express direction to do so. As a result, the increase to the in-service capital additions for 2019 has not been tested in this proceeding. However, the OEB has established a materiality threshold for Hydro One of $3 million on revenue requirement. The OEB finds that the difference between forecast and actual in-service capital for 2019 ($9 million or 0.9% on the 2019 closing rate base) would result in an increase to the revenue requirement well under this materiality threshold. The OEB is therefore not directing an adjustment to the in-service capital additions.

Scorecard (TCAI)

In the Decision, the OEB made the following finding regarding the transmission scorecard:[2]

> The new Capital Program Accomplishment (composite index) metric proposed by Hydro One covers only six programs under the System Renewal budget which represent a small fraction of that budget.
>
> The OEB finds that it would be beneficial for Hydro One to add one more metric which measures the System Renewal program accomplishment at a portfolio level for the remainder of the System Renewal program. Given all the issues raised in this proceeding about the planning and execution of the System Renewal program (transmission lines in particular), the OEB finds that this measure should be designed to demonstrate the degree to which Hydro One is able to complete its planned program within the approved budget for this work category.

In its DRO, Hydro One stated that in addressing the OEB's concern regarding the composition of the Capital Program Accomplishment (composite index) (CPAI) measure, it had revised the existing CPAI measure to include an additional eleven components from the System Renewal program and revised the name to the Transmission Capital Accomplishment Index (TCAI).

Hydro One observed that as a result of the Decision, the System Renewal category will represent 79% of the total approved capital budget over the 2020-2022 application term

[2] Decision, p.56.

and that its proposed TCAI measure will represent 81% of the OEB-approved System Renewal program over the application term. Hydro One also noted that while the CPAI measure, as originally proposed, would have represented approximately 13% of the total proposed capital portfolio, the enhanced TCAI metric covers approximately 64% of the approved capital portfolio over the test years.

Hydro One stated that the TCAI metric is one element which can demonstrate the degree to which it is able to complete the planned capital program within the approved budget for the System Renewal category. This measure is meant to be evaluated in the context of other measures presented in the Transmission scorecard, the capital program performance report, and with the understanding that the measure itself is a blend of programs and projects. Hydro One also noted that the methodology for the calculation of the TCAI measure is consistent with the calculation for the CPAI measure.

OEB staff and SEC were the only parties to make submissions on this matter.

OEB staff submitted that Hydro One should provide clarifications in a couple of areas with respect to the TCAI metric in its reply submission.

OEB staff first noted that while Hydro One has stated that its proposed TCAI measure will represent 81% of the OEB-approved System Renewal program over the application term, the Decision had stated that the additional metric should cover the remainder of the System Renewal program as referenced above. OEB staff submitted that Hydro One should explain why it was unable to design a metric to cover the entire program as directed by the OEB.

OEB staff further noted that the calculation of the TCAI involves each System Renewal project or program having a weighted index that is calculated by taking the ratio of installed units to planned units and multiplying this by a weighting factor that is proportional to its respective System Renewal project or program budget. OEB staff stated that it is unclear how projects or programs will be divided or subdivided into units planned and units installed and submitted that Hydro One should provide additional clarification regarding this matter in its reply submission.

SEC noted that as TCAI involves a calculation that includes a comparison of planned and replaced units and their budgets to actual units replaced, it is important for the baseline planned units and budgets to be provided upfront. SEC suggested that considering the planned budgets and units in the application are likely to be different because of the reductions ordered by the Decision, Hydro One should be required to file the revised planned units and budgets for each program that the actual accomplishments will be compared against.

In its reply submission, Hydro One argued that the concerns of OEB staff and SEC did not require modifications to the TCAI as proposed in the DRO.

Hydro One stated that the portion of the portfolio not captured in the TCAI is made up of investments that are demand driven or do not have planned power system units of accomplishment which are sufficiently uniform for purposes of measurement on a scorecard. Hydro One further stated that this includes demand investments that respond to unexpected asset failures. Hydro One submitted that since the type and quantity of units accomplished within these investments is related to unplanned events that vary from case to case, it is not appropriate to include these accomplishments in the metric. Hydro One added that investments that do not have planned power system units of accomplishment include NERC driven investments and telecom solutions, where each site may require a slightly different solution such that there is no uniform ‘unit’ of accomplishment.

Hydro One submitted that in any event, the TCAI remains a valid and effective performance measure. This metric includes the major assets associated with station centric and lines refurbishment projects being transformers, breakers, protections and circuit kilometers, which are the primary drivers for the System Renewal category and the expected outcomes for this investment category. Hydro One added that its accomplishment in achieving the planned System Renewal program is properly reflected in placing these assets in-service and is appropriately measured by the TCAI.

Hydro One concluded that this metric is but one element which can demonstrate the degree to which it is able to complete the planned capital program within the approved budget for the System Renewal category. Hydro One submitted that the TCAI measure is meant to be evaluated in the context of other measures presented in the transmission scorecard and with the understanding that the measure itself is a blend of programs and projects.

Hydro One argued that it was not necessary for it to file the revised units and budgets for each program that the actual accomplishment will compared against as requested by SEC. Hydro One stated that consistent with the OEB’s Decision, the TCAI is a measure of unit accomplishments for each System Renewal investment that have been revised to reflect the Decision. A table in its Reply Submission[3] shows the importance of a particular asset relative to the other assets captured by the measure represented by relative weightings.

Hydro One further stated that the relative weightings are not a one-to-one link to the capital expenditure budget amounts reflected in the Decision for each System Renewal investment category. This is because the forecasted amount for System Renewal project-based investments include expenditures that are for the main power system assets that are installed (and considered in the TCAI) as well as other costs related to ancillary activities and components that are in addition to the cost of the main power system assets but are required to be done as part of the project. Hydro One submitted that as a result, it is not appropriate to use forecasted investment amounts of each System Renewal category for the purpose of weighing project-based power system assets relative to other project or program assets.

Hydro One stated its expectation that the assumptions underpinning the TCAI measure and resulting accomplishments will be evaluated by the OEB in its next rate application.

Findings

The OEB is satisfied with the additional information provided by Hydro One in its reply submission regarding the planned units and budgets for each program that the actual accomplishments can be measured against. The OEB is also satisfied with the reasons provided by Hydro One as to why the proposed TCAI represents 81% of the OEB-approved System Renewal program rather than 100%. The OEB agrees with Hydro One that the assumptions underpinning the TCAI measure and resulting accomplishments should be evaluated by the OEB in Hydro One's next rate application.

Regulatory Taxes

Hydro One provided regulatory tax calculations in Exhibit 1.5 of the DRO, OEB staff and SEC submitted that clarifications were required in some areas.

OEB staff stated that it was unclear as to the adjustments made to in-service additions to derive net additions for tax purposes and whether these adjustments have changed from the pre-filed evidence. OEB staff requested that Hydro One explain how the net additions are derived from the in-service additions.

[3] P. 29, Table 7.

OEB staff noted that in the Decision, the OEB had reduced capital expenditures. As a result, OEB staff's expectation would have been for the capitalized overhead adjustment for regulatory tax purposes to have also been reduced to reflect the impact of the Decision. OEB staff stated that it was unclear as to whether the update to the capitalized overhead adjustment is material, and therefore invited Hydro One to comment on this matter.

OEB staff submitted that Hydro One should clarify how the adjustment for OPEB expense for 2020 to 2022 is derived, including further details on how the disbursal of the OPEB Cost deferral account impacted regulatory taxes. In particular, OEB staff submitted that it would be helpful to the OEB to understand how the $49.6 million OPEB expense for 2020 is derived in relation to the approved OPEB OM&A amount, and how the $28.5 million change in OPEB expense from the pre-filed evidence to the DRO correlates to the $21 million recognition of OM&A for the non-service component of OPEB costs.

SEC submitted that while it had reviewed the new calculations of regulatory taxes, and the increase in revenue requirement that Hydro One says results from those calculations in some detail, it has been unable to confirm that those calculations are accurate or reasonable.

