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May 28, 2020
Our File No. 20180270

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
M4P 1E4

Attn: Christine Long, Registrar and Board Secretary

Dear Ms. Long;

Re: EB-2018-0270 – Hydro One/Orillia MAADs – Comments on DRO and DAO

We are counsel for the School Energy Coalition. Pursuant to the Board's Decision and Order in this matter dated April 30, 2020, SEC is in this letter providing our comments on the Draft Rate Order and Draft Accounting Orders filed May 14, 2020.

SEC has had the opportunity to review the comments of OEB Staff prior to finalizing these submissions.

Draft Rate Order. SEC has checked the basis of the Rate Order, and the calculation of the 1% reduction for the classes in which schools are affected, and has found no errors. We agree with OEB Staff that, if the transaction is completed prior to November 1, 2020, the approximately $9,000 per month impact of the rate rider from that time until the time rates are adjusted, although immaterial to Hydro One, must still be accounted for, and we invite Hydro One to explain how that will be done.

Earnings Sharing Calculation. SEC notes that the reduction of the OM&A adjustment from 20% to 10% should amount to $903,000 over five years, and the pre-tax impact on earnings sharing should be about $452,000. This is consistent with the change in the ESM fixed amount from $3.2 million to $3.7 million.

DAO for ESM. SEC has no problem with the wording of this DAO.

DAO for Accounting Changes. This is a version of account 1576, for which the rules are fairly clear. Each year Hydro One should record the difference in depreciation and capitalization, and therefore the difference in closing rate base for PPE, between the depreciation rates and capitalization policies used by OPDC prior to the transaction (which should be the same as those at the time of the Decision), and the depreciation rates and capitalization policies used by Hydro One after the transaction.

Simply put, if the IFRS-based rate of depreciation for a particular asset was 20% per year, and the USGAAP-based rate of depreciation for that same asset is 10% per year, the difference of 10% of the cost of the asset is recorded in the account each year, because it represents higher rate base than the OPDC accounting policies would have caused. Each year those differences (both to depreciation and to capitalization) should be applied to the actual assets used to serve OPDC customers to get the rate base differential at the end of the year. Both existing and new assets should be included. On rebasing, any difference in rate base between what would have arisen using the OPDC depreciation and capitalization policies (IFRS), and what actually arose using the Hydro One policies (USGAAP) will be disposed of to customers on such terms as the Board determines at the time of rebasing.

While we believe that this is what OEB Staff is also saying, we are approaching it in a different way and therefore wanted to be clear on our position.

We agree with OEB Staff that, in the disposition period, there should be return at WACC on the amount that has not yet been returned to customers, consistent with past Board decisions.

Upper Goal Post. We agree with the proposal by Hydro One, for the reasons cited by OEB Staff, with two exceptions.

First, we believe it should be made clear that the tax rates to be applied should be those applicable to a utility like OPDC, not those applicable to Hydro One. Since it is a status quo, it should reflect the size and nature of OPDC. While the tax rates may be similar, that is not certain 11 years into the future, so in our view the DRO should make that clear. This may be what Hydro One intended, but it was not expressed and we think it should be.

Second, Hydro One refers to “any other tax changes that impact utility customers”. We are unable to ascertain what this might be, and we believe that, unless there is a more detailed explanation, it is too nebulous to be included.

All of which is respectfully submitted.

Yours very truly,
SHEPHERD RUBENSTEIN
PROFESSIONAL CORPORATION

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties