

London Economics International, LLC (LEI)

Answer to Undertaking from
OEB Commissioner (Patrick Moran)

Undertaking

LEI to provide a full response to considerations with respect to the use of accelerated depreciation.

Response

The following response is provided by LEI.

LEI was not retained in this proceeding to specifically opine on depreciation related matters. Below are LEI's general views on the topic of accelerated depreciation as informed by LEI's general knowledge of the issue.

A number of factors need to be considered carefully when assessing whether accelerated depreciation is appropriate.

- The concept of intergenerational equity needs to be examined, as it raises questions of consistency with the principle of cost-causation.
- Depending on the magnitude and timing of the accelerated depreciation program, the resulting increases in tariffs may exacerbate the problem that accelerated depreciation is intended to address, as this increase may in turn further incentivize customers to reduce or eliminate their usage of gas infrastructure.
- If assets prove to continue to be useful after the accelerated depreciation period has ended, regulators will need to be attentive to ensure both that they are properly maintained and that the company appropriately accounts for them as having fully recovered their return of and return on capital.
- Natural gas policy in Ontario does not appear to have crystallized to the point where it is obvious that natural gas assets will need to be retired prematurely.
- Furthermore, the adoption of policies like SFVD will help align cost recovery with the possibility that under a hybrid approach to heating, customers will be paying for the option to utilize the gas distribution system when needed, while potentially using less and less of the commodity itself.