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

BY E-MAIL AND WEB POSTING

July 25, 2019

To: All Rate-regulated Electricity and Natural Gas Utilities
Ontario Power Generation Inc.
All Intervenors in 2019 and 2020 Electricity and Natural Gas Rate Applications
All Other Interested Parties

Re: Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance

On June 21, 2019, Bill C-97, the *Budget Implementation Act, 2019, No. 1*, was given Royal Assent. Included in Bill C-97 are various changes to the federal income tax regime.

One of the changes introduced by Bill C-97 is the Accelerated Investment Incentive (AII) program, which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

The Ontario Energy Board (OEB) anticipates that these Bill C-97 CCA rule changes may have a material impact on the taxes payable of electricity and natural gas utilities and Ontario Power Generation Inc. (OPG) (collectively, Utilities). This letter provides accounting direction to Utilities in respect of the impacts of these and future legislative or regulatory changes to the tax rates or rules for CCA.

Under the Accounting Procedures Handbook, electricity distributors and transmitters are to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the OEB Tax Model that is used to determine the tax amount that underpins rates. The impact of any differences that are not reflected in rates (due to such factors as timing of known changes) are to be recorded in Account 1592 - PILs and Tax Variances. Natural gas utilities and OPG have similar accounts.

The OEB expects Utilities to record the impacts of CCA rule changes in the appropriate account (Account 1592 - PILs and Tax Variances and similar accounts for natural gas utilities and OPG) for the period November 21, 2018 until the effective date of the Utility's next cost-based rate order. For the purposes of increased transparency, the

OEB is establishing a separate sub-account of Account 1592 - PILs and Tax Variances – CCA Changes specifically for the purposes of tracking the impact of changes in CCA rules. Electricity distributors and transmitters are to use this sub-account for the impact of the Bill C-97 CCA rule changes as well as any future CCA changes instituted by relevant regulatory or taxation bodies. Natural gas utilities and OPG are to create separate sub-accounts within their respective similar accounts to record the same impacts.

For natural gas utilities and electricity distributors and transmitters, the OEB's long-standing practice with respect to the impact of changes in taxes due to regulatory or legislated tax changes during an incentive rate-setting period has been to share the impacts between Utility shareholders and ratepayers on a 50/50 basis[1]. However, Utilities should not expect that this practice will necessarily apply in respect of CCA rule changes, and determinations as to the appropriate disposition methodology will be made at the time of each Utility's cost-based application. The OEB therefore expects that all Utilities will record the full revenue requirement impact of any changes in CCA rules that are not reflected in base rates. The impacts should be recorded as of the effective date of the changes in CCA rules, which for the Bill C-97 changes is November 21, 2018.

Consistent with the OEB's filing requirements for the disposition timing and parameters of deferral and variance accounts, the OEB expects Utilities to bring forward any amounts tracked in their applicable CCA-related sub-account for review and disposition in accordance with the OEB's filing requirements for the disposition of deferral and variance accounts[2]. Unless the OEB orders otherwise, this would generally coincide with a Utility's next cost-based rate application.

The OEB expects Utilities, including those whose applications are currently before the OEB, to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond. The OEB recognizes that there may be timing differences that could lead to volatility in tax deductions over the rate-setting term. The OEB may consider a smoothing mechanism to address this.

Any questions relating to this letter should be directed to Industry Relations at industryrelations@oeb.ca.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

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[1] EB-2007-0673: Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, Section 3 - Tax Changes in Relation to the Z-factor, p.35

[2] The OEB expects that Utilities will combine the impacts associated with the 2018 stub period with future years when disposing of the CCA-related sub-account.