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**Joanne Richardson**  
Director – Major Projects and Partnerships  
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BY EMAIL AND RESS

February 24, 2022

Ms. Nancy Marconi  
Acting Registrar  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Marconi

**EB-2022-0101 – Hydro One Networks Inc.'s – THESL Project - Application and Evidence**

Please find attached Hydro One Networks Inc.'s (“Hydro One”) Application and Evidence pursuant to Section 78 of the Ontario Energy Board (“OEB”) Act for an Accounting Order allowing Hydro One to establish a sub-account pertaining to the deferral of capital contributions payable to Hydro One from Toronto Hydro Electric System Limited (“THESL”), a distribution customer, consistent with relief established by section 6.3.19 of the Transmission System Code.

A similar regulatory account of this nature was established by the OEB in its Decision and Accounting Order dated June 11, 2020, pertaining to the Barrie Area Transmission Upgrade Project in EB-2018-0117 for capital contributions payable by InnPower Corporation, the project-initiating distributor.

Given the minor impacts to other stakeholders, Hydro One is requesting this Application be adjudicated without a hearing

Hydro One's contacts for service of documents associated with this Application are listed in Exhibit A, Tab 1, Schedule 1.

An electronic copy of this has been filed through the Ontario Energy Board’s Regulatory Electronic Submission System (RESS).

Sincerely,

A handwritten signature in black ink, appearing to read "Joanne Richardson", written in a cursive style.

Joanne Richardson



1 Construction Work in Progress (“CWIP”) rate, and ii) Hydro One Transmission’s OEB-  
2 approved Weighted Average Cost of Capital (“WACC”). THESL has requested to defer  
3 payments to Hydro One of THESL’s capital contribution associated with the Copeland  
4 Municipal Transmission Station (“MTS”) Connection Project<sup>1</sup> for a period of five years,  
5 as allowed by section 6.3.19 of the Transmission System Code (“TSC” or “Code”).

6  
7 The requested sub-account will be identical in nature to the existing deferral sub-account  
8 approved by the OEB in EB-2018-0117<sup>2</sup>, for the Barrie Area Transmission Upgrade  
9 (“BATU”) Project, approved to record and track the capital contributions and accumulated  
10 interest charges for InnPower Corporation (“InnPower”).

11  
12 Hydro One’s request for this sub-account results from amendments to the TSC,  
13 specifically, section 6.3.19. This section permits a distributor who is required to pay a  
14 transmitter a capital contribution (as outlined under the TSC) to defer that contribution  
15 payment for a period up to five years. The election by distribution customers to defer the  
16 contribution payable raises certain issues for Hydro One and its ratepayers, not  
17 contemplated or accommodated by the Code or Board policies.

18  
19 Hydro One is also seeking to use the Loan Methodology<sup>3</sup>, as approved in the Board’s  
20 BATU Decision. This methodology will result in Hydro One recognizing rate base equal  
21 to the total project cost less the total capital contribution. THESL would recognize only the  
22 rate base of the actual contributed capital payments made to Hydro One.

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<sup>1</sup> The Copeland MTS Connection Project consists of Hydro One undertaking underground circuit construction to connect the THESL-constructed Copeland MTS to the transmission system.

<sup>2</sup> EB-2018-0117 - Decision and Order dated April 23, 2020, and Decision and Accounting Order dated June 11, 2020.

<sup>3</sup> Refer to Section 2.1 below for information regarding the Loan Methodology.

1 The Loan Methodology together with the new sub-account will provide a benefit to  
2 transmission customers of approximately \$3.1M<sup>4</sup> based on the capital contribution  
3 outstanding and deferred for the Copeland MTS Connection Project (“THESL Project”).  
4 Consistent with the OEB’s Decision and Accounting Order approved in EB-2018-0117,  
5 Hydro One is also seeking an order to exclude interest income earned by Hydro One on the  
6 unpaid capital contribution balance, during the five-year deferral period, from the  
7 calculation of amounts recognized in Hydro One’s existing deferral account, *External*  
8 *Station Maintenance, E&CS Revenue and Other Revenue Variance Account*.

9  
10 In accordance with Board policy when requesting a deferral account of this type, Hydro  
11 One is submitting a Draft Accounting Order (“DRO”) for the THESL Project sub-account,  
12 found in **Appendix A** to this Application.

## 13 14 **2.0 BACKGROUND**

15 In 2018<sup>5</sup> the OEB amended section 6.3.19 of the TSC which reads as follows:

16 *“Where a distributor is required under this Code to provide a capital*  
17 *contribution to a transmitter, the transmitter shall permit the capital*  
18 *contribution to be provided in equal installments over a period of time not*  
19 *to exceed five years unless a longer period is approved by the Board.”*

20  
21 Prior to the Code amendments, capital contributions were due to the transmitter at the time  
22 of project completion and/or in-service. The full amount of the capital contribution was  
23 paid to Hydro One in one installment. Hydro One included the net asset value in its rate  
24 base (asset cost less contributed capital received), and the distributor included in its rate  
25 base, the contributed capital that it paid to Hydro One.

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<sup>4</sup> Refer to Appendix B for the Loan Methodology benefit regarding the differential calculation.

<sup>5</sup> EB-2016-0003 - Notice of Amendments to Codes and Notice of Proposal to Amend a Code, December 18, 2018.

1 As a result of the amendments to the TSC<sup>6</sup>, a distributor is entitled to, entirely at its  
2 discretion<sup>7</sup>, elect to defer payment of its capital contribution owing to Hydro One for up to  
3 five years. The payable amounts owing to Hydro One and the amounts a distributor will  
4 add to rate base, post project completion, will change over the allowed five-year deferral  
5 period.

6

## 7 **2.1 EB-2018-0117 – APPROVAL OF LOAN METHODOLOGY**

8 In the BATU EB-2018-0117 hearing, Hydro One proposed a “Loan Methodology” to  
9 ensure that ratepayers, the distributor and the transmitter are all treated fairly when a  
10 distributor elects to defer payment of its capital contribution owing, as allowed under TSC  
11 6.3.19.

12

13 To implement this, Hydro One sought and received approval to establish a regulatory  
14 account, the Capital Contribution Recovery Differential Account, consisting of three sub-  
15 accounts:

16

1. *Distributor Contribution Sub-account*: To record the total distributor’s capital  
17 contribution owing to Hydro One.

18

2. *Distributor Contribution - Contra Sub-account*: To record payments made by  
19 the distributor against the capital contributions owed to Hydro One.

20

3. *Capital Contribution Recovery Differential Sub-account*: To record the  
21 difference between the interest income at the CWIP rate Hydro One will receive  
22 from the distributor (per the TSC), and the OEB-approved Hydro One WACC<sup>8</sup>  
23 for return on rate base.

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<sup>6</sup> Specifically Section 6.3.19.

<sup>7</sup> There is no requirement for a distributor to seek or obtain approval from a transmitter when the distributor elects to defer the capital contribution period for up to five years.

<sup>8</sup> Based on the applicable OEB-approved Hydro One WACC rate.

1 Key elements and benefits of the Loan Methodology discussed and accepted in EB-2018-  
2 0117 are:

3 1. Rate base

4 a. Hydro One

- 5 i. The full amount of the capital contribution owing from a distributor  
6 is deducted from Hydro One's cost of the project and not included  
7 in Hydro One's rate base once the asset is placed in-service.  
8 ii. The full amount of the capital contribution payable is recorded in a  
9 regulatory deferral sub-account and reduced, via a 'contra' entry, as  
10 the distributor<sup>9</sup> makes capital contribution payments.

11 b. Distributor

- 12 i. The distributor records rate base equal only to the amounts paid –  
13 not the total project capital contributions owing.  
14 ii. As the level of capital contribution payments made increases, so  
15 does the amount of rate base recorded by the distributor.

16  
17 2. A deferral sub-account tracking the difference between CWIP and WACC on the  
18 unpaid capital contribution balance.

- 19 a. This sub-account is required to keep Hydro One whole.  
20 b. The sub-account ensures Hydro One does not incur a revenue shortfall from  
21 any distributor-elected deferral of capital contribution payments.  
22 c. Without the sub-account Hydro One only receives interest income at the  
23 OEB's CWIP rate per the TSC, and not at the WACC rate for any unpaid  
24 capital contribution.

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<sup>9</sup> In the case of the BATU Application, EB-2018-0117, where this approach was approved for InnPower.

1 In EB-2018-0117, Hydro One requested that the Capital Contribution Recovery  
2 Differential account be approved as a generic deferral account. However, the Board wrote  
3 in its Decision:

4 “The OEB has determined that the requested deferral account with two sub-  
5 accounts are appropriate for the BATU Project. For a new generic deferral  
6 account, the utility must satisfy the prudence, causation and materiality  
7 threshold criteria for the OEB to approve its establishment. The OEB finds that  
8 there is insufficient evidence at this time to determine if a generic account is  
9 required. The OEB will make the determination of the need for the requested  
10 deferral account on a case-by-case basis.”

11

12 Therefore, Hydro One is now seeking approval of the new sub-account for the THESL  
13 Project only.

14

## 15 **2.2 APPLICATION OF THE ACCOUNT**

16 As noted above, the Board required Hydro One to seek separate approval to include other  
17 distributors deferral of capital contribution payments in the Capital Contribution Recovery  
18 Differential Account. THESL has asked to defer its outstanding capital contribution of  
19 \$9.1M related to the Copeland MTS Connection Project, for a period of five years.

20

## 21 **3.0 TEST FOR ESTABLISHMENT OF A REGULATORY ACCOUNT**

22 In order to establish a regulatory account, the Board’s *Filing Requirements for Electricity*  
23 *Transmission Applications* (dated February 11, 2016) (“Filing Requirements”) outline that  
24 the eligibility criteria of causation, materiality and prudence must be met. In addition, the  
25 Applicant must provide a Draft Accounting Order.

1 **3.1 CAUSATION**

2 The Board's Filing Requirements define Causation as "the forecasted expense must be  
3 clearly outside of the base upon which revenue requirement(s) were derived".<sup>10</sup>  
4

5 Hydro One has not included the costs and impacts that will occur resulting from the deferral  
6 of capital contributions associated with THESL Project in any current Hydro One OEB-  
7 approved revenue requirement, nor are the costs and impacts included in Hydro One  
8 current revenue requirement application (EB-2021-0110) before the Board. Therefore, the  
9 forecast impacts (costs and incomes) are outside of the base upon which Hydro One's  
10 revenue requirement is, or will be, derived.

