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BY COURIER

June 29, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli,

EB-2015-0026 – B2M Limited Partnership Transmission Cost of Service Application – Additional and Updated Evidence and Responses to Interrogatories

In support of B2M Limited Partnership's (B2M LP) five year Cost of Service Application that was originally filed with the Board on March 30, 2015 additional and updated evidence and interrogatory responses have been submitted using the Ontario Energy Board's Regulatory Electronic Submission System. A complete version of the merged evidence from both the March 30th and today's filing has also been submitted.

The additional evidence includes:

- Exhibit A, Tab 2, Schedule 1, Attachment 1; and
- Exhibit C2, Tab 3, Schedule 2, 2014 Income Tax. Return

Prefiled evidence has been updated to reflect the impact of the placement of a 5-year debt issue which has reduced the revenue requirement request for B2M LP for the 2015-2019 test years.

The updated evidence includes:

- Exhibit A, Tab 2, Schedule 1;
- Exhibit A, Tab 3, Schedule 1;
- Exhibit A, Tab 3, Schedule 2;
- Exhibit B1, Tab 1, Schedule 1;
- Exhibit B2, Tab 1, Schedule 1;

- Exhibit B2, Tab 1, Schedule 2;
- Exhibit E1, Tab 1, Schedule 1;
- Exhibit E2, Tab 1, Schedule 1;
- Exhibit F1, Tab 1, Schedule 1;
- Exhibit G1, Tab 1, Schedule 1;
- Exhibit G1, Tab 2, Schedule 1;
- Exhibit G2, Tab 2, Schedule 1; and
- Exhibit G2, Tab 2, Schedule 2.

Interrogatory responses to Ontario Energy Board staff and Canadian Manufacturers & Exporters are also included in this submission.

Two (2) hard copies are attached. In addition, one copy of the complete written evidence will be provided for public access at the B2M LP office.

Given the nature and the number of Interrogatory Questions and the fact that there are only 2 intervenors, B2M LP requests the Board proceed with this application by way of a written process.

Sincerely,

Oded Hubert

Attach.

cc: Don Rogers, Rogers Partners LLP
Anita Varjadic, Rogers Partners LLP
Mike Penstone, B2M GP Inc.
Colin Salter, Pape Salter Teillet LLP
Intervenors (electronic)

1 **Ontario Energy Board (Board Staff) INTERROGATORY #1**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab2/Schedule 1/p. 1

6
7 B2M LP has applied for transmission revenue requirement and rates on a 5 year cost of service
8 basis. Please provide the rationale for not applying for a two year period, given that a typical
9 transmission rates application is for two years, including that of Hydro One Networks Inc.
10 Transmission.

11
12 **Response:**

13
14 As noted at Exhibit A, Tab 4, Schedule 1, B2M Limited Partnership (“B2M LP”) is applying for
15 a five year Cost of Service application. B2M LP has determined that a five year Cost of Service
16 application is most appropriate, given the forecast of operations, maintenance and administrative
17 expenses is relatively stable over the test years and no capital expenditures are forecast to be
18 incurred and placed in-service during this period. This approach will minimize the regulatory
19 burden for all stakeholders and thereby contribute to overall rate stability. This application
20 approach allows the Company to propose a smoothing methodology to minimize the initial rate
21 impact to customers resulting from the start-up costs incurred to form the partnership.

22
23 Hydro One Transmission applications have been typically for two years because of the large
24 capital needs which is not the case for B2M LP

1 **Ontario Energy Board (Board Staff) INTERROGATORY #2**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab4/Schedule 1/p. 2

6
7 At 2.1, Annual Adjustment Mechanisms at line 14, B2M LP indicates that it proposes an annual
8 adjustment for changes in the Cost of Capital and working capital. In the following paragraphs,
9 Cost of Capital is explained but the concept of Working Capital updates is not addressed.

10
11 Please provide additional detail on the annual adjustments sought for Working Capital.

12
13 a) B2M LP has applied for approval of a revenue requirement for each of five years. Under
14 what circumstances might B2M apply for its revenue requirement to be reset earlier than the
15 expiry of its approved rate term?

16
17 **Response:**

18
19 2. Adjustments to Working Capital would only be sought if the Board were to change its
20 guidelines with respect to the calculation of Working Capital. The current forecast for
21 working Capital for B2M LP is \$0 over the test year period as shown in Table 1 at Exhibit
22 D1, Tab 1, Schedule 1 and as documented in the Navigant study filed as Attachment 1 to
23 Exhibit D1, Tab1, Schedule 2.

24
25 2a) As described in Exhibit F1, Tab 1, Schedule 1, B2M LP is applying for an Unplanned Capital
26 Spending Account to recover the amount of unplanned capital spending that may take place
27 due to unexpected events that are materially impactful to the operation of the Company and
28 which are outside of the Company's control. Although rare with 500 kV circuits, unforeseen
29 events may take place that cause the need for material capital spending to take place. Given
30 its spending plan, B2M LP has no opportunity to accommodate material, unplanned spending
31 related to unforeseen events. As a result, B2M LP proposes to collect such costs, should they
32 occur, in a deferral account for disposition and recovery at a future date in accordance with
33 Board direction.