SEC stated that the OEB has been provided with no information on how the allocation of the capital spending reductions to asset classes affects the CCA tax shield. SEC further stated that it has also been unable to recreate the $56.4M of CCA lost due to the Decision, as set out in Exhibit 1.5. SEC stated that the $42.1M of reduced CCA in 2021 is particularly problematic, as it has found no explanation for it and it seems to be anomalous.

SEC further stated that it had attempted to reconcile the OPEB changes in Table 6 of the DRO with the adjustments to the tax shield, but had been unable to do so. SEC noted that Exhibit 1.5.1, like Exhibit 1.5.2, does not show the impacts of the Decision in the line items.

SEC noted a further deficiency which is that Exhibit 1.5 has a line “Other Timing Differences” which shows increases in taxable income of $29.5M, $30.2M, and $31.0M in each of 2020, 2021, and 2022. SEC stated that it could not find a calculation of those figures and could not recreate them from baseline information. SEC observed that those three figures represent about two-thirds of the $43M increase in regulatory income taxes claimed, and thus two-thirds of the $58.5M increase in rates because of tax calculations. SEC suggested that some portion of that is likely OPEBs, but certainly not all of it.

SEC submitted that Hydro One should address these deficiencies in its reply submissions and provide the necessary support for its calculations.

In its reply submission, Hydro One noted that OEB staff and SEC had made several submissions with respect to its regulatory income tax calculations and that for the most part, these submissions had requested further information and clarification as to the manner in which the tax calculations have been performed and the revenue requirement impact thereof. Hydro One further noted that these submissions were specifically with respect to the overall tax calculation and capitalized overhead costs, the impact of capital expenditure reductions on the tax calculation and the impact of OPEB on the tax calculation.

Hydro One submitted that based on its consideration of the submissions received, it identified two aspects for potential minor adjustments. However, as those impacts are largely offsetting and the resulting impact on revenue requirement is immaterial, and in consideration of regulatory efficiency, Hydro One expressed the view that changes to the DRO to reflect these tax impacts are not warranted.

Hydro One argued that if it were to update its capitalized overheads to reflect the reduction in capital expenditures from the Decision, this would be expected to increase Hydro One's revenue requirement by approximately $1.2 million for 2020, with the impact for subsequent years being even higher due to inflationary adjustments for OM&A beyond 2020. However, if it was to correct its regulated income tax due to a $5.1 million overstatement of the OPEB expense, this would be expected to decrease Hydro One's revenue requirement for 2020 by approximately $1.7 million. Hydro One submitted that the net impact of these potential areas for adjustment is not material in the context of its overall revenue requirement. Hydro One submitted that as such, for purposes of regulatory efficiency, it did not propose to reflect either adjustment in the DRO.

Findings

The OEB finds that Hydro One has adequately clarified a number of issues raised by the parties in its reply submission. The OEB also finds that the impact of certain minor adjustments identified by Hydro One in its reply submission is immaterial (a net reduction of the revenue requirement of $0.5 million) and do not warrant a revision to the DRO.

However, in Tables 5 and 6 of Hydro One's reply submission it appears that Hydro One calculated its regulatory taxes by including the $7.5 million each year from disposition of the balance in the OPEB Cost Deferral Account. It is contrary to standard practice to include the disposition of regulatory assets (deferral and variance accounts) in the calculation of regulatory taxes to be included in revenue requirement, and inconsistent with the approach used by Hydro One for other deferral and variance accounts. Hydro One did not provide a calculation of the tax impact of the $7.5 million, but applying a tax rate of 26.5% per Exhibit 1.5 of the DRO, the tax impact of the $7.5 million is estimated to be $2.7 million.[4] This is less than the materiality threshold of $3 million. However, the OEB has determined that it is appropriate to reduce the revenue requirement by this $2.7 million.

In making this determination, the OEB has considered that it has not made adjustments for the $0.5 net adjustments discussed previously, or the $9 million update Hydro One made to its 2019 in-service capital additions. Rather than adjusting the 2020 revenue requirement for this amount, the OEB requires Hydro One to record the regulatory tax impact from the disposition of the OPEB Cost Deferral Account as an offset to the Foregone Revenue Transmission Deferral Account for each of 2020, 2021 and 2022 for future disposition.

Deferral and Variance Accounts

The OEB approved the establishment of the Customer Connection and Cost Recovery (CCRA) True-Up Variance Account and an asymmetrical Earnings Sharing Mechanism (ESM) Deferral Account. Hydro One filed draft accounting orders for these accounts in its pre-filed application,[5] but did not file any updated draft accounting orders in the DRO.

OEB staff was the only party to make submissions in this area, other than for the CISVA, which is discussed in a separate section of this Decision. OEB staff's concerns were in the following areas:

(i) Customer Connection and Cost Recovery Agreements True-Up and Earnings Sharing Mechanism

OEB staff noted that while the OEB had approved the establishment of the Customer Connection and Cost Recovery (CCRA) True-Up Variance Account and an

[4] ($7.5*0.265/(1-0.265))
[5] Exhibit H/Tab1/Schedule 2, Attachment 3 (ESM) and 4 (CCRA), filed June 19, 2019.

asymmetrical Earnings Sharing Mechanism (ESM) Deferral Account and Hydro One had filed draft accounting orders for these accounts in its pre-filed application, it did not file any updated draft accounting orders in the DRO.

OEB staff submitted that Hydro One should file the final draft accounting orders for the two accounts in its reply submission. OEB staff further submitted that for further clarity as to the account mechanics, the ESM draft accounting order should be updated from that filed to include language that reflects pages 41 and 42 of the Decision in the description of the account.

In its reply submission, Hydro One provided final draft accounting orders for the CCRA True-up Variance Account and the ESM Deferral Account as requested by OEB staff.

(ii) Integrated System Operating Centre Asymmetrical Variance Account

OEB staff stated that it had the following two concerns with Hydro One's draft accounting order for this account:

First, OEB staff stated that it was unclear as to how the adjustment to the ISOC Asymmetrical Variance Account will be calculated to avoid any double counting with the Transmission CISVA. OEB staff invited Hydro One to clarify how the adjustment to the ISOC Asymmetrical Variance Account is proposed to be calculated and to explain how the adjustment would avoid double counting in the two accounts.

In its reply submission, Hydro One clarified that the CISVA and the ISOC Asymmetrical Variance Account are both asymmetrical to the benefit of ratepayers. As such, Hydro One stated, an entry is only recorded if the revenue requirement associated with actual capital assets placed in service is less than the revenue requirement associated with forecasted in-service additions as approved by the OEB. Hydro One further stated that since there is a separate asymmetrical variance account specifically for the ISOC, it would be inappropriate to include the variance between the actual and forecasted in-service dollars relating to this particular project in the CISVA. Hydro One concluded that the adjustment would avoid the double counting that would result, which in its view was not intended and would be unreasonably punitive, if an entry was required to both the CISVA and the ISOC Asymmetrical Variance Account due to under in-servicing for the ISOC. Furthermore, Hydro One submitted that the language is consistent with the final OEB-approved rate order for Hydro One distribution in the EB-2017-0049 proceeding.

Second, OEB staff noted that in the draft accounting order, Hydro One had proposed the journal entry be recorded in Account 2405 - Other Regulatory Liabilities or Credit, Sub-Account ISOC Asymmetrical Variance Account with an offset to Account 4050 - Revenue Adjustment. OEB staff submitted that Account 4050 is not the appropriate account to use, but instead Account 4110 - Transmission Services Revenue would be the appropriate account.

Hydro One responded to this concern by acknowledging that, while Account 4110 may be more appropriate for this purpose, it would be inconsistent with Hydro One's prior practice. In particular, Hydro One noted in this context that a similar accounting order was approved by the OEB based on the use of Account 4050 for Hydro One distribution. Hydro One submitted that changing to Account 4110 would add complexity to the manner in which it maps its General Ledger accounts to its regulatory accounts, and result in an inconsistency as between its transmission and distribution businesses. As such, Hydro One stated that while it respects the submission from OEB staff on this point, it is the company's preference to maintain its use of Account 4050.

(iii) Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account

OEB staff noted that this account is to record revenue requirement impacts and therefore submitted that Account 4110 – Transmission Services Revenue would be the more appropriate account to use instead of Account 4305 as proposed by Hydro One. OEB staff further submitted that the use of Account 4110 would also be consistent with OEB staff's submission under the ISOC Asymmetrical Variance Account section.