11  
12 Hydro One was not able to include these impacts of the THESL Project into a revenue  
13 requirement application due to the uncertainty section 6.3.19 of the Code introduces, in  
14 that under the Code a distribution customer has the sole discretion to elect to defer any  
15 capital contribution for up to five years. Therefore, Hydro One's ability to forecast a  
16 deferral request of this nature is not possible until much closer to the date of project  
17 completion. As Hydro One understands, the Code allows a distributor, in this case THESL,  
18 to elect to take up the deferral option at any time, even in close proximity, to the final  
19 completion and/or in-service date of a project.

20  
21 The approval of this sub-account will ensure that records are maintained to provide a line  
22 of sight to total deferred capital contributions and its impacts for the THESL Project.

---

<sup>10</sup> Chapter 2 Filing Requirements for Electricity Transmission Applications, February 11, 2016, p. 35



1 **3.2 MATERIALITY**

2 The Board's Filing Requirement (page 35) definition of Materiality is:

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

7  
8 As per the Board's Filing Requirements (Section 2.1.1), Hydro One Transmission's  
9 materiality threshold is \$3 million.

10  
11 The impact of THESL's election to defer its outstanding capital contribution of \$9.1M is  
12 expected to exceed Hydro One's materiality level. If the sub-account is not approved by  
13 the OEB along with the Loan Methodology, Hydro One would be required to use the NBV  
14 Method default method and would result in a \$4.7M impact on transmission ratepayers.  
15 The use a deferral sub-account combined with use of the Loan Methodology will result in  
16 a 'net' benefit to transmission ratepayers of approximately \$3.1M, as calculated in  
17 **Attachment 1**<sup>11</sup>, to **Appendix B** of this Application.

18  
19 Given that Hydro One will be incurring costs for the distributor-initiated project and that  
20 these are non-discretionary and material, this sub-account should be established to record  
21 the deferred capital contributions THESL has elected to make. Furthermore, the approval  
22 of the sub-account will offer protection to Hydro One's ratepayers who would otherwise  
23 be subsidizing THESL's customers if the sub-account is not approved.

---

<sup>11</sup> The value is show in the Spreadsheet, Tab Name "Summary", Cell B:11.

1 **3.3 PRUDENCE**

2 The Board’s Filing Requirement (page 35) definition of Prudence is:

3 “The nature of the costs and forecasted quantum must be reasonably  
4 incurred, although the final determination of prudence will be made at the  
5 time of disposition. In terms of the quantum, this means that the applicant  
6 must provide evidence demonstrating why the option selected represents the  
7 cost-effective option (not necessarily least initial cost) for ratepayers.”  
8

9 Hydro One is undertaking the THESL Project activities pursuant to conditions of its  
10 transmission licence, and the TSC. These types of customer-driven projects are considered  
11 non-discretionary in nature. The costs that Hydro One will incur and the corresponding  
12 revenue requirement shortfall<sup>12</sup> from THESL’s deferral of capital contributions are  
13 expected to be material. On that basis, it is reasonable for Hydro One to seek approval of  
14 the establishment of a sub-account and Accounting Order to record these costs.  
15

16 Hydro One is not seeking the recovery of the balances recorded in the sub-account at this  
17 time. The final determination of the prudence of any amounts recorded in the sub-account  
18 will be made at the time Hydro One applies for disposition of balances accumulated. The  
19 Board and other stakeholders will have the opportunity to review the prudence of those  
20 costs at that time. Additionally, as previously mentioned, Hydro One has not forecast any  
21 of the above-described amounts in any OEB-approved rate filing or in any rate filing  
22 currently before the OEB for approval.

---

<sup>12</sup> Refer to Appendix B for the forecast calculation.

1 **4.0 DESCRIPTION OF THE SUB-ACCOUNTS**

2 The THESL Project sub-account would have three sub-accounts: (i) *THESL Project*  
3 *Capital Contribution Account*, (ii) *THESL Project Capital Contribution, Contra-account*,  
4 and, (iii) *THESL Project Capital Contribution Recovery Differential account*. Each of these  
5 sub-accounts, pursuant to the OEB’s Uniform System of Accounts (“USofA”) *Account*  
6 *1508 – Other Regulatory Assets*, is described below:

7  
8 **4.1 SUB-ACCOUNT – THESL PROJECT CAPITAL CONTRIBUTION**  
9 **ACCOUNT**

10 The first sub-account established would be *Sub-account - THESL Project Capital*  
11 *Contribution*, which will be used to track THESL’s total capital contribution payable to  
12 Hydro One.

13  
14 **4.2 SUB-ACCOUNT - THESL PROJECT CAPITAL CONTRIBUTION,**  
15 **CONTRA-ACCOUNT**

16 The second sub-account established would be *Sub-Account – THESL Project Capital*  
17 *Contribution, Contra-account*, which will record the capital contribution payments made  
18 to Hydro One by THESL.

19  
20 **4.3 SUB-ACCOUNT - THESL PROJECT CONTRIBUTION RECOVERY**  
21 **DIFFERENTIAL ACCOUNT**

22 The third sub-account established would be *Sub-account - THESL Project Capital*  
23 *Contribution Recovery Differential Account*, which will record the amount related to the  
24 tax-grossed-up difference between:, i) the required revenue requirement for the capital cost  
25 of the Capital Project that remains funded by Hydro One (i.e. - capital contribution  
26 outstanding) at Hydro One’s OEB-approved WACC; and ii) the interest income received  
27 from the THESL in accordance with TSC 6.3.19. Effectively this sub-account will capture  
28 the difference between the interest income Hydro One will receive at the OEB’s prescribed

1 CWIP<sup>13</sup> rate and Hydro One Transmission’s OEB-approved WACC<sup>14</sup> on the unpaid capital  
2 contribution from THESL.

3  
4 The accounting entries outlined in **Appendix A – Draft Accounting Order** illustrate how  
5 the amounts will be calculated<sup>15</sup> and recorded consistent with the description and process  
6 described above.

7  
8 Additionally, Hydro One is also seeking an Order such that interest income earned by  
9 Hydro One on the unpaid capital contribution balance shall be excluded from the  
10 calculation of amounts recognized in Hydro One transmission’s existing deferral account,  
11 *External Station Maintenance, E&CS Revenue and Other Revenue Variance Account*. This  
12 would be consistent with the Board’s order and treatment of like amounts in Hydro One’s  
13 EB-2018-0117 approval<sup>16</sup>.

14  
15 **5.0 TREATMENT OF CARRYING COSTS - INTEREST IMPROVEMENT**

16 Hydro One will record interest on the balance in the Sub-Account - Capital Contribution  
17 Recovery Differential Account using the prescribed interest rates<sup>17</sup> set by the OEB. Simple  
18 interest will be calculated on the opening monthly balance of the account until the balance  
19 is fully disposed. This treatment is consistent with the methodology approved by the Board  
20 for other similar Hydro One deferral and variance accounts.

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<sup>13</sup> Section 6.3.19 of the TSC requires the transmitter to charge a distributor interest on the unpaid balance at the Board’s prescribed CWIP rate which is updated quarterly and published on the Board’s website.

<sup>14</sup> The WACC used in the calculation of the amounts in the sub-account will correspond to applicable OEB-approved WACC rate for Hydro One for the period each entry is made.

<sup>15</sup> Using the Loan Methodology referred to above.

<sup>16</sup> Decision and Order dated April 23, 2020, and Decision and Accounting Order dated June 11, 2020.

<sup>17</sup> The Board’s prescribed interest rates as published here; <https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/prescribed-interest-rates>

1 **6.0 DEFERRAL ACCOUNT CALCULATION USED – THE LOAN**

2 **METHODOLOGY**

3 The calculation methodology used in this Application’s request for a sub-account would  
4 be consistent with the Loan Methodology<sup>18</sup> the Board approved in EB-2018-0117, Hydro  
5 One’s BATU Project Accounting Order<sup>19</sup> for a deferral Account. **Appendix B** to this  
6 Application includes forecast calculations of the impacts of deferred capital contributions  
7 of the THESL Project using consistent principles to the BATU sub-account and Board-  
8 issued rates. The Loan Methodology will avoid the corporate tax and depreciation  
9 implications as a result of the delayed capital contributions<sup>20</sup> and will provide benefits to  
10 ratepayers of both Hydro One transmission and the capital contribution-triggering  
11 distributor, when compared to the standard rate making methodology (i.e., the NBV  
12 Reduction Methodology).

13  
14 The earnings shortfall is defined as the difference between the interest Hydro One is  
15 permitted to charge a distributor at the Board-approved CWIP rate, and the transmitter’s  
16 OEB-approved WACC rate for return on rate base<sup>21</sup>.

17  
18 Hydro One’s proposal would result in (i) Hydro One earning a return on the rate base of  
19 any outstanding balance in capital contribution for the in-serviced asset, and (ii) the  
20 distributor, THESL, earning a return only on rate base for which any installment payments  
21 have been made to Hydro One on its capital contribution owing. Additionally, for THESL,  
22 only the contribution amounts that are paid in installments would be included in its rate  
23 base.

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<sup>18</sup> Hydro One’s Loan methodology is described in Appendix B.

<sup>19</sup> Decision and Accounting Order dated June 11, 2020, and Decision and Order dated April 23, 2020.

<sup>20</sup> Full disclosure of these impacts and the rationale are outlined in Exhibit I, Tab 1, Schedule 19, parts b, d and e of Hydro One’s BATU S.92 hearing, EB-2018-0117.

<sup>21</sup> TSC section 6.3.19 permits a transmitter to only charge the deferring distributor the OEB approved CWIP rate on outstanding balances, however, to keep the transmitter whole, the WACC must be allowed.

1 **7.0 EFFECTIVE DATE**

2 Hydro One is requesting that the effective date of the THESL Project sub-account be the  
3 date this Application is filed, February 24, 2022.

4  
5 **8.0 CONCLUSION**

6 The regulatory deferral sub-account, as requested in this Application, is an appropriate  
7 method of recording and tracking the impact of the delayed receipts of capital contributions  
8 from the THESL Project. The sub-account will allow Hydro One and its ratepayers to be  
9 held whole, which is consistent with general regulatory principals. The deferral sub-  
10 account is reasonable and commensurate with the additional risk to which the TSC is  
11 subjecting Hydro One to for the THESL Project. The Loan Methodology Hydro One will  
12 use for this sub-account is consistent with the OEB's prior-approved methodology  
13 associated with the BATU Project's regulatory deferral account and provides benefits<sup>22</sup> for  
14 Hydro One and all transmission customers of Ontario through uniform transmission rates.  
15 Additionally, it is an appropriate regulatory outcome for the Board to direct Hydro One not  
16 to include the interest income it recognizes relating to these delayed capital contribution  
17 receipts when calculating entries in its currently approved '*External Station Maintenance,*  
18 *E&CS Revenue and Other Revenue Variance Account*'. The interest income described in  
19 this Application is a new stream of revenues that was not considered in Hydro One's  
20 current 2020 to 2022 OEB-approved rate application or in its 2023 to 2027 ongoing rate  
21 application<sup>23</sup> and is an appropriate outcome to compensate Hydro One for the risks the  
22 Code requires it to adopt. Hydro One requests that this direction be included in its final  
23 order on this Application also.

