RE: Energy Issues - Sept 29

From: "Den Heijer, Kevin (ENERGY)" <kevin.denheijer@ontario.ca>
To: "Forgione, Andrew (OPO)" <andrew.forgione@ontario.ca>
Cc: "Berry, James (ENERGY)" <james.berry5@ontario.ca>, "Nekolaichuk, Colin (ENERGY)" <colin.nekolaichuk@ontario.ca>, "Killorn, Bill (OPO)" <bill.killorn@ontario.ca>
Date: Fri, 29 Sep 2017 08:33:44 -0400

That's right. Below is a chart that highlights all of their decisions:

What Hydro One Transmission Asked For	What the OEB Approved
OM&A	OM&A
$412.7 million (2017) $409.3 million (2018)	$397.7 million (2017) $394.3 million (2018) · A **reduction** of $15.0 million each year to reflect the OEB's findings that Hydro One's increased levels of compensation for senior executives, directors and managers should <u>not</u> be recovered from ratepayers.
Capital Expenditures Budget	Capital Expenditures Budget
$1,076.1 million (2017) $1,122.2 million (2018)	$950 million (2017) $1,000 million (2018) · A **reduction** of $126.1 million (2017) · A **reduction** of $122.2 million (2018)
Future Tax Savings from their 2015 IPO	Future Tax Savings from their 2015 IPO
100% of future tax savings to be returned to Hydro One shareholders.	**OEB rejects this request** . OEB mandates that future tax savings be shared between Hydro One shareholders and ratepayers. The allocation of any tax savings to shareholders should be limited to 71%. The remaining 29% annual allocation of tax savings should go to ratepayers. The OEB panel has estimated that this revised allocation would reduce grossed up taxes proposed by Hydro One of $81.9 million in 2017 and $89.6 million in 2018 to about $58.1 million and about $63.6 million in each of those years, respectively.

- OM&A costs: H1 asked for $822M combined for 2017 & 2018, and is only granted $792M—a reduction of 4%
- Capital expenditures budget: H1 asked for $2,198.3M combined for 2017 & 2018, and is only

receiving $1,950M—a reduction of 11%

- The OEB rejected H1's application to have 100% of future tax savings to be returned to shareholders. 71% will go to shareholders, while the remaining 29% annual allocation goes to ratepayers.

I hope this clears things up. As you might understand, this is quite a large decision, but those are the three biggest takeaways.

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From: Forgione, Andrew (OPO)
Sent: September-29-17 8:23 AM
To: Den Heijer, Kevin (ENERGY)
Cc: Berry, James (ENERGY); Nekolaichuk, Colin (ENERGY); Killorn, Bill (OPO)
Subject: RE: Energy Issues - Sept 29

Thx kevin. Can you simplify for us please:

it looks like H1 was granted a partial acceptance of their cost recovery application – do we know how much yet?

It also looks like H1 wanted to get additional benefits for the deferred tax asset but instead OEB ruled the opposite, and said $ needs to flow to ratepayers over 15 yrs.

From: Den Heijer, Kevin (ENERGY)
Sent: September-29-17 7:56 AM
To: @OPO-Media Relations and Issues Management
Cc: Berry, James (ENERGY); Nekolaichuk, Colin (ENERGY)
Subject: Energy Issues - Sept 29

1) **Hydro One transmission--rate application Sept 28**

The Ontario Energy Board came out with a decision and order yesterday about Hydro One's transmission rate application and part of it included a deferral tax issue:

- The OEB denied Hydro One the full costs it sought to recover for its transmission application.
- Hydro One has also been denied the full value of the 'deferred tax asset', which was created as a result of the IPO in 2015.
- OEB has indicated that some of the value of the tax asset should be given to ratepayers (e.g. 29% of the $1.5B, which equals $428M).
- The OEB estimates it will take approximately 15 years for Hydro One to flow the full $428M benefit to ratepayers.
- The rest of the tax asset would be returned to the shareholder in recognition of costs incurred.
- We understand H1 is reviewing the decision and determining next steps
- The province will be reviewing the decision carefully and assessing the accounting impacts to the province

KMs
Transmission

- The Ontario Energy Board (OEB) is an independent regulator with a mandate to protect the interests of Ontario ratepayers.

- While the final results of the application will depend on Hydro One's final capital spending plans to be released in October, Ontario Energy Board staff have estimated that Hydro One's ask has been reduced by $39 million in 2017 and $41 million in 2018

- This is a great example of the OEB's strong record of denying hydro companies all that they ask for, and reviewing rate applications with the consumer in mind first.

- Over the past ten years, the OEB has denied, or reduced the outcome of rate applications many times

  - In 2010 Hydro One asked for a rate increase for distribution, received a 9% reduction for its capital request

  - In 2012 Hydro One asked for a rate increase for transmission, received a 3% reduction for its capital request

  - When Ontario Power Generation applied for a 6.2% rate increase in 2011, the OEB denied the request and lowered rates by 0.8%.

  - In 2014 OPG asked for a rate increase and the OEB approved about half the requested amount

  - In 2011 Toronto Hydro made a distribution request to the OEB and received 10.8% less than requested

- The OEB's mandate is to protect the interests of ratepayers and to set just and reasonable rates, and it will continue to do so by balancing the interest of consumers with those of utilities

Tax Deferral

· As the independent, arms-length regulator of the Province's energy sector, the OEB continues to balance the interests of consumers with those of utilities.

· Part of the OEB's decision and order included the deferral tax issue. The OEB has indicated that some of the value of the tax asset should be given to ratepayers.

· In determining the appropriate allocation of these tax benefits between the shareholder and ratepayer, the OEB relied on the principles from a previous case to inform their decision.

· The province will be reviewing the decision carefully and assessing the accounting impacts to the province

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