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February 26, 2021

Christine Long
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Long

Re: Hydro One Networks Inc. ("Hydro One")
Remittal of Future Tax Savings Issue
Board File #: EB-2020-0194

We are counsel to Canadian Manufacturers & Exporters ("CME") in the above-noted proceeding. Pursuant to the Decision on Motion and Procedural Order No. 3 dated February 8, 2021, please consider this letter as CME's Submissions regarding the application by Hydro One for the remittal of future tax savings.

The requirement to remit future tax savings occurred as a result of the sale of a portion of the Government of Ontario's ownership interest in Hydro One Limited through an initial public offering. The tax benefits of that sale were originally allocated, in part, to ratepayers through the Board's decision in EB-2016-0160. This was accomplished by reducing Hydro One's revenue requirement by the amount of the future tax savings allocated to ratepayers.

Hydro One successfully appealed the original decision to the Divisional Court, which ordered that the matter be remitted back to a new panel of the OEB to "consider and make an appropriate order varying the tax savings allocation in the Original Decision by correcting the errors identified in it by the Review Panel…"[1]

As part of Procedural Order #1, the Board provided that Hydro One should file evidence on what amounts it is entitled to recover for the 2017-2022 period as a result of the Divisional Court's decision, and propose implementation options for the recovery of the amounts owed through rates.[2] Hydro One has provided its view on the appropriate recovery of those amounts.

CME has had the benefit of reviewing SEC's submissions in this matter, and believes that its suggested approach has merit. To the extent that the Board wishes solely to determine the approach to amounts outstanding between the 2017-2022 period in this proceeding, CME

[1] *Hydro One Networks Inc. v. Ontario Energy Board*, 2020 ONSC 4331 at para 61.
[2] Notice and Procedural Order #1, EB-2020-0194, October 2, 2020 at p. 3.

outlines its views on the appropriate recovery of carrying costs, and the appropriate recovery period over which to recover the amounts allocated to ratepayers.

Appropriate Recovery of Carrying Costs

During the course of the proceeding, a number of different potential carrying costs have been provided by Hydro One, either in its initial evidence or response to interrogatories. Currently, Hydro One proposes that its weighted average cost of debt ("WACD") be applied to the amounts allocated to ratepayers. Hydro One provided that its WACD for the period 2017-2022 is as follows:

Weighted Average Cost of Debt (WACD)						
Transmission	4.47%	4.52%	4.52%	4.31%	4.31%	4.31%
Distribution	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%

Hydro One attempts to support its position by stating that it incurred a higher level of debt than it otherwise would have, and as a result, should be compensated with an amount equal to its WACD.[3]

CME disagrees with Hydro One that its WACD is the appropriate carrying cost to recover from ratepayers. CME agrees with SEC and other intervenors that the appropriate carrying charges in this instance are zero. Hydro One does not provide sufficient evidence of the debt that it had to incur besides stating simply that it incurred more debt than it would have otherwise. Moreover, as stated in Board Staff's submissions on this issue, the original decision provided for sufficient rates to fund Hydro One's capital program, projects, and refinancing existing assets.[4]

In the alternative, should the Board determine that it is appropriate to award Hydro One carrying costs, CME proposes that the Bank of Canada rate, plus 150 basis points, originally articulated in the Alberta Utilities Commission would be appropriate to apply in these circumstances.

Appropriate Recovery Period

Hydro One proposed three different recovery periods. Option one is recovery over 2021 and 2022.[5] Option one is the shortest recovery period proposed. As a result, it increases rate impacts to ratepayers, but minimizes equity concerns that arise as a result of a longer recovery period. Option two is recovery over 2021 to 2024.[6] This option has less drastic rate impacts but increases the potential inequity of recovery. Option three is recovery over 2021 to 2027. This minimizes rate impacts but increases equity concerns.

[3] EB-2020-0194, Exhibit A, Tab 1, Schedule 1, p. 12.
[4] EB-2020-0194, Staff Submission on Hydro One's Future Tax Savings Evidence, February 22, 2021, p. 9.
[5] EB-2020-0194, Exhibit A, Tab 1, Schedule 1, p. 13.
[6] EB-2020-0194, Exhibit A, Tab 1, Schedule 1, p. 14.

COVID-19 has had a significant aspect on many of CME's members. As a result, CME opposes recovery over the 2021-2022 period (option one). While CME recognizes the increase in equity concerns with a longer recovery period, it submits that option two, recovery over the 2021 to 2024 period reflects the appropriate balance of recovery equity and rate impacts, given the fragile state of many businesses and households in Ontario today.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 26th day of February, 2021.

Yours very truly

Scott Pollock

c. Eryn MacKinnon (Hydro One)
Gordon Nettleton (McCarthy)
Alex Greco (CME)

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