EB-2020-0194

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B, as amended (the "OEB Act");

AND IN THE MATTER OF a proceeding on the Board's own motion to implement the decision of the Divisional Court dated July 16, 2020 in its File #200/19, and for an Order or Orders approving or fixing just and reasonable rates for Hydro One Networks Inc. for the transmission and distribution of electricity as of January 1, 2021.

AND IN THE MATTER OF Rule 27 of the Board's *Rules of Practice and Procedure*.

NOTICE OF MOTION

The School Energy Coalition ("SEC") will make a motion to the Ontario Energy Board ("the Board") at its offices at 2300 Yonge Street, Toronto, on a date and at a time to be fixed by the Board.

PROPOSED METHOD OF HEARING:

SEC proposes that this motion be heard in writing.

THE MOTION IS FOR:

1. An order requiring Hydro One Networks Inc. ("Hydro One") to provide full and adequate responses to the following interrogatory questions:

   a. Interrogatories SEC-2 through 6[1]
   b. Interrogatory OEB Staff-2(a)(5)[2]
   c. Interrogatory CCC-1[3]

2. Such further and other relief as SEC may request and the Board may grant.

THE GROUNDS FOR THE MOTION ARE:

1. The Board issued a Notice of Hearing on its own motion under subsection 19(4) of the *Ontario Energy Board Act* to respond to the decision of the Division Court dated July 16, 2020 with respect to Hydro One's deferred tax savings, and to "implement the clear direction of the Court that all of the future tax savings should be allocated to Hydro One's shareholders"[4].

[1] Exhibit I Tab 3 Schedules 2 through 6 (Interrogatory Responses SEC-2 through 6) [See Appendix A]
[2] Exhibit I Tab 1 Schedule 2 (Interrogatory Response OEB Staff-2(a)(v)) [See Appendix B]
[3] Exhibit I Tab 5 Schedule 1 (Interrogatory Response CCC-1) [See Appendix C]
[4] PO#1, p. 2.

2. Pursuant to Procedural Order #1, the Board ordered Hydro One to file evidence, in the following terms[5]:

> *"The OEB has determined that as a first step it will require Hydro One to file evidence on such matters as the total amount that Hydro One is entitled to recover for the 2017 to 2022 period as a result of the Court's decision. The information should be divided between the transmission business and the distribution business, along with detailed supporting calculations and potential customer bill impacts. Hydro One should also file one or more proposed implementation options for the recovery of the amounts owed through rates, and the annual forecast of rate impacts for these various options. Hydro One may also include any other information related to this matter that it believes would be useful."*

3. Hydro One filed evidence on October 28, 2020.

4. SEC is an intervenor in this proceeding. Pursuant to Procedural Order #1, intervenors were to request further relevant information by way of interrogatories to Hydro One. SEC filed interrogatories on November 13, 2020, and Hydro One filed its responses on December 4, 2020.

5. Rule 27.03 of the Board's *Rules of Practice and Procedure,* provides that a party may bring a motion seeking direction from the Board if it is not satisfied that a party has provided "full and adequate response to an interrogatory."[6] SEC brings this motion because Hydro One has not provided full and adequate responses to certain interrogatories. The information requested is relevant to the issues to be decided in this proceeding.

Interrogatory Responses SEC-2 through 6

6. The purpose of this proceeding is to implement the decision of the Divisional Court[7]. The key to the Court Decision is their statement as follows[8]:

> *"I agree that s. 33(4) of the OEB Act precludes us from simply issuing the ruling that we think the Rehearing Panel should have issued. Rather, we must certify our opinion to the Board. But I also agree with the submissions of HONI that no portion of the Future Tax Savings should be allocated to ratepayers when the evidence is clear that HONI paid all of its costs under the standalone utility principle. Therefore, under the long-established benefits follow costs principle, <u>no part of the benefit of the Future Tax Savings is allocable to ratepayers and should instead be paid to the shareholders in its entirety</u>." [emphasis added]*

5 PO #1, p. 3.

6 Ontario Energy Board, *Rules of Practice and Procedure* (as revised on October 28, 2016) ["*Rules of Practice and Procedure"*], Rule 27.03

7 *Hydro One Networks Inc. v. Ontario Energy Board*, 2020 ONSC 4331. This in on the record in this proceeding as Exhibit I, Tab 4, Schedule 1, Attachment 1, and has been referred to throughout this Motion as the "Court Decision".

8 Court Decision, p. 16.

7. The Board is therefore charged by the Court with the responsibility of ensuring that 100% of the benefit of the Future Tax Savings be paid to the shareholders.

8. To look at ways that amount can be paid by the ratepayers to the shareholders, SEC asked a series of interrogatories designed to get on the record the full calculation of the Future Tax Savings. These questions will allow the Board and parties to see the components of the Future Tax Savings (for allocation and other purposes), the periods over which they arise and the pattern of the benefits. This will in turn allow the Board and parties to test the appropriateness of various methods of collecting the Future Tax Savings from ratepayers and paying those amounts over to the shareholders.

9. Hydro One has refused to answer those questions, taking the somewhat shocking position that the details of the Future Tax Savings are out of scope for this proceeding. The record in this proceeding currently does not have any information on the calculation of the Future Tax Savings. It simply has a number that has been proposed by Hydro One, but without any supporting evidence[9].

10. Hydro One appears to be proposing that the Board order payment by transmission and distribution customers of $2.6 billion of Future Tax Savings without any evidence on the record as to the calculation and components of that amount.

11. In SEC's view the amount of information on the record is insufficient for the Board and customers to understand the amount of the tax savings (said to be about $2.6 billion, but with a net present value of $1.2 billion[10]), when those tax savings will be utilized by Hydro One to reduce its taxes, how much has already been available, what proportion of the savings available have been utilized already and when, and many other similar questions.

12. Hydro One has instead proposed that its calculation of the impact of the Court Decision is the only approach that the Board can consider, and Hydro One is solely entitled to determine what information is available to the Board and parties to look at different approaches to implementing the Court Decision.