34
35 Revenue requirement will be reset each year as part of the annual UTR rate setting process
36 resulting from the annual adjustments described at Exhibit A, Tab 4, Schedule 1. The
37 revenue requirement may also need to be reset in the event B2M LP experienced a major
38 unforeseen weather event. Any disposition request and approval by the Board from such an
39 event would result in B2M LP's revenue requirement being reset earlier than the expiry of its
40 approved rate term.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #3**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab4/Schedule 1/p. 3

6
7 At 2.1.3, B2M LP indicates that it proposes an annual adjustment for Other Third Party Pass
8 Through Charges. Please provide additional detail on these pass through charges with specific
9 examples of the charges and how changes would arise.

10
11 **Response:**

12
13 One example of an Other Third Party Pass Through charge would be a change in or an additional
14 charge respecting OEB charges. Were such a change or addition to be realized, B2M LP would
15 seek to recover such charges as part of the annual UTR process.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #4**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab4/Schedule 1/p. 4

6
7 At 2.2 B2M LP indicates that it proposes four outcome measures:

- 8
9
 - 10 • System Average Interruption Frequency;
 - 11 • System Average Interruption Duration;
 - 12 • Average System Availability; and
 - 13 • NERC Vegetation Compliance.

14 a) Why has B2M LP not provided an outcome measure with a focus on improving operational
15 efficiency? For instance, as noted in the B2M LP's values (Exhibit A, Tab 5, Schedule 1/p. 5)
16 section 5.0, continuous improvement and innovation are highlighted.

17
18 b) In addition, in Table 2 on page 6 of the same exhibit, the Five Year Vision for Productivity
19 and Cost-Effectiveness is to achieve top-quartile unit costs in transmission against utility
20 comparables. Why would B2M LP not report as an outcome, unit costs as indicated?

21
22 **Response:**

23
24 a) The establishment of the B2M Limited Partnership (B2M LP) occurred on December 17,
25 2014. As such, no historical base line has been established to measure operational efficiency
26 improvements against.

27
28 b) Currently, B2M LP has limited OM&A and no capital costs. In five (5) years, B2M LP may
29 have sufficient historical data to determine appropriate unit cost outcome measures on a
30 going forward basis.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #5**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab7/Schedule 1/p. 2

6
7 B2M LP indicates that it did not undertake a capital investment planning process or a regional
8 planning process. Does B2M LP take part in or plan to take part in, any regional planning
9 processes? Why or why not?

10
11 **Response:**

12
13 If requested, B2M LP would participate in the regional planning process, as per Section 3C of
14 the Transmission System Code and the Board endorsed Planning Process Working Group (the
15 “PPWG”) Report, in compliance with B2M LP’s obligations as a licensed transmitter.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #6**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab10/Schedule 1/p. 3

6
7 B2M LP quotes the Affiliate Relations Code, and indicates that where a utility provides a
8 service, resource product or use of an asset to an affiliate, the utility shall charge no less than the
9 greater of (i) the market price of that service, product, resource or use of asset and (ii) the
10 utility's fully-allocated cost to provide that service, product, resource or use of asset.

11
12 In Table 2 on page 4, B2M LP shows the fees payable to Hydro One in each year. Please provide
13 the proportion of costs determined under the market price or under the fully allocated cost
14 criteria.

15
16 **Response:**

17
18 The costs reflected in Table 2 on page 4 of Exhibit A, Tab 10, Schedule 1 were all determined
19 under the fully allocated cost criteria.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #7**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab10/Schedule 1/p. 4

6
7 For the fees payable to Hydro One as shown in Table 2; were these annual amounts removed
8 from Hydro One transmission's cost of service (EB-2014-0140) for the 2015 and 2016 rate
9 years? If not, please provide an explanation of how these amounts relate to the Hydro One cost
10 of service for 2015 and 2016.

11
12 **Response:**

13
14 Yes, these costs were removed from Hydro One transmission's cost of service (EB-2014-
15 0140/EB-2014-0357) for the 2015 and 2016 rate years as shown in Exhibit 2.0 of the draft rate
16 order in that proceeding which is attached to the Interrogatory CME-2.0 response.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #8**

2
3 **Interrogatory:**

4
5 Ref: Exhibit A/Tab11/Schedule 1

6
7 The B2M LP Financial Statements for 2014 show, on page 3, that B2M LP received \$1,657,000
8 in revenue in 2014. What was the source of this revenue?

9
10 **Response:**

11
12 The \$1,657,000 received in revenue in 2014 was from the IESO and represents B2M LP's share
13 of Uniform Transmission Rate revenue for the period since its establishment on December 17,
14 2014 through December 31, 2014.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #9**

2
3 **Interrogatory:**

4
5 Ref: Exhibit B1/Tab 1/Schedule1/p. 2

6
7 B2M LP indicates that.. “Following the transfer of assets, B2M LP issued a note bearing Hydro
8 One Transmission’s weighted average debt rate. This note is to be replaced during 2015 with
9 debt issued by B2M LP to Hydro One Inc. or an affiliate.” Why does B2M LP expect this debt
10 issue to occur? How will this impact the applied for debt rates in this application?