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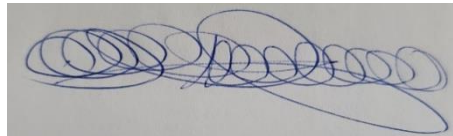
<sup>22</sup> As outlined in the OEB's Decision and Order dated April 23, 2020, Pgs. 14-17.

<sup>23</sup> EB-2021-0110

1 Given the prior OEB jurisprudence on this type of regulatory account<sup>24</sup>, and that no person  
2 other than Hydro One and THESL will be adversely affected by the outcome of the  
3 proceeding, and that the account is in the interests of ratepayers, Hydro One requests  
4 pursuant to s. 21(4) of the *Ontario Energy Board Act, 1998*, that the OEB adjudicate this  
5 Application without a hearing.

6

7 All of which is respectfully submitted.



8

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10

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17

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18

Applicant Contact Information

19

20

**Hydro One Networks Inc.**

21

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22

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23

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25

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26

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27

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28

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<sup>24</sup> EB-2018-0117 - Decision and Order dated April 23, 2020, and Decision and Accounting Order dated June 11, 2020.

1  
2  
3  
4  
5  
6

**List of Appendices**

- Appendix A – Proposed Accounting Entries
- Appendix B – Calculation of the THESL Project Impacts
- Appendix C – OEB’s Decision and Order – BATU S. 92 Leave to Construct Project
- Appendix D – OEB’s Decision - Accounting Order - BATU Project



1 **APPENDIX A**

2 **Draft Accounting Order - Accounting Entries**

3  
4 Hydro One is requesting the Board to establish three new sub-accounts to record:

- 5 i. the total capital contribution owing to Hydro One for the Project by THESL;  
6 ii. the subsequent capital contribution amounts paid to Hydro One by THESL; and  
7 iii. amounts capturing the difference between the interest income Hydro One will  
8 receive from THESL at the OEB's prescribed CWIP<sup>1</sup> rate and Hydro One  
9 Transmission's OEB-approved WACC on the unpaid capital contribution from  
10 THESL.

11  
12 The first deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-  
13 account THESL Project Capital Contribution, which will be used to track THESL's total  
14 capital contribution payable to Hydro One. The second sub-account will be a corresponding  
15 contra-account, recording payments made by THESL to Hydro One against the total initial  
16 principal. The third deferral sub-account established is Account 1508 – Other Regulatory  
17 Assets, Sub-account THESL Project Capital Contribution Recovery Differential Account,  
18 which will record the amount related to the tax-grossed-up difference between i) the  
19 required revenue requirement for the capital cost of the THESL Project that remains funded  
20 by Hydro One (i.e. - capital contribution outstanding) at Hydro One's OEB-approved  
21 WACC, and ii) the interest income received from THESL in accordance with TSC section  
22 6.3.19.

---

<sup>1</sup> Section 6.3.19 of the TSC requires the transmitter to charge a distributor interest on the unpaid balance at the Board's prescribed CWIP rate which is updated quarterly and published on the Board's website.

23 Hydro One is also seeking an order such that interest income earned by Hydro One on the  
24 unpaid capital contribution balance shall be excluded from the calculation of amounts  
25 recognized in Hydro One transmission's existing deferral account, External Station  
26 Maintenance, E&CS Revenue and Other Revenue Variance Account. This would be  
27 consistent with the Board's approval and Order for the treatment of like-amounts in Hydro  
28 One's EB-2018-0117 Application<sup>2</sup>.

29

30 The deferral account sub-accounts will be established as follows:

- 31 1. Account 1508, Other Regulatory Assets – Sub-Account THESL Project Capital  
32 Contributions
- 33 2. Account 1508, Other Regulatory Assets – Sub-Account THESL Project Capital  
34 Contribution, Contra-account
- 35 3. Account 1508, Other Regulatory Assets – Sub-Account THESL Project Capital  
36 Contribution Recovery Differential Account

37

38 Hydro One is requesting the effective date of the account to be the date of filing of the  
39 Application, February 24, 2022. Hydro One will record interest on the balance in the Sub-  
40 account - THESL Project Capital Contribution, using the prescribed interest rates set by  
41 the OEB. Simple interest will be calculated on the opening monthly balance of the account  
42 until the balance is fully disposed. This treatment is consistent with the methodology  
43 approved by the Board for other similar Hydro One deferral and variance accounts.

44

45 The following outlines the proposed accounting entries:

---

<sup>2</sup> Decision and Order dated April 13, 2020, and Decision and Accounting Order dated June 11, 2020.

46 USofA #      Account Description  
47 Dr: 1508      Other Regulatory Assets – Sub account THESL Project Capital  
48 Contribution

49  
50 Cr: 1508      Other Regulatory Assets – Sub account THESL Project Capital  
51 Contribution Contra-account

52  
53 To record THESL’s total capital contribution payable to Hydro One at the date of in-  
54 service, on an applicable THESL Project.

55  
56 Dr: 1508      Other Regulatory Assets – Sub account THESL Project Capital  
57 Contribution Contra-account

58  
59 Cr: 1508      Other Regulatory Assets – Sub account THESL Project Capital Contribution

60  
61 To record the annual capital contribution instalment payments made by THESL for the  
62 THESL Project to Hydro One.

63  
64 Dr: 1508      Other Regulatory Assets – Sub account THESL Project Capital  
65 Contribution Recovery Differential Account

66  
67 Cr: 4110      Transmission Services Revenue

68  
69 To record the difference between the interest income at the CWIP rate that Hydro One is  
70 to receive from THESL (per the TSC) and the revenue requirement at Hydro One’s OEB-  
71 approved WACC for return on rate base on the balance of the deferred capital contribution  
72 outstanding.

Filed: 2022-02-24

EB-2022-0101

Exhibit A

Tab 1

Schedule 1

Appendix A

Page 4 of 4

73 Dr: 1508 Other Regulatory Assets – Sub account THESL Project Capital

74 Contribution Recovery Differential Account

75

76 Cr: 4405 Interest and Dividend Income

77

78 To record interest improvement, on the principal balance of the Capital Contribution

79 Recovery Differential Account.

**APPENDIX B**

**Loan Methodology vs. NBV Methodology Calculations**

Consistent with the anticipated impacts identified by the evidence provided in the BATU Application<sup>1</sup>, if the NBV Methodology were used for recording the THESL Project it would have adverse financial impacts on Hydro One’s transmission rate payers when compared to the alternate Loan Methodology. Hydro One is seeking Board approval of its Loan Methodology in this Application. Tables A and B, below, compares the impacts of the two methodologies.

**Table A – Comparison of Methodologies**

	<b>Net Book Value Method \$M</b>	<b>Loan Method \$M</b>	<b>Difference \$M</b>
Project Capital Cost	44.8	44.8	-
THESL Capital Contribution Payable	(47.4)	(47.4)	-
Net Book Value of Project Asset Recorded in Hydro One’s Rate Base	(2.6)	(2.6)	-
<b>Capital Contribution Deferred for 5 years (per TSC section 6.3.19)</b>			
Project Capital Cost	44.8	44.8	-
THESL Capital Contribution Paid	(38.2)	(38.2)	-
THESL Capital Contribution Payable	-	(9.1)	(9.1)
Net Book Value of Project Asset Recorded in Hydro One’s Rate Base	6.6	(2.6) *	(9.1)

\* Numbers do not add due to rounding.

<sup>1</sup> EB-2018-0117 - Exhibit B, Tab 9, Schedule 1, pgs. 7-9.

1 If THESL elects to defer payment of their outstanding capital contribution balance, using  
2 the NBV Methodology, Hydro One would record an amount of \$6.6M (as calculated in  
3 Table A, above) in its rate base at the beginning of the 5-year capital contribution deferral  
4 period. Accordingly, the \$6.6M rate base amount will be included in the calculation of  
5 Hydro One's revenue requirement and would reflect this rate base addition and its  
6 associated costs (e.g. return on equity, debt), would be recovered from transmission rate  
7 payers with the interest collected from THESL recognised as a revenue offset. When  
8 THESL's final capital contribution is received by Hydro One, in Year-5, the full payment  
9 will be taxed as income at the corporate statutory tax rate (i.e., 26.5%). This is because the  
10 election available to Hydro One, via the Income Tax Act, that would allow an offset of the  
11 capital contribution payment against the asset UCC values is only available to Hydro One  
12 in the initial three years after the THESL Project's in-service date. With THESL's deferred  
13 capital contribution payment received at the end of the fifth year, post-project in-service,  
14 it will be assessed as revenue and taxed at the corporate tax rate. The impact to Hydro  
15 One's transmission ratepayers will be approximately \$3.3M<sup>2</sup>. If the OEB approves the use  
16 of the sub-account for recording and tracking the THESL Project capital contribution, the  
17 above-mentioned impacts will be minimised and/or avoided.

18  
19 Using the Loan Methodology and with the approval of the sub-account, Hydro One will  
20 record the outstanding capital contribution of \$9.1M in the sub-account and will reduce the  
21 THESL Project's carrying rate base cost in its ledger to a negative value of \$2.6M<sup>3</sup>. The  
22 associated revenue requirement due to Hydro One on the capital contribution balance

---

<sup>2</sup> The amount of tax payable on the final THESL capital contribution of \$9.1M, at the rate of 26.5% is \$2.4M. Furthermore, to recover the appropriate amount from transmission ratepayers, Hydro One's revenue requirement would need to include the \$2.4M amount grossed-up for tax purposes, per the customary methodology. The calculation of the amount is as follows; [ $\$2.4M / (1-26.5\%)$ ] = \$3.3M.

<sup>3</sup> The total capital contribution payable by THESL for the THESL Project is greater than the in-service Capital Cost of the Project due to the additional incremental OM&A costs Hydro One must include in the capital contribution calculation, over the assessment period, per the requirements of [Appendix 5-Methodology and Assumptions for Economic Evaluation of the TSC](#).

