



SENT VIA COURIER and RESS

Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4
Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

Re: Halton Hills Hydro Inc. Application for a Deferral and Variance Account

Halton Hills Hydro Inc. (“**HHHI**”) is applying to the Ontario Energy Board (the “**OEB**”) to request approval of: (a) an accounting order to authorize HHHI to establish a new deferral and variance account (the “**Depreciation DVA**”); (b) the annual allocation of **\$330,259** for correctly calculated depreciate amounts (as described below) for the years 2016 to 2021 (or the next Cost of Service year, whichever comes first); (c) the clearance of the Depreciation DVA balance in the amount of **\$660,519** for the years 2016 and 2017 commencing May 1, 2018 for a twelve month period; and (d) the annual clearance of the account from 2019 up to and including the next Cost of Service year. HHHI requests that this Application be disposed of by way of written hearing along with the 2018 IRM Electricity Distribution Rate Application - EB-2017-0045.

Nature of DVA and Surrounding Circumstances

The Depreciation DVA requested in this Application is intended to account for and remedy an error in the calculation of depreciation expense in HHHI’s most recent cost-of-service re-basing application, which established the rates that took effect on May 1, 2016 (EB-2015-0074, referred to herein as the “**2016 Application**”).

In 2012, HHHI completed a review of the useful lives of its assets, and componentized the assets for the transition to MIFRS. This review resulted in HHHI extending the useful lives for several asset classes. As a result, the remaining useful lives for some assets had to be adjusted. An example of this adjustment is USoA#1830 (Poles, Towers and Fixtures) which under CGAAP was depreciated over 25 years, but after the review for MIFRS would be depreciated over 50 years. To demonstrate this example, at the end of 2011, a pole that was installed in 2005 would have depreciated seven of the 25 years (i.e., a remaining useful life of 18 years). In 2012, with the transition to MIFRS, the useful life of that pole was extended to 50 years resulting in a remaining useful life of 43 years.

In preparing the 2016 Application, HHHI’s depreciation expense excel model assumed the opening 2015 Un-depreciated Cost had a useful life of 50 years when in fact (referring to our pole example above) the opening 2015 Un-depreciated Cost for the same pole should have had a remaining useful life of 40 years (2012 useful life – 43 years, 2015 useful life – 40 years). This resulted in an understatement for depreciation. This understatement in the 2016 Application depreciation expense calculation was discovered in 2017 as HHHI was finalizing the 2016 year end (when HHHI compared the 2016 year end results with the 2016 Application).



The understatement of depreciation has resulted in HHHI incurring depreciation expenses significantly greater than the amount included in the 2016 Application and HHHI's current revenue requirement, resulting in an annual deficiency of **\$330,259**. A summary of the understatement of depreciation, revenue deficiency and revenue requirement, is presented in Appendix A, Tables A1, A2 and A3 respectively. Table A1 shows depreciation amounts included in the 2016 Application, together with the corrected amounts. Table A2 shows the revenue deficiency of \$330,259. The revenue requirement of \$330,259 related to the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA is shown in Table A3.

HHHI believes that recording and recovering the corrected depreciation amounts through the use of the requested Depreciation DVA is appropriate in the circumstances, for three reasons:

Firstly, HHHI submits that the requested Depreciation DVA should be approved on the basis that it would reflect the true depreciation that HHHI must recognize each year in accordance with modified IFRS. This depreciation understatement is an amount that should have been included in the determination of HHHI's revenue requirement and to leave the understatement uncorrected would severely impair HHHI's ability to earn a fair return for the distribution of electricity.

Secondly, under the OEB's current rate-setting framework, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. The understatement of depreciation, if left uncorrected, will result in HHHI being perilously close to triggering such a regulatory review every year until its next re-basing application. In other words, HHHI knows that at the beginning of its fiscal year, the understatement of depreciation puts HHHI very close to under-earning by 300 basis points. Rather than wait for the regulatory review to be triggered, HHHI is seeking to address the issue now.

Thirdly, the understatement of depreciation is equivalent to 3.03% of the approved 2016 Revenue Requirement of \$10,913,136 which is material. It is not feasible to mitigate this understatement without material negative impact to customers and service quality standards. Attempts to defer such significant costs in order to manage the understatement of depreciation will impact the efficient operation of the utility.

DVA Mechanics and Clearance

HHHI proposes that the Depreciation DVA have an effective date of May 1, 2016, which corresponds to the effective date of the rates proposed in the 2016 Application and approved by the OEB's Decision and Rate Order, dated March 24, 2016.

The Depreciation DVA will be managed by HHHI in the same manner as other existing DVAs. The Depreciation DVA will be updated monthly. HHHI will not charge interest on this DVA account. Balances will be reported to the OEB as part of the annual reporting process.