13. Hydro One's approach starts with the adjustments made by the Board in EB-2016-0160, EB-2018-0130, EB-2019-0082, and EB-2017-0049, and uses IRM escalators to calculate the amount of the applicable adjustment in years that were not calculated on a cost of service basis. None of its proposal is responsive

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[9] As noted below, all of the information requested by SEC, and necessary for consideration by the Board, is readily available to Hydro One.
[10] Court Decision, p. 4.

to the Court Decision, which is expressly about the Board ensuring that the Future Tax Savings go to the shareholders over time.

14. It is not disputed that the nature of the tax savings starts with an increase in the fair market value of certain assets for tax purposes ("FMV Bump") at the time Hydro One became subject to federal and provincial income taxes. The amount of the FMV Bump represented an increase in the carrying value of assets for tax purposes, and therefore an increase in the annual tax deductions associated with those assets. The increase in cost had two potential impacts on tax deductions:

a. For non-depreciable assets, and in some other cases, the increased cost will reduce future tax on capital gains. This category generates no tax savings until the disposition of the assets (with some rare exceptions).
b. For depreciable assets (including eligible capital property), the increased cost will result in higher capital cost allowance deductions over the life of the assets. CCA is charged in most cases on a declining balance basis, so the available tax savings is higher in earlier years, and reduces each year. For example, if there is a FMV Bump of $1 million on an asset with a 10% CCA rate, the extra CCA in year 1 is $100,000. In year 2, it is $90,000 (10% of the undepreciated capital cost (UCC) of $900,000), and in year 3, it is $81,000 (10% of the remaining UCC of $810,000). The increase in cost, and in the increase in annual deductions, have the potential to generate higher or lower taxable income in the future through recapture, terminal loss, or capital gain or loss.

15. The FMV Bump does not change over time. It is a one-time event that arises because of the change from the PILs regime to the Income Tax Act. The impacts are therefore predictable, subject to two caveats. First, additional acquisitions of companies subject to PILs (such as Orillia) can generate an additional FMV Bump on the assets of those companies. The same impact arises if Hydro One buys the assets of another LDC, which it then includes in its books at FMV, even though for regulatory purposes it sets rates based on the historical cost of those assets. Second, as assets that were subject to the FMV Bump cease to be used in the regulatory business, there is a kind of true-up of the tax attributes of those assets in the regulatory books. If there is an actual disposition, that can include additional income or deductions for tax purposes.

16. In a series of five interrogatories, SEC sought to have placed on the record the detailed calculations of the FMV Bump and its impacts, including the calculation of the deferred tax savings, so that the Board and parties can determine when and how the savings arise over time, the appropriate allocation of those savings as between distribution and transmission, and the appropriate recovery of those savings from

customers in accordance with the Court Decision. Hydro One has in general refused to provide any information on the calculation of the Future Tax Savings.

17. The five interrogatories in this category are as follows:

18. ***Interrogatory SEC-2.*** SEC requested information on the accounting calculations related to the deferred tax asset in the books of Hydro One. This had three components:

a. The actual amount of the deferred tax asset included in the financial statements year by year, plus any additions, for example as a result of further acquisitions.
b. The maximum available drawdown each year (i.e. the tax impact of the increased deductions each year), with the split between transmission and distribution.
c. In any year in which less than the full drawdown was being claimed (e.g. because of insufficient taxable income), the actual or forecast drawdown, again split between Tx and Dx.

19. Hydro One's response is "Hydro One declines to provide the requested information as it is not relevant to the issues in this proceeding". Their position appears to be that the actual amounts of tax saving they have experienced, or expect to experience, are not relevant to either the Court Decision, or the Board's implementation of the Court Decision.

20. SEC disagrees. SEC submits that it is not credible to say that the Board can order recovery from customers of $2.6 billion in taxes that will not actually be paid, but the Board cannot and should not look at the basis on which Hydro One alleges that is the correct number, and the timing of its application. The essence of this proceeding is that Hydro One seeks to collect from customers a "cost" that it will not actually incur in the normal sense, but has to calculate on a notional basis. The calculation of that notional cost is therefore central to the issues the Board must address in order recovery from customers in rates.

21. Hydro One also says (with respect to both this question and questions 3 through 6)[11]:

> *"The time and effort required to prepare any tables, reconciliations and calculations are disproportionate to any probative value to the Board in its consideration or understanding of (a) calculations Hydro One has used to calculate the Misallocated Tax Savings for the 2017-2022 period; (b) the justification which Hydro One has used in support of its calculations (see Table 1"Proceeding" References); and (c) implementation options that Hydro One has proposed for the recovery of these amounts."*

[11] SEC-2, p. 3.

22. None of the SEC questions require any material amount of additional work by Hydro One. Hydro One has already calculated the amounts booked in its financial statements each year, and has working papers supporting those calculations (see SEC-6). They have already calculated the appropriate division between transmission and distribution, and necessarily have supporting documents in their files showing the basis of that division. All of these would have been required for their auditors in any case, as well as to support their evidence in past regulatory proceedings. Similarly, the starting point of those calculations is in every case the amount of the additional tax deductions available because of the FMV Bump, and a comparison of those available deductions to taxable income. The maximum and actual drawdowns of the deferred tax asset are something that Hydro One has to calculate and implement each year.

23. Further, proper management of any company would require that the annual impact of a $2.6 billion revenue amount be forecast in a rigorous way. If Hydro One has not done such a forecast, the Board as its regulator would quite correctly be concerned at this apparently lax approach. However, SEC believes such a forecast has actually been done.

24. The quote above discloses the real reason Hydro One is seeking to hide this information: Hydro One does not want the Board to be able to consider alternative approaches to recovery of these tax savings from customers. Hydro One seeks, and says so expressly, to limit the Board's consideration to the Hydro One proposal, the Hydro One analysis, and the Hydro One options for recovery[12].

25. SEC submits that the Board should order Hydro One to provide the requested information. The information is relevant to the issues in the proceeding, and is appropriately tailored to request only information that is or should be already available to Hydro One. Without the information, the intervenors and the Board cannot assess the actual tax savings, the pattern of those savings over time, and the appropriate allocation of those savings between transmission and distribution.