1 outstanding will be recorded in the sub-account at Hydro One's WACC and will be offset  
2 by interest payments received from THESL at the Board's prescribed CWIP rate, as per  
3 TSC 6.3.19. The interest charge and installment payments receivable from THESL will be  
4 billable on the anniversary of the in-service date.

5  
6 A comparison of the impact on ratepayers utilizing the Loan Methodology versus the NBV  
7 Methodology is provided below in Table B and supported by calculations provided in  
8 **Attachment 1** to this Appendix.

9  
10 The calculations for both methodologies assume the following:

- 11 1. THESL defers the full amount of its capital contribution for five years.
- 12 2. The total capital contribution owed by THESL on the Project is \$47.4M.
- 13 3. THESL have made capital contribution payments to Hydro One totalling \$38.2M.  
14 These payments were made to Hydro One prior to the introduction of section 6.3.19  
15 to the TSC.
- 16 4. The total outstanding capital contribution at the outset of the deferral period is  
17 \$9.1M.
- 18 5. Having now elected to take up the deferral period introduced after those  
19 prepayments were made, THESL intends to treat the prepayments as capital  
20 contributions paid for the first four years of the five-year deferral period allowed.  
21 THESL intends to pay the final balance of \$9.1M at the end of the five-year deferral  
22 period.
- 23 6. Annual interest payments on the outstanding capital contribution owing to Hydro  
24 One will be made by THESL in alignment with the Code<sup>4</sup>. THESL's annual  
25 payments will not included principal.

---

<sup>4</sup> Per section 6.3.19 of the TSC, the distributor will pay the OEB's posted CWIP rate.

- 1           7. The WACC used in the calculation will be Hydro One’s OEB-approved rate for the  
2           period the amount is calculated. Currently that rate is 8.52%.
- 3           8. The CWIP rate used will be sourced from the OEB’s posted Prescribed Interest  
4           Rates<sup>5</sup> for the period the amount is calculated. Currently that rate is 2.88%.

5

6           **Table B - Summary of Impact to Transmission Ratepayers as a Result of TSC**

7

**Section 6.3.19**

	<b>\$M’s</b>
Impact of Loan Methodology	(\$1.6)
Impact of Net Book Value Methodology	(\$4.7)
Savings/benefit to Hydro One ratepayers by using the Loan Methodology	\$3.1

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<sup>5</sup> [Prescribed interest rates | Ontario Energy Board \(oeb.ca\)](https://www.oeb.ca/prescribed-interest-rates)



**ATTACHMENT 1**

1  
2  
3  
4  
5

Supporting calculations comparing the Loan and NBV methodologies for THESL's deferred capital contributions associated with the THESL Project are provided in a supplemental spreadsheet, titled **Appendix B, Attachment 1 (EB-2022-0101)**.



Ontario Energy Board | Commission de l'énergie de l'Ontario

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## **DECISION AND ORDER**

**EB-2018-0117**

### **HYDRO ONE NETWORKS INC.**

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

**BEFORE: Michael Janigan**  
Presiding Member

**Robert Dodds**  
Vice Chair and Member

**Susan Frank**  
Member

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**April 23, 2020**

**TABLE OF CONTENTS**

**1 INTRODUCTION AND SUMMARY..... 1**

**2 THE PROCESS ..... 3**

**3 DECISION ON THE ISSUES ..... 4**

**3.1 NEED ..... 4**

**3.2 IMPACT ON PRICE OF ELECTRICITY SERVICE ..... 8**

**3.3 IMPACT ON RELIABILITY AND QUALITY OF SERVICE ..... 10**

**3.4 LAND MATTERS ..... 11**

**3.5 CONDITIONS OF APPROVAL ..... 12**

**3.6 EXTENSION TO CAPITAL CONTRIBUTION PAYMENT PERIOD..... 13**

**3.7 REGULATORY TREATMENT OF CAPITAL CONTRIBUTION ..... 14**

**3.8 PROPOSED CAPITAL CONTRIBUTION RECOVERY DIFFERENTIAL SUB-ACCOUNT AND CAPITAL CONTRIBUTION SUB-ACCOUNT ..... 17**

**3.9 REQUEST TO EXCLUDE REVENUE FROM DEFERRED CAPITAL CONTRIBUTIONS IN OTHER REVENUE VARIANCE ACCOUNT..... 18**

**4 ORDER ..... 20**

**SCHEDULE A..... 22**

**SCHEDULE B..... 23**

## 1 INTRODUCTION AND SUMMARY

This is a Decision and Order of the Ontario Energy Board (OEB) on an application filed by Hydro One Networks Inc. (Hydro One) under section 92 of the *Ontario Energy Board Act, 1998* (OEB Act) for leave to construct transmission facilities that will increase transmission and transformation capacity to accommodate load growth in the Barrie/Innisfil area of Ontario. Hydro One requested approval to:

- Upgrade two 115 kV circuits (E3B and E4B), approximately 9 kilometres in length, between Essa Transformer Station (TS) and Barrie TS to become a new 230 kV double circuit transmission line (the new circuit nomenclature will be E28 and E29)
- Construct new 230 kV connection points at the existing Essa TS, including the addition of three new breakers, to connect the E28 and E29 circuits<sup>1</sup>
- Upgrade and expand the existing Barrie TS yard with new 230 – 44 kV facilities, consisting of two new 75/125 MVA transformers and a new 44 kV switchyard

The transmission line and station work are collectively referred to as the Barrie Area Transmission Upgrade (BATU) Project. Hydro One also sought approval under section 97 of the OEB Act for the forms of agreements it offers to landowners to use their land for routing or construction of the proposed facilities. A map showing the location of the BATU Project is attached as Schedule A to this Decision and Order.

Hydro One sought approval under section 6.3.19 of the Transmission System Code (TSC) to establish a 15-year period over which InnPower Corporation (InnPower) will make installment payments to Hydro One on the capital contribution for the BATU Project. Hydro One also made a request under section 78 of the OEB Act to establish the Capital Contribution Recovery Differential Account. The account is intended to record: (1) the outstanding capital contribution unpaid by distributors; and (2) the interest revenue difference between the allowed interest charges that Hydro One can charge connecting distribution customers and the weighted average cost of capital (WACC) that Hydro One would otherwise be entitled to earn to keep Hydro One whole.

Pursuant to the OEB's authority under subsection 92(1) of the OEB Act, the OEB grants Hydro One's leave to construct the BATU Project. This approval is based on an

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<sup>1</sup> The two existing 230/115 kV autotransformers at Essa TS will be retired, as well as the associated end-of-life 115 kV switchyard infrastructure currently used to supply Barrie TS.

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examination of the project need, project costs, reliability and quality of service, land matters and conditions of approval. The leave is subject to the OEB's conditions of approval, attached as Schedule B to this Decision and Order. The OEB approves the forms of agreements set out in the application.

The OEB denies Hydro One's request for approval of a 15-year period for InnPower's payment of its capital contribution. InnPower has revised its installment payment period plans to the five years as permitted by the TSC. The capital contribution shall be recorded in a regulatory deferral sub-account to be drawn down as InnPower makes payments. A second regulatory deferral sub-account shall also be established to record the interest income difference between the construction work in progress (CWIP) and WACC rates on the unpaid capital contribution. The OEB also permits Hydro One to exclude interest income earned on unpaid capital contributions in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

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## 2 THE PROCESS

Hydro One filed an application on October 11, 2019. A Notice of Hearing was issued by the OEB on November 11, 2019. The Independent Electricity System Operator (IESO) applied for, and was granted, intervenor status.

In accordance with Procedural Order No. 1, OEB staff filed interrogatories on December 13, 2019. Hydro One's responses to interrogatories were received by the OEB on January 9, 2020.

On January 23, 2020, the OEB issued Procedural Order No. 2 ordering a technical conference to take place on February 11, 2020 for further clarification on matters related to interrogatory responses.<sup>2</sup> The OEB also cancelled the dates for submissions established in Procedural Order No. 1. Responses to undertakings given at the technical conference were filed with the OEB on February 18, 2020.

On February 24, 2020, the OEB issued Procedural Order No. 3, which provided for Argument-in-Chief, submissions from the IESO and OEB staff, and a reply submission from Hydro One. Hydro One filed its Argument-in-Chief with the OEB on February 28, 2020. On March 12, 2020, Hydro One filed a letter updating its cost estimate.

In accordance with Procedural Order No. 3, OEB staff filed its submission on March 18, 2020, while Hydro One filed its reply submission on March 30, 2020. InnPower filed a letter of comment on March 30, 2020.

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<sup>2</sup> OEB staff questioned representatives from Hydro One, InnPower and the IESO during the technical conference.

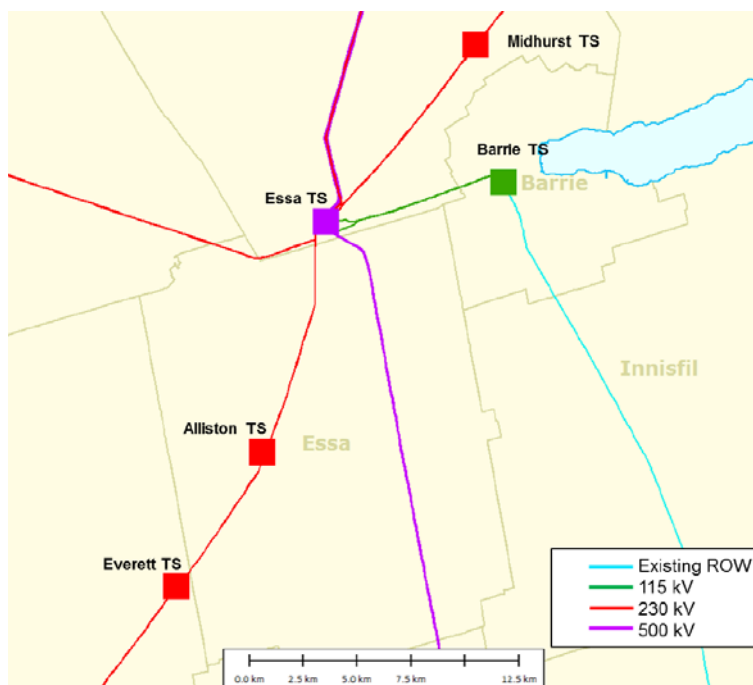
### 3 DECISION ON THE ISSUES

In reviewing applications under section 92 of the OEB Act, the OEB typically considers the need for the project and alternatives to the proposed project. The OEB's findings regarding the need for the BATU Project; the alternatives considered; the impacts of the BATU Project on price, reliability, quality of service; land matters; conditions of approval; and accounting-related matters are addressed in this chapter.

