Fw: Hydro One Deferred Tax Asset - Ratepayer Impact

From:	"Clark, Ed (CAB)" <ed.clark@ontario.ca>
To:	"Bevan, Andrew (OPO)" <andrew.bevan@ontario.ca>
Date:	Fri, 25 Nov 2016 14:58:57 -0500
Attachments:	2016 11 19 Hydro One Deferred Tax Asset v03.doc (74.24 kB)

I assume you got this.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nelms, Scott (ENERGY) <Scott.Nelms@ontario.ca>
Sent: Tuesday, November 22, 2016 11:24 AM
To: Clark, Ed (CAB)
Subject: Hydro One Deferred Tax Asset - Ratepayer Impact

Hi Ed,

Further to your question last week about potential customer impacts in the event the OEB decides that benefits from the deferred tax asset (DTA) should flow to ratepayers, my colleagues and I have come up with the following analysis:

- Transmission costs for residential customers in 2017 could be reduced by 0.9% or 8 cents per month from a projected cost of $8.96/month to $8.88/month
- The 2017 distribution portion of the bill for a typical medium density Hydro One customer could be reduced by an additional 78 cents/month or 1.3%, from $59.65 to $58.87/month

Assumptions and other considerations:

- For 2017, we have assumed that the DTA reduces Hydro One's cash tax expense from ~$135M to $0. I have not confirmed the validity of this assumption with Hydro One and there is no clear guidance in the rate application.
- We further assume that all of the benefit flows to ratepayers and we have held rates constant. This is an extreme example. It is also possible that OEB shares benefits between investors and ratepayers.
- We have only shown the impact for a medium density Hydro One customer (a "typical" customer). Hydro One urban customers would see smaller savings, while savings for low density rural customers would likely be higher. There are also several classes of commercial customers, who would benefit on a differentiated basis depending on rates and usage.
- There is insufficient information to forecast beyond 2017. However given the size of the asset ($2.6B) it is likely that any benefit to customers would persist for several years (perhaps even decades) depending on Hydro's Ones tax expenses.
- I spoke with RBC about the work that they undertook pre-IPO on this issue. They spent considerable time with management and with a former OEB board member in order to get comfortable that this was a low risk outcome and that the disclosure in the prospectus was sufficient.

For your reference, I have attached a note on this issue that will be discussed at fiscal prep tomorrow. I believe you are out of town, so I will relay any messages from that.

Thanks,
Scott