HHHI is also requesting that the balance in the DVA for year 2016-17 (i.e., the period from January 1, 2016 to December 31, 2017) be cleared over a 12-month period commencing May 1, 2018. Appendix B shows the calculation of the applicable rate riders (Table B1) and bill impacts (Table B2) related to the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA. As noted in the second



last column of Table B2, the bill impacts are modest. Future clearances of single year DVA balances will be even smaller.

By copy of this letter, we are advising the intervenors in our last re-basing proceeding. If you have any questions or would like to discuss, please do not hesitate to contact us.

Yours very truly,

(Original signed)

Arthur Skidmore
President and CEO

Cc: Intervenors in EB-2015-0074
D. Smelsky and R. Baichan (HHHI)
R. King (Osler, Hoskin & Harcourt LLP)



Appendix A

Table A1 – 2016 Approved Cost of Service vs. 2016 Correctly Calculated compares the depreciation amounts approved in the 2016 Application and the depreciation amounts, correctly calculated, that should have been included in the 2016 Application.



Table A1 - 2016 Approved Cost of Service vs. 2016 Correctly Calculated

CCA Class	OEB	Description	2016 Approved Cost of Service Depreciation	2016 Depreciation Correctly Calculated	Variance: 2016 Approved Cost of Service vs. 2016 Correctly Calculated
12	1611	Computer Software	21,512	104,559	(83,047)
N/A	1805	Land	-		-
CEC	1806	Land Rights	-		-
47	1808	Buildings and Fixtures			-
13	1810	Leasehold Improvements	-		-
47	1815	Transformer Station Equipment - Normally Primary above 50 kV	-		-
47	1820	Distribution Station Equipment - Normally Primary below 50 kV	93,129	108,053	(14,924)
47	1825	Storage Battery Equipment	-		-
47	1830	Poles, Towers and Fixtures	480,713	510,071	(29,358)
47	1835	Overhead Conductors and Devices	231,467	224,604	6,863
47	1840	Underground Conduit	33,826	30,646	3,180
47	1845	Underground Conductors and Devices	295,984	285,731	10,252
47	1850	Line Transformers	276,679	342,836	(66,156)
47	1855	Services	13,302	4,536	8,767
47	1860	Meters	164,802	177,926	(13,124)
N/A	1865	Other Installations on Customer's Premises	-		-
N/A	1905	Land	-		-
CEC	1906	Land Rights	-		-
47	1908	Buildings and Fixtures	70,992	89,287	(18,295)
13	1910	Leasehold Improvements	-		-
8	1915	Office Furniture and Equipment	42,445	59,282	(16,837)
50	1920	Computer Equipment - Hardware	20,333	57,296	(36,962)
10	1930	Transportation Equipment	173,580	174,708	(1,128)
8	1935	Stores Equipment	-		-
8	1940	Tools, Shop and Garage Equipment	39,902	52,111	(12,209)
8	1945	Measurement and Testing Equipment	-		-
8	1950	Power Operated Equipment	-		-
8	1955	Communication Equipment	15,065	49,901	(34,836)
8	1960	Miscellaneous Equipment	-		-
47	1970	Load Management Controls - Customer Premises	-		-
47	1975	Load Management Controls - Utility Premises	-		-
47	1980	System Supervisory Equipment	-		-
47	1985	Sentinel Lighting Rentals	-		-
47	1990	Other Tangible Property	-		-
47	1995	Contributions and Grants	-		-
	2005	Property under Capital Lease	-		-
		Total before Work in Process	1,973,732	2,271,546	(297,814)
	2070	Other utility plant			
WIP	2055	Work in Process			
		Total after Work in Process	1,973,732	2,271,546	(297,814)
		Less: Trucking	173,580	174,708	(1,128)
		Gross Depreciation	1,800,152	2,096,838	(296,686)
	1995	Contributed Capital/Deferred Revenue	(292,099)	(249,392)	(42,707)
		Net Depreciation	1,508,054	1,847,446	(339,393)



Table A2 – Revenue Deficiency shows the revenue deficiencies related to the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA.