#### 3.1 Need

Electricity demand in the Barrie/Innisfil sub-region is supplied by Midhurst TS, Barrie TS, Alliston TS, and Everett TS. This area is supplied primarily by the bulk system, via the 500/230 kV autotransformer at Essa TS. InnPower is supplied from Barrie TS, Alliston TS and Everett TS. Barrie TS does not only supply InnPower; it also supplies Alectra Utilities Corporation (Alectra) – six feeders supply Alectra while one feeder supplies InnPower. Figure 1 provides a map of the Barrie/Innisfil area and identifies the location of the respective stations.

**Figure 1: Map of the Barrie/Innisfil Area**



According to the evidence, the BATU Project facilities are required to increase supply capacity to accommodate customer load growth in the Barrie/Innisfil area and to

address immediate end-of-life issues with the current transmission line and station facilities.

A letter from the IESO, dated December 7, 2015, to Hydro One identified the need to provide additional capacity to supply growth in the Barrie/Innisfil area and concluded that non-wires alternatives were not viable options.

The Integrated Regional Resource Plan (IRRP) for the Barrie/Innisfil sub-region, published on December 16, 2016, provided forecasted growth projections for the area and identified resulting near- and medium-term supply needs. The forecast in the IRRP included demand growth for both Alectra and InnPower. The South Georgian Bay/Muskoka Regional Infrastructure Plan (RIP), dated August 18, 2017, provided a consolidated summary of the needs and recommended plans for the area.

Hydro One noted in its application that, after the publishing of the RIP, Alectra had withdrawn its requirements for additional capacity for the area due to a lack of forecasted growth materializing. Even though Alectra had withdrawn its requirements for additional capacity, both Hydro One and the IESO confirmed the need for the BATU Project to address supply capacity and end-of-life infrastructure requirements in the area.

In March 2019, InnPower provided Hydro One with an updated forecast as further information regarding development in the Barrie/Innisfil area was known. InnPower's forecast increased from that provided in the IRRP and RIP. InnPower forecasted residential, industrial and commercial growth in the Barrie/Innisfil area, noting that 25,000 new homes were planned for construction, which would require an increase of approximately 85 MVA of peak power. InnPower stated that anticipated industrial, commercial and institutional development is expected to add an additional 90 MVA of peak power requirements.<sup>3</sup>

According to Hydro One's evidence, the current total existing supply capacity assigned by Hydro One to InnPower is 67 MVA with limited capability for load transfers to address long-term growth needs in the area.<sup>4</sup> In 2019, InnPower's peak demand was 64 MVA.<sup>5</sup> Hydro One submitted that the existing load-meeting capability of the E3B and

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<sup>3</sup> Exhibit B / Tab 1 / Schedule 1 / Attachment 1 / p. 1

<sup>4</sup> Supply capacity for Barrie TS, Alliston TS and Everett TS are 14 MVA, 50 MVA and 3 MVA, respectively.

<sup>5</sup> InnPower Undertaking JT1.1 / Table JT 1.1-1



E4B circuits, and transformation capacity at Barrie TS, are not sufficient to meet the growth projections outlined by InnPower.

The transfer of an Alectra feeder from Barrie TS to Midhurst TS will allow InnPower demand to be supplied by Barrie TS in the short-term. However, an updated load forecast for Barrie TS from Hydro One, in response to undertakings, illustrated that Barrie TS will exceed its capacity in 2023.<sup>6</sup>

During the technical conference, the IESO reiterated the need for the BATU Project due to growth in the Barrie/Innisfil area and the subsequent need to enhance the capacity at Barrie TS. The IESO also supported the BATU Project as being the appropriate solution to address long-term needs in the area.

In addition to providing load forecasts for InnPower, the IRRP stated that Metrolinx has applied to connect to the transmission system in the Barrie area to develop an electrified traction power station (Allandale Traction Power Station). The RIP estimated the Allandale Traction Power Station will require 40-50 MW of capacity.<sup>7</sup> OEB staff noted in its submission that Metrolinx's electrification of rail corridors is targeted for completion in 2025.

Hydro One's station assessment<sup>8</sup> confirmed the need to replace end-of-life equipment at Barrie TS, including the T1 and T2 transformers, the majority of the 44 kV switchgear, capacitor banks, and associated ancillary equipment.<sup>9</sup> At Essa TS, Hydro One's assessment confirmed the need to replace end-of-life equipment in its 115 kV switchyard, which includes the 230/115 kV T1 autotransformer, a station service transformer, the majority of the 115 kV switchgear, and associated protection and ancillary equipment. The balance of the infrastructure on both E3B and E4B circuits, with the exception of the conductor and some associated assets, has reached end-of-life and requires replacement. The E3B transmission facilities are between 69 and 71 years old while E4B transmission facilities are 58 years old.<sup>10</sup>

Hydro One considered three alternatives to address the needs for this project:

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<sup>6</sup> Hydro One Undertaking JT1.5 / Table 2

<sup>7</sup> Exhibit B / Tab 3 / Schedule 1 / Attachment 3 / p. 39

<sup>8</sup> Hydro One stated that the methodology used to determine end-of-life facilities is consistent with that submitted in its transmission rate application (EB-2019-0082).

<sup>9</sup> Exhibit I / Tab 1 / Schedule 4 / pp. 2-7

<sup>10</sup> Exhibit I / Tab 1 / Schedule 4 / p. 7

- *Alternative One – Maintaining the current 115 kV supply to the Barrie/Innisfil area through like-for-like replacement of the end-of-life facilities at Barrie TS and Essa TS:* The aging conductors and poles along the E3B and E4B circuits would also be replaced like-for-like.
- *Alternative Two – Construct a new Dual Element Spot Network (DESN) transformation station at Essa TS and decommission Barrie TS:* Barrie TS and the 115 kV transmission assets at Essa TS would be decommissioned and a new 230/44 kV DESN transformation site, within the yard of Essa TS.
- *Alternative Three – Rebuild Barrie TS to 230 kV supply:* The existing end-of-life 115 kV switchyard at Barrie TS and the existing 230/115 kV autotransformer at Essa TS would be retired. The 115 kV E3B and E4B circuits would be replaced with a 230 kV double circuit to supply the rebuilt 230 kV Barrie TS directly from the expanded Essa TS 230 kV system.

Alternative Three was recommended by the working group in the IRRP.<sup>11</sup> Hydro One selected Alternative Three as the recommended technical solution submitting that it addresses near- and medium-term capacity needs, removes an aging 115 kV switchyard at Essa TS, and enables future expansion capability to supply the region's long-term capacity needs.<sup>12</sup> Hydro One stated that the BATU Project is the most appropriate and cost-effective solution to address the timeline and magnitude of the need in the Barrie/Innisfil area.

Alternative One and Alternative Two both address end-of-life needs and are less expensive than Alternative Three, but were not selected due to their inability to sufficiently accommodate growth. Alternative One, the least expensive alternative, would not result in additional incremental capacity at Barrie TS or any additional 115 kV supply from Essa TS and limits options for future expansion of the transmission system. Alternative Two would provide additional capacity in the near-term, but limits options for future expansion of the transmission system. Further, when compared to Alternative Three, Alternative Two would have higher system losses due to longer distribution voltage rated feeders.<sup>13</sup>

OEB staff submitted that it supports the BATU Project as the upgraded transmission line and station facilities will replace end-of-life assets and assist in increasing supply

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<sup>11</sup> Exhibit B / Tab 3 / Schedule 1 / Attachment 2 / pp. 46-47

<sup>12</sup> Exhibit B / Tab 5 / Schedule 1 / p. 4

<sup>13</sup> Exhibit B / Tab 5 / Schedule 1 / pp. 1-2

capacity, accommodating InnPower's forecasted customer load growth in the Barrie/Innisfil area. OEB staff noted although there may be a question as to the exact amount of growth that will materialize in a given year, it is clear that the Barrie/Innisfil area is growing and that additional supply capacity will be needed over the long-term, even in the absence of Alectra.

## Findings

The OEB finds that the BATU Project facilities are required to increase supply capacity to accommodate customer load growth in the South of Barrie and Innisfil area and to address immediate end-of-life issues. This project was supported by the IESO following the development of an integrated resource plan. InnPower identified sustained strong future load growth with 24,545 residential and 40 commercial units forecasted to be constructed between 2020 and 2032.

Three alternatives were examined. Hydro One submitted that the recommended alternative addresses near-term and medium-term capacity needs, removes an aging 115 kV switchyard at Essa TS, and allows for future expansion capability to supply the region's long-term capacity needs. The IESO noted that the project also addresses end-of-life needs at Barrie TS, Essa TS and components of the 115 kV supply infrastructure.

Finally, the BATU Project will also accommodate load growth associated with future Metrolinx connections to facilitate the electrification of rail corridors.

The OEB finds that the proposed BATU Project is needed.

## 3.2 Impact on Price of Electricity Service

The total cost estimate of the BATU Project is \$91 million – consisting of a capital in-service cost of \$86.4 million and removal costs of \$4.6 million. The capital in-service cost of the BATU Project is comprised of \$22.9 million in line costs and \$63.5 million in station costs. Hydro One states that the BATU Project cost estimate is an Association for the Advancement of Cost Engineering (AACE) Class 3 estimate.

In the absence of the need for the BATU Project, Hydro One submits that it would have undertaken certain sustainment work on both E3B and E4B circuits, Essa TS and Barrie TS. The avoided cost of sustainment work was initially estimated to be \$56.2 million. However, on March 12, 2020, Hydro One filed a letter informing the OEB that the avoided sustainment cost estimate was revised to \$59.2 million – representing a 5.3%

increase from the estimate provided in the pre-filed evidence. The cost allocated to InnPower for line and station work is limited to the incremental costs relative to the cost of the avoided sustainment work, consistent with section 6.7.2(b) of the TSC.

Hydro One provided cost information for three comparable line projects – the Guelph Area Transmission Reinforcement (GATR) Project, the Woodstock Area Transmission Reinforcement (WATR) Project, and the South Georgian Bay Transmission Reinforcement (SGTR) Project. The comparable line project costs included an escalation adjustment of 2% per year. Hydro One considers the GATR, WATR and SGTR projects to be similar to the BATU Project since they replace 115 kV circuits with a relatively short length of double circuit 230 kV transmission line in a rural/semi-urban environment on existing Hydro One right-of-way – a scope similar to the line work for the BATU Project. The line cost per kilometre for the BATU Project is \$2.5 million/km, which is within the \$2.1 million/km and \$4.8 million/km range of the comparable line projects.

Hydro One also provided comparisons for the construction costs of station facilities. For the work at Essa TS, three comparable station projects were provided by Hydro One – the Detweiler TS Static Var Compensator (SVC) Project, Hydro Quebec Interconnection Project, and Detour Lake 230 kV Line Connection Project. The comparable station project costs included an escalation adjustment of 2% per year. Work at Essa TS is estimated to cost \$28.4 million while the Detweiler TS SVC Project, Hydro Quebec Interconnection Project, and Detour Lake 230 kV Line Connection Project cost \$32.1 million, \$28.1 million and \$28.7 million, respectively.

Hydro One provided cost comparisons for the station work at Barrie TS. The three comparable projects cited by Hydro One included the St. Isadore TS Project, Palmerston TS Refurbishment Project, and Enfield TS New DESN. Work at Barrie TS is estimated to cost \$35.1 million while the St. Isadore TS Project, Palmerston TS Refurbishment Project, and Enfield TS New DESN cost \$37.2 million, \$36.1 million and \$33.0 million, respectively.

Hydro One submitted that based on the load forecast, project cost, capital contribution from InnPower, and ongoing maintenance costs, the BATU Project will have minimal impacts on rates. Further, over a 25-year time horizon, Hydro One forecasts that the change in the line pool revenue requirement is not material enough to incrementally impact the Uniform Transmission Rate line pool rate. Hydro One states that the revenue requirement for station work at Essa TS should not have an impact on the network pool rate over the first seven years of the 25-year time horizon. Moreover, as load increases, the network rate will be reduced by the eighth year as the network pool rate will

decrease to \$3.82/kW/month. Finally, for station work at Barrie TS, the transformation pool rate will increase from \$2.30/kW/month to \$2.31/kW/month in year two.

OEB staff submitted that the evidence provided by Hydro One on cost information for comparable projects suggests that the cost estimates for the BATU Project are reasonable. OEB staff also submitted that Hydro One's pre-filed evidence demonstrates that the BATU Project will have no material adverse impact on transmission rates or customer bills as the rate impacts are anticipated to be minimal. In its reply submission, Hydro One restated that impacts on its transmission ratepayers will be negligible.

### Findings

The BATU Project was forecasted to cost \$91 million with an avoided sustainment cost estimate of \$59.2 million that will be allocated to the transmission rate pool and a customer capital contribution of \$14.4 million.

Cost information provided for comparable projects confirms that the projected project cost is reasonable. With the considerable support for the cost forecast provided by Hydro One, and the negligible impact of the project on Hydro One Transmission's ratepayers, the OEB accepts the BATU Project costs.

### 3.3 Impact on Reliability and Quality of Service

OEB staff asked Hydro One to comment on any reliability and/or back-up supply concerns for Barrie TS as the new 230 kV E28 and E29 circuits would be located on a single tower instead of on separate tower lines like the existing 115 kV E3B and E4B circuits. In response, Hydro One stated that in the extremely rare event that both new 230 kV circuits are unavailable, supply to Barrie TS would be lost. As Barrie TS has low voltage transfer capacity with Midhurst TS and Alliston TS, load transfers would occur to temporarily restore power to the affected loads until at least one of the 230 kV circuits is restored into service.<sup>14</sup>

Hydro One noted that in terms of reliability, the supply reliability for customers currently supplied from Barrie TS is not expected to change. In fact, with the upgraded 230 kV

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<sup>14</sup> Exhibit I / Tab 1 / Schedule 2 / pp. 1-2

supply, customers can expect to experience better reliability due to the new assets and facilities that will replace the current end-of-life assets in operation.<sup>15</sup>

In the pre-filed evidence, Hydro One filed both the IESO's final System Impact Assessment (SIA) for the connection of the transmission facilities and the final Customer Impact Assessment (CIA). The conclusion of the IESO's SIA is that the BATU Project is expected to have no material adverse impact on the reliability of the integrated power system, provided that the requirements in the IESO report are implemented. Hydro One's CIA concludes that the BATU Project will have no material impact on customers of the area.

OEB staff submitted that based on the evidence provided, there are no concerns with respect to reliability and quality of electricity service associated with the BATU Project.

### Findings

Hydro One observed that with the replacement of end-of-life assets customers could expect to experience better reliability. The IESO's SIA indicated the BATU Project is expected to have no material adverse impact on the reliability of the integrated power system. In addition, the final CIA concluded that the BATU Project has no material impact on area customers.

The OEB finds that the BATU Project has no negative impact and will possibly result in an improvement in reliability and quality of service.

## 3.4 Land Matters

Hydro One identified in the evidence that it will use existing land rights for the BATU Project and that it will be acquiring additional permanent and temporary land rights. Hydro One stated that it has completed all 15 permanent land rights agreements required. Hydro One identified that it will require three temporary access rights and that no substantial concerns have been raised by impacted landowners with respect to the BATU Project. Further, Hydro One confirmed it does not require any permits and/or approval to occupy municipal road allowances and that the right-of-way does not impact

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<sup>15</sup> Hydro One Argument-in-Chief / pp. 2-3

federal or provincial lands which require permitting or cross highway, rail, or permanent water crossings.<sup>16</sup>

Hydro One seeks approval of the forms of agreements offered, or to be offered, to affected landowners. Hydro One confirmed that the forms of agreements included in the pre-filed evidence were previously approved by the OEB in the Power South Nepean Project<sup>17</sup> application.<sup>18</sup>

OEB staff submitted that it reviewed the proposed forms of agreements and has no issues or concerns with Hydro One's proposed forms of land agreements. OEB staff further submitted that these agreements are consistent with the forms of agreements previously approved by the OEB in past Hydro One leave to construct applications and with the OEB's *Filing Requirements for Electricity Transmission Applications*.

## Findings

The OEB approves the forms of agreements proposed for the acquisition of permanent and temporary land rights.

## 3.5 Conditions of Approval

Under subsection 23(1) of the OEB Act, the OEB may, in making an order, impose such conditions as it considers proper.

OEB staff supported Hydro One's proposal and submitted that leave to construct the BATU Project should be granted subject to the conditions of approval listed in Schedule B.

OEB staff noted that the conditions it proposed are based on the standard set of conditions the OEB has previously approved in leave to construct applications, including a modification to condition 5 based on a recent decision by the OEB in Hydro One's D6V/D7V application for refurbishing a portion of transmission line.<sup>19</sup>

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<sup>16</sup> Exhibit I / Tab 1 / Schedule 11 / pp. 4-5

<sup>17</sup> EB-2019-0077

<sup>18</sup> Exhibit I / Tab 1 / Schedule 12 / p. 1 and Hydro One Reply Submission / p. 6

<sup>19</sup> EB-2019-0165

Hydro One expressed that it does not have any concerns with OEB staff's five proposed conditions of approval and submitted that the conditions be approved as documented in OEB staff's submission.<sup>20</sup>

## Findings

The OEB approves the proposed conditions of approval which are based on the standard set of conditions that the OEB approved in prior leave to construct applications.

The approved Conditions of Approval are attached as Schedule B to this Decision and Order.

### 3.6 Extension to Capital Contribution Payment Period

A request was made under section 6.3.19 of the TSC to extend the capital contribution payment period from five years to 15 years in the pre-filed evidence, in which InnPower will make installment payments to Hydro One for the BATU Project. A letter of support from InnPower, dated May 23, 2019, stated the 15-year period reduces immediate financial stress, aligns with InnPower's forecast load growth timeframe, does not cause significant impact on Hydro One transmission's asset pool, and is in line with the current capital contribution refund period for transmission projects.<sup>21</sup>

In the Notice of Revised Proposal to Amend a Code (August 2018 Notice), the OEB states that the only justification it foresees for the extension of a capital contribution payment period past five years is "...where the consumer bill impacts are still too high and continue to present a barrier to the implementation of a regional plan."<sup>22</sup>

OEB staff submitted that InnPower has not demonstrated there will be high bill impacts necessitating a capital contribution payment period extension beyond five years. OEB staff also noted that InnPower does not require an extension to the capital contribution period due to any breaches of debt covenants.

On March 30, 2020, InnPower filed a letter of comment with the OEB. InnPower states that it accepts OEB staff's recommendation for repayment of the capital contribution

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<sup>20</sup> Hydro One Reply Submission / p. 7

<sup>21</sup> Exhibit B / Tab 1 / Schedule 1 / Attachment 1 / p. 2

<sup>22</sup> Revised Proposed Amendment to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning / EB-2016-0003 / August 23, 2018 / p. 16



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over a five-year period rather than the 15-year period originally requested, beginning the year the BATU Project is in-service.

## Findings

Hydro One had originally requested an extended period of 15 years for capital contribution installments based on a request from InnPower. In the letter of March 30, 2020, InnPower agreed with OEB staff that a capital contribution installment period of five years would not cause InnPower to breach any of its debt covenants, nor would it lead to significant bill impacts for InnPower's customers. InnPower's current proposal is for a repayment of the capital contribution over a five-year period starting in the year the asset goes into service.

Although the five-year term for capital contribution does not require OEB approval in accordance with section 6.3.19 of the TSC, the OEB makes note that the OEB accepts the five-year capital contribution installment period in light of consideration of a 15 year term in the original application.

### 3.7 Regulatory Treatment of Capital Contribution

Hydro One proposes a loan methodology (Loan Methodology) to record costs associated with the BATU Project. Hydro One submitted that if it uses the standard capital contribution methodology, the Net Book Value Reduction Methodology, transmission ratepayers will be impacted by negative tax consequences.<sup>23</sup> As such, Hydro One submits the Loan Methodology will save ratepayers over \$2 million during the capital contribution period as well as keep Hydro One whole.

The Loan Methodology will record the net cost (excluding the full capital contribution) of the BATU Project in Hydro One's rate base once in-service, while InnPower will record its capital contribution payments in its rate base as it is paid. The deferral of the capital contribution payment from InnPower will be treated as a loan – a position OEB staff agreed with in its submission. Hydro One also seeks approval to establish a generic regulatory account, the Capital Contribution Recovery Differential Account, of which there will be two sub-accounts:

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<sup>23</sup> Reducing the net book value of the asset as payments are received.

1. *Distributor Contribution Sub-account*: Will record the unpaid balance of the capital contribution and be drawn down as the distributor pays its capital contribution.
2. *Capital Contribution Recovery Differential Sub-account*: Will record the difference between the interest income at the CWIP rate that Hydro One is to receive from the distributor per the TSC and the OEB-approved WACC for return on rate base.

