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**BY E-MAIL**

November 13, 2020

Attention: Ms. Christine Long, Registrar

Dear Ms. Long:

**Re: Hydro One Networks Inc.  
Transmission Revenue Requirement and Distribution Revenue  
Requirement and Tax Issue – Future Tax Savings Evidence  
Ontario Energy Board File Number: EB-2020-0194**

Please find attached OEB staff's interrogatories on the above referenced evidence filed by Hydro One Networks Inc. on October 28, 2020.

Please note that responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

Martin Davies  
Project Advisor, Rates  
Electricity Distribution: Major Rate Applications & Consolidations

Ontario Energy Board Staff Interrogatories  
Transmission Revenue Requirement and Distribution Revenue Requirement and Tax  
Issue – Future Tax Savings Evidence  
Hydro One Networks Inc. (Hydro One)  
EB-2020-0194  
November 13, 2020

**Please note: Responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.**

**3.1-Staff-1**

Ref: p. 7 – Table 1

Table 1 shows the tax savings deducted from regulatory income taxes. The 2019 Transmission tax savings were calculated by escalating the 2018 tax savings by the Revenue Cap Index (RCI).<sup>1</sup> OEB staff notes that this is consistent with the determination of Hydro One Transmission's 2019 revenue requirement, which applies a revenue cap incentive rate-setting approach.

Similarly, the OEB accepted Hydro One's incentive rate-setting approach using an RCI for adjusting Hydro One's 2021 and 2022 Transmission revenue requirements,<sup>2</sup> as well as Hydro One's 2020 to 2022 Distribution revenue requirements.<sup>3</sup> However, unlike the 2019 Transmission tax savings, the escalation approach was not used to calculate Hydro One Transmission's 2021 tax savings, or to calculate Hydro One Distribution's 2020 and 2021 tax savings.

- a) Please explain Hydro One's rationale for its approach in determining the 2021 Transmission and 2020-2021 Distribution tax savings.
- b) Please provide a revised Table 1, using the escalation approach for Hydro One Transmission's 2021, and Distribution's 2020 and 2021 tax savings. Please provide an updated Table 3 using the revised amounts in Table 1.

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<sup>1</sup> OEB staff notes that Hydro One escalated 2018 tax savings by 1.34% instead of 1.4% as approved in the Decision and Order for the Application of 2019 Electricity Transmission Revenue Requirement, April 25, 2019, EB-2018-0130

<sup>2</sup> Decision and Order for Electricity Transmission Revenue Requirement beginning January 1, 2020 until December 31, 2022, p. 23, EB-2019-0082, April 23, 2020

<sup>3</sup> Decision and Order for Electricity Distribution Rates beginning January 1, 2018 until December 31, 2022, p.23, EB-2017-0049, March 7, 2019,

### **3.1.1- Staff-2**

Ref: p. 8 – Table 2, pp. 9-11, 16

At the above references, carrying charges and related matters are discussed:

- a) Carrying charge rates are provided on page 8, Table 2. The weighted average cost of debt (WACD) appears to be equal to Hydro One's approved WACD. The weighted average cost of capital (WACC) does not appear to be equal to Hydro One's approved WACC.
  - i. Please state whether the WACD and WACC in Table 2 are based on actual or approved rates.
  - ii. Table 2 shows the 2019 and 2020 Transmission WACD are 4.52% and 4.31%, respectively; and the Distribution WACD for both 2019 and 2020 is 4.33%. The 2019 and 2020 Transmission WACC are 5.59% and 5.31%, respectively; and the Distribution WACC for both 2019 and 2020 is 5.51%. If the WACD and WACC are based on actuals, please discuss whether the minor decline from 2019 to 2020 rates fully reflect the current economic environment.
  - iii. If the WACC in Table 2 are based on approved rates, please provide the references to the approved WACC in the applicable Hydro One proceedings.
  - iv. Based on the response provided for part a, please provide Hydro One's rationale for using actual or approved rates.
  - v. Please provide both the actual and approved WACD and WACC rates and associated carrying charge amounts, if not already provided in Table 2 and 3.
- b) Carrying charge amounts are provided in Table 3. Please confirm that carrying charges are calculated using the simple interest method. If not confirmed, please explain how interest is calculated and why this method was used instead of the simple interest method.

