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**BY E-MAIL**

April 30, 2021

Attention: Ms. Christine Long, Registrar

Dear Ms. Long:

**Re: Hydro One Networks Inc.  
Remittal of Future Tax Savings Issue  
Ontario Energy Board File Number: EB-2020-0194**

Please find attached OEB staff's submission on the draft rate order pertaining to this proceeding filed by Hydro One Networks Inc. on April 22, 2021.

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

**2017- 2022 TRANSMISSION REVENUE  
REQUIREMENT AND CHARGE DETERMINANTS  
AND 2018-2022 DISTRIBUTION REVENUE  
REQUIREMENT AND RATES, REMITTAL OF  
FUTURE TAX SAVINGS ISSUE**

**Hydro One Networks Inc.**

**EB-2020-0194**

**ONTARIO ENERGY BOARD  
STAFF SUBMISSION ON DRAFT RATE ORDER**

**April 30, 2021**

## Introduction

The Ontario Energy Board (OEB) determined in the EB-2016-0160 Decision and Order (Original Decision), that a portion of the future tax savings (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.

The Original Decision was ultimately overturned by a decision of the Divisional Court of Ontario (Divisional Court) dated July 16, 2020. The Divisional Court remitted the matter back to the OEB with instructions that "no portion of the Future Tax Savings should be allocated to ratepayers when the evidence is clear that [Hydro One] paid all of its costs under the stand-alone utility principle", and that "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 OEB commenced the current proceeding to give effect to the Divisional Court's findings.

The OEB noted at that time<sup>1</sup> that the decision of the Divisional Court would also have implications for Hydro One's distribution rates. As part of the proceeding for Hydro One's 2018-2022 distribution rates,<sup>2</sup> the OEB had determined that it would not permit the matter of tax savings to be reconsidered pending the outcome of the Hydro One motion and appeal. On that basis, the treatment of the tax savings for Hydro One's distribution rates reflected the approach from the Original Decision. The OEB further noted that it would "implement the ultimate outcome of any appeal of the Tax Savings Determination issue, in the event that the appeal process results in a change to the allocation of the tax savings as set out in the Tax Savings Determination."<sup>3</sup> As Hydro One was successful on its appeal, the OEB stated that it would now also reflect the Divisional Court's instructions for Hydro One's transmission rates to Hydro One's distribution rates.

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<sup>1</sup> *Notice and Procedural Order No. 1*, October 2, 2020, pp. 2-3.

<sup>2</sup> EB-2017-0049 *Decision and Order*, March 7, 2019

<sup>3</sup> P. 12

On April 22, 2021, Hydro One filed a draft rate order (DRO) pursuant to the Decision and Order for this proceeding, dated April 8, 2021.

The OEB, in the Decision and Order, determined that it would adjust the Uniform Transmission Rates effective July 1, 2021 for the transmission portion and would approve a rate rider effective July 1, 2021 for the distribution portion.

OEB staff's comments on the DRO follow.

### **Section 3 Accounting Treatment**

#### **Sub-account Naming**

##### ***Background***

Hydro One provided three draft accounting orders for the approved establishment of a Disposition and Recovery of Future Tax Savings Account for Distribution (Exhibit 1.1 of DRO), and the Carrying Cost Differential Account for both Distribution (Exhibit 1.2 of DRO) and Transmission (Exhibit 1.3 of DRO).

##### ***Discussion and Submission***

OEB staff notes that Hydro One has proposed revised names for the three sub-accounts. OEB staff is of the view that the revised sub-account names should be used in the title of each of the accounting orders to provide greater clarity of the sub-account being established.

OEB staff further submits that after the revised sub-account names have been introduced in a draft accounting order, any references made to these sub-accounts within the description of the accounting orders should also use the revised sub-account names for consistency and clarity.

OEB staff notes that Hydro One has proposed that the Disposition and Recovery of Future Tax Savings Account for Distribution be renamed to Account 1595 - Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances of Future Tax Savings Approved for Disposition. The purpose of the sub-account is to record the difference between the misallocated Future Tax Savings amount approved for recovery and the amount recovered.

OEB staff notes that the misallocated Future Tax Savings were not previously recorded in any regulatory account and therefore, there has been no disposition. OEB staff submits that the proposed name of the sub-account does not accurately reflect the circumstances. OEB staff proposes instead that the sub-account be renamed to Account 1595 – Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances of Misallocated Future Tax Savings.

OEB staff further notes that Hydro One has proposed that the Carrying Cost Differential Account for Transmission be renamed to Account 1508 – Other Regulatory Assets, Sub-account Future Tax Savings. OEB staff is of the view that the sub-account should instead be renamed to Account 1508 – Other Regulatory Assets, Sub-account Misallocated Future Tax Savings Carrying Charges to provide greater clarity that the sub-account is to only record the carrying charges on the outstanding misallocated Future Tax Savings amount.

#### Journal Entries

##### ***Background***

Hydro One has proposed the following journal entry to record monthly misallocated Future Tax Savings billed to ratepayers in the Distribution draft accounting order for Account 1595 - Disposition and Recovery/Refund of Regulatory Balances, Sub-Account Principal Balances of Future Tax Savings Approved for Disposition:

*Dr. Account 4040 – Distribution Revenues*

*Cr. Account 1595 - Sub-account Principal Balances of Future Tax Savings Approved for Disposition*

*Monthly entry to record misallocated future tax savings billed to ratepayers*

##### ***Discussion and Submission***

OEB staff notes that the proposed journal entry records actual recoveries collected from ratepayers. OEB staff is unclear on how the proposed journal

entry will record the difference between the approved misallocated Future Tax Savings and the actual amount recovered, which is the purpose of the sub-account.

OEB staff is also unclear on why the offsetting entry to Account 1595 is a reduction (i.e. debit) to distribution revenues when Hydro One has been approved to recover misallocated Future Tax Savings, which would increase distribution revenues.

OEB staff expects the journal entries in the sub-account to be similar to those for the generic Account 1595 – Disposition and Recovery/Refund of Regulatory Balances, Sub-account Principal Balances as shown below:

*Dr. Account 1595 - Sub-account Principal Balances of Misallocated Future Tax Savings*

*Cr. Account 4040 – Distribution Revenues*

*To record the approved amount for recovery into Account 1595*

*Dr. Account 1100 – Customer Accounts Receivable*

*Cr. Account 1595 – Sub-account Principal Balances for Misallocated Future Tax Savings*

*To record the rater riders billed to customers*

OEB staff invites Hydro One to comment on the appropriateness of the above journal entries and revise the draft accounting orders as necessary.

## **Section 4.3 Tariff Schedules**

### ***Background***

OEB staff notes that Hydro One has removed from the header “Approved on an Interim Basis” of the tariff schedule proposed for approval in the DRO.<sup>4</sup>

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<sup>4</sup> Exhibit 4 – Updated 2021 Distribution Tariff

## ***Discussion and Submission***

OEB staff submits that Hydro One's distribution rates should remain interim until the conclusion of the seasonal rates proceeding,<sup>5</sup> as this is one of the reasons why they are currently maintained as interim.

## **Section 5 Uniform Transmission Rates (UTR) Adjustments**

### ***Background***

The total revenue requirements for each of the transmitters Five Nations Energy Inc. (FNEI), Canadian Niagara Power Inc. (CNPI) and Hydro One Networks Sault Ste. Marie LP (H1N SSM) are the same as those approved in the OEB's 2021 Uniform Transmission Rates Decision (UTR Decision).<sup>6</sup>

However, there have been adjustments made to the Network, Line Connection and Transformation connection revenue requirement components for each of these transmitters from the amounts approved in the UTR Decision. These adjustments have not affected the totals.

### ***Discussion and Submission***

OEB staff submits that Hydro One should provide an explanation of these adjustments in its reply submission.

- All of which is respectfully submitted -

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<sup>5</sup> EB-2020-0246

<sup>6</sup> EB-2020-0251, *Decision and Order*, December 17, 2020.