Hydro One states that the proposal will allow Hydro One to earn a return on rate base on any outstanding balance in capital contribution for the in-serviced asset and allow the distributor to earn a return on rate base for any installment payments made on its capital contribution owing. Hydro One submitted this proposal is in alignment with the August 2018 Notice.<sup>24</sup>

OEB staff disagreed with elements of Hydro One's proposed methodology and submitted that the regulatory treatment of the capital contribution should be the same as if InnPower borrowed the required funds externally. As such, OEB staff proposed the following treatment:

1. InnPower should include the full capital contribution in its rate base as an intangible asset when the BATU Project goes into service since it will be considered as used and useful to InnPower. In addition, InnPower should record a corresponding payable to Hydro One.
2. Hydro One should include the full capital contribution as an offset in its rate base when the BATU Project goes into service, with a corresponding receivable from InnPower.

Hydro One, through its reply submission, disagreed with OEB staff's proposed treatment of the transaction. Hydro One submitted that allowing InnPower to earn WACC on the unpaid capital contribution, and having Hydro One receive interest payments at the CWIP rate will cause Hydro One's shareholders to take on additional financing risk at a pre-determined, non-negotiated rate. In addition, Hydro One stated that OEB staff's submission would result in Hydro One loaning at least 80% of the capital contribution to a distributor, with the distributor including 100% of its capital

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<sup>24</sup> Hydro One Reply Submission / p. 8

contribution as rate base, although ratemaking principles allow a debt-to-equity ratio of only 60:40.<sup>25</sup>

## Findings

### *Hydro One rate base implication of the installment approach to capital contributions*

Both Hydro One and OEB staff agreed that the full amount of the capital contribution should be deducted from the cost of the project and not included in Hydro One's rate base when the asset is placed in-service. Hydro One has requested that the capital contribution be recorded in a regulatory deferral sub-account to be drawn down as InnPower makes payments.

The OEB agrees with this treatment and is establishing the deferral sub-account requested by Hydro One.

### *InnPower rate base implication of the installment approach to capital contributions*

OEB staff submitted that InnPower should include the full capital contribution in its rate base as an intangible asset when the asset goes into service as it is considered used and useful to InnPower. This approach would have InnPower earning its WACC on an asset that it had not paid for. The alternative approach is that as InnPower makes the capital contributions, the rate base is increased by the amount paid.

Under OEB staff's proposal, the distributor would be able to earn a full return on rate base (at WACC) on an unpaid capital contribution. This would allow a distributor to earn its WACC on an asset and pay Hydro One only a lower CWIP rate on the unpaid balance, at no risk to the distributor's shareholders, while imposing costs or risks with no return to the transmitter. This could encourage distributors to defer capital contribution payments. If Hydro One had only lowered its rate base by the amount of capital contribution that it had received, Hydro One would have earned the WACC on the unpaid capital contribution. Hydro One has proposed a deferral sub-account which would track the difference between the CWIP paid by InnPower and the WACC that it would have received had it not proposed to exclude the capital contribution from rate base and include it in the proposed sub-account.

Hydro One's proposal would result in: (1) Hydro One earning a return on rate base on any outstanding balance in capital contribution for the in-serviced asset; and (2) the

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<sup>25</sup> Hydro One Reply Submission / p. 11

distributor customer earning a return on rate base for any installment payments made on its capital contribution owing. This is in alignment with the August 2018 Notice.

The OEB finds that it is appropriate that InnPower only record in its rate base the amounts that it has paid. The OEB agrees that to keep Hydro One whole, a deferral sub-account tracking the difference between CWIP and WACC on the unpaid capital contribution should be established.

### **3.8 Proposed Capital Contribution Recovery Differential Sub-account and Capital Contribution Sub-account**

During the proceeding, Hydro One argued that it will incur a revenue shortfall from any deferral of capital contribution payments if the proposed account, and two sub-accounts, are not established to capture the difference between the interest income Hydro One will receive at the CWIP rate per the TSC and its approved WACC on the unpaid capital contribution. As such, Hydro One submitted it should be able to receive the WACC on the unpaid capital contribution in order to be kept whole.

With regard to the OEB's causation, prudence and materiality eligibility criteria for establishing a new account, Hydro One submitted that it has met the criteria. For causation, Hydro One stated that costs to be captured in the proposed account fall outside the base upon which Hydro One's rates have been derived. For prudence, Hydro One noted the 15-year extension request over which InnPower will make capital contribution payments for the BATU Project. Regarding materiality over the 2020-2021 period, Hydro One forecasted \$250 million of capital contributions from distributors and expects the annual amounts it will record in this account will exceed its materiality threshold.<sup>26</sup>

For the causation criteria to establish a new account, OEB staff agreed that the costs to be captured in the proposed account fall outside the base upon which Hydro One's rates have been derived. However, OEB staff highlighted that the proposed account will be disposed to Hydro One ratepayers and that this does not align with the beneficiary pays principle. In its reply submission, Hydro One stated that it is not opposed to an

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<sup>26</sup> Hydro One Argument-in-Chief / pp. 5-6

alternative recovery of any balance in the regulatory account following the beneficiary pays principle.<sup>27</sup>

OEB staff submitted that it was unclear whether the amount potentially recorded in the Capital Contribution Recovery Differential Account will exceed Hydro One's \$3 million materiality threshold. As such, OEB staff questioned whether the materiality criteria would be met in order to establish a new account.

OEB staff submitted it takes no issue with the use of the Loan Methodology if the account is approved.

## Findings

Hydro One requested the establishment of a generic regulatory deferral account to record two project-related elements: (1) in-service additions subject to a capital contribution that will be paid in installments; and (2) the interest revenue difference between the allowed interest charges chargeable to connecting distribution customers and the WACC.

The OEB has determined that the requested deferral account with two sub-accounts are appropriate for the BATU Project. For a new generic deferral account, the utility must satisfy the prudence, causation and materiality threshold criteria for the OEB to approve its establishment. The OEB finds that there is insufficient evidence at this time to determine if a generic account is required. The OEB will make the determination of the need for the requested deferral account on a case-by-case basis.

### 3.9 Request to Exclude Revenue from Deferred Capital Contributions in Other Revenue Variance Account

Through a response to an undertaking and in its Argument-in-Chief, Hydro One requested an exemption to exclude the interest income earned on deferred capital contributions from the calculation of the amount recorded in Hydro One Transmission's External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.<sup>28</sup>

The External Station Maintenance, E&CS Revenue and Other Revenue Variance Account will true-up actual Other Income to the annual OEB-approved Other Income

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<sup>27</sup> Hydro One Reply Submission / p. 15

<sup>28</sup> Hydro One Undertaking JT1.10 and Hydro One Argument-in-Chief / pp. 6-7

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amount and return the difference to ratepayers. Hydro One submitted that recording interest income earned on the unpaid capital contribution in this account will be contrary to the OEB's objective of keeping the transmitter whole and permitting the transmitter to recover those costs of deferring the capital contribution from distributors.<sup>29</sup>

OEB staff submitted it agrees with Hydro One's proposal to exclude the interest income earned on unpaid capital contributions from the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account. OEB staff noted that this is a new stream of revenues not considered in the 2020-2022 transmission rate application filed by Hydro One.<sup>30</sup>

### **Findings**

The OEB notes that OEB staff agreed with Hydro One's proposal to exclude interest income earned on unpaid capital contributions from the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

The OEB approves Hydro One's request to exclude interest income earned on unpaid capital contributions from the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

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<sup>29</sup> Hydro One Argument-in-Chief / p. 7

<sup>30</sup> EB-2019-0082

## 4 ORDER

### THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc. is granted leave, pursuant to section 92 of the OEB Act, to construct the BATU Project as described in the application.
2. Leave to construct is subject to Hydro One Networks Inc. complying with the Conditions of Approval set forth in Schedule B.
3. The OEB approves the proposed forms of agreements that Hydro One Networks Inc. has offered or will offer to each owner of land affected by the BATU Project.
4. Hydro One Networks Inc. shall exclude interest income earned on unpaid capital contributions in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.
5. Hydro One Networks Inc. shall file a draft accounting order for the Contribution Recovery Differential Account with the OEB no later than **May 7, 2020**.
6. OEB staff shall file any comments on the draft accounting order with the OEB, and forward to Hydro One Networks Inc. no later than **May 21, 2020**.
7. Hydro One Networks Inc. shall file with the OEB any comments in response to OEB staff comments on the draft accounting order no later than **June 4, 2020**.
8. Hydro One Networks Inc. shall pay the OEB's costs of, and incidental to, this proceeding upon receipt of the OEB's invoice.

All materials filed with the OEB must quote the file number, **EB-2018-0117**, be made in a searchable/unrestricted PDF format and sent electronically through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice>. Filings must clearly state the sender's name, postal address and telephone number, fax number and email address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <https://www.oeb.ca/industry>. If the web portal is not available parties may email their documents to [boardsec@oeb.ca](mailto:boardsec@oeb.ca).

NOTE: The OEB is temporarily waiving the paper copy filing requirement until further notice. All communications should be directed to the attention of the Board Secretary 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, David Martinello, at [David.Martinello@oeb.ca](mailto:David.Martinello@oeb.ca) and OEB Counsel, James Sidlofsky at [James.Sidlofsky@oeb.ca](mailto:James.Sidlofsky@oeb.ca).