11
12 **Response:**

13
14 As noted in the Exhibit B1, Tab 1, Schedule 1, page 2, of the updated evidence filed on June 29,
15 2015, this note is being replaced with a note issued by B2M LP reflecting an actual 5-year note
16 issued by Hydro One Inc. to third party public debt investors in the second quarter of 2015.

17
18 Page 3 of the same updated exhibit provides the new cost rates associated with this debt. For
19 2015, the blended cost rate falls to 3.38% from 4.98%, in 2016 the rate for the new issue is 1.8%
20 vs. 4.97%, 1.8% vs. 4.98% in 2017, 1.79% vs. 5.04% in 2018 and 1.79% vs. 5.11% in 2019.

21
22 The reduced revenue requirement for B2M LP as a result of this issue, is shown in updated
23 Exhibit E1, Tab 1, Schedule 1. For 2015, revenue requirement is now \$38.7 million down from
24 \$43.4 million originally filled and down from the current interim rate revenue requirement of
25 \$40.5 million. For 2016 the revenue requirement drops to \$35.9 million from \$45.0 million,
26 \$36.5 million vs. 45.6 million in 2017, \$38.2 million vs. \$47.3 million in 2018 and \$37.3 million
27 vs. \$46.6 million in 2019.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #10**

2
3 **Interrogatory:**

4
5 Ref: Exhibit C1/Tab 1/Schedule1/p. 1

6
7 Table 1 shows that Income Taxes grow from \$0.4 million in 2015, 2016 and 2017 to \$0.9 million
8 in 2018 and \$1.1 million in 2019. What is the primary reason for these increases in 2018 and
9 2019?

10
11 **Response:**

12
13 Tax depreciation (calculated on a declining balance) is higher than accounting depreciation
14 (calculated straight line) resulting in tax losses in the initial years. The taxes in the 2015 to 2017
15 primarily relate to corporate minimum tax which is generally 2.7% of accounting net income.

16
17 The tax depreciation generally decreases over time (assuming there are no capital additions). As
18 the tax depreciation decreases, the tax losses are utilized and taxable income is generated. The
19 applicable tax rate is 26.5% resulting in higher taxes in 2018 and 2019.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #11**
2

3 **Interrogatory:**
4

5 Ref: Exhibit C1/Tab 2/Schedule1/p. 2
6

7 B2M LP indicates that all of the costs included in the Service Level Agreement are costs that
8 would have been incurred by Hydro One Transmission had the assets not transferred to B2M LP.
9

10 a) Please confirm that all costs would, in fact, have been incurred by Hydro One Transmission
11 and that the Hydro One transmission approved revenue requirements for 2015 and 2016 (EB-
12 2014-0140) was reduced by these amounts.
13

14 b) How will the forecast costs for 2017, 2018 and 2019 be addressed in relation to Hydro One
15 transmission as Hydro One does not yet have rate approval for those years?
16

17 **Response:**
18

19 a) Confirmed. All costs would have been incurred by Hydro One Transmission. Hydro One
20 Transmission approved revenue requirement excludes the B2M LP revenue requirement as
21 confirmed in EB-2014-0140 Rate Order as shown in response to Interrogatory CME-2.0.
22

23 b) B2M LP is a separately regulated transmission entity. As such its costs are standalone from
24 Hydro One Transmission. Any costs incurred to support B2M LP by Hydro One
25 Transmission will be covered by a Service Level Agreement between the parties and not
26 included in the 2017-2019 Hydro One Transmission revenue requirement.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #12**

2
3 **Interrogatory:**

4
5 Ref: Exhibit C1/Tab 2/Schedule1/p. 4

6
7 Table 1 on page 2 of this exhibit shows that O&M costs are forecast to increase from \$0.5
8 million in 2017 to \$1.8 million in 2018. On page 4, B2M LP indicates that line clearing and
9 brush control is performed on a 6 year cycle and that the next cycle is planned to occur in 2018.

10
11 Is the 2018 increase in costs solely due to line clearing/brush control? Given that the B2M LP
12 Asset is very recently constructed, why would line clearing/brush control costs be so high in
13 2018?

14
15 How do B2M LP's line clearing and brush control costs compare to those of Hydro One
16 Transmission?

17
18 **Response:**

19
20 The O&M cost increase of \$1.3 million in 2018 is solely due to the vegetation management
21 program. The vegetation management program is performed on a six year cycle and includes
22 such activities as: line clearing, brush control, property owner contact, and line patrol.

23
24 The brush control represents the majority of the expense at approximately \$0.9 million. Brush
25 control is critical to manage the growth of vegetation on the rights-of-way to ensure the
26 vegetation does not grow to a height that would cause an outage to the transmission line; as well
27 as maintains access along the rights-of-way for inspection and maintenance activities, and
28 emergency response.

