



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

DECISION AND ORDER

EB-2017-0338

HYDRO ONE NETWORKS INC.

**Application for an Accounting Order approving the establishment of a
deferral account**

**Before: Lynne Anderson
Presiding Member**

May 10, 2018

1 INTRODUCTION AND SUMMARY

This is the Decision of the Ontario Energy Board (OEB) on a request by Hydro One Networks Inc. (Hydro One) to establish a deferral account to capture the financial impacts associated with a change to accounting standards for pension and other post-employment benefits (OPEB) costs for Hydro One's transmission business. Hydro One filed its application on November 2, 2017, and requested that the deferral account be effective January 1, 2018.

The OEB adopted the intervenors of record from Hydro One's 2017-2018 transmission revenue requirement proceeding¹ as the intervenors in this proceeding. In the Notice of Application and Hearing and Procedural Order No.1, the OEB established procedural dates for interrogatories and submissions.

The OEB approves the establishment of a new deferral account, effective January 1, 2018.

¹ EB-2016-0160

2 DEFERRAL ACCOUNT

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update ASU 2017-07 to amend the US Generally Accepted Accounting Principles (US GAAP) accounting standard for pension and OPEB costs. The amendment limits the pension and OPEB costs that can be capitalized. Hydro One filed an application in November 2017 seeking a deferral account for its transmission business to record the financial impact of this new accounting standard.

The OEB approved the use of US GAAP for Hydro One's transmission business for regulatory purposes in 2011.²

Hydro One stated that the new accounting standard does not affect the accounting treatment for its pension costs because it uses the cash method to account for these costs. Hydro One uses the accrual method for OPEB costs, and Hydro One stated that the new accounting standard will materially affect its 2018 expenses.

In its response to the interrogatories, Hydro One revised its request by noting that the Federal Energy Regulatory Commission (FERC) provided approval for the entities it regulates to continue to capitalize OPEB costs. Hydro One stated that if the OEB allows for the continued capitalization of the OPEB costs, then the requested deferral account would no longer be required.

When Hydro One was asked by OEB staff why it did not disclose the accounting standard change as part of its last transmission revenue requirement proceeding, Hydro One replied that it had already filed its reply argument on February 16, 2017 closing the record of the proceeding, prior to the issuance of ASU 2017-07.

Only two intervenors filed submissions, the London Property Management Association (LPMA) and the Society of United Professionals (the Society). The intervenors both submitted that the OEB should allow Hydro One to continue capitalizing OPEB costs. In its reply submission, Hydro One reiterated that the OEB should approve the continued capitalization of OPEB³ costs, consistent with the FERC guidance. In the absence of this approval on the capitalization of OPEB costs, Hydro One submitted that the deferral account should be approved.

² EB-2011-0268 Decision issued on November 23, 2011

³ Hydro One has used the term "affected costs" but has not identified any costs other than OPEB costs.

FINDINGS

The OEB approves the establishment of a new deferral account, effective January 1, 2018 until such time as the effective date of Hydro One's next transmission revenue requirement. In the deferral account Hydro One shall record the OPEB costs that it previously capitalized, but is no longer permitted to capitalize with the issuance of Accounting Standard Update ASU 2017-07 under US GAAP.

The amount of \$11 million forecast by Hydro One for these OPEB costs is material. While the OPEB cost itself is part of the 2018 revenue requirement, the new accounting standard raises a question of whether the cost should be capitalized or expensed. With the establishment of the deferral account, the OEB does not need to make that determination now, and all regulatory options remain open. The matter of capitalization is a long-term consideration that requires careful analysis within the OEB's established rate regulated framework.

In its decision in the last proceeding for Hydro One's transmission revenue requirement (the Transmission Decision), the OEB provided findings on Hydro One's capitalization of overheads. The March 2017 change in the accounting standard for US GAAP was not considered in that proceeding because it was issued after the record was closed. The Transmission Decision stated that:

...the OEB shares the concerns of those who question the continued appropriateness of the large capitalization amounts that USGAAP allows compared to the amounts allowed under MIFRS regulatory accounting purposes.

Hydro One's use of USGAAP for regulatory purposes in connection with its 2017 and 2018 rates revenue requirements, including the capitalization of overheads, will not be varied at this time. Separate and apart from this proceeding, the OEB will consider whether it should initiate a policy review of the appropriateness of the continued use by the utilities it regulates of USGAAP for the purpose of determining the capitalization of overhead amounts.⁴

The OEB has not initiated a generic policy review on the capitalization of overhead costs under US GAAP. Whether a review will be initiated in the future is not decided, and regardless, any such review would not likely conclude prior to the filing of Hydro One's next transmission revenue requirement application. The OEB finds it appropriate to approve a deferral account so that the OEB can consider in Hydro One's next transmission revenue requirement proceeding whether Hydro One should continue to capitalize OPEBs, despite the new US GAAP accounting standard.

⁴ EB-2016-0160, Decision issued September 28, 2017, p.2

The OEB's *Filing Requirements for Electricity Transmission Applications - Chapter 2 Revenue Requirement Applications* require transmitters in section 2.5.5 to provide their capitalization policy and information on overhead costs. The extent to which capitalization of overheads will be considered in Hydro One's next transmission revenue requirement proceeding will be a matter for the OEB panel in that proceeding.

3 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks shall establish the deferral account as set out in this Decision and Order.
2. Hydro One Networks shall file with the OEB an update to the accounting order that was submitted as Appendix A of this application consistent with this Decision and Order, no later than May 17, 2018. The OEB does not intend to grant cost awards for the review of the updated accounting order.
3. LPMA, BOMA, and the Society shall submit their cost claims no later than 7 days from the date of issuance of this Decision and Order.
4. Hydro One Networks shall file with the OEB and forward to LPMA, BOMA, and the Society any objections to the claimed costs within 14 days from the date of issuance of this Decision and Order.
5. LPMA, BOMA, and the Society shall file with the OEB and forward to Hydro One Networks any reply to any objections to the cost claims within 21 days from the date of issuance of this Decision and Order.
6. Hydro One Networks shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto, May 10, 2018

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary