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November 12, 2015

Our File Number: 28436

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

Dear Ms. Walli:

Re: B2M Limited Partnership (B2M LP)
2015-2019 Cost of Service Application
EB-2015-0026

In accordance with the directions received from the Board Panel in the above-noted matter, enclosed please find the written Reply Submissions of B2M LP.

I trust this is satisfactory.

Yours very truly,

Anita M. Varjacic

/nb
Encl.

c: B2M LP
All Intervenors
Board Staff

B2M LIMITED PARTNERSHIP

ELECTRICITY

TRANSMISSION REVENUE REQUIREMENT

APPLICATION2015 – 2019

EB-2015-0026

B2M LIMITED PARTNERSHIP

REPLY SUBMISSION

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OVERVIEW

B2M Limited Partnership ("B2M LP") applied to the Ontario Energy Board ("OEB" or "Board") for an order approving the revenue requirement for electricity transmission for the years 2015 through 2019 under the assigned docket number EB-2015-0026.

Following B2M LP's application, the proceeding followed the usual Board process of interrogatories, a technical conference, a settlement conference, and a hearing. The hearing proceeded on October 30, 2015. B2M LP delivered its closing argument in chief orally to the Board on that date. That was followed by oral submissions on behalf of Board staff, the Canadian Manufacturers and Exporters ("CME") and the Society of Energy Professionals ("SEP").

This is B2M LP's reply submission. The document is complementary to the oral argument referenced above, and in direct response to the submissions of other parties and intervenors, and in particular the central arguments raised by Board staff.

B2M LP will first address the central issue in this case; the recoverability of B2M LP's start-up costs. Board staff argues, *inter alia,* that the start-up costs should not be allowed because to do so would contravene the general rule against retroactive ratemaking.

B2M LP disagrees in the strongest terms. Disallowance of these costs in no way involves retroactive ratemaking. Such disallowance would be unjust and contrary to the rule of law and sound regulatory principles.

B2M LP will then outline its submissions on each of the other matters in accordance with the Board's approved issues list. Many of the issues were not contested at all, nor any submissions made about them.

INTRODUCTION

As evident during the oral hearing and based upon the submissions of Board staff, the most significant issue in this case, both in principle and financially, is the recovery of start-up costs incurred by B2M LP. B2M LP seeks recovery of start-up costs totaling $7.7 million. It is proposing to recover those from 2016 to 2019 at a rate of $1.925 million per year.

Board staff has argued that the start-up costs cannot be recovered because to do so would offend the rule against retroactive ratemaking. Board staff argued that the proposed costs were incurred before the test period, and thus, cannot be recovered. Board staff also argued that recoverability of these costs somehow affects the uniform transmission rates set in 2011, 2012, 2013, and 2014.

B2M LP strongly disagrees. It submits that the position of Board staff is wrong in principle and in law. Recovery of the start-up costs in this case is in no way "retroactive ratemaking".

The Board clearly has the jurisdiction to allow recovery of the proposed start-up costs. The recoverability of the costs as proposed does not at all violate the rule against retroactive ratemaking. It simply permits the recovery of prudently incurred costs from the customers who will benefit and aligns those in time. To deny recovery of the start-up costs in this case would be directly contrary to public policy, government energy policy, and sound, long established, ratemaking principles.

This will be discussed below.

START-UP COSTS BACKGROUND

The lengthy history of this partnership was explained by B2M LP witnesses, particularly Randall Kahgee, Chief of the Chippewas of Saugeen First Nation, which together with the Chippewas of Nawash Unceded First Nation form the Saugeen Ojibway Nations ("SON"). Mr. Kahgee held the position from 2006 to 2014 (coincidentally the entire period that the SON was engaged in the Bruce to Milton transmission line with Hydro One Inc.). Jeff Smith and Colin Salter also emphasized the long history of the partnership during the technical conference and in oral testimony at the hearing.

As Mr. Kahgee explained, the SON first became aware of the potential of the Bruce to Milton project in 2006. The Ontario government had just released its IPSP, or the Integrated Power Supply Plan. It focused upon renewable energy and the Bruce to Milton transmission line, an investment that directly impacted the traditional territory of the SON.

Quite immediately, consultations began. Both Hydro One Networks and SON, from the outset, were engaged in discussions in good faith that continued throughout this important project.

From the SON's perspective, it wanted to ensure that its territories and lands were protected, and that the projects would be developed in a way that was respectful of the rights of the SON and its territory. SON wanted to be able to participate fully in the project and the wealth that the project generated.

Hydro One in turn had received government direction to proceed with the Bruce to Milton transmission line project. It was important to do so as quickly as possible. It

was in the interest of all ratepayers of the province that the line be built quickly, efficiently, and on time.