29
30 The vegetation management costs are equivalent to the amounts that were forecast to be incurred
31 by Hydro One Transmission had the assets not transferred to B2M LP.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #13**

2
3 **Interrogatory:**

4
5 Ref: Exhibit C1/Tab 2/Schedule1/p. 5

6
7 Table 2 shows that Managing Director's Office costs are \$0.5 million in 2015 but drop to \$0.2
8 million in subsequent years. Why are the Managing Director costs so high in the first year,
9 considering that the regulatory costs are already accounted for separately at \$0.3 million for
10 2015?

11
12 **Response:**

13
14 The final step in the establishment of B2M LP was completed on December 17, 2014. The initial
15 establishment of the B2M LP Advisory Council, initial B2M LP office set up costs and support
16 for the involvement of the SON community, contributed to the higher costs in 2015.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #14**

2
3 **Interrogatory:**

4
5 Ref: Exhibit C1/Tab 5 Tax Rulings

6
7 What are the cost savings due to the tax rulings B2M LP has received? If B2M LP did not have
8 recourse to these tax rulings, what would B2M LP's tax bill be in each year for which it has
9 applied for a revenue requirement? What is the present value of all expected tax advantages from
10 these rulings over the life of the asset? (Please provide a rationale for the discount rate chosen in
11 arriving at the present value).

12
13 **Response:**

14
15 The tax rulings provide written confirmation of B2M LP's position regarding the income
16 taxation consequences resulting from the B2M LP ownership structure. Under this structure, as
17 noted in EB 2013-0078, as a result of the acquisition of a 34% ownership interest in B2M LP by
18 the tax exempt SON First Nations (through their bare trustee and agent, SON LP Co), the income
19 taxes payable with respect to the income earned by the assets over their useful life are reduced by
20 approximately 34%, the percentage of income that is allocable by the partnership to its tax
21 exempt partner. Hydro One has calculated the net present value of the tax savings over the life
22 of the assets as \$24.5 million, using the Hydro One Transmission decision support discount rate
23 of 5.8%.

24
25 Without the recourse to the tax rulings, the test year tax bill would be \$210,000 lower in 2015,
26 then \$310,000, \$740,000, \$570,000 and \$590,000 higher in 2016-2019 respectively.

Ontario Energy Board (Board Staff) INTERROGATORY #17

Interrogatory:

Ref: Exhibit E1/Tab 1/Schedule2/p. 1

B2M LP describes the Start Up and Development Costs for which it is requesting recovery and provides a Table on page 2.

Table 1

Total Start-Up and Development Costs	
Description	
Legal Costs for SON	4.3
Legal Costs for Hydro One	1.8
Inergi Setup Costs	0.6
Hydro One Initial Costs	1.0
Total Start-up Costs	7.7

(\$ Million)

Please provide a more detailed break-down of each of the 4 cost categories, up to the materiality level of \$200,000, and rationale for each item.

Response:

Category 1 – Legal Costs for SON

Cost Description	\$ Million
SON Costs – SON financial expert, SON costs in relation to participating in the negotiation of the partnership agreement, tax ruling, regulatory process, negotiation of commercial loan agreements, commercial guarantee agreement	0.9
SON Legal Costs – Negotiations of Master Implementation and Partnership Agreements, community workshops and consultations, participate in and review of all advance tax ruling materials and filings, negotiate and finalize all loan, intercreditor and guarantee agreements, prepare for and participate in all regulatory processes and conduct/administration of transaction closing	2.5
Legal fees incurred by bank for financing on transaction closing	0.5
Banking fees – debt placement fee	0.4
Total	4.3

1 **Category 2 – Legal Costs for Hydro One**

Category	\$ Million
Legal fees to assist in the negotiation and drafting of the requisite agreements	1.0
Legal fees related to tax advice to determine an optimal tax structure and to obtain the necessary tax rulings from the federal and provincial tax authorities	0.3
Legal fees for regulatory counsel to represent the applicants before regulatory bodies and provide advice on appropriate corporate setup	0.2
Legal fees related to the credit facility, corporate governance and the asset purchase agreement	0.3
Total	1.8

2
3 **Category 3 – Inergi setup costs**

4
5 This cost of approximately \$0.6 million is related to the one time changes required to Hydro One
6 enterprise financial accounting and reporting system to accommodate the monthly
7 internal/external and annual external financial reporting for the partnership. These costs included
8 the initial setup of the partnership structure within SAP, creation / modification of reports and
9 testing of all changes.

10
11 **Category 4 – Hydro One Initial costs**

12
13 Costs in this category are composed of approximately \$0.8 million of internal Hydro One labour.
14 Establishing this partnership required Hydro One to draw on expertise within the organization in
15 the following areas: Legal, Regulatory, Tax, Treasury and Accounting. Additionally, another
16 \$0.2 million is related to costs associated with the Managing Director of the B2M LP, this
17 includes wages and benefits, occupancy and administrative costs and other professional fees.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #18**

2
3 **Interrogatory:**

4
5 Ref: Exhibit E1/Tab 1/Schedule2/p. 1

6
7 B2M LP describes the Start Up and Development Costs for which it is requesting recovery and
8 provides a Table on page 2. It appears that these are prior period costs. Was a deferral account
9 granted, at any time, to record these costs? If not, by what OEB precedent or principle is B2M
10 proposing to recover these costs?

