<u>Undertaking JTC2.44</u>

To calculate how much is going to go into the deferral account, with all the details to see how it is calculated, for each of the buildings, how much goes into the deferral account for the sale, how much is kept, and how much is added or subtracted from the UCC for each of the three buildings.

<u>Response:</u>

The figures related to the sales of the existing facilities and land and dates used in this undertaking are illustrative and do not represent the actuals, the purpose of the undertaking is to show the details of how the Variance or Deferral Accounts for the new facilities would be calculated.

A new Y factor Variance or Deferral Account ("Y Factor") will capture the revenue requirement of the costs associated with the construction of the new facilities. For the purpose of this undertaking, we estimate our move in date for South Operations / Warehouse facility and East Operations facility is Q2 2017 and the Administrative building is Q1 2018.

At the time the new facilities are ready for move-in, the costs will be moved from Construction in Progress to Property, Plant and Equipment and Hydro Ottawa is proposing to include depreciation on the new facilities within the deferral account. In addition, interest, return and PILs are proposed to be recorded in the deferral account.

A Y Factor application would then be filed for a rate rider with the revenue requirement (Depreciation, Interest, Return and PILs) relating to the new facilities. At this time it is anticipated that the South Operations / Warehouse facility and East Operations facility would be ready before the Administrative building. Hydro Ottawa proposes to file for a rate rider the year prior to the rate rider commencing. It is anticipated a rate rider will be filed in 2017 to clear both 2017 and forecasted 2018 balances to commence January 1, 2018. No interest will be charged on the outstanding 2017 amount. In 2018 Hydro Ottawa would apply for a rate rider to clear the forecasted balances for 2019 to start effective January 1, 2019. Similarly, in 2019 Hydro Ottawa will apply for a rate rider to clear the forecasted balances for 2020 to start effective January 1, 2020.

Hydro Ottawa is proposing that the rate riders be calculated using the revenue requirement allocation for the year the rider is being cleared. In addition, Hydro Ottawa is proposing that all residential rate riders will be a fixed charge based on the forecasted average customer numbers for that year. All other classes are proposed to have a variable rate rider based on the forecasted kWh or KW for that year.

Hydro Ottawa will need two new deferral accounts for the sale of the existing buildings and land. One account will capture the after tax gain/loss from the sale of land for Albion Road, Merivale Road and Bank Street. The other account will capture the after tax gain/loss from the sale of buildings (“Existing Facilities”) for Albion Road, Merivale Road and Bank Street buildings.

The land deferral account will capture 50% of the after tax gain on land. The Existing Facilities deferral account will capture 100% of the after tax net loss on the sale of the Existing Facilities. For the purpose of this undertaking, we estimate all Existing Facilities and land will be sold on January 1, 2019 at illustrative market values.

The allocation of the proceeds between land and Existing Facilities will be based upon third party advisors as well through agreements with the buyer(s); however, for the purpose of this undertaking, we have used Municipal Property Assessment Corporation assessment values to split the proceeds between land and building.

Similar to the new facilities Hydro Ottawa is proposing to use the revenue requirement in the year of the sale of the assets to determine the allocation to the rate classes. Using a fixed charge rate rider for the residential class and a volumetric rider for all other classes based on the forecasted kWhs or KWs. Hydro Ottawa is proposing to clear these accounts with a one year rate rider, netting the gain/loss and the amount removed from rate base. Hydro Ottawa is not proposing to charge interest within the Deferral account.

In the illustrative example, as the buildings are sold in January 2019 Hydro Ottawa proposes to file a rate rider in 2019 to clear both 2019 and 2020 balances with the rate rider commencing January 1, 2020.

The amounts that are included in the Y Factor and the two deferral accounts are shown in Table 1 below.

Tables 2 through 4 show the illustrative rate riders, for years 2018 through 2020,

Table 5 shows the forecasted decrease in Undepreciated Capital Cost (UCC) balances in the year of sale for tax purposes.

Table 1 Proposed Variance/Deferral Accounts relating to Existing and New Facilities

	2017 Dr (CR)	2018 Dr (CR)	2019 Dr (CR)	2020 Dr (CR)
Y Factor (1)				
Depreciation (2)	336,465	2,277,573	2,277,573	2,277,573
Rate base Interest (3)	276,956	1,120,715	1,676,467	1,643,809
Return (4)	449,353	1,758,207	2,575,346	2,490,620
PILs (5)	13,409	419,009	251,333	310,687
Interest (6)	-	-	-	-
Total	**1,076,183**	**5,575,504**	**6,780,719**	**6,722,689**
Account 1508 - Other Regulatory Assets, Sub-account				
50% Deferred Gain on Sale of Land	-	-	(5,000,000)	-
Depreciation (2)	-	-	-	-
Rate base Interest (3)	-	-	(20,415)	(20,699)
Return (4)	-	-	(31,362)	(31,362)
PILs (5)	-	-	117,501	112,349
Interest (6)	-	-	-	-
Total	**-**	**-**	**(4,934,276)**	**60,288**
Account 1508 - Other Regulatory Assets, Sub-account				
Deferred loss on Sale of building	-	-	9,000,000	-
Depreciation (2)	-	-	(1,465,742)	(1,465,742)
Rate base Interest (3)	-	-	(440,712)	(410,841)
Return (4)	-	-	(677,011)	(622,486)
PILs (5)	-	-	(510,092)	(500,932)
Interest (6)	-	-		
Total	**-**	**-**	**5,906,443**	**(3,000,001)**

(1) *Record expenses into this account once the related asset has been capitalized. Capitalization commences Q2 2017 for South Operations / Warehouse facility and East Operations facility and Q1 2018 for Administrative building*

(2) *Assume all Existing facilities will be sold on Jan 1, 2019. Deprecation was based upon estimated in-service dates*

(3) *Short term and long term interest on rate base*

(4) *Using ROE of 9.3% for years 2017 to 2020*

(5) *Tax on the difference between CCA and depreciation. For the purpose of this table, Class 1b is used for all New Facilities*

(6) *Carrying interest on balance in the account will not be charged.*

Table 2 Proposed rate riders – New Facilities

Customer Class (1)	Units	2018 Dr (CR)	2019 Dr (CR)	2020 Dr (CR)
Residential	$	1.0200	0.9787	0.9555
GS <50 kW	KWh	0.0011	0.0010	0.0010
GS 50 to 1,499 kW	kW	0.2281	0.3015	0.2939
GS 1,500 to 4,999 kW	kW	0.1611	0.2259	0.2244
Large User	kW	0.2029	0.2455	0.2436
Unmetered Scattered Load	kWh	0.0028	0.0036	0.0036

Table 3 Proposed rate riders – Sale of Existing Facilities

Customer Class (1)	Units	2020 Dr (CR)
Residential	$	0.4131
GS <50 kW	KWh	0.0004
GS 50 to 1,499 kW	kW	0.1271
GS 1,500 to 4,999 kW	kW	0.0970
Large User	kW	0.1053
Unmetered Scattered Load	kWh	0.0016

Table 4 Proposed rate riders – Sales of Land

Customer Class (1)	Units	2020 Dr (CR)
Residential	$	(0.6928)
GS <50 kW	KWh	(0.0007)
GS 50 to 1,499 kW	kW	(0.2131)
GS 1,500 to 4,999 kW	kW	(0.1627)
Large User	kW	(0.1766)
Unmetered Scattered Load	kWh	(0.0026)

Table 5 Forecasted Decrease in UCC balances for Existing

Facilities in the year of sale

Building	UCC Decrease Class 1, 1b & 3
Albion	$6.0M
Merivale	$3,5M
Bank	$1.0M