In its reply submission, Hydro One stated that an updated accounting order for the Depreciation Expense (Asset Removal Cost) Asymmetrical Cumulative Variance Account, reflecting the requested change to Account 4110 had been provided.

(iv) Foregone Revenue

OEB staff stated its support for the establishment of this account, but expressed two concerns with the draft accounting order:

OEB staff's first concern was that in the draft accounting order, Hydro One proposed to use Account 1508 - Other Regulatory Assets, Sub-account Foregone Revenue Transmission Deferral Account. OEB staff noted that in its April 29, 2020 accounting order,[6] the OEB had clarified that Account 1509 – Impacts Arising from the COVID-19 Emergency, Sub-account Lost revenues, which is to record lost revenues resulting from the COVID-19 emergency, is applicable to transmitters.

OEB staff noted in this context that in the DRO, Hydro One had proposed alternatives to the implementation date for the UTRs, as a result of the OEB's language in the Decision in relation to the COVID-19 pandemic and UTRs implementation. OEB staff also noted that the OEB indicated Account 1509 should be used to record temporarily foregone revenues for electricity distributors that chose to delay implementation of May 1, 2020 rates approved in decisions and orders relating to incentive rate-setting mechanism applications.[7] Therefore, OEB staff submitted that any foregone revenue would be due to COVID-19 pandemic considerations and the appropriate account to use would be Account 1509, and not Account 1508.

OEB staff's second concern was that Hydro One had proposed that interest be recorded on the balance in the account under Account 6035 – Other Interest Expense. OEB staff noted that as the purpose of the account is to record foregone revenues, any interest recorded will be interest income. Therefore, OEB staff submitted that the appropriate account to record this interest income in would be Account 4405 – Interest and Dividend Income and not Account 6035, which OEB staff submitted would be consistent with the Accounting Procedures Handbook (APH). OEB staff noted that Article 490 – Retail Services and Settlement Variances of the APH states that interest income on deferral and variance accounts is to be recorded in Account 4405.

In its reply submission, Hydro One argued that the use of Account 1508 is more appropriate for several reasons.

The first of these reasons is that the use of Account 1508 is consistent with Hydro One's Foregone Transmission Revenue Deferral Account final OEB-approved accounting order in its 2017-2018 transmission revenue requirement application.[8]

The second reason is that while it is correct that the OEB's letter of April 17, 2020 directs distributors electing to defer implementation of May 1, 2020 rates to track temporarily foregone revenue in Account 1509, in the case of Hydro One Transmission,

[6] Accounting Order for the Establishment of Deferral Accounts to Record Impacts Arising from the COVID-19 Emergency for Ontario Power Generation Inc. and Electricity Transmitters
[7] Letter regarding *Initial Implementation Guidance to Incentive Rate-setting Decisions for May 1, 2020 Rates for Postponing Distributors*, April 17, 2020
[8] EB-2016-0160

the company is providing the OEB with options to defer the implementation date for rates relative to the date that the OEB already established in its Decision. Hydro One stated that under any of the options that have been presented to the OEB, a foregone transmission revenue deferral account would be required and a foregone revenue amount would be approved as part of the current proceeding. Hydro One submitted that these are circumstances that support, and are consistent with, the historical use of Account 1508, rather than Account 1509.

The third reason is that although the OEB has commenced a consultation on Account 1509 – Impacts Arising from the COVID-19 Emergency, it has yet to provide clear guidance on the eligibility requirements for amounts to be recorded in the account, the timing for disposition, and the process or criteria for review for disposition. Hydro One argued that the OEB will be approving the foregone revenue as part of the current proceeding so it would not be appropriate for such foregone revenue to be subject to the uncertain outcome of the OEB's consultation on the COVID-19 pandemic. .It is only the timing for recovery that would be delayed. Accordingly, Hydro One submitted that it would be appropriate for it to record the foregone transmission revenue resulting from the selection of any of the implementation alternatives in Account 1508.

With respect to OEB staff's comments that any interest on foregone revenue should be recorded in Account 4405 - Interest and Dividend Income, rather than Account 6305 – Other Interest Expense as previously proposed, Hydro One provided an updated accounting order for the Foregone Transmission Revenue Deferral Account, reflecting this change.

Modifications to Capital In-Service Additions Variance Account (CISVA)

The OEB approved the continuation of the CISVA to record the net cumulative variance over 2020 to 2022 between the OEB-approved in-service capital additions forecasts and the actual amounts. The OEB further approved a modification of the account to allow for i) a 98% threshold on forecasted in-service additions in the calculation of the amount to be recorded in the account, and ii) an adjustment to the account for identifiable productivity improvements.

In the CISVA draft accounting order, Hydro One proposed a further modification to the approved modified account in response to the uncertainties arising from the COVID-19 pandemic. Hydro One proposed that the normal CISVA calculation for 2020, which compares the actual in-service addition to 98% of the forecasted in-service addition, not be performed. The normal CISVA calculation would continue to be done on a cumulative basis for 2021 and 2022 (e.g., 2021 is calculated based on 2020 and 2021 in-service actual and forecasted additions).

OEB staff supported the modification of the account as proposed by Hydro One. OEB staff noted that due to the timing of the proceeding, COVID-19 pandemic considerations were not reflected in the application. OEB staff further noted that while it is not typical to address a proposed modification to the Decision in the DRO stage, doing so would allow for regulatory efficiency in that Hydro One would not have to submit another application to address this issue.

OEB staff noted that the impact of the COVID-19 pandemic is uncertain at this time and is beyond Hydro One's control. OEB staff stated its agreement with Hydro One that it should not be penalized if it underspends on its forecasted in-service capital additions in 2020 as a result of delayed capital investments due to the COVID-19 pandemic. OEB staff submitted that foregoing the 2020 CISVA calculation but calculating the cumulative CISVA amount for 2021 and 2022 would still hold Hydro One accountable for underspending of in-service additions on a cumulative basis.

OEB staff agreed that Hydro One should provide an update on actual in-service capital additions in its 2022 Annual Update so that the OEB is kept informed.

Intervenors who made submissions opposed Hydro One's position on this matter.

LPMA submitted that the OEB should deny this deviation from the OEB Decision with respect to the operation of the CISVA. LPMA noted that due to the timing of the COVID-19 pandemic, no evidence was presented to support the need for this proposal or to allow interested parties to examine such a proposal. Further, Hydro One had not provided any methodology in the DRO that could be used to distinguish in-service additions being delayed from 2020 to 2021 or 2022 as a result of the COVID-19 pandemic or for other reasons.

LPMA further noted that the OEB has a consultation that is currently under way[9] that deals with the impacts arising from the COVID-19 pandemic. LPMA submitted that Hydro One is free to bring forward the CISVA in that consultation when, and if, there is a material issue that impacts the CISVA balance, rather than dealing with a potential issue as part of the DRO. LPMA further noted that parties would then be able to

[9] EB-2020-0133

examine the reduction to in-service additions to determine what proportion was related to COVID-19 pandemic impacts.

VECC agreed with LPMA.

SEC objected to this modification on two grounds. First, SEC argued that it is not appropriate to seek what is essentially a motion to review and vary an OEB decision in a draft rate order process. The purpose of the draft rate order process is to implement the OEB's Decision into final rates.

Second, SEC submitted that if the OEB wishes to consider the proposal due to the unique COVID-19 pandemic situation, it should be rejected on its merits. SEC stated that, under Hydro One's proposal, if for example, there is a 10% reduction in in-service additions in 2020, but that work is completed in 2021, Hydro One gets the benefit, and customers pay as if the work was completed in 2020. SEC argued that this is contrary to the purpose of the account as the CISVA was intended to protect customers, not just from Hydro One undertaking less capital work (in-service additions) than was approved, but also if that work is delayed during the rate period. SEC submitted that it should not matter if the variance is due to Hydro One's inability to execute on its plan for more common reasons, or a global pandemic. Customers should not pay as if the work had been completed in 2020.

SEC argued that the unfairness of the request is magnified considering that the OEB has put in place a generic deferral account to capture all of Hydro One's incremental costs and lost revenue caused by the COVID-19 pandemic, with the possible recovery of some or all of those amounts. SEC submitted that in these circumstances, it would be especially unfair after approving an account to capture increased costs caused by the pandemic, for the OEB to then significantly alter a protection mechanism for customers of the reduced capital work to occur in 2020, also due to the pandemic.

SEC further argued that Hydro One's proposal would over-compensate the company at the expense of its customers. SEC then suggested that if Hydro One's view is that the CISVA may under-compensate it if it catches up on capital work in later years, then that is not what SEC believes the account was intended to do. SEC then referenced the example noted above and suggested that if Hydro One completes 10% of 2020 capital work in 2021 (and 100% of its 2021 in-service additions), it should not lose the entire revenue requirement related to that capital work for each of 2020, 2021 and 2022.

SEC agreed that if this was the case, then it is correct that Hydro One would unfairly be under-compensated. SEC argued that what would be fair in that scenario is that the

CISVA account would record, a) the 2020 revenue requirement related to that 10% difference in in-service additions and, b) in 2021, the revenue requirement difference of that 10% capital in-service for the full year versus being added during the year. SEC submitted that while Hydro One should be able to catch up on work that is delayed, it should not be able to be compensated as if it had completed the work on time.

AMPCO also did not support Hydro One’s proposal. First, AMPCO expressed the concern that it will be difficult to separate out work plan delays related to the COVID-19 pandemic from other delays that contribute to underspending. AMPCO argued that Hydro One’s modification sets up a perverse incentive for it to undertake more unplanned work or work done at a higher cost than forecast over the test period in order to exceed the 98% threshold, which could mean ratepayers are paying more in the end.

Second, AMPCO noted that the variance account is designed to record the revenue requirement impact of the variance in the forecast of capital in-service additions compared to actuals in a given year and protect customers from underspending if the work costs less or work is delayed. AMPCO argued that Hydro One’s proposal to not perform the calculation in 2020 (and beyond) removes this benefit. AMPCO also agreed with other intervenors that the OEB’s consultation to address the impacts arising from the COVID-19 pandemic would be better positioned to deal with the impacts of the COVID-19 pandemic on Hydro One’s work-plan and the nature and materiality of the COVID-19 pandemic related costs.

Hydro One submitted that the generic proceeding on the COVID-19 pandemic is not the best forum for addressing the manner in which Hydro One’s transmission CISVA operates, particularly given that this issue may be most efficiently addressed now, as part of this proceeding. As such, Hydro One argued that this submission by intervenors should be dismissed by the OEB.

Hydro One submitted that this is because whereas the generic proceeding was established to consider the basis on which incremental costs or revenue loss related to the COVID-19 pandemic will be tracked and eventually disposed of, the proposed further modification to the CISVA does not concern incremental costs or revenue loss from the COVID-19 pandemic. Rather, Hydro One argued the proposed further modification to the CISVA is about ensuring that Hydro One’s CISVA works as intended and does not, as a result of the unforeseen circumstances relating to the pandemic, unfairly and unreasonably penalize Hydro One for delays in its in-service additions during this unprecedented period.

Hydro One noted that the CISVA was established in response to concerns about historical variances between forecast and actual in-service additions and, on that basis, is designed to protect customers from potential underspending on Hydro One's capital plan that may occur in the normal course. Hydro One submitted that through its proposed further modification, the CISVA will continue to serve this important purpose, but without inadvertently accounting for delayed in-service additions during 2020 which if any, are expected to be largely attributable to the pandemic.

Hydro One submitted that it should not be penalized for behavior over which it has no control. Due to the asymmetrical nature of the account Hydro One has the ability to make up for 2020 delays without being penalized in 2020.

Hydro One further submitted that the consultation process on the COVID-19 pandemic is addressing issues which are generic to the industry, including electricity generators, transmitters, distributors and gas distributors and the mechanics of the CISVA are unique to Hydro One's transmission business. Hydro One concluded that consequently, meeting annual in-service addition targets is highly dependent on specific projects.

Hydro One acknowledged that this particular proposal was not contemplated during the proceeding. However, Hydro One submitted that no party could have anticipated the circumstances of the pandemic in the design of the CISVA. Hydro One submitted that it has proposed this further modification to the CISVA at its first opportunity to do so and included appropriate information in its DRO sufficient to enable parties to consider and make informed submissions on the proposal.

Hydro One noted the support from OEB staff of the regulatory efficiency of dealing with the request through the DRO process, which would avoid the company having to submit a separate application for the modification. Hydro One argued that the OEB has broad discretion in the methodologies it uses to establish rates and submitted that addressing the proposed further modification to the CISVA through the DRO process is, in the circumstances, an appropriate exercise of that discretion.

Hydro One also rejected arguments by intervenors that the proposed further modification to the CISVA should be denied on the basis that a methodology to distinguish between the COVID-19 pandemic related delays and delays due to other factors has not been established and it would be difficult to differentiate between the two types of delays. Hydro One explained that in light of the uniqueness of the situation, the discrete nature of the modification, as well as for the purposes of regulatory and administrative efficiency, it is not proposing to differentiate between the COVID-19 pandemic delays and delays caused by other factors in 2020. Hydro One noted that the calculation would be performed in 2021 to reflect any and all delays in in-service additions for 2020 and 2021 on a cumulative basis.

Hydro One argued that while this may ultimately include delays caused by circumstances related to the pandemic, its expectation is that being able to measure in-service additions over the combined 2020 to 2021 period will provide the company with a reasonable period in which to overcome delays to capital projects caused by the COVID-19 pandemic, and to develop and implement effective solutions for working within any ongoing pandemic-related constraints that may persist over this period.

Hydro One further stated that it intends to notify the OEB as part of the 2022 annual update, whether the planned in-service additions for 2020 and 2021 have been materially impacted by the COVID-19 pandemic, and if so that it be provided with an opportunity to extend the relief to the CISVA to 2022. Hydro One submitted that this would provide it with the opportunity to catch up on its 2020 and 2021 in-service additions in 2022 without booking an amount to the CISVA in 2020 or 2021. Alternatively, Hydro One indicated that the OEB could extend the modification requested to 2022 with the provision that in the event that the COVID-19 pandemic impacts continued to be an issue in 2021, Hydro One could elect to attempt to catch-up in 2022 and treat the CISVA account as cumulative in respect of in-service additions in 2020, 2021 and 2022.

Hydro One noted that SEC argued that the proposed further modification to the CISVA should be denied on the basis that the proposal would result in the company being over-compensated, while AMPCO argued that the proposed further modification removes the benefit of returning any revenue requirement impact associated with delays in in-service additions or if work costs less.

Hydro One submitted that the proposed modification would not over-compensate the company but, instead, would ensure that the company is not unfairly penalized. Hydro One argued that the modification would provide reasonable and limited flexibility to Hydro One so as to not detract from the underlying objective of the account.

Hydro One reiterated its view that while the intent of the CISVA account is to protect customers from potential underspending on Hydro One’s capital plan that may occur in the normal course, it is not intended to be punitive and should not be punitive to Hydro One for delayed capital investments and the associated in-service additions due to the unprecedented and unforeseeable circumstances relating to the COVID-19 pandemic, which are beyond Hydro One's control. Hydro One stated that it remains committed to driving the right behaviors and achieving its planned outcomes over this period, in a safe manner.

Hydro One further stated that to maintain consistency with the Depreciation Expense (Asset Removal Cost) Asymmetrical Cumulative Variance Account, it is providing a revised draft accounting order for the CISVA updated for the mapping of proposed revenue accounts.

Findings

The OEB denies Hydro One's request for modifications to the CISVA for the following reasons:

- There was no opportunity for the parties during this proceeding to examine any evidence supporting the need for such modifications.
- It would be difficult to distinguish between delays in in-service additions due to the COVID-19 pandemic versus other reasons.

Parties argued that adjustments to the CISVA should be considered as part of the OEB's Consultation - Impacts Arising from the COVID-19 Emergency (EB-2020-0133). It is not clear the extent to which this consultation will address the impact of the COVID-19 pandemic on utility-specific accounts.