11
12 **Response:**

13
14 B2M LP confirms the Start Up and Development Costs were all incurred prior to January 1,
15 2015. A deferral account was not requested by the partnership on start-up. B2M LP has included
16 these costs for recovery over a 4 year period as illustrated in Table 1 of Exhibit E1, Tab 1,
17 Schedule 1 in order to smooth the rate impact to customers of the start up costs.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #19**

2
3 **Interrogatory:**

4
5 Ref: Exhibit E1/Tab 1/Schedule1/p. 1

6
7 B2M LP proposes to dispose of these Start Up and Development Costs over the 4 year period
8 from 2016 to 2019. What is the total interest cost of disposing these amounts over 5 years?

9
10 **Response:**

11
12 The costs shown in Exhibit E1, Tab 1, Schedule 1, Table 1 for Start Up and Development Costs
13 do not include any interest costs. Using OEB's Prescribed Interest Rates as of Q3 2015 the
14 interest cost for the 2016 – 2019 period would be \$170,000.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #20**

2
3 **Interrogatory:**

4
5 Ref: Exhibit F1/Tab 1/Schedule1/p. 1

6
7 B2M LP requests an Unplanned Capital Spending Account to record unplanned capital spending
8 outside of the Company's control. This would include such items as: New government directives
9 or legislation, material changes to codes or standards, or material unforeseen weather events.

10
11 Why did B2M LP request such an account if a Z factor treatment of such events is available to
12 the Company?

13
14 **Response:**

15
16 B2M LP followed the Board Filing Requirements for Electricity Transmission Applications
17 issued on January 2, 2014. The requirements do not mention the availability of a Z factor.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #1**

2
3 **Interrogatory:**

4
5 Please confirm that all of the Bruce to Milton assets transferred to B2M LP and their owning and
6 operating costs, including depreciation, return and taxes, were included within the ambit of the
7 application made by Hydro One Transmission (“Tx”) in EB-2014-0140 for its 2015 and 2016 Tx
8 Rates Revenue Requirements and the Settlement Agreement therein dated September 16, 2014.
9

10
11 **Response:**

12
13 Although included in the application and Settlement Agreement dated September 16, 2014, all
14 costs associated with B2M LP were removed from Hydro One Transmission’s revenue
15 requirement as part of the final rate order process. Please see the response to Interrogatory 1.0-
16 Staff-7.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #2**

2
3 **Interrogatory:**

4
5 In section II of the materials filed by Hydro One Tx in EB-2014-0140 at page 6, there is a table
6 showing the “Revenue Requirement” and “Rates Revenue Requirement” for Hydro One Tx for
7 2014, 2015 and 2016. Please revise that table to separate or allocate the amounts in each column
8 and each line item between the Bruce to Milton assets transferred to B2M LP and the remaining
9 assets held by Hydro One Tx.

10
11 **Response:**

12
13 Please refer to Exhibits 2.0 and 2.1 attached from the EB-2014-0140/EB-2014-0357 Draft Rate
14 Order approved by the Board.

Hydro One Networks Inc.
 Implementation of Decision with Reasons on EB-2014-0140

Revenue Requirement Summary Excluding B2M LP

(\$ millions)	Supporting Reference	OEB Approved 2015	OEB Approved 2016	B2M LP Impact 2015	B2M LP Impact 2016	OEB Approved Excluding B2M LP 2015	OEB Approved Excluding B2M LP 2016
OM&A	Exhibit 1.1	432.0	437.4	(0.9)	(0.7)	431.1	436.7
Depreciation	Exhibit 1.2	394.2	404.0	(6.8)	(6.8)	387.4	397.3
Return on Debt	Exhibit 1.4	297.4	316.0	(15.1)	(15.2)	282.3	300.7
Return on Equity	Exhibit 1.4	378.5	408.8	(19.5)	(20.0)	359.0	388.8
Income Tax	Exhibit 1.5	65.7	78.6	1.6	0.6	67.4	79.1
Base Revenue Requirement		1,567.8	1,644.8	(40.6)	(42.2)	1,527.2	1,602.6
Deduct: External Revenue	Exhibit 1.6	(31.8)	(32.2)	-	-	(31.8)	(32.2)
Subtotal		1,536.0	1,612.6	(40.6)	(42.2)	1,495.4	1,570.4
Deduct: Export Tx Service Revenue	Exhibit 1.7	(30.9)	(31.7)	-	-	(30.9)	(31.7)
Deduct: Other Cost Charges	Exhibit 1.8	0.0	(36.1)	-	-	0.0	(36.1)
Add: Low Voltage Switch Gear	Note 1	12.8	13.3	-	-	12.8	13.3
Rates Revenue Requirement		1,517.9	1,558.1	(40.6)	(42.2)	1,477.3	1,515.9

Note 1: The value of \$13.3M for LVSG in 2016 is an estimate and will be revised once the 2016 Revenue Requirement is finalized in the fall of 2015.
 Note 2: B2M LP information is as per Exhibit A - Revised filed in EB-2014-0330 dated December 4, 2014.

