



July 8, 2022

BY RESS & EMAIL

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
P.O. Box 2319, 27th Floor  
2300 Yonge Street  
Toronto, ON, M4P 1E4

Re: **Board File No. EB-2022-0006**  
**Draft Accounting Order re: KWHI and WNHI Merger Application**

Dear Ms. Marconi:

Pursuant to the Ontario Energy Board (OEB)'s Decision and Order, enclosed please find the Draft Accounting Order from the Applicants in the above noted proceeding.

Contact the undersigned should you require any further information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Nanninga", written in a cursive style.

Margaret Nanninga, MBA, CPA, CGA  
Kitchener-Wilmot Hydro Inc.  
VP Finance & CFO

## **Draft Accounting Order – 2435 – Accrued Rate-Payer Benefit**

In accordance with the Handbook to Electricity Distributor and Transmitter Consolidations and in accordance with the Decision in EB-2022-0006, LDC MergeCo will establish new variance account “2435 Accrued Rate-Payer Benefit” to record the 50% sharing with customers of the amount, if any, of the achieved regulated earnings of LDC MergeCo that are greater than 300 basis points above the allowed regulated rate of return for Years 6 to 10 of the rebasing deferral period.

At the end of year 6 (December 31, 2028) and annually thereafter, LDC MergeCo will report the balance of the ESM account. The amount accrued in the account will be reviewed and disposed at the applicants next Cost of Service proceeding.

The regulatory net income and regulated return on equity (“ROE”) would be computed based on LDC MergeCo’s annual audited financial results, adjusted for any revenue and expenses that are not otherwise included for regulatory purposes, consistent with the Board’s current established regulated ROE model under the Board’s Reporting and Record Keeping requirements. Under this methodology, the actual regulated ROE is calculated by dividing adjusted regulatory net income by the deemed equity component of rate base.

LDC MergeCo’s allowed ROE will be computed based on the approved ROE percentages weighted by the deemed equity component of rate base for Kitchener-Wilmot Hydro Inc and Waterloo North Hydro Inc. The ROE percentages and equity component of rate base would be based on figures from the last cost of service (2020 for Kitchener-Wilmot Hydro Inc., 2021 for Waterloo North Hydro Inc.). With this approach the approved ROE on which to base the ESM would be 8.43%.

The following outlines the proposed accounting entries for this deferral account:

Debit	Account 4395 Rate-Payer Benefit Including Interest
Credit	Account 2435 Accrued Rate-Payer Benefit

To record the 50% sharing with customers of the amount, if any, of the achieved regulated earnings of LDC MergeCo that are greater than 300 basis points above the allowed regulated rate of return for Years 6 to 10 of the rebasing deferral period.

Debit	Account 4395 Rate-Payer Benefit Including Interest
Credit	Account 2435 Accrued Rate-Payer Benefit

To record interest accrued on the principal balance of the Earnings Sharing Variance Account.

## **Draft Accounting Order – 1508 – Other Regulatory Assets, Sub Account Impact of Post-Merger Accounting Policy Changes**

LDC MergeCo shall establish and use Account 1508 Other Regulatory Assets, sub account Impact of Post-Merger Accounting Policy Changes to record the cumulative difference between Waterloo North Hydro Inc. (“WNHI”) net property, plant and equipment (“PP&E”) under the pre-merger capitalization policy and pre-merger depreciation policy and its net PP&E under the post-merger capitalization policy and post-merger depreciation policy. The determination of differences will be consistent with the Account 1576 approach and will capture differences caused by changes to the depreciation and capitalization policies of WNHI.

The cumulative difference recorded in this account will be reviewed at LDC MergeCo’s IRM Application for 2024 rates for materiality. Should the balance be below the materiality of \$465,000, the account will be closed without disposition and no further entries will be required.

If the account balance meets the materiality threshold, a journal entry to record the variance will be recorded each year, until the next cost of service rebasing year at which time the cumulative variance will be recovered from, or refunded to, customers in WNHI’s rate zone. Upon disposition of the balance in the deferral account, a return component will be applied to the balance based on the disposition period to determine the amount to be used to calculate rate riders. The weighted average cost of capital to be used and return component will be determined at the time the accounts are disposed. Interest carrying charges will not be applied to this account.

The net change in PP&E will be recorded to Account 1508 - Other Regulatory Assets, Sub Account Impact of Post- Merger Accounting Policy Changes, and the offsetting entry will be recorded to Account 4305 – Regulatory Debit or Account 4310 – Regulatory Credit depending on the direction of the net PP&E change. Utilizing Account 1508 instead of Account 1576 will provide a delineation between existing balances in Account 1576 related to IFRS/CGAAP transition amounts and allow for simplified tracking in annual record keeping submissions.

The sub account will be made effective on January 1, 2023, as per the OEB board Decision EB-2022-0006.

The following outlines an illustrative example of the proposed accounting entries for this deferral account:

**Illustrative Example - Account 1508 - Other Regulatory Assets**  
**Sub Account - Accounting Policy changes**

	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<b>WNHI</b>	<b>WNHI</b>	<b>WNHI</b>
PP&E Values Under Pre Merger Policies			
Opening Net PP&E	1,000	1,350	1,700
Additions	400	400	400
Depreciation	<u>50</u>	<u>50</u>	<u>50</u>
Closing Net PP&E	1,350	1,700	2,050
PP&E Values Under Post Merger Policies			
Opening Net PP&E	1,000	1,350	1,735
Additions	400	440	440
Depreciation	<u>50</u>	<u>55</u>	<u>55</u>
Closing Net PP&E	1,350	1,735	2,120
Differences in Closing Net PP&E	-	(35)	(70)

**Illustrative Example - Account 1508 - Other Regulatory Assets**  
**Sub Account - Accounting Policy changes**

Opening Balance	-	-	(35)
Annual Additions	-	(35)	(35)
Closing DVA Balance	-	(35)	(70)

		<b>Debit</b>	<b>Credit</b>
<b>2023</b>			
Debit	4305 Regulatory Debits	35	
Credit	1508 Other Regulatory Assets - Accounting Policy Changes		35
	- to record differences arising from depreciation and capitalization policies		
<b>2024</b>			
Debit	4305 Regulatory Debits	35	
Credit	1508 Other Regulatory Assets - Accounting Policy Changes		35
	- to record differences arising from depreciation and capitalization policies		

Per OEB Decision EB-2022-0006 dated June 28, 2022, the Account will be closed if the balance does not exceed materiality.