In the Decision, the OEB noted that the OEB panel for Hydro One's next rebasing application can review productivity adjustments for the CISVA. The OEB panel for the rebasing application can also examine the impact of the COVID-19 pandemic on the CISVA to determine if it is reasonable to make any adjustments.

Apart from CISVA, the OEB finds that Hydro One's reply submission provided the missing information requested by the parties about other DVAs and adequately addressed the concerns raised.

The OEB accepts Hydro One's proposal to use Account 4050 for the ISOC Asymmetrical Variance Account to stay consistent with the account approved for Hydro One's distribution business.

The OEB requires Hydro One to record an offset in the Foregone Revenue Transmission Deferral Account to record the regulatory tax impact from the disposition of the OPEB Cost Deferral Account, as discussed previously in the section on Regulatory Taxes.

UTRs - Implementation alternatives and associated interest

(i) Niagara Reinforcement Limited Partnership (NRLP) Interim Revenue Requirement

Hydro One, in preparing its UTRs schedules, retained NRLP's interim revenue requirement of $9,389,914,[10] per the interim UTRs Rate Order of December 19, 2019, in calculating UTRs.

On June 4, 2020, the OEB issued its Revenue Requirement and Charge Determinant Order on NRLP's 2020 revenue requirement. In that order the OEB, among other things, approved an NRLP base revenue requirement of $8,662,167.[11]

OEB staff submitted that Hydro One should recalculate the UTRs and make necessary adjustments to all related schedules to reflect Niagara Reinforcement Limited Partnership's final approved revenue requirement.

(ii) Implementation Alternatives

The OEB made the following statement concerning the implementation of the Decision:[12]

> The severity and duration of the current COVID-19 emergency, which has occurred after the close of the record in this proceeding, and its impact on electricity utilities (i.e., transmitters) and customers alike, is uncertain. At this time, the OEB does not expect that the pandemic will impact the implementation of the Decision and Order, or its ability to update UTRs to be effective July 1, 2020, but the OEB will continue to closely monitor this situation.

Hydro One observed in the DRO that should the OEB choose to update the UTRs effective July 1, 2020, directly-connected transmission customers such as Local Distribution Companies and industrial customers would experience the effects of a rate increase due to the resetting of Hydro One's revenue requirement and charge determinants reflecting the OEB-approved load forecast.

[10] See, for example, Exhibit 2.6.1
[11] EB-2018-0275 Revenue Requirement And Charge Determinant Order, June 4, 2020, p. 8, orders 1, 2 and 4
[12] Decision, p. 5

Hydro One noted that the Decision indicated an expectation that the implementation of its approved 2020 revenue requirement and charge determinants would occur on July 1, 2020 along with an update to the UTRs. Hydro One's January to June 2020 Foregone Revenue of $28.1 million would be collected starting July 1, 2020 over the six remaining months of the year (Decision or default approach).

Hydro One stated that given the language in the Decision in relation to the COVID-19 pandemic and UTRs implementation, and the OEB's approach of inviting alternative proposals on the implementation of a rate rider in Enbridge Gas Inc.'s recent rates proceeding,[13] it identified three alternatives for the OEB to consider, as follows:

Alternative 1: Implement Hydro One's approved 2020 revenue requirement and charge determinants in an update to UTRs on July 1, 2020 but defer collection of Hydro One's January to June 2020 Foregone Revenue of $28.1 million to January 1, 2021 over a period of one year.

Alternative 2: Maintain interim UTRs to the end of 2020. On January 1, 2021 implement UTRs for 2021 to reflect Hydro One's approved 2021 revenue requirement, the approved charge determinants, and collect Hydro One's January to December 2020 Foregone Revenue of $57.1 million over a period of one year.

Alternative 3: Maintain interim UTRs to the end of 2020. On January 1, 2021 implement UTRs for 2021 to reflect Hydro One's approved 2021 revenue requirement, the approved charge determinants, and collect Hydro One's January to December 2020 Foregone Revenue of $57.1 million over a period of two years.

Hydro One stated that its preference for implementing changes to UTRs would be to adopt Alternative 3. Hydro One explained that this was because this alternative would eliminate any transmission-related increases for both transmission and distribution customers in 2020, just as individuals and business are starting to recover from the effects of the COVID-19 pandemic restrictions and also because it mitigates the impacts on customers by spreading the subsequent recovery of foregone revenue over the remaining two-year period covered by the application.

With respect to the implementation proposals submitted by Hydro One, OEB staff submitted that in light of the OEB's recent direction to both electricity and gas

[13] EB-2019-0194, Enbridge Gas Inc. *Decision and Order,* p.25.

distributors, the alternatives submitted by Hydro One were reasonable and in line with this direction.

OEB staff agreed with Hydro One that Alternative 3 is the best choice given the current circumstances. OEB staff justified this position on the basis that Alternative 3 best responds to the current uncertainty as to the extent and duration of the current COVID-19 pandemic by first delaying the implementation of the UTRs to 2021 and then spreading out the recovery of the foregone revenue over a two-year period, thereby smoothing the magnitude of the impact on customers of this recovery.

OEB staff placed one caveat on its support of Hydro One's implementation approach, which is that the impact on other affected transmitters be considered. OEB staff submitted that Hydro One should be in a position to confirm its agreement with Alternative 3 in its reply, and OEB staff requested that Hydro One do so. OEB staff stated that its expectation is that there would be no material impact on the other two transmitters (Five Nations Energy Inc. (FNEI) and Canadian Niagara Power Inc. (CNPI) and asked that Hydro One also provide confirmation of this in its reply submission.

LPMA submitted that the OEB should adopt the default approach and implement the new rates effective July 1, 2020. LPMA further submitted that if the OEB determines that the default methodology is not appropriate as a result of the COVID-19 pandemic, then the OEB should adopt Alternative 1. LPMA added that if the OEB determines that any of the alternatives is appropriate, no interest should accrue on balances beyond the end of June, 2020; no interest should accrue beyond this date for either the foregone revenue from January 1, 2020 through June 30, 2020 or the deferral and variance account balances that are built into the rates revenue requirement.

LPMA argued that it would not be acceptable to customers to have to pay interest carrying costs beyond the first date when rates could be implemented. Delaying the implementation of new rates to January 1, 2021 and recovering the foregone revenue for 2020 of $57.1 million over a one year or two-year period would result in customers paying more than if the rates were implemented on July 1, 2020.

SEC stated that its member schools are not transmission-connected customers, and so will not see the change in UTRs on their bills until January 1, 2021, when retail transmission service rates (RTSRs) for distributors are adjusted. SEC submitted that for this reason, it could not comment on the appropriateness of any proposal to implement the UTRs as of January 1, 2021, instead of July 1, 2021 (Decision and Alternative 1).

SEC further submitted that between Alternatives 2 and 3, it preferred Alternative 3, as it agreed with Hydro One that it would be better to spread the 2020 foregone revenue over the two remaining years of the rate plan instead of over one year, especially with other potential rate increases that may occur on a customer's electricity bill in 2021 due to the COVID-19 pandemic. SEC argued that regardless of which option is chosen, the OEB should not allow Hydro One to accrue additional interest on the balance as of July 1, 2021, which is when rates could be implemented.

VECC stated that it did not have a rigid view as to the deferment of the implementation of the rate order, while being sensitive to the impacts of rate increases at this time. It also expressed the belief that there is merit to the argument of LPMA, which points to the minimal impact on end-use rates of proceeding in the normal fashion.

VECC stated that its objection to the application of the current OEB approved carrying charges on any deferred debits is that the interest rates are out-of-date and too high. VECC agreed with LPMA that should the OEB defer implementation of the new revenue requirement in the calculation of the UTRs, then any deferred revenue should not attract carrying charges.

AMPCO supported Alternative 3 as it maintains the current rate during the present conditions where the ongoing impact on customers is uncertain and allows for a longer recovery period of foregone revenue.

AMPCO stated that for its members, electricity costs are now, during the COVID-19 pandemic, more important and impactful than ever and submitted that Alternative 3 should be approved by the OEB as a viable option that defers rate increases and collection of the 2020 foregone revenue over two years instead of one.

