

December 7, 2017

EMAIL

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Alectra Utilities – Application for Distribution Rates and Other Charges Effective January 1, 2018 (EB-2017-0024) – Comments re Recording Details of Capitalization Accounts

We are counsel to the applicant, Alectra Utilities Corporation (“Alectra”), in the above-noted matter. We write further to Procedural order No. 3, dated November 17, 2017 to provide the confirmation requested by the Board in that order, as well as Alectra’s comments in relation to the capitalization related accounts. As set out further below, Alectra’s comments are being provided notwithstanding its anticipated position in argument in relation to the need for and proper disposition of the accounts. We have had the opportunity to review Board staff’s submission of today’s date.

Background. In Procedural Order No. 3 the Board rendered its decision on the final issues list for this proceeding. Relevant to this letter, the Board determined that it would add a new issue relating to the change in capitalization policy resulting from the merger which gave rise to Alectra. Given the timing of the remaining steps in the proceeding, the Board also made provision for the establishment of three new accounts “to track the change in capitalization” for the Horizon, Enersource and Brampton rate zones. The Board further,

1. asked Alectra for confirmation that the capitalization change had no impact on Horizon’s 2016 earnings; and,
2. invited parties to provide any comments “on the recording details” for the new accounts by December 7, 2017.

The Board concluded by expressly noting that “[t]he nature of any disposition of these accounts is not being determined at this time” and that submissions in this respect would be heard as part of final argument.

No impact on 2016 earnings. As requested by the Board, Alectra confirms that the change in capitalization policy had no impact on Horizon's 2016 earnings and thus no impact on the proper calculation of the Horizon rate zone ESM.

Recording details for new accounts. As the Board noted in Procedural Order No. 3 there was limited information in the application in relation to the change in capitalization policy. At the Technical Conference, there were few questions in relation to the change. Alectra was asked, and has undertaken to provide, the full impact of the change across all three affected rate zones. Alectra anticipates that this response will explain that the impact is far less than the amount referred to in the Procedural Order, and limited in net amount to the Horizon rate zone. Alectra further anticipates arguing that the accounts are unnecessary, and may be closed with any entries reversed.

Despite this anticipated position, and to be directly responsive to the Procedural Order, Alectra submits that the capitalization related accounts should track the total net impact of all financial differences arising from the change to Alectra's capitalization policy. Alectra further submits that this proposed accounting treatment is similar in nature to Account 1576. As outlined in the Accounting Procedures Handbook, Frequently Asked Questions, issued July 2012, distributors were required to "use Account 1576 to record the financial differences arising as a result of the changes to accounting depreciation or capitalization policies permitted by the Board under Canadian GAAP in 2012 or as mandated by the Board in 2013". Contrary to Board staff's submission, this treatment does not involve an update to the Revenue Requirement Work Forms for previously approved rebasing years for each of the three rate zones.

To capture the net impact of the capitalization policy change, Alectra submits that all impacts of the change for each of the three rate zones should be tracked as follows:

- The actual impact on OM&A expenditures in each year following the change in capitalization policy until Alectra's next rebasing;
- The actual impact on depreciation expense over the life of the underlying assets as a result of the increase/decrease in capitalization costs;
- The impact on income tax or PILs for the amount paid to taxation authorities; and
- The annual return on the cumulative capital impact from the annual change in capitalization for the Horizon, Enersource Brampton rate zone.

At page 3 of its submission, Board staff submits that for 2017 only, 11/12th of the amount calculated should be included in the accounts. Alectra disagrees with staff's position. The amount to be tracked in the new accounts will be based on the actual impact calculated on an annual basis.

With respect to an effective date, Alectra proposes an effective date of February 1, 2017, being the effective date of Alectra's new capitalization policy.

Finally, Alectra does not agree that the Board should now fix the end date for the deferral accounts as suggested by Board staff as this is a matter for argument, as contemplated by the Procedural Order.

Yours truly,

A handwritten signature in blue ink, appearing to read 'C/S' followed by a stylized flourish.

Crawford Smith

CS/tm

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