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2014-0140

Rate Base Excluding B2M LP

(\$ millions)	Supporting Reference	OEB Approved 2015	OEB Approved 2016	B2M LP Impact 2015	B2M LP Impact 2016	OEB Approved Excluding B2M LP 2015	OEB Approved Excluding B2M LP 2016
Rate Base	<i>See supporting details below</i>	10,175.3	10,556.9	(524.0)	(516.9)	9,651.3	10,040.0

Rate Base Details

Utility plant (average)				
Gross plant at cost			547.8	547.8
Less: Accumulated depreciation			(24.8)	(31.6)
Add: CWIP			-	-
Net utility plant			<u>523.0</u>	<u>516.2</u>
Working capital				
Cash working capital			0.9	0.7
Materials & supplies inventory			-	-
Total working capital			<u>0.9</u>	<u>0.7</u>
Total Rate Base			<u><u>524.0</u></u>	<u><u>516.9</u></u>

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #3**

2
3 **Interrogatory:**

4
5 Please provide schedules which will show how Hydro One Tx and B2M LP derived each of the
6 components of the \$40,550,724 Interim 2015 Revenue Requirement for the Bruce to Milton
7 assets to be transferred to the B2M LP shown on page 3 of the Board's December 11, 2014
8 Decision and Interim Order in EB-2014-0330.

9
10 **Response:**

11
12 The derivation of the \$40,550,724 Interim 2015 Revenue Requirement was provided in a
13 December 4, 2014 evidence update in the EB-2014-0330 which is attached to this response.

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Filed: 2015-06-29
EB-2015-0026
Exhibit I-02-03
Attachment 1
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**mccarthy
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December 4, 2014

VIA RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**RE: EB-2014-0330 – B2M LP Filing for Interim Rates
Revised Exhibit A – Annualized Revenue Requirement for 2015**

We are writing to you on behalf of B2M Limited Partnership (B2M LP). Further to our correspondence dated October 24, 2014, B2M LP encloses a Revised Exhibit A (Annualized Revenue Requirement for 2015) to its application. The requested Revenue Requirement is \$40,550,724. As noted at paragraph 3.2 of the Application, these revisions reflect revised cost of capital components as well as directions provided to Hydro One Networks Inc. ("HONI") as determined by the Board on December 2, 2014 in its EB-2014-0140 proceeding (Transcript Volume 1 at page 28). B2M LP has been advised that HONI has reviewed and confirmed the accuracy of the Revised Exhibit A. These amounts will be included in the draft rate order HONI will file on December 9, 2014 in accordance with the Board's December 2, 2014 Decision.

B2M LP notes that obtaining its initial interim rate approval is a condition precedent to the closing of the transaction amongst HONI and SON LP Co. Fulfillment of this condition affects advancement of SON LP Co.'s financing occurring before year end. Lending institutions have now advised that all conditions precedent must be obtained before December 12, 2014 in order for financing to advance and thus allowing the transaction to close by year end.

In light of these circumstances, we wish to request and express our appreciation for all efforts that can be taken to have this matter considered on an expedited basis.

Yours truly,

McCarthy Tétrault LLP
Per. 

Gordon M. Nettleton

GMN/mpf

cc: Michael Penstone, B2M GP Inc.
Colin J. Salter, Pape Salter Teillet LLP

B2M Limited Partnership
Annualized Revenue Requirement for 2015

(\$ Millions)	Line No.	Particulars	Annualized 2015 (\$Mn)
		Cost of Service	
	1	Operating, Maintenance & Administrative	853,266
	2	Depreciation & Amortization	6,797,120
	3	Total Return on Capital	34,548,831
	4	Income Taxes	(1,648,492)
	5		
	6	Total Revenue Requirement	<u>40,550,724</u>
	7		
	8		
	9	Annualized Rate Base for 2015 ¹	523,951,222
	10		
	11	Return on Capital ²	
	12	Return on Long Term Debt	4.98% 14,605,990
	13	Return on Short Term Debt	2.16% 451,856
	14	Return on Equity	9.30% 19,490,985
	15	Total Return on Capital	<u>34,548,831</u>
	16		
	17	Calculation of Income Taxes ³	
	18	Return on Equity	19,490,985
	19	Add: Depreciation	6,797,120
	20	Less: Capital Cost Allowance	<u>(30,860,338)</u>
	21	Taxable Income	(4,572,233)
	22	Simple Tax on Income	26.50% (1,211,642)
	23	Net Income Taxes after Gross-Up	<u>(1,648,492)</u>

Notes:

- 1 See Exhibit C for further details on Rate Base composition
- 2 Returns on Capital are taken from the Cost of Capital Parameter Update issued by the Board on November 20, 2014
- 3 The tax calculations are performed using HONI methodology and variables. The circumstances for B2M LP will be included in a subsequent filing.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #4**

2
3 **Interrogatory:**

4
5 Is the Interim 2015 Rates Revenue Requirement of \$40,550,724 a reallocation to the B2M LP of
6 the Rate Revenue Requirement responsibility of the Bruce to Milton assets contained in the total
7 Rates Revenue Requirement responsibility for 2015 of \$1,527.4M shown in the table at page 6 of
8 section II of the evidence filed in EB-2014-0140? If not, then is the \$40,550,724 amount a
9 reallocation to B2M LP of the portion of the 2014 Rates Revenue Requirement of \$1,446.4M
10 shown in that table for which the Bruce to Milton assets are responsible?

11
12 **Response:**

13
14 Please refer to the response to Interrogatory CME-2. The \$1,527.4 million for Hydro One
15 Transmission Base Revenue Requirement is net of the Interim 2015 Rates Revenue Requirement
16 of \$40,550,724.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #5**

2
3 **Interrogatory:**

4
5 B2M LP, in which Hydro One Tx has a 66% partnership interest, seeks approval for a 2015
6 Revenue Requirement of \$43.4M which is about \$2.8M or some 6.9% more than the \$40.6M for
7 the Bruce to Milton assets currently being recovered in 2015 rates by Hydro One Tx. Please
8 confirm that this request for relief is not compatible with the Board approved settlement in EB-
9 2014-0140 covering the Bruce to Milton and other Hydro One Tx assets which limits 2015 Rates
10 Revenue Requirement increases over 2014 Rates Revenue Requirement to 1.1%

11
12 **Response:**

13
14 The Hydro One Transmission EB-2014-0140 settlement agreement does not apply to this
15 application. As noted by the Board at page 3 of its EB-2014-0330 Decision, The B2M LP 2015
16 cost of service application for final rates will include information concerning required start-up
17 costs, reduced tax costs, and forecasts of B2M LP's future incremental operating and capital
18 costs over the period in which final rates are to be in effect. None of these elements were part of
19 the Hydro One Transmission settlement process for EB-2014-0140.

20
21 The B2M LP updated evidence as noted in the response to Interrogatory 2.0-Staff-9 now results
22 in a revenue requirement request which is now lower than the interim level established for 2015
23 and lower than the originally requested amounts for the 2016 – 2019 period.

24
25 The Hydro One Transmission does not have a partnership interest in B2M LP. The ownership
26 structure is shown at Exhibit A, Tab 2, Schedule 1. As indicated in response to Interrogatory
27 CME-1, all costs associated with B2M LP were removed from the Hydro Transmission revenue
28 requirement for the establishment of 2015 UTR rates.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #6**

2
3 **Interrogatory:**

4
5 B2M LP seeks approval for a 2016 Rates Revenue Requirement of \$45M which is about \$4.4M
6 or 10.8% more than the \$40.6M being recovered by Hydro One Tx in its Board approved 2015
7 rates. Please confirm that this request for relief is not compatible with the Board approved
8 settlement in EB-2014-0140 covering the Bruce to Milton and other assets owned by Hydro One
9 Tx in that the 2016 Rates Revenue Requirement is to be 1.7% over the 2015 Rates Revenue
10 Requirement.

11
12 **Response:**

13
14 Please see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #7**

2
3 **Interrogatory:**

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5 If the \$40.6M is currently being recovered under the auspices of the Board approved 2015
6 Interim Rate Revenue Requirement for B2M LP, then please confirm that, to adhere to the Board
7 approved settlement in EB-2014-0410 covering the Bruce to Milton assets, the Rates Revenue
8 Requirement for 2015 should be \$40.6M and, for 2016, a 1.7% increase to \$41.3M.

9
10 **Response:**

11
12 Please see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #8**

2
3 **Interrogatory:**

4
5 If the \$40.6M Board approved 2015 Interim Rate Revenue Requirement for B2M LP is the
6 portion of the 2014 Rates Revenue Requirement related to Bruce to Milton assets, then please
7 confirm that to adhere to the settlement, the 2015 Rates Revenue Requirement should be
8 \$41.5M, being a 1.1% increase and, for 2016, should be \$43.9M, being a 1.7% increase over the
9 2015 Rates Revenue Requirement.

10
11 **Response:**

12
13 Please see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #9**

2
3 **Interrogatory:**

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5 Please confirm that the Board approved EB-2014-0140 Settlement Agreement covering the
6 Bruce to Milton assets does not provide for an Unplanned Capital Spending Deferral Account
7 (“UCSDA”) and that the request for this new deferral account at Exhibit F1, Tab 1, Schedule 1,
8 page 1 for 2015 and 2016 is incompatible with that settlement.

