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BY E-MAIL

May 19, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: B2M Limited Partnership (B2M LP)
Application for electricity transmission revenue requirement effective
January 1, 2017
OEB File No. EB-2016-0349
OEB Staff Submission**

In accordance with Procedural Order No. 2, please find attached OEB staff's submission in B2M LP's 2017 electricity transmission revenue requirement application. This document is also being forwarded to B2M LP and the Society of Energy Professionals.

Yours truly,

Original Signed By

Fiona O'Connell
Ontario Energy Board staff – Case Manager EB-2016-0349

Encl.

**2017 ELECTRICITY TRANSMISSION
REVENUE REQUIREMENT**

B2M Limited Partnership

EB-2016-0349

OEB STAFF SUBMISSION

May 19, 2017

INTRODUCTION

B2M Limited Partnership (B2M LP) filed an application with the Ontario Energy Board (OEB) on December 1, 2016, seeking approval for changes to its electricity transmission revenue requirement, to be effective January 1, 2017.

In its December 29, 2015 Decision and Order in B2M LP's 2015-2019 Transmission Rate application, the OEB approved B2M LP's 2017 revenue requirement of \$36.0 M¹ and provided for annual updates for the cost of capital. The resulting requested revenue requirement (i.e. "revised OEB approved 2017" revenue requirement) is \$33.7 M². The 2016 Uniform Transmission Rates (UTR) currently in place were declared interim³ until the 2017 UTR are approved.

This submission is based on the record in this proceeding, which includes B2M LP's application, OEB staff's interrogatories, and B2M LP's associated responses to the OEB staff interrogatories. The only intervenor in this proceeding – the Society of Energy Professionals – did not submit interrogatories. This submission reflects observations which arise from OEB staff's review of the evidence. It is intended to assist the OEB in making a determination on B2M LP's application.

SUBMISSION

OEB staff is satisfied that B2M LP has updated the cost of capital parameters appropriately. OEB staff finds it necessary to make submissions on the following two items and has no other concerns with the application beyond those set out below.

- Item #1 – Deferral Account for Forgone Revenue
- Item #2 – Adjustment to the tax proxy included in the proposed 2017 Revenue Requirement

¹ EB-2015-0026 B2M LP January 7, 2016 Draft Rate Order, Exhibit 1.0, page 1

² EB-2016-0349 B2M LP April 26, 2017 Response to Interrogatories, Draft Rate Order, Exhibit 1.0, page 1

³ EB-2016-0160 Hydro One Networks Inc. Transmission, November 24, 2016 Oral Hearing Transcript, page 4, lines 12 & 13

1. Deferral Account for Forgone Revenue

Item #1 Background

In its application⁴, B2M LP requested approval to establish a forgone revenue deferral account. As outlined by B2M LP, this proposed deferral account would:

- a) Record any revenue differences between the 2016 rates revenue requirement on which the proposed interim UTR are based and B2M LP's applied-for 2017 rates revenue requirement.
- b) Capture the forgone revenue between January 1, 2017 and the date when the 2017 UTR are updated.
- c) Generate a balance that may be included in the UTR established for January 1, 2018.

In item 1a) above, OEB staff assumes that B2M LP's reference to "B2M LP's applied-for 2017 rates revenue requirement" means the 2017 revenue requirement ultimately approved by the OEB, and not the "applied-for" value. OEB staff requests clarification from B2M LP regarding this matter.

Item #1 Submission

OEB staff submits that the deferral account should capture differences between revenue earned by B2M LP under the interim 2017 rates set at the 2016 UTR level, and the revenues that would have been received under the approved 2017 UTR. OEB staff submits that B2M LP's request to establish the deferral account is reasonable for the following reasons:

- i. In its December 29, 2015 Decision and Order in the B2M LP 2015-2019 Transmission Rate application⁵, the OEB stated that a true-up to reflect the actual 2015 revenue requirement needed to be generated. Specifically, the OEB stated:

⁴ EB-2016-0349 B2M LP December 1, 2016 Application, page 1 and 2

⁵ EB-2015-0026 B2M LP December 29, 2015, page 10

...the OEB will require B2M LP to calculate the difference between the interim and final 2015 revenues, and refund or recover the difference through an adjustment to the 2016 revenue requirement.

The impact of this true-up would generally have the same effect as recording the forgone revenue in a deferral account that would be cleared in a subsequent rate period.

- ii. There are precedents regarding the proposed deferral account. For example:
 - a) In its Decision and Order in Great Lakes Power Transmission LP's (GLPT) recent Transmission Rate application⁶, the OEB allowed GLPT to record certain forgone revenue in sub-accounts of Account 1574.
 - b) The OEB approved a deferral account for forgone revenue in the 2016 Hydro One Networks Transmission proceeding⁷. However, the specifics of the deferral account have not been approved at this time.

2. Adjustment to the tax proxy included in the proposed 2017 Revenue Requirement

Item #2 Background

In its application, B2M LP included a request to recover an additional amount of \$0.2M⁸ incorporated into a higher income tax proxy in its revised OEB approved 2017 rates. The higher income tax proxy was calculated by excluding a loss carry forward that had been embedded in its original "OEB approved 2017" revenue requirement that was set before the update to cost of capital parameters.

⁶ EB-2014-0238 GLPT December 18, 2014, page 3

⁷ EB-2016-0160 Hydro One Networks Inc. Transmission, November 24, 2016 Oral Hearing Transcript, page 4, lines 15 & 16

⁸ EB-2016-0349 B2M LP December 1, 2016 Draft Rate Order, Exhibit 1.0, Page 1 of 1

OEB staff notes that the Decision and Order in B2M LP's 2015-2019 application did not provide for a tax adjustment. However, OEB staff also notes that adjustments to the income tax proxy for impacts directly related to updates to cost of capital parameters have been permitted in other proceedings.⁹

The Decision and Order stated the following regarding B2M LP's annual revenue requirement:

The OEB finds that the taxes / PILs component of the revenue requirement for 2015 to 2019 to be appropriate.¹⁰

And

B2M LP shall make an application in each of 2016, 2017 and 2018 to adjust its revenue requirement for the following year consistent with the OEB updated cost of capital parameters...¹¹

In response to OEB staff interrogatories¹², B2M LP:

- i. Confirmed that the EB-2015-0026 Decision and Order allowed for a true-up to OEB updated cost of capital parameters, but did not specifically allow for an adjustment for actual income taxes.;
- ii. Provided revised versions of Exhibit 1.0 and Exhibit 1.5 of its Draft Rate Order with the originally contemplated Loss Carry Forwards reinstated. As a result, changes in the income tax proxy to be included in the revenue requirement are solely related to the reduction in allowed ROE resulting from the updated cost of capital parameters. A slight (\$37k) reduction in

⁹ For example: EB-2016-0077 Horizon Utilities Corporation January 19, 2017 Draft Rate Order Page 6, Table 4, Note #5

¹⁰ EB-2015-0026 B2M LP December 29, 2015, page 21

¹¹ EB-2015-0026 B2M LP December 29, 2015, page 23

¹² EB-2016-0349 B2M LP Response to Interrogatories April 26, 2017, Exhibit I, Tab 1, Schedule 2, Page 2 of 2

total recoverable income tax is directly related to the update to cost of capital parameters.¹³; and

- iii. Requested that its Draft Rate Order be updated with the revised Exhibits attached to its interrogatory response.

Item #2 Submission

OEB staff submits that the impact of the loss carry forwards should be included in the tax proxy and resulting 2017 revenue requirement. Based on its interrogatory responses, it appears that B2M LP has agreed with the view of OEB staff and has reinstated this item in its calculation of the proposed 2017 revenue requirement.

OEB staff also submits that since revising the income tax proxy for impacts directly related to updates to cost of capital parameters is an approach consistent with that taken by the OEB in other cases¹⁴, it should be permitted in this proceeding. OEB staff is of the view that this adjustment to the income tax proxy, as reflected in the calculation of the proposed 2017 revenue requirement, is reasonable.

All of which is respectfully submitted

¹³ The \$37k amount reflects the change in the income tax proxy between B2M LP's "revised OEB approved 2017" revenue requirement and the original "OEB approved 2017" revenue requirement that was set before the update to cost of capital parameters.

¹⁴ For example: EB-2016-0077 Horizon Utilities Corporation January 19, 2017 Draft Rate Order Page 6, Table 4, Note #5