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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs

BY COURIER

March 22, 2012

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON  
M4P 1R4

Dear Ms. Walli,

**Hydro One Networks Inc. Request for an Accounting Order to Establish an Incumbent Transmitter Deferral Account.**

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Hydro One Networks Inc. (“**Hydro One**”) is applying to the Ontario Energy Board (“**the Board**”) for an Accounting Order authorizing Hydro One to establish a new deferral account, “East West Tie Deferral Account (“**EWTD**”)”, for the purpose of recording expenses relating to the East-West Tie Line (“**EWT Line**”) proceeding to designate an electricity transmitter to undertake development work and subsequent connection project-related activities for a new electricity transmission line (EB-2011-0140). The account would be effective from January 3, 2012. The amounts included in this account will relate to: (i) the cost for the proceeding apportioned to Hydro One by the Board to be recovered through Ontario Uniform Transmission Rates; (ii) cost incurred by the incumbent transmitter to support the Board through the designation process and to eventually facilitate the connection; and (iii) expenditures incurred relating to preliminary engineering and other station connection work required to accommodate the EWT Line. These amounts are not currently part of Hydro One Transmission’s Board approved 2012 rates revenue requirement (EB-2010-0002).

## 1.0 BACKGROUND

The Minister of Energy sent a letter to the Board (March 29, 2011) suggesting that the designation process, outlined in the new Board policy “Framework for Transmission Project Development Plans (EB-2010-0059)” be used to select a transmission company for the EWT Line. This policy recognized that the incumbent transmitter would be required to provide technical information on the relevant potential connection points of any new lines<sup>1</sup>. On February 2, 2012 the Board commenced proceeding EB-2011-0140 to Designate a Transmitter to Carry Out Development Work for the EWT Line. Hydro One anticipates that its assistance will be required to support the Board with this process throughout the proceeding, to address questions from the designated transmitter related to the ultimate connection of the line and to support the S.92 Leave to Construction process. In addition, Hydro expects to incur preliminary engineering and other development expenditures to enable connection of the EWT Line at its stations, irrespective of which entity is the successful bidder.

Hydro One proposes to track three types of costs, each described below, in this deferral account.

## 2.0 OEB ALLOCATED PROCEEDING COSTS

### 2.1 Description of Account

Hydro One will track amounts that have been apportioned to it through invoice by the Board in relation to any hearing costs to designate an electricity transmitter to undertake development work for a new electricity transmission line. The amounts will include both cost awards to intervenors and the Board’s own costs relating to such proceedings.

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<sup>1</sup> EB-2010-0059 Board Policy: Framework for Transmission Project Development Plans, page 12

## 2.2 Rationale

In Procedural Order No. 1 of EB-2011-0140 (issued on March 9, 2012), the Board determined that the “costs of this proceeding, both cost awards to eligible intervenors and the Board’s own costs, will be recovered through the Ontario Uniform Transmission Rates.” Hydro One did not include these costs in its 2012 approved transmission revenue requirement, nor does Hydro One have the ability to control or forecast what these costs will be. As such, Hydro One Transmission proposes to collect these amounts in a deferral account for disposition and recovery at a future date in accordance with Board direction.

## 2.3 Accounting and Control Process

The deferral account requested above will be managed in the same manner as existing Hydro One Transmission deferral accounts and a sub-account will be used to track costs relating to the OEB-allocated proceeding costs. The account will be updated upon receipt of invoices and interest will be applied consistent with the Board approved rate. Balances will be reported to the Board as part of the quarterly reporting process. The outstanding balance will be submitted for approval and clearing by the Board as part of a future Hydro One Transmission rate filing.

## **3.0 SUPPORT COSTS FOR OEB DESIGNATION PROCESS**

### 3.1 Description of Account

Hydro One believes there are three types of support expenditures (discussed in more detail below) that it will incur in support of the EWT Line designation process:

- (i) Consultant
- (ii) Incremental Administration
- (iii) Labour

All of the above costs will be associated with providing technical information to the Board (and to the transmitter applicants via the Board) on transmission connection points, assisting with other transmission-related enquiries on an as-needed basis, and partaking as an intervenor in the EWT Line transmitter designation proceeding and the subsequent S.92 Leave to Construct proceeding, if required. Specifically, Hydro One, as the incumbent transmitter, will provide information as requested to assist the Board in this process; to respond to enquiries from the transmitter applicants; to estimate the incremental connection costs of certain proposals that may be put forward by such applicants; and to assess the proposed transmission project development plans to ensure that they do not adversely impact the safety and reliability of Ontario's transmission grid.

Hydro One believes that it is important to track these expenditures so that the Board can be informed of the costs that relate to the designation process for the EWT Line.

Provided below is a brief description of the costs to be included in each of the three sub-accounts.

- (i) Incremental Consultant Expenditures – expenditures that Hydro One may incur to engage external consultants to assist with the EWT Line designation process. For example, if the Board asks Hydro One to engage with a consultant to provide clarification on a report they had previously completed for Hydro One.
- (ii) Incremental Administration Expenditures – expenditures relating to printing, maps, plans, copying, courier fees and other administrative activities.
- (iii) Labour – There are two types of labour costs that will be captured in this account. First, Hydro One will track non-incremental labour dedicated to the EWT Line project. Tracking of Hydro One's staff resources is important not only to understand the true costs of the project, but also to understand the impact on Hydro One's limited resources and its effect on work programs. These costs are already in revenue requirement and recovery for these tracked costs will not be sought.