As part of the Bruce to Milton transmission line project, there was a First Nations and Metis consultation process established. The approach was a cooperative one from the outset, and one that was of benefit to all, as explained by Mr. Kahgee. Those consultation costs were part of the development costs of the Bruce to Milton transmission line project, and approved in the associated leave to construct proceeding EB-2007-0050.

The sequence of events, outlined in the timeline filed at the hearing (Exhibit J1.1), demonstrates that while the informal discussions began long ago, the costs for which recovery is now being sought in this application are the costs for development and execution of the commercial partnership which were incurred in 2012, 2013 and 2014.

As the line was completed and being energized in May 2012, negotiations were underway to establish agreements that would ultimately allow for the SON and Hydro One to enter into a formal, commercial partnership. A joint licence application was conditionally approved by the Board on November 28, 2013. The Board also approved the sale of part of the asset to the partnership in which the SON would invest. The parties were then in the final stages of arranging financing for the partnership. Tax treatment applicable to the partnership was being investigated. The partnership agreement was finalized and the asset transferred on December 17, 2014.

All of this involved complex contractual, financing, tax and regulatory issues, undertaken over a three-year period. It was necessary that the parties receive appropriate professional advice.

It is true that initial cost estimates were lower than the actual $7.7 million now being sought. Preliminary cost estimates were about $1 million but it was always understood that this was a very preliminary estimate. As the project developed, costs were revised. The estimate of SON's costs were revised to be $2.4 million, and then ultimately to $4.3 million.[1] Much of this was due to unforeseen complications and delays that arose in finalizing the partnership agreement, transferring the assets to the partnership, and having the partnership take over management and operation of the asset. The Board is asked to remember that this was a novel arrangement and that for SON, this was its first experience participating in such complex commercial transactions.

In the oral hearing, the witnesses explained some of the difficulties and delays which were encountered. For example, crucial difficulties in financing developed as the result of a change in what was thought to be a pari passu agreement. This issue alone delayed and severely complicated the financing arrangements and could only be remedied with the assistance of expert legal and accounting advice, and at considerable additional expense.[2]

Moreover, as explained in evidence, given the novelty of the process and agreement, there was no "playbook". There was no precedent to follow. The process, procedure and agreements necessary at each step of the project were novel and had to be negotiated, explained to and understood by all parties and then reduced to writing. This was a difficult and complex process.

Further, it was the expectation of both parties that this would not be a lawyer driven process, but that SON leadership would need to understand the structure of the

[1] Note that where references are made to the SON's costs, those costs include legal costs, banking fees, financing costs and participations in negotiations, not just legal costs. See Interrogatory I-1-17.

[2] It is important to note that any one change, like the change in financing, not only changes the legal agreements, but also the financial structuring, the tax rulings etc. Any one change created a ripple effect upon all aspects of the arrangements.

transactions so that it could fully participate and give proper instructions to its lawyers and advisors.

Throughout, B2M LP was clear that it would be seeking the recovery of these start-up costs at the appropriate time. Notice was provided in its licence applications, in answers to interrogatories and again during the interim rates proceeding.[3] The Applicant has tried to be transparent throughout. All interested parties were put on notice and were well aware that B2M LP would be seeking recovery of its legitimate start-up costs in this, its first rate application.

There are a number of ratemaking principles that apply in this case.

As the Applicant outlined in its argument in chief, a key principle of ratemaking is that costs and benefits should be aligned. These costs were incurred for the benefit of ratepayers. The partnership was approved by the Board because it satisfied the "no-harm" test.[4] Fairness and equity require that the ratepayers who benefit should bear those costs.

This partnership was brokered on good faith, in compliance with government policy as outlined in the Ontario Government's Long Term Energy Plan (2010)[5]. The social benefits are obvious.

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[3] See Proceeding EB-2013-0078/0079/0080, Application Sections 6.3, 6.4 and 6.5; Interrogatory Response I-1-7 and Proceeding EB-2014-0330, Application Section 3.3.

[4] See OEB decision in EB-2013-0078/0079/0080, pgs. 3-4.

[5] In the Ontario Government's Long Term Energy Plan (2010) it states: "The Ontario government is committed to encouraging opportunities for Aboriginal participation in the energy sector and has launched several initiatives to support participation by First Nation and Metis communities in energy projects, including: the Aboriginal Energy Partnerships Program; the FIT Program with 17 aboriginal-led or partnered projects; and the $250-million Aboriginal Loan Guarantee Program."
And further, it states: "Where new transmission lines are proposed, Ontario is committed to meeting its duty to consult First Nation and Metis communities in respect of their aboriginal and treaty rights and accommodate where those rights have the potential to be adversely impacted."

To disallow these costs would be unfair, and would create a very unfortunate deterrent for such future partnerships.

Not only would there be a significant deterrent effect to future partnerships involving utilities and First Nations communities, but there would be an immediate and ongoing detriment to the SON, one of the partners in B2M LP. Witnesses explained the effect of disallowing these start-up costs.

The start-up costs are costs of the partnership itself. If the costs are disallowed, they must be absorbed by the partnership. The partnership agreement provides that if costs are disallowed, and SON cannot fulfill its share of that shortfall, then Hydro One, as the predominant partner must make up the shortfall. Hydro One could then call upon the equity of the SON to repay the deficiency.

In other words, if SON does not satisfy its 34.2% share of any amount that is disallowed, its equity share in the partnership will be diluted. The impact would not only be immediate, but also ongoing, as it would reduce the revenues of this partnership flowing to the SON through its now reduced equity share. As a consequence, the overall loss to SON would significantly exceed the amount of its share of the start-up costs resulting in a disproportionate penalty to SON.

Finally, it outlines that: "Ontario will encourage transmission companies to enter into partnerships with aboriginal communities, where commercially feasible and where those communities have expressed interest."

The financial impact upon SON would be considerable[6]. Such a result would be contrary to the intent of the government policy and direction underpinning this partnership in the first place and contrary to the Board's own legislated objectives.[7]

There would also be a negative impact on ratepayers as the revenue requirement would be increased to account for additional taxes payable by the taxable portion of the partnership to reflect its increased equity share.

Board staff argued, in addition to its legal argument on retroactive ratemaking, that the costs simply should not be recovered from ratepayers. Rather, Board staff submits that the partnership should simply absorb the costs itself, drawing some guidance from the East-West Tie proceeding.

B2M LP submits that this case is wholly distinguishable from the East-West Tie proceeding and has little, if any, application in this case. This case, while resulting in a commercial venture, was driven by government policy directives about the role of First Nations in the province's electricity sector going forward. For the reasons outlined above, Board staff's position should be rejected. It is inconsistent with government and policy direction, with the OEB's objectives and would be inequitable and unjust.

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[6] See B2M LP response to Undertaking K1.1 explaining the complete impact if the costs are disallowed. As it relates to the SON, if the start-up costs are disallowed, SON's equity in the partnership would decrease by approximately 1.2%, or approximately $8M over time.

[7] Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sch. B: see Section 1(1) which outlines of the OEB, one of which is "to promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

LAW re RETROACTIVE RATEMAKING

As noted, Board staff has argued that the entirety of the start-up costs cannot be recovered because to do so would violate the rule against retroactive ratemaking. With respect to Board staff, this is simply incorrect in law.

The Board, without doubt, has the jurisdiction to allow recoverability of the start-up costs.

The Board's rate setting power is outlined in Section 78 of the *Ontario Energy Board Act, 1998*. It provides as follows:

> 78 (3) The Board may make orders approving or fixing just and reasonable rates for the transmitting or distributing of electricity or such other activity as may be prescribed and for the retailing of electricity in order to meet a distributor's obligations under section 29 of the *Electricity Act, 1998.*

The courts have confirmed that a tribunal, like the Board, has a wide discretion in exercising its rate setting authority.

The rate setting process is a prospective one. In other words, rates are being set on a forward looking basis based on future forecasts and assumptions. However, this does not limit the Board's abilities to deal only with future costs. This has been upheld in many cases. See for example *Dow Chemical Canada Inc.* v. *Union Gas Ltd.* (1982), 141 D.L.R. (3d) 641, Ontario HCJ, aff'd 42 O.R. (2d) 731 CA.

Recently, the Ontario Court of Appeal in *Union Gas v. Ontario Energy Board,* outlined several applicable principles as follows:

> "From the ratepayers' perspective, retroactive ratemaking may create unfairness because it redistributes the cost of utility service by asking today's customers to pay for the expenses incurred by yesterday's customers".[8]

In this case, current ratepayers are being asked to pay for expenses incurred for their benefit.

And further:

> "Although *Bell Aliant* involved the disposition of funds in a deferral account, at paras. 61 and 63, Abella, J. also used the term "encumbered" to explain why the disposition of funds in a deferral account for one-time credits to ratepayers did not constitute impermissible retroactive ratemaking. A key feature of her reasoning was that it was known from the beginning that funds accumulated in the deferral accounts at issue were subject to further disposition by the regulator in the form of credits to ratepayers." [9]

In this case, although there was no deferral account established, it was known from the beginning that the start-up costs were being tracked, recovery was going to be sought and the funds would be subject to disposition by the regulator.

As stated by the Alberta Court of Appeal in *Atco Gas and Pipelines Ltd. V. Alberta (Utilities Commission)*[10] and quoted with approval by the Ontario Court of Appeal in *Union Gas, supra*:

> "... simply because a ratemaking decision has an impact on a past rate does not mean it is an impermissible retroactive decision.... **the critical factor for determining whether the regulator is engaging in retroactive ratemaking is the parties' knowledge that the rates were subject to change.**"[11] [emphasis added]

[8] *Union Gas v. Ontario Energy Board, 2015, ONCA 453, para. 86.*
[9] *Ibid, para. 90.*
[10] *Atco Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2014 ABCA 28.
[11] *Union Gas, supra* at para. 91.