9
10 **Response:**

11
12 The request for an Unplanned Capital Spending Deferral Account is only applicable to the B2M
13 LP application. Please also see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #10**

2
3 **Interrogatory:**

4
5 Is the Tax Rate Change Account being proposed at Exhibit F1, Tab 1, Schedule 1, pages 2 and 3
6 identical to the Tax Rate Change Account in the Board approved EB-2014-0140 Settlement
7 Agreement?

8
9 **Response:**

10
11 The Tax Rate Change Account requested in this application for B2M LP is similar in nature to
12 previously requested accounts for both Hydro One Distribution and Hydro One Transmission but
13 is applicable to only B2M LP.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #11**

2
3 **Interrogatory:**

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5 Please confirm that the proposed 2015 Revenue Requirement Reconciliation Account, with an
6 estimated debit balance of \$2.8M as described at Exhibit F1, Tab 1, Schedule 1, page 3, is
7 incompatible with the Board approved EB-2014-0140 Settlement Agreement.

8
9 **Response:**

10
11 The proposed 2015 Revenue Requirement Reconciliation Account will now have an estimated
12 credit balance of \$1.8 million as per the updated Exhibit F1, Tab 1, Schedule 1, page 3. Please
13 also see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #12**

2
3 **Interrogatory:**

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5 Do each of the Annual Adjustment Mechanisms, being proposed at Exhibit A, Tab 4,
6 Schedule 1, pages 2 and 3, operate under the auspices of the Board approved EB-2014-0140
7 Settlement Agreement for 2015 and 2016? If not, then please identify those which do not parallel
8 the Annual Adjustment Mechanisms in that agreement.

9
10 **Response:**

11
12 The Adjustment Mechanisms, being proposed at Exhibit A, Tab 4, Schedule 1, pages 2 and 3 are
13 applicable to the B2M LP application and have no relevance to the EB-2014-0140 Settlement
14 Agreement. Please see the response to Interrogatory CME-5.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #13**

2
3 **Interrogatory:**

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5 Please provide complete details of the \$4.3M of legal costs for SON and the \$1.8M of legal costs
6 for Hydro One shown in Table 1 in Exhibit E1, Tab 1, Schedule 2, at page 2, including the nature
7 of the services rendered, the time over which the services were provided and all invoices and
8 supporting dockets.

9
10 **Response:**

11
12 Please refer to the response to Interrogatory 5.0-Staff-17.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #14**

2
3 **Interrogatory:**

4
5 Please provide complete details of the Inergi LP Setup Costs of \$0.6M and Hydro One Initial
6 Costs of \$1.0M shown in Table 1 of Exhibit E1, Tab 1, Schedule 2, at page 2.

7
8 **Response:**

9
10 Please refer to the response to Interrogatory 5.0-Staff-17.

Canadian Manufacturers & Exporters (CME) INTERROGATORY #15

Interrogatory:

Please provide a detailed calculation of the Net Present Value of the customer benefit over the long-term referenced on page 4 of the Board's Decision and Order dated November 28, 2013, in EB-2013-0078, EB-2013-0079 and EB-2013-0080.

Response:

The Net Present Value referred to on Page 4 of the Board's November 2013 decision, refers to B2M's estimate, at that time, of the tax savings available to rate payers as a result of the transaction.

As described elsewhere, the fact that approximately 34% of B2M LP is now owned by a Tax-Free entity, means that the overall tax payable by the B2M LP will be demonstratively less over the life of the assets had they remained wholly owned by Hydro One Networks – a fully taxable entity.

The \$10 million was a conservative estimate derived via a comparison between the forecasted long-term revenue requirement of Hydro One Networks, had the assets remained owned by them, versus the estimated revenue requirement of B2M LP over the long term. The calculation included the factors in place in early 2013, including the capital cost parameters, asset values and implementation timing. A term of approximately 80 years was used as a proxy for the life of the assets.

Hydro One has updated this calculation and the NPV of the savings (tax savings less start-up costs) is now estimated at approximately \$16.8 million.

1 **Canadian Manufacturers & Exporters (CME) INTERROGATORY #16**
2

3 **Interrogatory:**
4

5 The evidence at Exhibit G1, Tab 1, Schedule 1 states that all of the Revenue Requirement related
6 to the Bruce to Milton assets and has been allocated to the Network pool. Please provide the
7 following further information:
8

- 9 a) Did the generators located at Bruce make any capital contributions to these assets? If so,
10 in what amounts?
11
12 b) Under the “beneficiary pays” principle, which the Board is reviewing in Phase 2 of the
13 EB-2013-0421 proceeding, do the generators located at Bruce not have some cost
14 responsibility for these assets which provide material benefits to their operations?
15

16 **Response:**
17

- 18 a) No.
19
20 b) The EB-2013-0421 proceeding is not applicable to this application. The cost
21 responsibility for the Bruce to Milton line was approved by the Board as part of the EB-
22 2007-0050 proceeding. The facilities in question are network, not connection facilities.
23 All costs were recovered through incremental transmission Network Pool rates and no
24 capital contribution was required, consistent with Section 6.3.5 and other applicable
25 provisions of the Transmission System Code.