26. ***Interrogatory SEC-3***. This much simpler question asks that the total tax savings each year, the total claimed, and the total allocated to shareholders, be added to an existing table. This information is readily available. It will show, for example, that for 2017 an amount of tax savings was claimed for distribution in the Hydro One tax return, but none was allocated to customers. The purpose of this question was to avoid SEC having to prepare such a table from the existing evidentiary record, which would be a waste of time and resources when the information is easy for Hydro One to present.

[12] SEC is attempting to model several alternative approaches to comply with the Court Decision, keep Hydro One shareholders whole, but optimize the rate implications for customers. In the case of each of the alternatives, the information requested in the refused interrogatories is needed in order to assess their appropriateness.

27. The Board would benefit from a straightforward table of savings and allocations, and it is better for it to come from Hydro One than from SEC. SEC therefore submits that Hydro One should provide a full answer.

28. ***Interrogatory SEC-4***. As noted above, the Future Tax Savings are driven by the FMV Bump and the additional tax deductions it creates. In order to do that calculation, Hydro One was required for tax and financial statement purposes to prepare CCA continuity tables both with and without the FMV Bump. This is actually a relatively simple process, since

a. The CCA continuity tables were already being maintained year by year without the FMV Bump, and under Hydro One's approach that calculation must continue indefinitely into the future in order to calculate income taxes and set regulated rates in each rebasing without giving effect to the FMV Bump.
b. The amount of the FMV Bump for each CCA class is known, since Hydro One has to make that FMV adjustment by CCA class when it files its tax returns under the Income Tax Act.
c. Except where there are additional acquisitions, there are no further changes to the calculation. It is a spreadsheet that calculates CCA based on predetermined statutory rates, which are the same with and without the FMV Bump, and does so on the basis of an assumed UCC, which only differs by the amount of the FMV Bump.
d. Hydro One's auditors annually have to be given a reconciliation of the FMV Bump impacts to the deferred tax provision included in the Hydro One financial statements.

29. SEC in question 4 has therefore simply asked for the continuity schedules that Hydro One already has, and already continues to keep up to date. With this information, the Board and parties will be able to view the Hydro One proposal, and proposals from other parties, in the context of the actual tax savings being achieved, and the pattern of those savings. The detailed breakdown by CCA class will also assist parties and the Board in understanding the most appropriate allocation of the tax savings between distribution and transmission.

30. ***Interrogatory SEC-5***. In the Court Decision[13], the Court felt it important to refer to information filed by Hydro One that the net present value of the tax savings was not the $2.6 billion on the books, but only $1.2 billion. SEC has asked for the calculation of that amount in SEC-5, but Hydro One has refused to provide it.

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[13] Court Decision, p. 4, note 2, quoting a figure from p. 5 of the Hydro One Factum in that proceeding.

31. In referring to this figure, the Court made clear that it was both important and relevant that the recoveries by Hydro One of the tax savings would be significantly less than the PILs Departure Tax paid by Hydro One, saying[14]:

> *"The $2.595 billion figure represents the book value of the Future Tax Savings, but the present value of the Future Tax Savings (taking into account the time value of money over the approximately 20-year period when HONI can use them, but using an average weighted cost of capital of 9% and average annual tax depreciation of 5.5% on a declining balance) is only $1.2 billion. The PILS Departure Tax paid by HONI was therefore materially greater than the amounts it may recover back by the Future Tax Savings over time."*

32. In this proceeding, Hydro One is no longer seeking to collect from customers only the net present value of the Future Tax Savings, as the Court appeared to believe. Hydro One is now seeking to add interest at rates well above the cost that they are incurring for this capital[15].

33. SEC therefore submits that, if what Hydro One is seeking to do is implement the Court Decision, as it emphasizes again and again, it should be willing to show the Board how it calculated for the Court the actual value it expects to get from the Future Tax Savings.

34. ***Interrogatory SEC-6***. Finally, SEC question 6 seeks the accountants' working papers for the annual calculations of the deferred tax asset. This is intended to provide supporting evidence for the information requested in SEC-2 through SEC-5, so that the Board and parties can verify that the answers provided by Hydro One to those questions are accurate and have independent support.

35. Where a utility has independent documents that are directly relevant to a calculation the Board needs to review, it is common practice before this Board for those documents to be produced. SEC therefore submits that the working papers should be produced in this case.

Interrogatory Response OEBStaff-2(a)(v)

36. OEB Staff requested in this question information on the actual interest costs of Hydro One for relevant periods.[16] Hydro One refused on the basis that only Board-approved interest rates are relevant to the issues in this proceeding. Thus, Hydro One's position appears to be that the Board cannot and should not consider the utility's actual interest costs in determining the appropriate carrying costs, if any, applicable to the Future Tax Savings.

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[14] Ibid.

[15] See discussion below regarding interest rates. SEC notes that the actual cost of the capital used to finance the PILs Departure Tax was zero. The Province as shareholder supplied 100% of the money as its subscription price for additional shares that generated no incremental cost to Hydro One, then or now.

[16] Exhibit I, Tab 1, Schedule 2, p. 1 and p. 4.

37. The reason Hydro One doesn't want to disclose this information is that the interest rates Hydro One is paying right now are much lower than the 4.31% to 4.52%[17] that reflect the approved rates Hydro One wants to use. Over the period 2017-2021, Hydro One proposes to collect $26.1 million in carrying costs[18].

38. Of course, this is not what Hydro One expects to pay in interest. In their Q3 public financial reporting, Hydro One says[19]:

> *"In October 2020, following the end of the quarter, Hydro One Inc. raised $1.2 billion of Medium Term Notes consisting of $600 million aggregate principal amount of 0.71% Medium Term Notes, Series 48, due 2023, $400 million aggregate principal amount of 1.69% Medium Term Notes, Series 49, due 2031, and $200 million aggregate principal amount issued through a reopening of its 2.71% Medium Term Notes, Series 47, due 2050. Hydro One Inc. expects to use the net proceeds of this offering to repay and/or prepay maturing long-term and short-term debt and for general corporate purposes."*

39. If you do the math, the weighted average cost of that October 2020 debt is 1.37%, which if applied to the Future Tax Savings over the 2017-2021 period would be about $8.1 million, rather than $26.1 million.

40. Of course, that is an oversimplified calculation, but the Board cannot do a better calculation unless it has the information requested by OEB Staff in OEBStaff-2(a)(v). SEC therefore submits that Hydro One should be required to provide a full answer to that question.

Interrogatory Response CCC-1

41. In CCC-1[20], the Consumers Council made the now-standard request for the materials provided to the Hydro One Board of Directors with respect to this Application. Hydro One responded "This question is not relevant to the scope of this proceeding".

42. The Board regularly sees reports from management of utilities to their Boards of Directors, particularly when those reports are specific to the subject matter of the Application the Board is considering. Not only do those reports supply context that the utility may not include in their Application, but where the Board has to wrestle with various ways of doing something (as here), it is helpful to the Board to see the options considered by the applicant's Board of Directors, the rationale for the direction chosen by the utility, and the rationale for rejecting the other options.

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[17] Exhibit A, Tab 1, Schedule 1, p. 8, Table 2.
[18] Idem, Table 3.
[19] Hydro One Third Quarter 2020 Earnings Report, p. 3.
[20] Exhibit I, Tab 5, Schedule 1.

43. In this particular case, the Board cannot be sure what will be in these materials until it sees them, of course, but it is to be expected that, if Hydro One doesn't want the Board to see this stuff, it will likely have information the Board would like to see. This could include things like a comparison of the Hydro One regulatory proposal to the actual tax savings that Hydro One will achieve, with discussion of the benefits or costs arising out of those differences. It could include options to, for example, present value the tax savings and add them to rate base permanently, or to propose a fixed rate riders in place of the annual or other periodic calculation of the savings. Those are, of course, speculation. However, the Board will not know what other possibilities were presented unless it sees those materials.

44. SEC therefore submits that the Board would benefit from a full and complete answer to this interrogatory.

THE FOLLOWING DOCUMENTARY MATERIAL AND EVIDENCE WILL BE RELIED UPON AT THE HEARING OF THE MOTION:

1. The Record in EB-2020-0194
2. Such further and other material as counsel may advise and the Board may permit.

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AND TO: **All Intervenors**

APPENDIX A

SEC INTERROGATORY #2

Reference:
Ex. A/1/1, p. 6, 7, 14

Interrogatory:
Please provide, in Excel format, a table showing, with relevant dates, and covering the period from 2016 until the remaining amount of the Deferred Tax amount included in the Applicant's financial statements is expected to be less than the Applicant's materiality threshold:

a) The original Deferred Tax amount booked in the financial statements as a result of the change in tax status, and any additions to the Deferred Tax amount as a result of acquisitions or any other factors, in each case including the calculation of that amount;

b) The maximum drawdown of the Deferred Tax amount as a result of the availability of the FMV Bump in each year, divided between transmission and distribution businesses; and

c) If the drawdown of the Deferred Tax amount in any year was or is expected to be less than the maximum, because of limited taxable income or for any other reason, the actual or forecast drawdown of the Deferred Tax amount as a result of the FMV Bump in each year, divided between transmission and distribution businesses.

Response:
Hydro One declines to provide the requested information as it is not relevant to the issues in this proceeding. The amounts which Hydro One is seeking recovery for (excluding carrying costs) are described in Exhibit A, Tab 1, Schedule 1, Table 1 at page 7 of 20. Each of the amounts shown in Table 1 have been cross-referenced to the Proceeding in which Board approval was received and in which the referenced amount was allocated to rate-payers.[1] As it is these amounts that have been determined by the Divisional Court to

[1] For ease of reference, the income tax exhibits from the draft rate orders in the relevant proceedings showing the total regulatory income tax less the DTA sharing amount are attached to this response as follows: Attachment 1 – EB-2016-0160 Tx 2017; Attachment 2 – EB-2016-0160 Tx 2018; Attachment 3 – EB-2017-0049 – Dx 2018-2022; Attachment 4 – EB-2019-0082 – Tx 2020-2022

not be a matter pertaining to the provision of rate regulated service, Hydro One is seeking their recovery through this application.

In its Procedural Order, the Board stated the following:

> *The findings in the Original Decision with respect to the tax savings allocations for the 2017-2018 period have subsequently been incorporated by the OEB into transmission revenue requirements and charge determinants for the years 2019 to 2022 as well as into distribution revenue requirements and rates for the 2018 to 2022 period. The OEB has determined that as a first step it will require Hydro One to file evidence on such matters as the total amount that Hydro One is entitled to recover for the 2017 to 2022 period as a result of the Court's decision. The information should be divided between the transmission business and the distribution business, along with detailed supporting calculations and potential customer bill impacts. Hydro One should also file one or more proposed implementation options for the recovery of the amounts owed through rates, and the annual forecast of rate impacts for these various options. Hydro One may also include any other information related to this matter that it believes would be useful.*

Hydro One's evidence and its proposals are not based upon the information or type of analysis that is requested in this interrogatory. The scope and focus of this proceeding is intended to be narrow in nature and focus. Requiring Hydro One to conduct this analysis and those included in the subsequent interrogatories (i.e. 3 to 6) appear more of an attempt to expand the issues, allow reconsideration of allocation approaches, and, in so doing seek information not relevant to this proceeding. The time and effort required to prepare any tables, reconciliations and calculations are disproportionate to any probative value to the Board in its consideration or understanding of (a) calculations Hydro One has used to calculate the Misallocated Tax Savings for the 2017-2022 period; (b) the justification which Hydro One has used in support of its calculations (see Table 1 "Proceeding" References); and (c) implementation options that Hydro One has proposed for the recovery of these amounts.

a-c) N/A. See above.