Table A2 – Revenue Deficiency

Description	2016 Depreciation Expense - Correctly Calculated	2016 Approved Cost of Service	Change
	2016 Test - Required Revenue	2016 Test - Required Revenue	Revenue Deficiency
Revenue			
Revenue Deficiency	1,122,150	791,890	330,259
Distribution Revenue	9,162,101	9,162,101	0
Other Operating Revenue (Net)	959,144	959,144	0
Total Revenue	11,243,395	10,913,135	330,259
Costs and Expenses			
Administrative & General, Billing & Collecting	4,265,793	4,265,793	0
Operation & Maintenance	1,729,772	1,729,772	0
Donations - LEAP	12,027	12,027	0
Depreciation & Amortization	1,847,446	1,508,054	339,393
Property Taxes	104,440	104,440	0
Deemed Interest	1,032,286	1,035,157	(2,871)
Total Costs and Expenses	8,991,764	8,655,242	336,522
Utility Income Before Income Taxes	2,251,631	2,257,893	(6,262)
Income Taxes:			
Corporate Income Taxes	0	0	0
Total Income Taxes	0	0	0
Utility Net Income	2,251,631	2,257,893	(6,262)
Income Tax Expense Calculation:			
Accounting Income	2,251,631	2,257,893	(6,262)
Tax Adjustments to Accounting Income	(4,060,068)	(4,400,588)	340,520
Taxable Income	(1,808,436)	(2,142,695)	334,259
Income tax expense before credits	0	0	0
Credits	0	0	0
Income Tax Expense	0	0	0
Tax Rate Reflecting Tax Credits	0.00%	0.00%	0.00%
Actual Return on Rate Base:			
Rate Base	61,252,210	61,422,555	(170,345)
Interest Expense	1,032,286	1,035,157	(2,871)
Net Income	2,251,631	2,257,893	(6,262)
Total Actual Return on Rate Base	3,283,917	3,293,050	(9,133)
Actual Return on Rate Base	5.36%	5.36%	0.00%
Required Return on Rate Base:			
Rate Base	61,252,210	61,422,555	(170,345)
Return Rates:			
Return on Debt (Weighted)	2.81%	2.81%	0.00%
Return on Equity	9.19%	9.19%	0.00%
Deemed Interest Expense	1,032,286	1,035,157	(2,871)
Return On Equity	2,251,631	2,257,893	(6,262)
Total Return	3,283,917	3,293,050	(9,133)
Expected Return on Rate Base	5.36%	5.36%	0.00%
Revenue Deficiency After Tax	0	0	0
Revenue Deficiency Before Tax	0	0	0
Tax Exhibit	2016	2016	Change
Deemed Utility Income	2,251,631	2,257,893	(6,262)
Tax Adjustments to Accounting Income	(4,060,068)	(4,400,588)	340,520
Taxable Income prior to adjusting revenue to PILs	(1,808,436)	(2,142,695)	334,259
Tax Rate	0.00%	0.00%	0.00%
Total PILs before gross up before tax credits	0	0	0
Tax Credits	0	0	0
Total PILs before gross up after tax credits	0	0	0
Grossed up PILs	0	0	0



Table A3 - Revenue Requirement shows the revenue requirement related to the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA.

Table A3 - Revenue Requirement

Service Revenue Requirement	Revenue Requirement with Correctly Calculated Depreciation Expense	2016 Approved Cost of Service Revenue Requirement	Change in Revenue Requirement
OM&A Expenses	6,112,032	6,112,032	-
Amortization Expenses	1,847,446	1,508,054	339,392
Total Distribution Expenses	7,959,478	7,620,086	339,392
Regulated Return On Capital	3,283,917	3,293,050	(9,133)
PILs	-	-	-
Service Revenue Requirement	11,243,395	10,913,136	330,259



Appendix B

Table B1- 2018 IRM Revised Rate Rider Calculation shows the rate riders calculation with the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA.

Table B1- 2018 IRM Revised Rate Rider Calculation

Rate Class	Unit	Total Metered kWh	Metered kW or kVA	Allocation of Group 1 Account Balances to All Classes	Allocation of Group 1 Account Balances to Non-WMP Classes Only (If Applicable)	Deferral/Variance Account Rate Rider	Deferral/Variance Account Rate Rider for Non-WMP (if applicable)
Residential - Time of Use	\$/kWh	204,439,774	-	3,489		0.0000	-
General Service Less Than 50 kW	\$/kWh	51,296,823	-	4,104		0.0001	-
General Service 50 to 999 kW	\$/kW	137,289,389	390,924	359,182	(466,323)	0.9188	(1.2172)
General Service 1,000 to 4,999 kW - Interval Meters	\$/kW	107,193,041	273,610	(110,029)		(0.4021)	-
Unmetered Scattered Load	\$/kWh	924,057	-	17		0.0000	-
Sentinel Lighting	\$/kW	273,180	739	189		0.2560	-
Street Lighting	\$/kW	1,832,979	5,129	(1,257)		(0.2451)	-
Sub-Totals				255,696	(466,323)		
Total					(210,627)		

Table B2 – 2018 IRM Revised Bill Impacts shows the 2018 IRM Bill Impacts with the depreciation understatement that HHHI proposes to record in the requested Depreciation DVA.

Table B2 – 2018 IRM Revised Bill Impacts (EB-2017-0045)

Rate Class	Volumes		% Change (Impact) with Depreciation Adjustment	% Change (Impact) from 2018 IRM Original
	kWhs	kWs		
Residential - Time of Use	750	-	0.91%	-0.08%
General Service Less Than 50 kW	2,000	-	0.49%	-0.61%
General Service 50 to 999 kW	328,500	500	-1.65%	-2.08%
General Service 1,000 to 4,999 kW - Interval Meters	1,600,000	2,500	-1.79%	-2.41%
Unmetered Scattered Load	150	-	0.26%	-0.75%
Sentinel Lighting	650	1.00	0.47%	-0.23%
Street Lighting	152,750	252	1.32%	0.42%