In this case, the "critical factor" of the recovery of start-up costs has always been known. Moreover, there **is no element of a change to past rates**. B2M LP simply seeks to recover appropriate costs incurred in the recent past at its first opportunity, as though a deferral account had been in place.

The absence of a deferral account is not fatal to the Applicant's request as Board staff seemed to suggest. In *Atco Gas, supra,* the court cautioned that slavish adherence to the use of interim rates and deferral accounts should not prohibit the exercise of broad discretionary authority in an appropriate case.[12] B2M LP submits that this is such a case.

In *Union Gas, supra,* the Court quoted from the Divisional Court's decision as follows:

> "The provisions of section 36 of the Act are liberal in construction and do not in any manner constrain the Board from making orders respecting matters which arose in a previous year but had not been specifically dealt with as a discrete item in the rate setting process".[13]

In other words, the Divisional Court has confirmed that section 36 of the *Ontario Energy Board Act*, the gas equivalent of section 78, allows the Board to deal with costs from a prior period providing those costs had not been included in a previous Rate Order, such as the start-up costs at issue in this proceeding.

This interpretation is wholly consistent with the rule against retroactive ratemaking. When dealing with a forward approval scheme as is the case with the OEB, regulators generally cannot alter rates retroactively or retrospectively. In this case, there are no past rates that will be altered in any way.

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[12] *Atco Gas, supra* at para. 64.

[13] *Union Gas, supra* at para 64.

CONCLUSION ON RECOVERABILITY OF START-UP COSTS

There is no element of retroactive ratemaking in this case. There are no rates in place for B2M LP other than the interim rates approved on December 11, 2014 by this Board during the interim rate application.

Interim rates, by definition, will be varied. There is no concern with violating the rule against retroactive ratemaking when amending interim rates.

Board staff suggested that allowing recoverability of the start-up costs, incurred in 2012, 2013 and 2014, somehow serves to alter or amend prior uniform transmission rates established in those past years. That is simply not the case.

B2M LP did not exist when 2012, 2013 and 2014 uniform transmission rates were established. It is true that B2M LP, the partnership in name only, was created for legal purposes in 2013 and obtained a transmission licence effective November 28, 2013. Nevertheless, practically speaking, B2M LP, the Applicant before this Board, was not in existence until the partnership agreement was signed and assets sold and transferred. That did not take place until December 17, 2014.[14]

Moreover, when the uniform transmission rates for 2012, 2013 and 2014 were established, the Board did not consider the costs for which recoverability is now sought. The costs are those of the partnership. The partnership is before the Board for a final rate order for the very first time. In B2M LP's submission, the rule against retroactive ratemaking has no relevance in this proceeding.

[14] See footnote 3 above. In I-1-7 reference therein, B2M clearly outlined that costs were expected to fall within the 10.1M net benefit envelope of the transaction and that the final costs remained unknown at the time of the interrogatory response.

To the contrary, the start-up costs that are being sought fall squarely within the Board's jurisdiction to establish just and reasonable rates for this new electricity transmitter.

Recovery of start-up costs in this application will have **no affect whatsoever** on past uniform transmission rates.

These costs are, of course, subject to a prudence review. However, past costs actually incurred by a utility are presumed in law to be prudently incurred unless persuasive evidence is offered to the contrary.

No such evidence exists in this case. To the contrary, the evidence shows that the costs were incurred in a careful and prudent way and were necessary to bring into existence a novel and complex commercial arrangement resulting in B2M LP, which involved complex structuring related issues. The partnership and the asset transfer have already been found to be beneficial by this Board in EB-2013-0078/0079/0080. The costs incurred were necessary to bring the partnership to fruition. They ought to be recoverable.

As in many other cases, some parties have urged arbitrary reductions. Here, CME alone argued that half of the costs ($3.85 million) ought to be disallowed. There really was no principled basis put forward for doing so.

The evidence is clear that this was a novel process. Both parties required specialized expert, legal and tax advice at every step of the way. That advice was appropriately sought and obtained from highly qualified specialists in their fields, at market rates. It would not have been prudent or appropriate to search for the cheapest service provider when entering into complex and novel commercial arrangements such as this. To the

contrary, responsible parties look to the experts in the appropriate fields. That is what the SON did. That is what Hydro One Networks did.

To now look back and criticize the choice of expert advice sought, the rate charged, the hours expended, is in fact an impermissible retrospective analysis. These costs have been explained and justified in evidence. B2M LP submits that the Board ought to adopt the presumption of prudence in this case as no evidence of imprudence has been offered.

