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April 9, 2018

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

Dear Ms. Walli,

RE: EB-2017-0338 - Submissions of London Property Management Association

Please find attached the submissions of the London Property Management Association in the above noted proceeding.

Yours very truly,

Randy Aiken

Randy Aiken
Aiken & Associates

c.c. Eryn MacKinnon (Hydro One Networks Inc.)

Hydro One Networks Inc.

Application to establish a variance account to capture the 2018 transmission revenue requirement impact associated with a change in the accounting standard for pensions and other post-employment benefits costs.

**SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION**

April 9, 2018

INTRODUCTION

Hydro One Networks Inc. (“Hydro One”) filed an application with the Ontario Energy Board (“OEB”) on November 2, 2017 under section 78.1 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B). The application sought approval to establish a variance account effective January 1, 2018 to capture the financial impacts on its 2018 transmission revenue requirement associated with a change in the accounting standard for pensions and other post-employment benefit (“OPEB”) costs that was issued by the Financial Accounting Standards Board (“FASB”) in March, 2017.

In the April 3, 2018 cover letter accompanying the written responses to interrogatories, Hydro One indicated that it had confirmed with its auditors the requirements surrounding the FASB’s ASU 2017-07 standard, notably including the eligibility of utilities to continue capitalizing OPEB costs, without the requirement of a deferral account, if approved to do so by its regulator.

Hydro One also indicated that the Federal Energy Regulatory Commission (“FERC”) has provided such approval for the regulated entities under its jurisdiction.

Hydro One states in the same letter that such a decision (by the OEB) would achieve the same objective as the requested deferral account without the additional regulatory overhead associated with the ongoing tracking and disposition of balances in the account.

These are the submissions of the London Property Management Association (“LPMA”) related to the need for the requested account and, if required, what should be included in the proposed account.

NEED FOR THE ACCOUNT

Based on the new information provided by Hydro One in the April 3, 2018 letter noted above, LPMA submits that the requested account is no longer required by Hydro One and that the OEB should provide approval to Hydro One to continue capitalizing OPEB costs.

LPMA submits that there are several reasons why the OEB should provide approval to Hydro One to continue capitalizing OPEB costs. First, LPMA agrees with Hydro One that such a decision by the OEB would achieve the same objective as the requested deferral account, without the additional regulatory overhead (burden) associated with the ongoing tracking and disposition of balance in the requested account.

Second, the need for the account appears to have been eliminated. In the absence of a clear need for any deferral or variance account, LPMA submits that the OEB should not approve it.

Finally, LPMA notes that a different accounting treatment for Hydro One (through the use of the deferral account) relative to the entities that are regulated by FERC that are

allowed to continue capitalizing OPEB costs may lead to benchmarking issues in the future, as the level of the difference in capitalization will grow over time.

LPMA does submit that the OEB should require Hydro One to provide a written opinion from its auditors that supports the information provided by Hydro One in the April 3, 2018 letter.

PROPOSED ACCOUNT

If the OEB determines that it will not provide approval for Hydro One to continue capitalizing OPEB costs and that a deferral account is required, LPMA submits that a number of changes should be made to the account.

First and foremost, the account should clearly indicate that it is to record the revenue requirement impact of reduction in the amount of OPEBs that can be capitalized. This would include not only the increase in OM&A but also the reduction in the capital related costs including return on equity, cost of debt, income taxes and depreciation.

Hydro One assets, without providing any evidence or calculations to support the assertion, that if 50% of a given period's capitalized cost is put in service, the impact on the revenue requirement would be less than \$1 million, which is well below the materiality threshold of \$3 million that applies to Hydro One's transmission business.

Hydro One is trying to disaggregate the impact of the accounting change into two components. An increase in costs resulting from the reduction in capitalization and increase in OM&A and a decrease in capital related costs as a result of the same reduction in capitalization. LPMA submits that the real impact of the accounting change is the change in the revenue requirement. The OEB cannot allow Hydro One to pick and choose which impacts should be tracked. Both the increase and decrease in the revenue the revenue requirement is due to the same thing – a change in the accounting requirements.

Second, LPMA submits that if the OEB approves the requested account for the impacts on the revenue requirement, it should do so for more than just 2018. While a rate filing by Hydro One is expected for transmission rates effective January 1, 2019, there is no guarantee that such a filing will take place or that it will result in changes in rates effective January 1, 2019.

The revenue requirement impact of changes to capitalization in 2018 would continue into 2019 (and beyond). In fact, the impact on the decrease in the capital related revenue requirement would be larger in the 2019 than in 2018, due to the assets being in service for only a partial year in 2018 and the entire year in 2019.

COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
April 9, 2018

Randy Aiken
Consultant to London Property Management Association