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2016-0160

Income Tax

($ millions)	**Supporting Reference**	**Hearing Update 2017**	**Hearing Update 2018**	**OEB Decision Impact 2017**	**OEB Decision Impact 2018**	**OEB Approved 2017**	**OEB Approved 2018**
Income Taxes	*See supporting details below*	81.9	89.6	(30.9)	(34.5)	51.0	55.1

Income Tax Supporting Details			Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Rate Base	Exhibit 1.2	a	$ 10,554.4	$ 11,225.5	$ (31.7)	$ (77.5)	$ 10,522.7	$ 11,148.0
Common Equity Capital Structure		b	40.0%	40.0%			40.0%	40.0%
Return on Equity	Exhibit 1.4	c	8.78%	8.78%	0.00%	0.00%	8.78%	8.78%
Return on Equity		d = a x b x c	370.7	394.2	(1.1)	(2.7)	369.6	391.5
Regulatory Income Tax		e = l	81.9	89.6	0.3	(0.8)	82.2	88.8
Regulatory Net Income (before tax)		f = d + e	452.6	483.8	(0.8)	(3.5)	451.8	480.3
Timing Differences *(Note 1)*		g	(140.3)	(142.6)	2.0	0.5	(138.3)	(142.1)
Taxable Income		h = f + g	312.2	341.2	1.3	(3.0)	313.5	338.2
Tax Rate		i	26.5%	26.5%			26.5%	26.5%
Income Tax		j = h x i	82.7	90.4	0.3	(0.8)	83.1	89.6
less: Income Tax Credits		k	(0.8)	(0.8)	-	-	(0.8)	(0.8)
Regulatory Income Tax		l = j + k	81.9	89.6	0.3	(0.8)	82.2	88.8
less: Deferred Tax Asset Sharing *[Note 2]*		m	-	-	(31.2)	(33.7)	(31.2)	(33.7)
Income Taxes		n = l + m	81.90	89.60	(30.9)	(34.5)	51.0	55.1

Note 1. Book to Tax Timing Differences	Hydro One Proposed 2017	Hydro One Proposed 2018	OEB Decision Impact 2017	OEB Decision Impact 2018	OEB Approved 2017	OEB Approved 2018
Depreciation	435.7	470.7	(1.3)	(2.1)	434.4	468.6
CCA	(516.0)	(547.9)	3.4	2.6	(512.7)	(545.4)
Other Timing Differences	(60.0)	(65.4)	-	-	(60.0)	(65.4)
Total Timing Differences	(140.3)	(142.6)	2.0	0.5	(138.3)	(142.1)

Note 2: As per EB-2016-0160 Decision and Order on September 28, 2017.

	2017	2018
Income Tax from OEB Decision (Pre-DTA Sharing)	82.2	88.8
Deferred Tax Asset Sharing	31.2	33.7

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2016-0160

Income Tax

($ millions)	**Supporting Reference**	**OEB Approved 2018**	**CoC Update 2018**	**OEB Revised 2018**
Income Taxes	*See supporting details below*	55.1	2.2	57.2

Income Tax Supporting Details			**OEB Approved 2018**	**CoC Update 2018**	**OEB Revised 2018**
Rate Base	Exhibit 1.2	a	$ 11,148.0	$ -	$ 11,148.0
Common Equity Capital Structure		b	40.0%		40.0%
Return on Equity	Exhibit 1.4	c	8.78%	0.22%	9.00%
Return on Equity		d = a x b x c	391.5	9.8	401.3
Regulatory Income Tax		e = l	88.8	3.54	92.3
Regulatory Net Income (before tax)		f = d + e	480.3	13.35	493.7
Timing Differences *(Note 1)*		g	(142.1)	-	(142.1)
Taxable Income		h = f + g	338.2	13.35	351.5
Tax Rate		i	26.5%		26.5%
Income Tax		j = h x i	89.6	3.54	93.2
less: Income Tax Credits		k	(0.8)	-	(0.8)
Regulatory Income Tax		l = j + k	88.8	3.54	92.3
less: Deferred Tax Asset Sharing *[Note 2]*		m	(33.7)	(1.34)	(35.1)
Income Taxes		n = l + m	55.1	2.2	57.2

	OEB Approved 2018	**CoC Update 2018**	**OEB Revised 2018**
Note 1. Book to Tax Timing Differences			
Depreciation	468.6	-	468.6
CCA	(545.4)	-	(545.4)
Other Timing Differences	(65.4)	-	(65.4)
Total Timing Differences	(142.1)	-	(142.1)

Note 2: As per EB-2016-0160 Decision and Order on September 28, 2017.

Income Tax from OEB Decision (Pre-DTA Sharing)	88.8		92.3
Deferred Tax Asset Sharing	33.7		35.1