Second, any incremental labour costs that Hydro One incurs to support the proceeding, for instance to backfill a current position due to the result of heavy time demands from the EWT line proceeding, will also be recorded in a separate sub-account to the deferral account and future recovery will be sought for these amounts.

### 3.2 Rationale

Hydro One Transmission does not have the incremental costs for these supporting activities in its 2012 approved revenue requirement. In addition, current reporting processes do not provide the Board with a line of sight to non-incremental internal costs incurred to support this process. As the designation process is new to Ontario, Hydro One has no precedent or experience to forecast the amount of time and effort that will be required from it to assist the Board in this proceeding. Hydro One believes that by proactively establishing this account and tracking these costs from the onset, the costs will be readily available should the Board need information relating to the incumbent's cost at a later date.

In addition, due to the variable and unpredictable nature of the work and the potential materiality of the incremental costs, Hydro One Transmission proposes to collect amounts in a deferral account for disposition and recovery at a future date in accordance with Board direction.

### 3.3 Accounting and Control Process

The deferral account requested will be managed in the same manner as existing Hydro One Transmission deferral accounts. Sub-accounts will be used to track each of the support costs described above, as well as incremental and non-incremental labour. The account will be updated monthly and interest will be applied consistent with the Board approved rate. Balances will be reported to the Board as part of the quarterly reporting process. The outstanding balance of incremental costs will be submitted for approval and clearing by the Board as part of a future Hydro One Transmission rate filing.

## **4.0 DEVELOPMENT WORK ASSOCIATED WITH STATIONS AND OTHER SUPPORTING ASSET EXPENDITURES**

### **4.1 Description of Account**

Hydro One expects to incur certain development expenditures associated with its existing station assets and other supporting assets, to permit the eventual connection of the East-West Tie Line to the transmission system. The development expenditures tracked would relate to activities such as planning, scoping, preliminary engineering, estimating of the station work required; environmental assessment studies and reports; consultation with First Nations & Métis; landowners and other stakeholders as required; and real estate expenditures. While these expenditures would normally be capitalized, Hydro One believes it is appropriate to instead record them in a deferral account given the specific nature of the EWT project and the inherent uncertainties and risks related to completion. The risk profile of these costs is different from that of Hydro One's normal capital construction activities as, unlike other projects, Hydro One is not managing this project or the approval process. As a result, Hydro One does not have the level of accounting assurance that the project will ultimately proceed and go in-service that it requires in order to capitalize these amounts under generally accepted accounting principles. To meet the required in-service date of the EWT Line, station development work needs to commence prior to the designated transmitter receiving its S.92 approval.

### **4.2 Rationale**

Hydro One did not have these expenditures included its 2012 approved transmission revenue requirement. As such, Hydro One Transmission proposes to collect these expenditures in a deferral account for recovery at a future date in accordance with Board direction.

### **4.3 Accounting and Control Process**

Hydro One will make a recommendation on the specific accounting entries that will be followed with respect to this sub-account at a future date.

Draft accounting entries for the transactions related to the EWTDA for OEB Allocated Proceeding Costs and Support Costs for the OEB Designation Process are attached as Attachment A. Costs will be tracked from January 3, 2012

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

**Attachment A**  
**Proposed Accounting Entries**

USofA #      Account Description

1) **East West Tie Deferral Sub-Account - OEB Allocated Proceeding Costs**

Dr: 5655            Regulatory Expenses - Transmission

Cr: 2205            Accounts Payable

To record preliminary recognition of the OEB Allocated Proceeding Costs

Dr: 1508            Other Regulatory Assets – Sub account “East West Tie Deferral Account - OEB Allocated Proceeding Costs”

Cr: 5655            Regulatory Expenses - Transmission

To record the deferral of the OEB Allocated Proceeding Costs for future review and disposition.

Dr: 1508            Other Regulatory Assets – Sub account “East West Tie Deferral Account - OEB Allocated Proceeding Costs”

Cr: 6035            Other Interest Expense

To record interest accretion on the principal balance of the “East West Tie Deferral Account - OEB Allocated Proceeding Costs”.

2) **East West Tie Tracking Sub-Account and Incremental Cost Deferral Account – Support Costs for the OEB Designation Process**

Dr: 48XX            Operational Transmission Expense account range

Cr: 2205            Accounts Payable

To record preliminary recognition of the support costs for the East West Tie OEB designation process – HONI’s costs incurred.

a) Where HONI incurs incremental costs (e.g. backfill labour);

Dr: 1508 Other Regulatory Assets – Sub account “East West Tie Deferral Account - OEB Allocated Proceeding Costs”

Cr: 48XX Operational Transmission Expense account range

To record incremental costs incurred from supporting the OEB in the East West Tie Allocation Proceeding in a deferral account for future disposition.(includes consulting, incremental administration and incremental labour)

Dr: 1508 Other Regulatory Assets – Sub account “East West Tie Deferral Account - OEB Allocated Proceeding Costs”

Cr: 6035 Other Interest Expense

To record interest improvement on the principal balance of the “East West Tie Deferral Account”.

OR

b) Where HONI does not incur incremental costs (e.g. base labour);

Dr: 1508 Other Regulatory Assets – Sub account “East West Tie Tracking Account - OEB Allocated Proceeding Costs”

Cr: 1508 Contra - Other Regulatory Assets – Sub account “East West Tie Tracking Account - OEB Allocated Proceeding Costs

To track the labour costs of HONI staff dedicated to the EWT line project during the OEB’s East West Tie Allocation Proceeding. Note, as this account is tracking in nature, it need not be interest improved.