AMPCO also submitted that if the OEB accepts any of the alternatives that defer collection of foregone revenue, no interest charges should accrue on the balance during the deferral period.

Hydro One noted the concerns expressed by OEB staff that the UTRs schedules prepared by Hydro One used NRLP's interim revenue requirement but that a final revenue requirement for NRLP has since been established. Hydro One submitted that consistent with this comment from OEB staff, the final B2M Limited Partnership (B2M) 2020 revenue requirement[14] should also be updated in the UTRs schedules, which

[14] EB-2019-0178

currently reflects only the interim B2M revenue requirement. Hydro One stated that, as such, it had updated the UTRs schedules and foregone revenue calculations to reflect NRLP's and B2M's 2020 revenue requirements as approved by the OEB on June 4, 2020 and February 20, 2020, respectively.

Hydro One noted that with respect to UTRs implementation dates, its concern with proceeding with UTRs implementation on July 1, 2020 is that directly-connected customers and directly-connected LDCs will experience the effects of a rate increase during the COVID-19 pandemic.

Hydro One submitted that while the UTRs implementation date is a matter for the OEB to determine as part of the UTRs implementation proceeding, the OEB should carefully consider what option would best help support Ontario electricity customers and LDCs experiencing liquidity concerns during this difficult time. Hydro One argued that the initial decision point on which of the alternatives will be adopted will impact the OEB's consideration as to whether a Foregone Transmission Revenue Deferral Account should be established for Hydro One in the present proceeding.

Hydro One noted that in its submission, OEB staff had commented that the selection of a particular implementation approach should consider the impact on other affected transmitters. To this end, OEB staff had noted that Hydro One Transmission has partnership arrangements with Hydro One Sault Ste. Marie (HOSSM), B2M and NRLP, so should be able to confirm their agreement with Alternative 3, and that Hydro One should also confirm that there would be no material impact on the other two transmitters, FNEI and CNPI.

Hydro One responded to OEB staff's comments on this matter by confirming that HOSSM, which is wholly-owned by Hydro One Inc., is in agreement with Alternative 3. Hydro One also confirmed that B2M LP and NRLP, which are partnerships between subsidiaries of Hydro One Inc. and unaffiliated third parties, are also in agreement with Alternative 3.

Hydro One stated that as part of the OEB's process to reset UTRs, HOSSM, B2M LP and NRLP will identify their foregone revenue associated with the implementation date that the OEB selects for resetting UTRs. Moreover, if the OEB selects one of the UTRs implementation alternatives, Hydro One further stated that HOSSM, B2M LP and NRLP's position is that it is appropriate to include a carrying charge on the associated foregone transmission revenue account as the interest simply represents the time value of money, and applying carrying charges to deferral and variance accounts is consistent with prior OEB practice.

Hydro One added that including carrying charges is consistent with the approach the OEB has taken with distributors which elected to defer May 1, 2020 rate implementation to November 1, 2020.

However, Hydro One submitted that with respect to FNEI and CNPI, it would be more appropriate for the OEB to seek feedback directly from these transmitters on the proposed implementation alternatives as they are not related to Hydro One.

Hydro One observed that on June 16, 2020, the OEB issued its updated interest rate for Q3 for deferral and variance accounts, which reduced the applicable rate to 1.38% from the 2.18% in place at the time of VECC's submission. Hydro One submitted that VECC's argument that the interest rate is too high because interest rates have declined due to the pandemic is moot.

Findings

The OEB finds that determination of UTRs schedules and preferred implementation alternative are beyond the scope of this current proceeding. These matters will be addressed in the UTRs implementation proceeding.

The OEB finds that interest will accrue on the balance in the Foregone Transmission Revenue Deferral Account at the interest rate prescribed by the OEB and updated quarterly, as is standard practice for deferral and variance accounts of this nature.

4 FOREGONE REVENUE

The OEB approves foregone revenue of $28,233,896 for the period from January 1, 2020 to June 30, 2020, which on an annualized basis is $55,591,887.

The OEB will incorporate the foregone revenue into the determination of the UTRs. The OEB's expectation has been that updated UTRs will be issued effective July 1, 2020. However, if there is a delay in issuing new UTRs, the OEB agrees that the 2020 foregone revenue will need to be updated for the new effective date. The OEB expects that any update would be a mechanistic calculation.

5 TRANSMISSION ACCOUNTING ORDERS

The OEB approves the accounting orders filed by Hydro One, including the revisions provided as part of the reply submission to respond to OEB staff’s submission.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The 2020 revenue requirement for Hydro One to be included in the calculation of Uniform Transmission Rates effective January 1, 2020 is approved at $1,585,751,902.

2. The allocation of the approved revenue requirement to the electricity transmission rate pools as shown in Schedule A is approved.

3. Foregone revenue for Hydro One for the period from January 1, 2020 to June 30, 2020 to be included in the calculation of Uniform Transmission Rates is approved at $55,591,887 (annualized), on the basis of the calculations filed by Hydro One and set out in Schedule B. The foregone revenue calculation will be updated if Uniform Transmission Rates are made effective on a date after July 1, 2020.

4. The Transmission Accounting Order entitled Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account as shown in Schedule C shall be made effective as of January 1, 2020.

5. The Transmission Accounting Order entitled Capital In-Service Additions Variance Account as shown in Schedule C shall be made effective as of January 1, 2020.

6. The Transmission Accounting Order entitled Foregone Transmission Revenue Deferral Account as shown in Schedule C shall be made effective as of January 1, 2020.

7. The Transmission Accounting Order entitled CCRA True-up Variance Account as shown in Schedule C shall be made effective as of January 1, 2020.

8. The Transmission Accounting Order entitled ESM Deferral Account as shown in Schedule C shall be made effective as of January 1, 2020.

9. Intervenors shall submit their cost claims no later than **July 23, 2020**.

10. Hydro One shall file with the OEB and forward to intervenors any objections to the claimed costs no later than **July 30, 2020**.

11. Intervenors shall file with the OEB and forward to Hydro One any reply to any objections to the cost claims no later than **August 6, 2020**.

Hydro One shall pay the OEB's cost incidental to this proceeding upon receipt of the OEB's invoice. All materials filed with the OEB must quote the file number, **EB-2019-0082,** and be submitted in a searchable / unrestricted PDF format with a digital signature through the OEB's web portal at https://pes.ontarioenergyboard.ca/eservice. Filings must clearly state the sender's name, postal address, telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guidelines found at http://www.oeb.ca/OEB/Industry. If the web portal is not available, parties may email their documents to boardsec@oeb.ca.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Martin Davies, at Martin.Davies@oeb.ca, and OEB Counsel, James Sidlofsky at James.Sidlofsky@oeb.ca.

Email: boardsec@oeb.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto July 16, 2020

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary

SCHEDULE A

Hydro One Networks Inc.

Transmission

EB-2019-0082

Decision

Allocation of Approved Revenue Requirement to the Electricity Transmission Rate Pools

[June 25, 2020 Hydro One DRO Reply Submission Revised Exhibit 2.3.1]

July 16, 2020

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2019-0082

2020 Interim Uniform Transmission Rates and Revenue Disbursement Allocators (Updated for H1N, NRLP and B2MLP's 2020 Revenue Requirement and Charge Determinants, excluding 2020 Foregone Revenue)

Effective January 1, 2020 to December 31, 2020

Transmitter	Revenue Requirement ($)			
	Network	Line Connection	Transformation Connection	Total
FNEI	$4,790,719	$914,623	$2,282,750	$7,988,092
CNPI	$2,787,078	$532,096	$1,328,027	$4,647,201
H1N SSM	$24,480,432	$4,673,695	$11,664,787	$40,818,914
H1N	$951,027,050	$181,565,841	$453,159,011	$1,585,751,902
B2MLP	$33,192,514	$0	$0	$33,192,514
NRLP	$13,160,593	$0	$0	$13,160,593
All Transmitters	$1,029,438,386	$187,686,255	$468,434,575	$1,685,559,216