The B2M LP partners acted responsibly in negotiating a complex and novel commercial arrangement, which successfully brought into being the B2M LP partnership, which the Board has approved to operate this crucial transmission asset.

In hindsight, B2M LP acknowledges that it would have been simpler had there been a designated procedure to follow, including perhaps the establishment of a deferral account for the intended partnership to track its costs. That procedure was not in existence then, nor is it now.

Surely there can be no doubt as to the recovery of these costs had they been tracked in a deferral account (subject to a prudence review). The costs have been tracked by B2M LP and are clearly defined. There is no practical negative impact resulting from the absence of a formal deferral account[15]. It would surely be unjust and inequitable to disallow recovery of these costs based on a technical deficiency, arguably not even applicable until December 17, 2014. It would also be contrary to the Board's

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[15] In fact, if a deferral account had been established, the amount for which recovery is sought would be slightly higher to account for accrued interest.

responsibility to set just and reasonable rates. As outlined above, the courts have cautioned against slavish adherence to procedures where is not reasonable to do so.[16]

B2M LP submits that it should not be penalized, with the serious and significant consequences which would follow any disallowance, simply because it was the first to blaze this path.

B2M LP submits that recovery of all claimed start-up costs should be allowed as proposed, namely $1.925 million per year in each of 2016 through 2019.

Outlined below are B2M LP's submission on each of the issues in accordance with the approved issues list.

1.0 GENERAL

1.1 Has B2M LP responded appropriately to all relevant Board directions from previous proceedings?

B2M LP submits that it has responded appropriately to all relevant Board directions. As pointed out by Board staff in its final submissions, the only Board direction applicable to B2M LP was that it file the within application by April 30, 2015. B2M LP did so.

B2M LP has complied with all applicable Board directions.

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[16] See *Atco Gas, supra* at footnotes 9 and 11.

1.2 Is the overall increase in 2015 to 2019 revenue requirement reasonable?

As proposed in its updated application dated June 29, 2015, B2M LP is seeking a revenue requirement for 2015 to 2019 as outlined in the table below. The resulting rate change to the Transmission portion of the average residential customer's bill is 0.0% in 2015, -0.4% in 2016, 0.1% in 2017, 0.1% in 2018 and -0.1% in 2019 after adjusting for the recovery measures proposed in the application related to start-up costs and the recovery of the 2015 revenue shortfall.

Revenue Requirement

($millions)

	2015	2016	2017	2018	2019
Revenue Requirement	38.7	35.9	36.5	38.2	37.3

It is important to note that B2M LP's revenue requirement will be quite stable. The predominant components of its revenues each year are the return on equity and its cost of debt. There is no planned capital spending during the test years, and thus no additions to rate base. Operations, maintenance and administration expenses (OM&A) are quite modest and predictable.

B2M LP submits that the revenue requirement as proposed in the update is reasonable. It in fact represents a rate decrease from the interim revenue requirement of $40.5 million.

2.0 APPLICATION FRAMEWORK

2.1 Is the proposed framework of a five-year cost of service application appropriate?

B2M LP has asked the Board to approve its revenue requirement for a five-year term, from 2015 to 2019. This is consistent with the direction of Board policy, which does contemplate five-year rate setting.

B2M LP submits that a five-year cost of service application is particularly appropriate in this circumstance. B2M LP owns and operates one transmission asset, a 500 kV double circuit high-voltage transmission line. It has no other assets. Its costs are stable. The asset is relatively new. Its revenue forecasts are stable. Its spending will be stable. A five-year revenue requirement provides certainty to both the utility and ratepayers, and promotes regulatory efficiency.

Board staff is not supportive of B2M LP's proposal. While Board staff is not adverse to approval of revenue requirement for five years, Board staff argues that the certainty of five years of known revenue requirement should come with the acceptance of an appropriate level of risk over the same period. Board staff also put forth an argument for a two-year or other reduced test period. These arguments were supported by CME.

B2M LP disagrees with Board staff's position. While B2M LP accepts that revenue certainty for diverse regulated entities requires the acceptance of some risk, B2M LP does not view itself in the same circumstance. As stated above, B2M LP owns and operates a single, stable transmission asset. It has outsourced virtually all of its operations, but for the office of its managing director. There is little risk that it can accept. The most significant risk to this transmitter, a risk that it simply cannot absorb, is the threat of a catastrophic event that unforeseeably damages its asset; or dramatic

changes in legislation that negatively impact its revenues. It is unreasonable to expect B2M LP to accept those unlikely but extreme risks.

Moreover, a five-year rate period is beneficial to ratepayers. A significant operational cost of B2M LP, indeed one of the most significant, is its regulatory cost. Maximizing the test year period reduces B2M LP's operating costs and promotes economic and efficient regulation.

B2M LP disagrees that a shorter test year period is appropriate.

2.2 Are B2M LP's proposed annual adjustments appropriate?

B2M LP proposed a number of annual adjustments. B2M LP submits that all of its proposed annual adjustments are appropriate. Board staff argued against the proposed annual adjustments.

Board staff submitted that B2M LP should not update its cost of capital parameters annually if there is to be a five-year rate period. It believes that this is required in order for B2M LP to accept some risk in exchange for rate certainty.

B2M LP proposes to update its cost of capital parameters annually, in accordance with the Board's Cost of Capital Report issued each fall. This is consistent with regulatory practice. A utility should be allowed to earn its fair rate of return. The adjustment to revenue requirement reflecting updated cost of capital parameters is mechanistic, transparent, and fair to both the utility and ratepayers. Adjustments could benefit the utility, but adjustments can equally benefit the ratepayer. There is no reason in B2M LP's submission not to update cost of capital parameters consistent with Board practice.

Moreover, the Board has previously stated that its preference is to have the most recent and relevant data applied. Updating for appropriate and current cost of capital parameters fulfills that Board objective. Moreover, not reflecting changes in the debt rates and return on equity simply would mask the utilities true financial performance.

B2M LP has also proposed to implement changes in tax rates annually. Board staff argued that an annual update for tax rates is not necessary if B2M LP's request for a variance account to capture the tax rate changes is granted.

B2M LP submits that both the annual update and the deferral account are appropriate. The deferral account is intended to capture in year tax rate changes. In other words, if there were a change in tax rates, in either direction, in 2016, the difference would be tracked in the tax rate change deferral account for disposition at the next transmission revenue requirement proceeding.

The annual update is required to minimize the amounts captured in the deferral account.

In other words, utilizing the same example, the tax rate change that occurred in 2016 would be updated for 2017 revenue requirement. It is simply a mechanistic change that would better reflect the actual revenue requirement. It would avoid continued growth of the amount in the deferral account, either owing by the utility or owing by ratepayers. Rather than have a 2016 tax rate change accumulate in a deferral account for 2016, 2017, 2018, and 2019, B2M LP's proposal is to adjust annually.

B2M LP submits that this is appropriate because it reflects the true revenue requirement, and avoids a potentially large rate impact at the end of the test years should a significant amount accumulate in the deferral account.

Finally, B2M LP proposes to update annually for third party pass-through charges. B2M LP believes that third party pass-through charges, if amended, can be easily reflected in rates and can be done so in a mechanistic fashion.

B2M LP however does acknowledge that there is no certainty or predictability to changes in third party pass-through charges. A deferral account would be equally appropriate as suggested by Board staff. B2M LP would be content with either approach.

2.3 Is the monitoring and reporting of performance proposed by B2M LP adequate to demonstrate whether the planned outcomes are achieved?

B2M LP proposed a set of outcome measures that it would report on, including system average interruption frequency, system average interruption duration, average system availability and NERC vegetation compliance. Board staff agreed that the proposed four outcome measures are appropriate. Board staff also suggested that reporting on cost per kilometre of line would be a useful measure. As acknowledged during the oral hearing, B2M LP can report on that measure and is prepared to do so should the Board believe it useful and appropriate.

Board staff also suggested that B2M LP propose a scorecard for itself and report annually on that basis. B2M LP does not believe an annual scorecard is appropriate. A scorecard has not yet been developed for electricity transmitters. It would be difficult to do so, particularly to reflect B2M LP's circumstance of owning and operating a single double circuit transmission line. B2M LP believes that it has proposed appropriate outcome measures, with the additional cost per kilometre of line to be included.

As a licenced transmitter, B2M would be pleased to participate in any OEB initiatives to develop scorecards or other aspects of a regulatory framework for transmitters.

3.0 OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

3.1 Are the proposed spending levels for OM&A in 2015 to 2019 appropriate, including consideration of factors such as system reliability and asset condition?

B2M LP submits that its proposed spending levels for OM&A indeed are appropriate. Its spending levels are modest and are generally flat over the test years as outlined in the table below.

Summary of OM&A
($ millions)

	2015	2016	2017	2018	2019
SLA with Hydro One Transmission	**0.8**	**0.7**	**0.7**	**2.0**	**0.8**
Operations & Maintenance Expenses	*0.7*	*0.5*	*0.5*	*1.8*	*0.6*
Administrative and Corporate Expenses	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Incremental Expenses	**1.0**	**0.5**	**0.5**	**0.5**	**0.8**
Insurance	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Regulatory	*0.3*	*0.0*	*0.0*	*0.0*	*0.3*
Administrative	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Managing Director's Office	*0.5*	*0.2*	*0.2*	*0.2*	*0.2*
TOTAL OM&A	**1.8**	**1.2**	**1.2**	**2.5**	**1.5**

Operations, maintenance, and administration services are provided by Hydro One Networks through service level agreements. Those agreements are in force for the duration of the test years. It is anticipated that any efficiencies gained by Hydro One Networks will be passed through to B2M LP. Similarly, any additional expenses required to complete the planned operations, maintenance, and administration will be borne by B2M LP.

The largest source of planned spending is maintenance of the right-of-way and brush clearing and control. That is anticipated to occur in 2018, thus reflecting the increased expense in that particular year. The other anomaly in spending is in relation to incremental expenses. Those expenses are flat at $0.5 million per year, with two exceptions. First, they increase in 2015 to reflect regulatory costs as well as start-up costs for the B2M LP managing director's office. Second, the increase in 2019 is in anticipation of a further rate application to be made at that time.

Board staff argued for reductions in OM&A and proposed that the Board apply an arbitrary 0.3% stretch factor. B2M LP submits that such a stretch factor is completely inappropriate in this case.

When one examines B2M LP's actual revenue requirement, only a very small proportion relates to operational costs where any available efficiencies could be gained. The majority of its revenue requirement, as noted above, is its cost to service debt and its return on equity. Its operational costs are low. Imposing a 0.3% stretch factor, or about $120,000.00 annually, represents between 5 – 10% of its total OM&A annually. It would be impossible for B2M LP to realize those types of savings.

B2M LP urges the Board to reject Board staff's position.

Board staff also argued that the costs associated with the managing director's office are not justified. It argued that the cost of setting up the managing director's office ought to be offset by revenues that B2M LP collected in 2014.

B2M LP disagrees. Its predominant cost is the return on equity. It is appropriate that revenues earned be used towards necessary dividends. The cost of establishing the managing director's office is necessary and appropriate. It reflects an initial one time

start-up cost reflected in 2015, with ongoing maintenance as required. B2M LP is a separate legal entity with separate requirements, including the managing director's office. It requires separate insurance. These requirements inherently create expense. B2M LP has maximized its use of service level agreements to minimize costs that it otherwise would have needed to incur to be fully operational. No reduction is required.

B2M LP submits that its proposed spending levels for OM&A from 2015 to 2019 are appropriate.

3.2 Are the methodologies used to allocate common corporate costs for 2015 to 2019 appropriate?

B2M LP submits that these costs are appropriate. The costs were allocated based on a Black and Veatch (B&V) study on cost allocation dated September 19, 2013. B&V has been providing cost allocation methodology recommendations to Hydro One Networks since 2004. This methodology has previously been adopted by the Board.

B2M LP submits that the methodology is appropriate in this case, a position agreed to by Board staff and interveners.

4.0 CAPITAL EXPENDITURES AND RATE BASE

4.1 Are the amounts proposed for rate base in 2015 to 2019 appropriate?

B2M LP has proposed amounts for rate base for 2015 to 2019. Board staff agreed that the amounts proposed were appropriate. The proposed rate base reflects the fact that

no working capital is required and that there is no capital spending planned in the test years, thus, there will be no additions to rate base.

Based on those business assumptions, supported by expert evidence, B2M LP submits that its amounts proposed for rate base for 2015 to 2019 are appropriate. No party took a contrary position.

5.0 REVENUE REQUIREMENT

5.1 Are the business assumptions and policies used by B2M LP to develop and allocate its revenue requirements appropriate?

B2M LP submits that it has followed standard regulatory practices in calculating its revenue requirement. The revenue requirement is comprised of OM&A expenses, depreciation expenses, income taxes, the cost of capital, as well as the recovery of its start-up and development costs.

B2M LP submits that its business assumptions and policies are appropriate. No party disagreed, subject to the recoverability of its start-up and development costs, as discussed above.

5.2 Is the capital structure and cost of capital component of the revenue requirement for 2015 appropriate?

B2M LP submits its cost of capital is appropriate. Board staff agreed. Its cost of capital is based upon 40% equity, 56% long term debt, and 4% short term debt. This is in accordance with the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009, EB-2009-0084. Annual amounts will be reflected

based on the Board's cost of capital report issued each fall, as discussed above in Issue 2.2.

5.3 Is the depreciation component of the revenue requirement for 2015 to 2019 appropriate?

B2M LP submits that its depreciation component of the revenue require is appropriate. This is accepted by Board staff. The depreciation component has been calculated in accordance with a depreciation study conducted by Foster Associates Inc. Foster completed a new study for B2M LP dated September 27, 2013. That methodology has previously been accepted by the Board in relation to previous Hydro One Networks applications, and is the methodology followed in this case.

B2M LP submits that its depreciation component of the revenue requirement is appropriate.

5.4 Is the taxes/PILs component of the revenue requirement for 2015 to 2019 appropriate?

B2M LP submits that its tax calculations for both income taxes and PILs are appropriate. Those figures have been calculated in accordance with usual practice and consistent with advance tax rulings received from the Canada Revenue Agency. Those calculations reflect that 34.2% of the income of B2M LP is not subject to tax, reflecting the non-taxable status of the Saugeen Ojibway Nation Finance Corporation, one of the partners of B2M LP.

B2M LP submits that these calculations are appropriate.

5.5 Is the proposed recovery of start-up and development costs appropriate? Is the proposed smoothing methodology for the start-up and development costs over the test years appropriate?

For the reasons outlined above, B2M LP submits that its proposed recovery of start-up and development costs is appropriate. B2M LP submits that these expenses were necessary and were prudently incurred. There is no persuasive evidence to the contrary. The costs are properly recoverable in this first rate application by this new electricity transmitter.

B2M LP has proposed that the start-up costs be recovered over four years from 2016 through to 2019, one of the main reasons for proposing a five-year revenue requirement period. This is simply to smooth recovery of the start-up and development costs. A shorter test year period would result in higher annual recovery and higher rate impacts.

6.0 DEFFERAL/VARIANCE ACCOUNTS

6.1 Are the proposed new Deferral and Variance Accounts appropriate?

B2M LP submits that the proposed new variance and deferral accounts are appropriate. B2M LP has proposed three accounts. It has proposed the tax rate changes account, discussed above, the unplanned capital spending account and the 2015 revenue requirement reconciliation account.

As discussed above under Issue 2.2, the tax rate changes account is to capture mid-year tax rate changes. Those changes will then be updated annually. The purpose of the account is only to capture the in-year changes. Those would be subject to later review and disposition. This is a common account and B2M LP submits it is appropriate.

B2M LP has also proposed the 2015 revenue requirement reconciliation account. This account is intended to capture the revenue differential between actual approved 2015 rates and 2015 interim rates. B2M LP has proposed a decrease in its revenue requirement, largely to reflect actual debt issues at lower rates than forecast. The result is that B2M LP is currently collecting revenues under its interim rates higher than it is now seeking for its actual 2015 revenue requirement. This account will capture the difference, to be refunded to ratepayers in the 2016 rates.

Finally, B2M LP is seeking to create the unplanned capital spending account. The purpose of this account is to track unforeseen, unforecast, capital spending. B2M LP is a single transmission asset utility. It has no planned capital spending over the five year test year period. It is a relatively new asset. Expenditures simply are not planned or foreseen.

However, should there be an unforeseen catastrophic event, the capital expenses required to remediate that event would be significant, costs that simply cannot be borne by B2M LP. It does not have the diversity of assets to enable it to do so.

B2M LP is proposing to track capital expenditures that are unplanned, unforeseen, out of B2M LP's control, and that meet a materiality threshold. Board staff and interveners proposed a materiality factor of 0.5% of revenues or $200,000.00. That is agreeable to B2M LP.

B2M LP submits that this account is necessary and appropriate.

As an alternative, Board staff proposed that a Z-factor be created for B2M, with a materiality factor noted above. Should this proposal be preferred by the Board, B2M LP believes this would address the risk that it is concerned about, though prefers its

proposed approach as it is more efficient and eliminates the need for an additional application to the Board.

7.0 COST ALLOCATION

7.1 Is the cost allocation proposed by B2M LP appropriate?

B2M LP is proposing that all of its costs be allocated to the network pool. It has no actual customers. This is consistent with the cost allocation methodology that had previously been approved by the Board for Hydro One Networks. Board staff and interveners supported this cost allocation methodology.

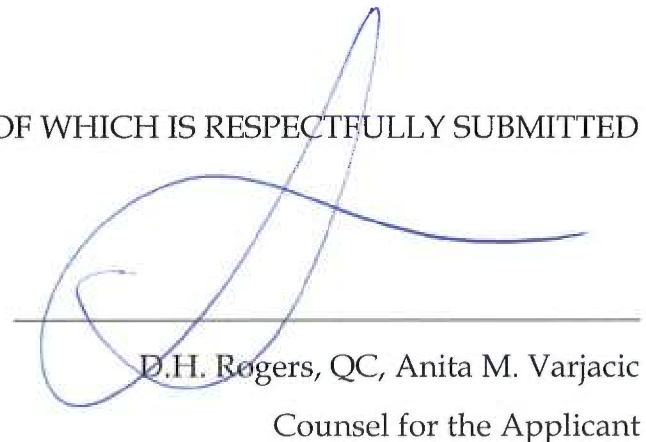
B2M LP submits that it is appropriate and ought to be approved.

8.0 BILL IMPACTS

8.1 Are the bill impacts of this application appropriate?

B2M LP submits that its proposed bill impacts are appropriate. The proposed total bill impacts on the average transmission customer are less than 0.01% in any one of the test years. These bill impacts are indeed appropriate, a position shared by Board staff.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



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