**DATED** at Toronto April 23, 2020

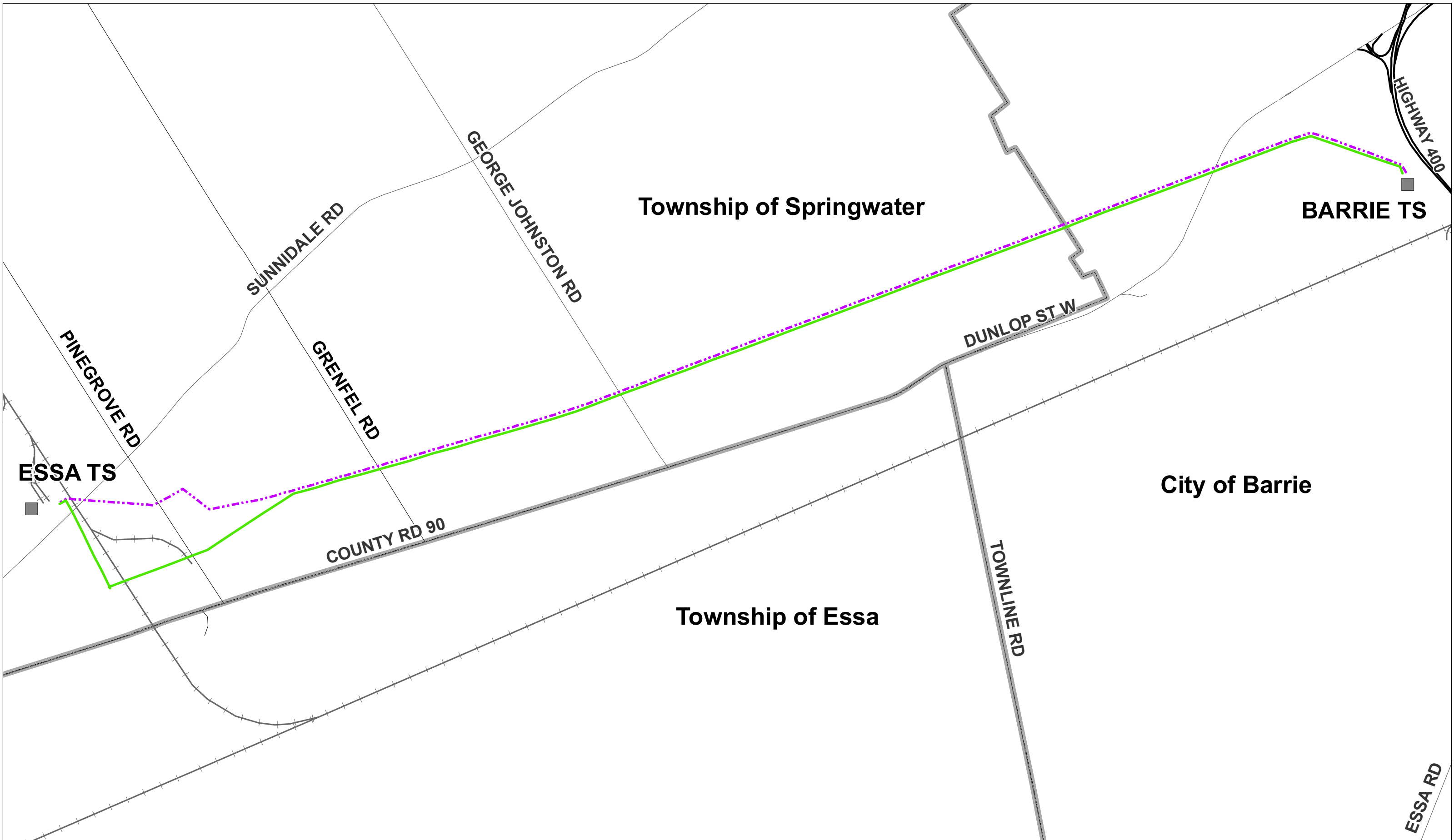
**ONTARIO ENERGY BOARD**


*Original Signed By*

Christine E. Long  
Registrar and Board Secretary



**SCHEDULE A**  
**DECISION AND ORDER**  
**HYDRO ONE NETWORKS INC.**  
**EB-2018-0117**  
**APRIL 23, 2020**










  
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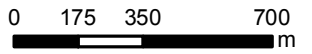
-  Transformer Stations (TS)
-  Transmission Line to be Upgraded
-  Transmission Line to be Removed

-  Highways
-  Roads
-  Railway

 Municipal Boundary

**Barrie Area Transmission Upgrade:  
Project Area Map**

1:20,500




**SCHEDULE B**  
**DECISION AND ORDER**  
**HYDRO ONE NETWORKS INC.**  
**EB-2018-0117**  
**APRIL 23, 2020**

**SCHEDULE B – CONDITIONS OF APPROVAL**  
**APPLICATION UNDER SECTION 92 OF THE OEB ACT**

**HYDRO ONE NETWORKS INC.**

**EB-2018-0117**

1. Hydro One shall fulfill any requirements of the SIA and the CIA, and shall obtain all necessary approvals, permits, licences, certificates, agreements and rights required to construct, operate and maintain the project.
2. Unless otherwise ordered by the OEB, authorization for leave to construct shall terminate 12 months from the date of the Decision and Order, unless construction has commenced prior to that date.
3. Hydro One shall advise the OEB of any proposed material change in the project, including but not limited to changes in: the proposed route, construction schedule, necessary environmental assessment approvals, and all other approvals, permits, licences, certificates and rights required to construct the project.
4. Hydro One shall submit to the OEB written confirmation of the completion of the project construction. This written confirmation shall be provided within one month of the completion of construction.
5. Hydro One shall designate one of their employees as project manager who will be the point of contact for these conditions, and shall provide the employee's name and contact information to the OEB and to all affected landowners, and shall clearly post the project manager's contact information in a prominent place at the construction site.



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# DECISION AND ACCOUNTING ORDER

**EB-2018-0117**

## HYDRO ONE NETWORKS INC.

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

**BEFORE: Michael Janigan**  
Presiding Member

**Robert Dodds**  
Vice Chair and Member

**Susan Frank**  
Member

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**June 11, 2020**

**TABLE OF CONTENTS**

**1 INTRODUCTION AND SUMMARY..... 1**

**2 DECISION ON DRAFT ACCOUNTING ORDER ..... 2**

**3 ORDER ..... 3**

**SCHEDULE A..... 4**

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## 1 INTRODUCTION AND SUMMARY

This is a Decision and Order of the Ontario Energy Board (OEB) on an application filed by Hydro One Networks Inc. (Hydro One) under section 92 of the *Ontario Energy Board Act, 1998*. Hydro One sought, among other things, leave to construct transmission facilities that will increase transmission and transformation capacity to accommodate load growth in the Barrie/Innisfil area of Ontario (BATU Project) and to establish a generic regulatory deferral account – the Capital Contribution Recovery Differential Account, with two sub-accounts.

The OEB issued its Decision and Order with respect to Hydro One's BATU Project application on April 23, 2020 (April Decision). Hydro One was granted leave to construct the BATU Project, however, the OEB granted approval of the establishment of the Capital Contribution Recovery Differential Account specifically for the BATU Project, not on a generic basis. The OEB also permitted Hydro One to exclude interest income earned on unpaid capital contributions in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

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

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

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## 2 DECISION ON DRAFT ACCOUNTING ORDER

OEB staff identified two concerns regarding the draft accounting order filed by Hydro One on May 7, 2020. First, Hydro One proposed the offsetting account to Account 1508 – Other Regulatory Assets, Sub-account BATU Capital Contribution Recovery Differential Account to be Account 6035 – Other Interest Expense. OEB staff stated that as it expects interest income to be recorded in the account, the appropriate account to record the interest in would be Account 4405 – Interest and Dividend Income, not Account 6035.<sup>1</sup>

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

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

### Findings

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

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<sup>1</sup> OEB Staff Submission / p. 3



### 3 ORDER

#### THE ONTARIO ENERGY BOARD ORDERS THAT:

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

**DATED** at Toronto June 11, 2020

#### ONTARIO ENERGY BOARD

*Original Signed By*

Christine E. Long  
Registrar and Board Secretary

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

## **Hydro One Networks Inc. Transmission**

### **Draft Accounting Order**

#### **Account 1508 – Other Regulatory Assets, Sub-account Capital Contribution Recovery Differential Account**

Hydro One shall establish the “Capital Contribution Recovery Differential Account”. In the Decision and Order in EB-2018-0117 dated April 23, 2020, the Ontario Energy Board (OEB) approved, the establishment of a new deferral account, “Capital Contribution Recovery Differential Account” to capture the difference between the interest income Hydro One Networks Inc. (“Hydro One”) will receive at the OEB’s prescribed Construction Work in Progress (CWIP)<sup>1</sup> rate and Hydro One Transmission’s OEB-approved Weighted Average Cost of Capital (WACC) on the unpaid capital contribution from the customer, who for this OEB-approved leave to construct project is InnPower Corporation (“InnPower”).

The first deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-account BATU Contribution, which will be used to track InnPower’s total capital contribution payable to Hydro One and will record the annual capital contribution payments made to Hydro One by InnPower. There will be a corresponding contra-sub-account.

The second deferral sub-account established is Account 1508 – Other Regulatory Assets, Sub-account BATU Capital Contribution Recovery Differential Account, which will record the amount related to the tax grossed-up difference between i) the required revenue requirement for the capital cost of the BATU Project that remains funded by Hydro One (i.e., capital contribution outstanding) at Hydro One’s OEB-approved WACC, and ii) the interest income received from InnPower in accordance with TSC 6.3.19.

Additionally, it is noted that the OEB ordered that interest income earned by Hydro One on the unpaid capital contribution balance shall be excluded from the calculation of amounts recognized in Hydro One transmission’s existing deferral account, External Station Maintenance, E&CS Revenue and Other Revenue Variance Account.

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<sup>1</sup> Section 6.3.19 of the TSC requires the transmitter to charge a Distributor interest on the unpaid balance at the Board’s prescribed CWIP rate which is updated quarterly and published on the Board’s website.

The deferral account sub-accounts will be established as follows:

- 1) Account 1508, Other Regulatory Assets – Sub-Account BATU Contributions
- 2) Account 1508, Other Regulatory Assets – Sub-Account BATU Contribution, Contra-account
- 3) Account 1508, Other Regulatory Assets – Sub-Account BATU Capital Contribution Recovery Differential Account

These sub-accounts will be effective on the in-service date of the BATU Project. Hydro One will record interest on the balance in the Sub-account BATU Capital Contribution Recovery Differential Account using the prescribed interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries:

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

To record InnPower's total capital contribution payable to Hydro One at the BATU Project's date of in-service

Dr: 1508	Other Regulatory Assets, Sub account BATU Contribution Contra-account
Cr: 1508	Other Regulatory Assets – Sub account BATU Contribution

To record the annual capital contribution instalment payments for the BATU Project, made by InnPower to Hydro One

Dr: 1508	Other Regulatory Assets – Sub account BATU Capital Contribution Recovery Differential Account
Cr: 4110	Transmission Services Revenue

To record the difference between the interest income at the CWIP rate that Hydro One is to receive from the distributor (per the TSC) and the revenue requirement at Hydro

One's OEB-approved WACC for return on rate base on the balance of the deferred capital contribution outstanding.

Dr: 1508            Other Regulatory Assets – Sub account BATU Capital Contribution  
                          Recovery Differential Account

Cr: 4405            Interest and Dividend Income

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

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<sup>2</sup> Undertaking EB-2018-0117 Exhibit JT1.10 provides full details of all accounting entries related to the deferral of the capital contribution including entries not directly impacting the Regulatory Account. Exhibit B-9-1, Attachment 1, pages 3-4 provides sample calculation using the Loan Methodology.