Transmitter	Total Annual Charge Determinants (MW)*			
	Network	Line Connection	Transformation Connection	
FNEI	230.410	248.860	73.040	
CNPI	522.894	549.258	549.258	
H1N SSM	3,498.236	2,734.624	635.252	
H1N	235,252.608	228,852.936	195,027.487	
B2MLP	0.000	0.000	0.000	
NRLP	0.000	0.000	0.000	
All Transmitters	239,504.148	232,385.678	196,285.037	

Transmitter	Uniform Rates and Revenue Allocators			
	Network	Line Connection	Transformation Connection	
Uniform Transmission Rates ($/kW-Month)	**4.30**	**0.81**	**2.39**	
FNEI Allocation Factor	**0.00465**	**0.00487**	**0.00487**	
CNPI Allocation Factor	**0.00271**	**0.00284**	**0.00284**	
H1N SSM Allocation Factor	**0.02378**	**0.02490**	**0.02490**	
H1N Allocation Factor	**0.92384**	**0.96739**	**0.96739**	
B2MLP Allocation Factor	**0.03224**	**0.00000**	**0.00000**	
NRLP Allocation Factor	**0.01278**	**0.00000**	**0.00000**	
Total of Allocation Factors	1.00000	1.00000	1.00000	

* The sum of 12 monthly charge determinants for the year.

Note 1: FNEI Rates Revenue Requirement and Charge Determinants per Board Decision and Order on EB-2016-0231 dated January 18, 2018.
Note 2: CNPI Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2015-0354 dated January 14, 2016.
Note 3: H1N SSM 2020 Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2019-0266 dated December 17, 2019.
Note 4: H1N Rates Revenue Requirement and Charge Determinants per OEB Decision EB-2019-0082, issued April 23, 2020, as per Exhibit 2.2, Table 1 in Hydro One's DRO filed on May 28, 2020.
Note 5: B2M LP 2020 Revenue Requirement per OEB Decision and Order EB-2019-0178 dated February 20, 2020.
Note 6: NRLP 2020 Revenue Requirement per OEB Decision and Order EB-2018-0275 June 04, 2020.
Note 7: Calculated data in shaded cells.

SCHEDULE B

Hydro One Networks Inc.

Transmission

EB-2019-0082

Decision

Foregone Revenue Calculations

[June 25, 2020 Hydro One DRO Reply Submission Revised

Exhibits 2.3.2, 2.3.3 and 2.4]

July 16, 2020

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2019-0082

2020 Foregone Revenue Calculation

Table 1 - HONI Transmission Charge Determinant Forecast for the Year 2020 (MW)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	19,819	19,585	18,899	17,431	18,573	20,969	21,952	21,462	19,838	17,848	18,963	19,916	235,253
Line Connection	19,027	18,888	18,096	16,875	18,261	20,052	21,443	20,836	19,425	17,750	18,431	19,770	228,853
Transformation Connection	16,265	16,204	15,558	14,317	15,623	17,203	18,432	17,785	16,900	14,558	15,443	16,739	195,027

Table 2 - Monthly Charge Determinant Share of Annual Total

% Share	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	8.42%	8.32%	8.03%	7.41%	7.89%	8.91%	9.33%	9.12%	8.43%	7.59%	8.06%	8.47%	100.00%
Line Connection	8.31%	8.25%	7.91%	7.37%	7.98%	8.76%	9.37%	9.10%	8.49%	7.76%	8.05%	8.64%	100.00%
Transformation Connection	8.34%	8.31%	7.98%	7.34%	8.01%	8.82%	9.45%	9.12%	8.67%	7.46%	7.92%	8.58%	100.00%

Table 3 - 2020 UTR Charge Determinant (including all Transmitters)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	20,177	19,938	19,241	17,746	18,908	21,348	22,348	21,850	20,196	18,170	19,305	20,276	239,504
Line Connection	19,321	19,179	18,376	17,135	18,543	20,362	21,774	21,157	19,725	18,024	18,715	20,075	232,386
Transformation Connection	16,370	16,309	15,658	14,410	15,724	17,314	18,551	17,899	17,009	14,652	15,543	16,847	196,285

Table 4 - 2020 Interim UTR*

	$/kw-month	Hydro One Revenue Allocators
Network	3.92	0.92606
Line Connection	0.97	0.96747
Transformation Connection	2.33	0.96747

* As per Exhibit 2.5.1, in Hydro One's DRO filed on May 28, 2020

Table 5 - 2020 Revenue at 2020 Interim UTR and 2020 Load Forecast (Table 3 x Table 4)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	73.2	72.4	69.8	64.4	68.6	77.5	81.1	79.3	73.3	66.0	70.1	73.6	869.4
Line Connection	18.1	18.0	17.2	16.1	17.4	19.1	20.4	19.9	18.5	16.9	17.6	18.8	218.1
Transformation Connection	36.9	36.8	35.3	32.5	35.4	39.0	41.8	40.3	38.3	33.0	35.0	38.0	442.5
Total	**128.3**	**127.1**	**122.4**	**113.0**	**121.5**	**135.6**	**143.4**	**139.5**	**130.2**	**115.9**	**122.7**	**130.4**	**1,530.0**

Table 6 - Proposed 2020 UTR**

	$/kw-month	Hydro One Revenue Allocators
Network	4.30	0.92384
Line Connection	0.81	0.96739
Transformation Connection	2.39	0.96739

** As per Exhibit 2.3.1

Table 7 - 2020 Revenue at Proposed 2020 UTR and 2020 Load Forecast (Table 3 x Table 6)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	80.2	79.2	76.4	70.5	75.1	84.8	88.8	86.8	80.2	72.2	76.7	80.5	951.4
Line Connection	15.1	15.0	14.4	13.4	14.5	16.0	17.1	16.6	15.5	14.1	14.7	15.7	182.1
Transformation Connection	37.8	37.7	36.2	33.3	36.4	40.0	42.9	41.4	39.3	33.9	35.9	39.0	453.8
Total	**133.1**	**131.9**	**127.0**	**117.2**	**126.0**	**140.8**	**148.7**	**144.8**	**135.0**	**120.2**	**127.3**	**135.2**	**1,587.4**

Table 8 - 2020 Forgone Revenue (Table 7 Revenue at Proposed Rates - Table 5 Revenue at Current Rates)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	6.9	6.8	6.6	6.1	6.5	7.3	7.7	7.5	6.9	6.2	6.6	6.9	82.0
Line Connection	-3.0	-3.0	-2.8	-2.7	-2.9	-3.2	-3.4	-3.3	-3.1	-2.8	-2.9	-3.1	-36.0
Transformation Connection	0.9	0.9	0.9	0.8	0.9	1.0	1.1	1.0	1.0	0.8	0.9	1.0	11.4
Total	**4.9**	**4.8**	**4.6**	**4.3**	**4.5**	**5.2**	**5.4**	**5.2**	**4.8**	**4.3**	**4.6**	**4.8**	**57.4**

Foregone Revenue for January 1, 2020 to June 30, 2020: **$28,233,896**

Foregone Revenue for January 1, 2020 to December 31, 2020: **$57,365,091**

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2019-0082

Derivation of Annualized 2020 Foregone Revenue

Rate Pool	Sum of 12 Monthly Charge Determinants (A)	Sum of Monthly Charge Determinants for Jul-Dec (B)	Foregone Revenue for January to June 2020* (C)	Annualized Foregone Revenue (D=A/B*C)
Network	239,504	122,146	$40,178,228	$78,781,311
Line Connection	232,386	119,470	($17,486,131)	($34,012,961)
Transformation Connection	196,285	100,501	$5,541,799	$10,823,537
			$28,233,896	**$55,591,887**

* As per Exhibit 2.3.2

Hydro One Networks Inc.

Implementation of Decision with Reasons on EB-2019-0082

2020 Rates Revenue Requirement for Uniform Transmission Rates To Be Implemented on July 1, 2020

	Network	Line Connection	Transformation Connection	Total
Rates Revenue Requirement (Excl. Foregone Revenue) ($M)	$951.0	$181.6	$453.2	$1,585.8
Annualized Foregone Revenue ($M)*	$78.8	($34.0)	$10.8	$55.6
Total Rates Revenue Requirement (Incl. Foregone Revenue) ($M)	**$1,029.8**	**$147.6**	**$464.0**	**$1,641.3**

*As per Exhibit 2.3.3

SCHEDULE C

Hydro One Networks Inc.

