



Ontario
Energy
Board | Commission
de l'énergie
de l'Ontario

ACCOUNTING ORDER

EB-2022-0006

KITCHENER-WILMOT HYDRO INC. AND WATERLOO NORTH HYDRO INC.

**Application for approval to amalgamate and continue
operations as a single electricity distribution company**

BEFORE: Patrick Moran
Presiding Commissioner

Robert Dodds
Commissioner

Michael Janigan
Commissioner

July 28, 2022

TABLE OF CONTENTS

1	OVERVIEW.....	1
2	DECISION.....	2
3	ORDER.....	4
	SCHEDULE A.....	5

1 OVERVIEW

This is the Accounting Order of the Ontario Energy Board (OEB) regarding draft accounting orders filed by Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. (collectively, the Applicants).

On January 31, 2022, the Applicants filed an application for OEB approval of the amalgamation of Kitchener-Wilmot Hydro and Waterloo North Hydro. The application included, among other things, a proposal for an Earnings Sharing Mechanism (ESM) for years six through ten of the deferred rebasing period following the amalgamation. The Applicants therefore requested a deferral account to track amounts associated with the proposed ESM.¹

In its June 28, 2022 decision and order (Decision and Order) approving the amalgamation of Kitchener-Wilmot Hydro and Waterloo North Hydro into a single electricity distribution company (LDC MergeCo), the OEB ordered that the Applicants file updated accounting orders.² These accounting orders relate to the Account 2435 - Accrued Rate-Payer Benefit (ESM Account) and Account 1508 – Other Regulatory Assets, Sub-Account Impact of Post-Merger Accounting Policy Changes (Accounting Policy Changes Account).

On July 11, 2022, the Applicants filed updated draft accounting orders.

On July 15, 2022, OEB staff submitted comments on the draft accounting orders. The Applicants took no issue with OEB staff's submissions and, on July 18, 2022, re-filed the draft accounting orders. The OEB has reviewed the draft accounting orders and approves the accounting orders set out in Schedule A of this Decision and Order.

¹ Application, January 31, 2022, p. 55

² Decision and Order, June 28, 2022, p. 22 & 33

2 DECISION

On July 11, 2022, the Applicants filed updated draft accounting orders for the ESM Account and the Accounting Policy Changes Account.

Account 2435 - Accrued Rate-Payer Benefit (ESM Account)

On July 15, 2022, OEB staff submitted that no further changes were required in the updated draft accounting order for the ESM Account, but noted that the wording regarding the timing of when the account balance shall be filed for review and disposition did not align with the wording in the Decision and Order.³ OEB staff stated that since the OEB determined that the start-date of the ESM shall be January 1, 2028 (i.e., year six of the deferred rebasing period), there would be a zero balance in the ESM Account in the rate application for year six of the deferred rebasing period (i.e., the application for 2028 rates).

Account 1508 – Other Regulatory Assets, Sub-Account Impact of Post-Merger Accounting Policy Changes (Accounting Policy Changes Account)

OEB staff proposed two edits to the Accounting Policy Changes Account draft accounting order:

1. Additional wording should be added to the draft accounting order to clarify that LDC MergeCo (the amalgamated entity) shall file the Accounting Policy Changes Account balance for review and disposition to Waterloo North Hydro customers with the rate application for year six of the deferred rebasing period together with a proposal for disposition, and then at the next rebasing application.
2. A statement should be added in the draft accounting order that any references made by the Applicants to depreciation policies also are meant to include depreciation estimates.

The Applicants took no issue with OEB staff's submission and, on July 18, 2022, incorporated these edits in the re-filed draft accounting order.

³ [Decision and Order](#), June 28, 2022. In its Decision and Order, the OEB stated that the detailed review and disposition of the ESM account balance shall be conducted at the same time as the other Group 2 balances. The OEB determined that LDC MergeCo shall file Group 2 balances with the rate application for year six of the deferred rebasing period together with a proposal for disposition, and then at the next rebasing application. However, in the updated draft ESM accounting order, the Applicants noted that the amount accrued in the ESM account will be reviewed and disposed at the Applicants' next cost of service proceeding.

Findings

The OEB approves the accounting orders set out in Schedule A of this Decision and Order.

3 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. LDC MergeCo shall establish Account 2435 – Accrued Rate-Payer Benefit and Account 1508 – Other Regulatory Assets, Sub-Account Impact of Post-Merger Accounting Policy Changes as set forth in Schedule A.

DATED at Toronto July 28, 2022

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar

SCHEDULE A
ACCOUNTING ORDER
KITCHENER-WILMOT HYDRO INC. AND
WATERLOO NORTH HYDRO INC.
EB-2022-0006
JULY 28, 2022

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. Depreciation policies include accounting estimates. 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. At the rate Application for year 6 of the Deferred Rebasing Period, the balance will be brought forward and a proposal for disposition will be made at that time. At the next Cost of Service proceeding the balance will be brought forward for disposition. 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

	2022	2023	2024
	WNHI	WNHI	WNHI
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)

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

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