



February 26, 2021

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Re: Hydro One Networks Inc. Remittal of Future Tax Savings Issue
AMPCO's Final Submissions
Board File No. EB-2020-0194

Dear Ms. Long:

Attached Please find the submissions of AMPCO in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson
President

Copy to: Hydro One Networks Inc.

**Hydro One Networks Inc.
2017- 2022 Transmission Revenue Requirement and Charge Determinants and
2018-2022 Distribution Revenue Requirement and Rates,
Remittal of Future Tax Savings Issue**

Submissions of AMPCO February 26, 2021

The Ontario Energy Board (OEB) determined in the EB-2016-0160 Decision and Order (Original Decision), that a portion of the future tax savings resulting from the Government of Ontario's decision to sell a portion of its ownership interest in Hydro One Limited by way of an Initial Public Offering on October 28, 2015 and subsequent sale of shares should be applied to reduce Hydro One Networks Inc.'s (Hydro One) transmission revenue requirement for 2017 and 2018.

Following a motion to review filed by Hydro One, an OEB panel reconsidered the Future Tax Savings issue and determined that the outcome of the Original Decision was reasonable (Rehearing Decision).

With the release of the Rehearing Decision, Hydro One resumed an appeal of the Original Decision to the Ontario Divisional Court (Court). The appeal was heard in November 2019 and the Court issued its decision on July 16, 2020. An order certifying the Court's opinion was issued on September 21, 2020.

In July 2020, the Court granted Hydro One's appeal and ordered that the matter be remitted back to the OEB for a new panel to make an appropriate order varying the tax savings allocation.

The OEB established this proceeding (EB-2020-0194) to implement the direction of the Court that all of the future tax savings should be allocated to Hydro One's shareholders.

On October 28, 2020, Hydro One filed evidence on matters related to implementing the Court's decision. On December 4, 2020, Hydro One filed responses to interrogatories from OEB staff and intervenors. On December 9, 2020, the School Energy Coalition (SEC), filed a motion requesting an order requiring Hydro One to provide full and adequate responses to certain interrogatories.¹

On February 8, 2021, the OEB denied SEC's motion.² In its Decision, the OEB reiterated that the scope of this proceeding is to "reallocate to Hydro One's shareholders any deferred tax savings allocated to ratepayers only for the 2017 to 2022 period. Any determinations related to the calculation of taxes (including future tax savings) for 2023 onwards that may be required will be the responsibility of a future OEB panel."

In this application Hydro One seeks to implement the Ontario Divisional Court's Decision as follows:

- Recover prior period Misallocated Tax Savings Amounts through a rate rider (or similar base rate adjustment mechanism) applied to Hydro One's existing approved rates commencing in 2021; and

¹ SEC-2 through 6; OEB Staff-2(a) (5); CCC-1

² DECISION ON MOTION AND PROCEDURAL ORDER NO. 3 February 8, 2021 P7

- Commencing January 1, 2022, amend the method used to calculate Hydro One's regulatory income tax amounts in its base revenue requirement to remove any further Future Tax Savings allocations.

In order to implement the direction of the Court and OEB, to recover prior period Misallocated Tax Savings Amounts through a rate rider, the following issues must be decided:

- The amount of tax savings;
- The carrying costs;
- The recovery period; and
- The start date for the recovery period.

Tax Savings Amounts

Since January 1, 2017, Hydro One shared the future tax savings with ratepayers and applied the OEB prescribed allocation. Hydro One reported the future tax savings as a single line item deduction to the calculation of regulatory income taxes. Through the rate orders for Transmission³ and Distribution⁴ Hydro One calculates \$165 million was deducted from regulatory tax income for Transmission for the years 2017-2021 and \$92.4 million for Distribution for the years 2018-2021 for a total of \$257.4 million.⁵

AMPCO accepts the approach used by Hydro One to calculate the misallocated tax savings of \$257.4 million.

Carrying Costs

Hydro One put forward three options for carrying cost rates: OEB Prescribed Rates; Weighted Average Cost of Debt; and Weighted Average Cost of Capital.

The carrying costs by year up to 2021 under each of the options, assuming recovery commencing in 2021 is as follows:

Carrying Cost Options	Transmission (\$ M)	Distribution (\$M)	Total (\$M)
OEB Prescribed Rates	\$5.4	\$2.1	\$7.5
Weighted Average Cost of Debt (WACD)	\$18.3	\$7.8	\$26.1
Weighted Average Cost of Capital	\$22.5	\$10.0	\$32.5

Hydro One proposes that its WACD is the appropriate rate to calculate all carrying costs and bill impacts because the misallocated tax savings amounts were funds otherwise expected to be received by Hydro One in its normal operations and the cost to finance this shortfall would attract Hydro One's WACD given it was over a four-year period. Further, Hydro One indicates that as a result of the original decision, it incurred a higher level of debt than it otherwise would have.⁶

³ EB-2016-0160 (2017-2018), EB-2018-0130 (2019) & EB-2019-0082 (2020-2022)

⁴ EB-2017-0049 (2018-2022)

⁵ Ex A T1 S1 P7 Table 1

⁶ Ex A T1 S1 P10

It is AMPCO's view that no carrying charges should be applied. AMPCO has reviewed the draft submissions of SEC and Energy Probe and supports those submissions that conclude that the appropriate carrying cost should be zero. Further, the OEB's decision and the decision of the court are not the responsibility of the customer and they should not be penalized.

Should the OEB determine that it is appropriate to allow Hydro One carrying costs, AMPCO does not support Hydro One's proposal that the WACD is the appropriate rate to calculate all carrying costs and bill impacts submits. Hydro One has not provided sufficient evidence that it incurred a higher level of debt to finance the shortfall of misallocated tax savings. AMPCO agrees with OEB Staff's submissions that the approved Uniform Transmission Rates (UTRs) and distribution rates reflect the appropriate level of debt financing/refinancing costs for Hydro One and were compensatory to allow Hydro One to recover its cost of capital, including any additional debt incurred as a result of the Future Tax Savings allocation.⁷ AMPCO submits the OEB's Prescribed Rates should be applied.

Recovery Period

Hydro One developed three options for recovering the tax saving amounts: over 2021 and 2022 (2 years); over 2021 to 2024 (4 years); and 2021 to 2027 (7 years).⁸

Hydro One takes no position in respect of the recovery period but notes Option 3 is the best of Hydro One's three options for mitigating rate impacts to customers.⁹

AMPCO would typically support a recovery period of four years to match the original timeframe that customers received the tax savings. However, given the many cost pressures that currently exist for customers which includes the impacts of COVID19, AMPCO supports a 7-year recovery period in these circumstances as this option best mitigates the rate impacts to customers. Now more than ever, affordability is a key consideration for all customers.

Start Date for Recovery Period

Hydro One proposes January 1, 2021 as the proposed implementation date of the Misallocated Tax Savings Amounts or if that is not possible, approximately 30 days from the date that the Board issues its decision in this matter.¹⁰

If the OEB determines carrying charges apply, AMPCO agrees recovery of the misallocated tax savings amounts should be implemented as soon as possible to mitigate rate impacts. However, AMPCO agrees with OEB Staff's administrative analysis and conclusions that for transmission it will likely not take place earlier than July 1, 2021 and June 1, 2021 for distribution.

⁷ OEB Staff Submission P9

⁸ Ex A T1 S1 P12-14

⁹ Ex A T1 S1 P16

¹⁰ Ex A T1 S1 P11