Transmission

EB-2019-0082

Decision

Accounting Orders

[June 25, 2020 Hydro One DRO Reply Submission

Exhibits 3.1 to 3.5]

July 16, 2020

TRANSMISSION ACCOUNTING ORDER – DEPRECIATION EXPENSE (ASSET REMOVAL COSTS) ASYMMETRICAL CUMULATIVE VARIANCE ACCOUNT

Hydro One Transmission proposes the establishment of a new "Depreciation Expense (Asset Removal Costs) Asymmetrical Cumulative Variance Account" to record the difference between the revenue requirement associated with asset removal costs forecasts that have been included in the proposed depreciation expenses for 2020-2022 and actual asset removal costs incurred in each of the test years, net of tax. The account calculation will be cumulative by the end of 2022 – the account balance will be brought forward for disposition in a future rate application in the event that there is an over collection on a cumulative basis over the 2020 to 2022 period. This account will be asymmetrical to the benefit of ratepayers - if the actual asset removal costs are lower than the forecasted asset removal costs, Hydro One Transmission will return the difference to ratepayers.

The account will be established as Account 2405, Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account" effective January 1, 2020. Hydro One Transmission will record interest on the balance in the sub-account using the interest rates set by the Board. 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 for this variance account.

USofA #	Account Description
DR 4110	Transmission Services Revenue
CR 2405	Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account"

Initial entry to record the difference between actual asset removal costs and forecasted asset removal costs.

DR 6035	Other Interest Expense
CR 2405	Other Regulatory Liabilities – Sub-Account "Asset Removal Costs Asymmetrical Cumulative Variance Account"

To record interest improvement on the principal balance of the Asset Removal Costs Asymmetrical Cumulative Variance Account.

TRANSMISSION ACCOUNTING ORDER – CAPITAL IN-SERVICE ADDITIONS VARIANCE ACCOUNT

Hydro One Transmission proposes the establishment of a modified "Capital In-Service Additions Variance Account ("CISVA")" to record the differences between the revenue requirement associated with the actual capital in-service additions for 2020 through 2022 and the revenue requirement associated with the Board-approved capital in-service additions for those years.

Hydro One Transmission will track the impact on revenue requirement of any capital in-service additions that are 98% of the Board-approved amount or less on a combined basis for test years 2020 and 2021 at the end of 2021, including any 2019 variances, in consideration of the potential impacts of the COVID-19 pandemic on current year in-service additions. In other words, Hydro One requests that 2020 and 2021 be considered cumulatively at the end of 2021, rather than performing a calculation in each year of 2020 and 2021. This will incentivize Hydro One Transmission to ensure that capital in-service additions targets are met by the end of 2021 in the event there are uncontrollable impacts arising from the COVID-19 pandemic that cause it to defer in-servicing assets from 2020 to 2021. For cumulative in-service additions that are 98% of the Board-approved level or less, the associated revenue requirement impact will be computed and reported in 2021 and 2022 in this account, net of the revenue requirement associated with variances in in-service additions resulting from verifiable productivity gains. The approval of the 2020 rate base figure in this Application would inherently include the 2019 in-service additions forecast; therefore, Hydro One is proposing that for 2021 calculation, the account should consider 2019, 2020, and 2021 in-service additions on a cumulative basis.

At the end of the three-year term, Hydro One Transmission will seek disposition of the account balance. The variance account will be asymmetrical; should the cumulative in-service additions in years 2020-2021 recorded in 2021, and in years 2022 exceed 98% of the cumulative Board-approved amount, no entry will be made in the variance account. The account will be established as Account 2405, Other Regulatory Liabilities – Sub-Account "Capital In-Service Additions Variance Account" effective January 1, 2020. Hydro One Transmission will record interest on the balance in the sub-account using the interest rates set by the Board. 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 for this variance account.

USofA #	Account Description
DR 4110	Transmission Services Revenue
CR 2405	Other Regulatory Liabilities – Sub-Account "Capital In-Service Additions Variance Account"

Initial entry to record the differences between the revenue requirement associated with the actual capital in-service additions and the revenue requirement associated with the Board-approved in-service capital additions.

DR 6035	Other Interest Expense
CR 2405	Other Regulatory Liabilities – Sub-Account "Capital In-Service Additions Variance Account"

To record interest improvement on principal balance of the Capital In-Service Additions Variance Account.

TRANSMISSION ACCOUNTING ORDER – FOREGONE TRANSMISSION REVENUE DEFERRAL ACCOUNT

Hydro One Transmission proposes the establishment of a new "Foregone Transmission Revenue Deferral Account" to record the difference between revenue earned by Hydro One Transmission under interim Uniform Transmission Rates (UTR), and the revenues that would have been received under the approved UTR based on OEB-approved 2020 rates revenue requirement and load forecast ("Foregone Revenue"). The account will capture the Foregone Revenue from January 1, 2020 to the date when the approved rates revenue requirement and load forecast are reflected in an update to current interim UTR rates.

The account will be established as Account 1508, Other Regulatory Assets – Sub-Account "Foregone Transmission Revenue Deferral Account" effective January 1, 2020. Hydro One Transmission will record interest on the balance in the sub-account using the interest rates set by the Board. 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 for this variance account.

USofA #	Account Description
CR 4110	Transmission Services Revenue
DR 1508	Other Regulatory Assets – Sub account "Foregone Transmission Revenue Deferral Account"

Initial entry to record Foregone Revenue.

CR 4405	Interest and Dividend Income
DR 1508	Other Regulatory Assets – Sub account "Foregone Transmission Revenue Deferral Account"

To record interest improvement on the principal balance of the Foregone Transmission Revenue Deferral Account.

TRANSMISSION ACCOUNTING ORDER – CCRA TRUE-UP VARIANCE ACCOUNT

Hydro One proposes to create a new variance account to track the differences between components of revenue requirement and actual results related to load true-ups performed in accordance with Transmission System Code section 6.5.3.

The account will be established as Account 1508, Other Regulatory Asset, sub-account "CCRA True-up Variance Account" effective January 1, 2020. Hydro One will record interest on any balance in the sub-account using the 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 for this deferral account.

USofA #	Account Description
CR/DR: 4110	Transmission Services Revenue
DR/CR: 1508	Other Regulatory Assets – Sub account "CCRA True-up Variance Account"

Initial entry to record the CCRA true-up variance.

CR/DR: 6035	Other Interest Expense
DR/CR: 1508	Other Regulatory Assets – Sub account "CCRA True-up Variance Account"

To record interest improvement on principal balance of CCRA True-up Variance Account.

TRANSMISSION ACCOUNTING ORDER – ESM DEFERRAL ACCOUNT

Hydro One proposes the establishment of a new "Earnings Sharing Mechanism ("ESM") Deferral Account" to record 50% of earnings that exceed the regulatory return on equity (ROE) reflected in this Application by more than 100 basis points in any year of the three-year term through Hydro One's transmission revenue. The calculation of the actual ROE shall use the OEB-approved mid-year rate base for that period to avoid double counting with amounts proposed in the Capital In-Service Additions Variance Account. The ROE calculation shall be normalized for revenue impacting items such as entries that are recorded in the year which relate to prior years to normalize the in-year net income. The customer share of earnings will be adjusted for any tax impacts. The balance in the account will be reviewed for disposition in Hydro One's next rebasing application scheduled for the 2023 revenue requirement.

The account will be established as Account 2435, Accrued Rate-Payer Benefit effective January 1, 2020. Hydro One will record interest on any balance in the sub-account using the 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 for this deferral account.

USofA #	Account Description
DR: 4395	Rate-Payer Benefit Including Interest
CR: 2435	Accrued Rate-Payer Benefit

Initial entry to record the over-earnings realized in any year of the three-year term.

DR: 4395	Rate-Payer Benefit Including Interest
CR: 2435	Accrued Rate-Payer Benefit

To record interest improvement on principal balance of ESM deferral account.