Filed: 2019-04-05
EB-2017-0049
Draft Rate Order
Exhibit 1.5
Page 1 of 1

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2017-0049

Income Tax

($ millions)	Supporting Reference		Hydro One Proposed					OEB Decision Impact					OEB Approved				
			2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Income Taxes	*See supporting details below*		65.2	68.8	71.4	78.7	79.3	(22.1)	(18.8)	(20.2)	(24.1)	(14.8)	43.1	50.0	51.1	54.5	64.5
Income Tax Supporting Details																	
Rate Base	Exhibit 1.2	(a)	$ 7,648.1	$ 8,004.2	$ 8,403.4	$ 8,928.8	$ 9,291.1	$ (11.2)	$ (110.1)	$ (228.3)	$ (411.7)	$ (478.3)	$ 7,636.9	$ 7,894.1	$ 8,175.1	$ 8,517.1	$ 8,812.8
Common Equity Capital Structure		(b)	40.0%	40.0%	40.0%	40.0%	40.0%						40.0%	40.0%	40.0%	40.0%	40.0%
Return on Equity	Exhibit 1.4	(c)	9.00%	9.00%	9.00%	9.00%	9.00%						9.00%	9.00%	9.00%	9.00%	9.00%
Return on Equity		(d) = a x b x c	275.3	288.2	302.5	321.4	334.5	(0.4)	(4.0)	(8.2)	(14.8)	(17.2)	274.9	284.2	294.3	306.6	317.3
Regulatory Income Tax		(e) = l	65.2	68.8	71.4	78.7	79.3	6.8	7.5	4.0	(1.6)	6.2	72.0	76.4	75.4	77.1	85.5
Regulatory Net Income (before tax)		(f) = d + e	340.5	357.0	373.9	400.1	413.8	6.4	3.6	(4.2)	(16.4)	(11.1)	346.9	360.6	369.7	383.7	402.7
Timing Differences *(Note 1)*		(g)	(89.8)	(92.1)	(99.5)	(98.2)	(109.5)	19.3	24.9	19.3	10.4	34.3	(70.5)	(67.3)	(80.2)	(87.8)	(75.2)
Taxable Income		(h) = f + g	250.8	264.8	274.4	301.9	304.3	25.6	28.4	15.1	(6.0)	23.2	276.4	293.3	289.5	295.9	327.5
Tax Rate		(i)	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Income Tax		(j) = h x i	66.5	70.2	72.7	80.0	80.6	6.8	7.5	4.0	(1.6)	6.2	73.3	77.7	76.7	78.4	86.8
less: Income Tax Credits		(k)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)						(1.2)	(1.3)	(1.3)	(1.3)	(1.3)
Regulatory Income Tax		(l) = j + k	65.2	68.8	71.4	78.7	79.3	6.8	7.5	4.0	(1.6)	6.2	72.0	76.4	75.4	77.1	85.5
Max CCA													(221.4)	(201.7)	(185.7)	(172.8)	(160.7)
Tax Effected (26.5%)													(58.7)	(53.5)	(49.2)	(45.8)	(42.6)
Less: DTA Sharing (36.2%)													(21.2)	(19.3)	(17.8)	(16.6)	(15.4)
Less: DTA Sharing - G/up													(7.7)	(7.0)	(6.4)	(6.0)	(5.6)
Total Deferred Tax Asset Sharing													(28.9)	(26.3)	(24.2)	(22.5)	(21.0)
Income Taxes			65.2	68.8	71.4	78.7	79.3	(22.1)	(18.8)	(20.2)	(24.1)	(14.8)	43.1	50.0	51.1	54.5	64.5
Note 1. Book to Tax Timing Differences																	
Depreciation			398.1	419.0	433.7	452.6	466.2	(0.4)	(4.0)	(8.2)	(10.2)	(10.6)	397.8	415.0	425.5	442.4	455.6
CCA			(435.3)	(456.8)	(474.8)	(481.6)	(504.0)	(0.1)	9.3	8.0	0.8	24.0	(435.5)	(447.5)	(466.8)	(480.9)	(480.0)
Other Timing Differences			(52.6)	(54.4)	(58.4)	(69.1)	(71.7)	19.8	19.6	19.5	19.8	20.9	(32.8)	(34.8)	(38.9)	(49.3)	(50.8)
Total Timing Differences			(89.8)	(92.1)	(99.5)	(98.2)	(109.5)	19.3	24.9	19.3	10.4	34.3	(70.5)	(67.3)	(80.2)	(87.8)	(75.2)

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2019-0082

Income Tax

($ millions)	Supporting Reference	Hydro One Proposed 2020	Hydro One Proposed 2021	Hydro One Proposed 2022	OEB Decision Impact 2020	OEB Decision Impact 2021	OEB Decision Impact 2022	OEB Approved 2020	OEB Approved 2021	OEB Approved 2022
Income Taxes	*See supporting details below*	18.1	18.5	31.2	12.1	22.4	8.5	30.1	40.9	39.7

Income Tax Supporting Details

			Hydro One Proposed 2020	Hydro One Proposed 2021	Hydro One Proposed 2022	OEB Decision Impact 2020	OEB Decision Impact 2021	OEB Decision Impact 2022	OEB Approved 2020	OEB Approved 2021	OEB Approved 2022
Rate Base	Exhibit 1.2	(a)	$ 12,407.0	$ 13,130.2	$ 13,951.7	$ (47.4)	$ (202.9)	$ (310.8)	$ 12,359.6	$ 12,927.3	$ 13,640.9
Common Equity Capital Structure		(b)	40.0%	40.0%	40.0%				40.0%	40.0%	40.0%
Return on Equity	Exhibit 1.4	(c)	8.52%	8.52%	8.52%				8.52%	8.52%	8.52%
Return on Equity		(d) = a x b x c	421.9	447.5	475.5	(0.7)	(6.9)	(10.6)	421.2	440.6	464.9
Regulatory Income Tax		(e) = l	50.8	49.0	59.6	12.1	22.4	8.5	62.9	71.4	68.1
Regulatory Net Income (before tax)		(f) = d + e	472.7	496.5	535.0	11.4	15.5	(2.1)	484.1	512.0	533.0
Timing Differences *(Note 1)*		(g)	(279.6)	(310.2)	(308.9)	34.1	69.0	34.2	(245.4)	(241.2)	(274.7)
Taxable Income		(h) = f + g	193.1	186.3	226.1	45.5	84.5	32.1	238.7	270.8	258.2
Tax Rate		(i)	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Income Tax		(j) = h x i	51.2	49.4	59.9	12.1	22.4	8.5	63.2	71.8	68.4
less: Income Tax Credits		(k)	(0.3)	(0.4)	(0.3)				(0.3)	(0.4)	(0.3)
Regulatory Income Tax		(l) = j + k	50.8	49.0	59.6	12.1	22.4	8.5	62.9	71.4	68.1
Max CCA			(251.2)	(233.7)	(217.3)				(251.2)	(233.7)	(217.3)
Tax Effected (26.5%)			(66.6)	(61.9)	(57.6)	-	-	-	(66.6)	(61.9)	(57.6)
Less: DTA Sharing (36.2%)			(24.1)	(22.4)	(20.8)	-	-	-	(24.1)	(22.4)	(20.8)
Less: DTA Sharing - G/up			(8.7)	(8.1)	(7.5)	-	-	-	(8.7)	(8.1)	(7.5)
Total Deferred Tax Asset Sharing			(32.8)	(30.5)	(28.4)	-	-	-	(32.8)	(30.5)	(28.4)
			(32.8)	(30.5)	(28.4)						
Income Taxes			18.1	18.5	31.2	12.1	22.4	8.5	30.1	40.9	39.7
Note 1. Book to Tax Timing Differences											
Depreciation			474.5	503.4	528.9	(1.0)	(3.2)	(4.4)	473.4	500.2	524.5
CCA			(681.4)	(732.6)	(752.8)	5.7	42.1	7.6	(675.7)	(690.5)	(745.2)
Other Timing Differences			(72.7)	(81.1)	(85.0)	29.5	30.2	31.0	(43.1)	(50.9)	(54.0)
Total Timing Differences			(279.6)	(310.2)	(308.9)	34.1	69.0	34.2	(245.4)	(241.2)	(274.7)

SEC INTERROGATORY #3

Reference:
Ex. A/1/1, p. 7

Interrogatory:
Please add to Table 1 columns for each of transmission and distribution showing the total tax savings amounts available in each year, the total tax savings claimed or expected to be claimed in the year, the amount allocated to the shareholders, and the remaining amount (already shown) originally allocated to the customers.

Response:
Refer to Hydro One's response to SEC Interrogatory #2 for more details.

SEC INTERROGATORY #4

Reference:
Ex. A/1/1, throughout

Interrogatory:
With respect to the calculation of the impact of the FMV Bump:

a) Please provide, in Excel format, a full CCA continuity schedule for all depreciable assets subject to the FMV Bump, whether at the time of the IPO, or as a result of any subsequent event, all broken down by CCA class, from 2016 until the Deferred Tax amounts are below the materiality threshold.

b) Please provide an identical CCA continuity schedule, calculated on the assumption that the FMV Bump was not applicable, and that the assets continued to be subject to CCA based on their previous undepreciated capital costs.

c) Please reconcile the differences between those continuity schedules to the initial and any additional calculations of the Deferred Tax amounts included or to be included in the financial statements.

d) In the event that any of the assets are amortized pursuant to the CEC rules, please provide similar continuity schedules with and without the FMV Bump, and a similar reconciliation.

Response:
a-d) Refer to Hydro One’s response to SEC Interrogatory #2 for more details.

SEC INTERROGATORY #5

Reference:
Court Decision, p. 4

Interrogatory:
Please provide, in Excel format, the full calculation of the net present value figure of $1.2 billion related to the Future Tax Savings referred to in note 4 of the Court's Decision, and originally alleged by the Applicant in its Factum in that proceeding, at page 5. Please include the annual amount of tax savings for each year from 2016 onward, including the calculation of that tax savings amount, and the discounting calculations used including all assumptions.

Response:
Refer to Hydro One's response to SEC Interrogatory #2 for more details.

SEC INTERROGATORY #6

Reference:

Ex. A/1/1, throughout

Interrogatory:

Please provide the accountants' working papers for the original and any subsequent calculations of the deferred taxes as recognized for financial statement purposes.

Response:

Refer to Hydro One's response to SEC Interrogatory #2 for more details.

APPENDIX B

OEB STAFF INTERROGATORY #2

Reference:
p. 8 – Table 2, pp. 9-11, 16

Interrogatory:
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[1], 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[2]. 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.

<u>Response:</u>

a)

   i. The WACD and WACC in Table 2 in Exhibit A, Tab 1, Schedule 1 are based on the OEB approved capital structure and long-term debt, short-term debt and common equity allowed return rates, as shown below. The WACC is calculated using a 26.5% tax rate on the long and short-term debt rates.

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[1] Decision and Order for 2017 and 2018 Transmission Revenue Requirements and Charge Determinants, November 1, 2017, EB-2016-0160

[2] Interim Rate Order for Electricity Distribution Rates beginning January 1, 2018 until December 31, 2022, June 6, 2019, EB-2017-0049

WACD and WACC		OEB Approved			
		Distribution	Transmission		
	Capital Structure Ratios	2018-22	2017	2018/2019	2020-22
a	Long-term Debt	56%	56%	56%	56%
b	Short-term Debt	4%	4%	4%	4%
c	Total Debt	60%	60%	60%	60%
d	Common Equity	40%	40%	40%	40%
	Allowed Return Rates				
e	Long-term Debt	4.47%	4.67%	4.68%	4.42%
f	Short-term Debt	2.29%	1.76%	2.29%	2.75%
g	WACD ((a*e)/c)+((b*f)/c)	4.33%	4.47%	4.52%	4.31%
h	Tax Rate	26.5%	26.5%	26.5%	26.5%
i	Common Equity	9.00%	8.78%	9.00%	8.52%
j	WACC (g*(1-h)*c)+(d*i)	5.51%	5.48%	5.59%	5.31%

ii. Not applicable as the WACD and WACC in Table 2 in Exhibit A, Tab 1, Schedule 1 are based on approved rates.

iii. The references to the components of the WACC's approved allowed return shown in Table 2 in Exhibit A, Tab 1, Schedule 1 (long-term debt, short-term debt and common equity) are in the applicable Hydro One Draft Rate Order proceedings, and are also included as attachments to this interrogatory, as referenced below:

Distribution	Transmission		
2018-22	2017	2018	2020-22
EB-2017-0049	EB-2016-0160 EB-2017-0280	EB-2016-0160 EB-2017-0359	EB-2019-0082
Attachment 1	Attachment 2	Attachment 3	Attachment 4

iv. Hydro One has always used approved interest rates for calculations relating to interest and sees no reason to deviate from this practice. All historic rates relevant to the approved rates are included in the schedules used to develop the approved rates. The interest rates on actual debt issued from the prior approval would be reflected in the rebasing of the approved WACD in 2023 and will impact any future interest calculations starting in 2023, in the event that the Misallocated Tax Savings are not fully recovered by 2023.

v. Approved WACD and WACC rates and associated carrying charge amounts are provided in Tables 2 and 3 in Exhibit A, Tab 1, Schedule 1. The actual rates are not applicable as discussed in response to part iv above.

b) Confirmed, carrying charges are calculated using the simple interest method.

c) The higher levels of debt that Hydro One would have otherwise incurred are consistent with the amounts provided in Table 1 in Exhibit A, Tab 1, Schedule 1.

d) The Divisional Court has determined that no part of the Future Tax Savings is allocable to ratepayers and should instead be paid to the shareholders in its entirety[3] because the amounts do not pertain to the provision of rate regulated service and thus fall outside of the calculation of rates. Given this, the amounts of the Misallocated Tax Savings Amounts cannot properly be characterized as a "Regulatory Asset" and subject to deferral and variance account treatment.[4]

The injured parties are Hydro One's shareholders; parties who are not directly involved in the rate setting process. During the Recovery Period, Hydro One shareholders would continue to suffer the effects of the time value of money in the same manner as they had sustained when the misallocations occurred. The longer the recovery period, the greater the potential exists for Hydro One and its shareholders to receive less than the amount they would have received had the Original Decision correctly determined the matter in accordance with the Divisional Court's reasoning.