- c) On page 10, Hydro One indicated that as a result of the Original Decision<sup>4</sup>, it had incurred a higher level of debt than it would have otherwise incurred. Please quantify the incremental debt incurred.
- d) Hydro One has been directed to establish a new sub-account under Account 1592 specifically for the purposes of recording the revenue requirement impact of changes in CCA rules<sup>5</sup>. Similar to the misallocated tax savings issue, the 1592 sub-account is also used to record a revenue requirement difference related to income taxes. However, the 1592 sub-account allows for carrying charges at the prescribed rate. Please explain why Hydro One proposes to apply carrying charges at the WACD rate for a revenue requirement difference stemming from misallocated tax savings when the 1592 sub-account requires the prescribed rate to be used.
- e) Hydro One proposed that carrying charges be applied during the recovery period. On page 16, Hydro One provides an example of the recovery mechanism using Option 3, where \$183.3M (including carrying charges up to 2021) would be divided by seven and included in Hydro One's revenue requirement used to set UTRs for 2021 to 2027.
  - i. Please explain how the carrying charges incurred during the recovery period will be recovered.
  - ii. Please state whether a forecasted or actual carrying charge rate is proposed to be used during the recovery period and explain the reasons for the proposed approach. Please use an example to illustrate the timing of the recovery in relation to the carrying charge rate used.

### **3.1.1-Staff-3**

Ref: p.9

At the above reference, the statement is made that "Matters involving the payment of monies made under errors of law and impacted by lengthy appeal periods are distinguishable from normal utility operation circumstances."

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<sup>4</sup> Decision and Order for 2017 and 2018 Transmission Revenue Requirements and Charge Determinants, November 1, 2017, EB-2016-0160

<sup>5</sup> Interim Rate Order for Electricity Distribution Rates beginning January 1, 2018 until December 31, 2022, June 6, 2019, EB-2017-0049

Please state whether the above statement is Hydro One's opinion only, or whether it is supported by legal or other precedents. Please provide references to any relevant cases.

### **3.1.3-Staff-4**

Ref: p.11

At the above reference, it is stated that:

The proposed implementation of Misallocated Tax Savings Amounts recovery is January 1, 2021 or, if that is not possible from a timing perspective, approximately 30 days from the date that the Board issues its decision in this matter.

Please provide Hydro One's views on the extent to which the COVID-19 pandemic should be a factor in determining the timing of the recovery of these amounts.

### **3.1.4.1-Staff-5**

Ref: pp.12-13

At the above reference, it is stated that

Consistent with the OEB approved treatment of the recovery of foregone revenue amounts as an adjustment to base distribution rates in EB-2017-0049, Hydro One expects that R1 and R2 distribution customers will be protected from distribution rate increases associated with the recovery of Misallocated Tax Savings Amounts (i.e. the \$1.87 impact shown in Table 5) as a result of the distribution rate protection (DRP) program.

Please provide the expected impacts in the format of Table 5 for each of Hydro One's residential classes including the seasonal rates class for Options 1, 2 and 3.

### **3.2-Staff-6**

Ref: p.14 and p.15 Table 9

At the above reference, the following statement is made:

The adjustment to the calculation of regulatory income taxes will be reflected in Hydro One's annual distribution and transmission filings for 2022 revenue requirement and rates ("2022 Annual Updates").

Please provide the expected bill impacts of making this adjustment for each of Hydro One's residential classes including the seasonal rates class in the format of Table 9.

### **3.2- Staff-7**

Ref: p. 15

Regarding regulatory income tax calculations after 2022, Hydro One states that "The amended calculation of annual regulatory income tax amounts would continue to be used in all future rates revenue requirements applications post 2022."

- a) Please confirm that the amended calculation is referring to the exclusion of any future tax savings (i.e. referred to as the "Deferred Tax Asset Sharing" line in Hydro One's draft rate orders for 2017 to 2022 rate applications) in regulatory income tax amounts included in future revenue requirements post 2022.
- b) If not confirmed, please explain how the amended calculation is calculated and explain why the calculation is appropriate.

### **4.0-Staff-8**

Ref: p.17

At the above reference, it is stated that part of the relief Hydro One is requesting is:

Amendments to rate orders for the 2017-2018 Transmission Revenue Requirement (EB- 2016-0160), the 2019 Transmission Revenue Requirement (EB-2018-0130), the 2018- 2022 Distribution Revenue Requirement (EB-2017-0049) and the 2020-2022 Transmission Revenue Requirement (EB-2019-0082) to give effect to the following:

- a. Recovery of Misallocated Tax Savings Amounts commencing January 1 2021 or as determined by this Board and over a recovery period to be determined by the Board;
- b. Revisions to the method of calculating regulatory income taxes beginning in 2022 to remove the allocation of tax savings from future calculations of regulatory income tax;

Direction to Hydro One to reflect such revisions in its 2022 annual update filings for distribution and transmission;

- a) Please discuss what Hydro One would envisage the process as being for achieving the above requested relief with respect to rate order amendments.
- b) Please state why Hydro One believes that it would be necessary for the OEB to provide the above-referenced direction regarding its 2022 annual update filings to Hydro One.