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[3] Divisional Court Decision at para 60.

[4] The Board's prescribed interest rates as determined in EB-2006-0117, were expressly described to apply to costs that are properly the subject-matter of rate regulation and which are accounted for in approved regulatory accounts under the Uniform System of Accounts for natural gas utilities and electricity distributors. The prescribed interest rates also apply to the regulatory accounts of other rate or payment regulated entities when authorized by the OEB to use these rates and involve deferral and variance accounts or construction work in progress. The EB-2006-0117 Decision establishing these prescribed rates did not contemplate circumstances rates of interest or methods of calculating carrying charges (i.e. simple or compound interest) on categories of costs erroneously determined to be part of a rates revenue requirement.

The Original Decision ordered the unlawful allocation of tax savings. The Divisional Court has now determined, effectively, that this part of the decision is a nullity. The task now at hand is how the Board should exercise its discretion to fairly place parties in the position that they would have been, but for the error committed in first instance. Hydro One's proposal of using its weighted average cost of debt (as opposed to a higher rate based on the Board approved return on equity) and use of simple and not compounded interest is intended to provide a fair and balanced result and to avoid windfalls or be punitive in nature. This approach is consistent with the principles applied in awards of pre-judgment and post-judgment interest in accordance with ss. 128-130 of the *Courts of Justices Act*. See also *Hislop*, 2004 CanLII 43774 (ONCA) para 145; *Pilon* 2006 CanLII 6190 (ONCA) para 27*; Cobb*, 2017 ONCA 717 para 86.

Having the Board exercise discretion by approving a carrying cost charge based on Hydro One's approved weighted average cost of debt is analogous to the discretion courts have used to award simple interest at higher rates than statutorily prescribed rates, or for longer periods than the statutorily described period, if it considers it just to do so under s. 130(1). Section 130(2) prescribes seven factors courts should take into account in making this determination:

a. changes in market interest rates;
b. the circumstances of the case;
c. the fact that an advance payment was made;
d. the circumstances of medical disclosure by the plaintiff;
e. the amount claimed and the amount recovered in the proceeding;
f. the conduct of any party that tended to shorten or to lengthen unnecessarily the duration of the proceeding; and
g. any other relevant consideration.

By allowing courts discretion to depart from a default rate, s. 130 ensures courts can provide fair compensation to a plaintiff for injury (without over-compensation or under-compensation) in light of economic realities: *Cobb*, 2017 ONCA 717, para 86-88. Similar circumstances apply in these unique circumstances.

The OEB has applied this principle in the past when it was reasonable to do so, and awarded interest at rates higher than the prescribed rate, including in the following circumstances:

- Great Lakes Power Transmission LP - EB-2012-0300
    - Account 1575 (IFRS-CGAAP Transitional PP&E Amounts) is interest improved using the approved cost of capital rate
- OEB Accounting Procedures Handbook Guidance - March 2015 Update
    - Accounts 1575 and 1576 (CGAAP Accounting Changes) reference a "rate of return" component, with no reference to the OEB prescribed interest rates
- Report of the OEB - Regulatory Treatment of Pension and Other Post-employment Benefits Costs (EB-2015-0040)
    - Several different interest rate options were considered in this consultation ranging from the OEB's prescribed rate for deferral and variance accounts to a utility's weighted average cost of capital (WACC)

Other regulators have also applied this principle. For example, in the context of a prudency determinations, the Alberta Utilities Commission has exercised discretion and used the weighted average cost of capital of the utility to calculate recovery of carrying costs attributable to imprudently incurred costs.[5] Imprudently incurred costs are, by definition, costs determined to fall outside of the regulated rate setting paradigm. Akin to the present circumstances, the issue concerned fairness in calculating the refund amount improperly collected through rates.

In the circumstances at hand, the Divisional Court has clearly determined that the cost category does not pertain to rate setting and that all of the benefit from the misallocation should be provided to shareholders (at paragraph 60):

> Therefore under the long established benefits follows costs principle, no part of the benefit of the Future Tax Savings is allocable to ratepayers and should instead be paid to the shareholders in its entirety. The application of this principle is not affected by the Board's mandate to approve "just and reasonable rates" or to achieve a reasonable balance between the interests of utility ratepayers and the interests of shareholders.

[5] Alberta Utilities Decisions 24805-D01-2020; Decision 3378-D010-2016, at I-10-02-01 (Attachment to VECC-02).

Applying a rate less than Hydro One's WACD to the carrying cost amount would provide ratepayers with benefit arising from the Misallocation of Tax Savings and due to the time value of money arising from over the Recovery Period.

e)

(i) Hydro One will require two distinct accounts over the recovery period for the following amounts:

a. First, an account for Distribution to track the difference between approved and recovered Misallocated Tax Savings Amounts on an annual basis, with differences to be disposed of at the end of the recovery period; and
b. Second, a Carrying Cost Differential Account for Transmission and Distribution to capture the monthly carrying charge on the outstanding balance of the Misallocated Tax Savings Amounts over the recovery period. Hydro One proposes that the balances be brought for disposition at its 2028 rebasing, or such other time as the OEB determines.

(ii) The actual carrying charge rate is proposed to be used during the recovery period. Please see response to this IR under a) iv and e) i.

APPENDIX C

CCC INTERROGATORY #1

Reference:
No Reference

Interrogatory:
Please provide all materials provided to HON's Board of Directors regarding this Application.

Response:
This question is not relevant to the scope of this proceeding.