

Hydro One Networks Inc.
7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5680
frank.dandrea@HydroOne.com



Frank D'Andrea
Vice President
Regulatory Affairs

BY COURIER

March 23, 2018

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-2017-0380 – B2M LP Update to 2018 Transmission Revenue Requirement – B2M LP Interrogatory Responses to Board Staff

Please find attached an electronic copy of responses provided by B2M Limited Partnership to Board Staff Interrogatory questions.

Additionally, while the changes are not material, B2M LP has determined that an update is necessary to the Exhibits listed below due to calculation changes. The net change to Revenue Requirement is an increase \$0.2 million from \$36.3 million to \$36.5 million.

Exhibit	Title
1.0	Revenue Requirement 2015-2019
1.5	Income Tax Summary

An electronic copy has been filed using the Board's Regulatory Electronic Submission System. Two (2) hard copies will be sent to the Board shortly.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea
Submitting on behalf of B2M LP

Enc.

1 However, for tax purposes, regulatory accounts are taxed on a cash basis, and additional
2 taxes are being incurred as the amounts are collected in revenue during the 2016 to 2019
3 period. Therefore, the \$1.9 million of revenue should have been included in the original
4 calculation of tax.

5
6 The net effect is that the taxes in the DRO submitted on January 7, 2016 for the five year
7 period were understated by \$0.5 million. The taxes in the 2018 DRO should have been
8 \$0.9 million as opposed to \$0.4 million.

- 9
10 2. The current income tax amount to be included in revenue requirement for 2018 should be
11 \$0.7 million. The change results from the inclusion of corporate minimum tax (CMT) of
12 slightly more than \$0.1 million that was not included in the DRO submitted December
13 20, 2017. As a result, the taxes, including the gross up, should have been \$0.7 million as
14 opposed to \$0.5 million.

15
16 Please refer to Attachment 1 of this response for Exhibit 1.5 which includes details on the
17 updated 2018 tax calculations as well as Exhibit 1.1 which is showing the updated 2018
18 Revenue Requirement.

B2M LP Inc.
 Update to Implementation of Decision with Reasons on EB-2015-0026

Revenue Requirement Summary

(\$ millions)	Supporting Reference	B2M LP Proposed	OEB Decision Impact	OEB Approved	Cost of Capital Update	Revised
		2018	2018	2018	2018	2018
OM&A	Exhibit 1.1	2.5	(0.1)	2.4	-	2.4
Transition Costs (Note 1)		1.9	-	1.9	-	1.9
Depreciation	Exhibit 1.2	6.8	-	6.8	-	6.8
Return on Debt	Exhibit 1.4	6.0	-	6.0	(0.5)	5.5
Return on Equity (Note 2)	Exhibit 1.4	20.2	(0.1)	20.0	(1.9)	18.1
Income Tax	Exhibit 1.5	0.9	0.0	0.9	(0.3)	0.7
Foregone Revenue	Exhibit 2.0	-	-	-	1.1	1.1
Base Revenue Requirement		38.2	(0.2)	38.1	(1.6)	36.5
Deduct: External Revenue		-	-	-	-	-
Rates Revenue Requirement		38.2	(0.2)	38.1	(1.6)	36.5

Note 1: The Decision allowed the \$7.7 million start-up cost to be recovered in rates over a four year period, with \$1.925 million being recovered each year from 2016 to 2019.

Note 2: The Cost of Capital is updated to reflect OEB approved parameters issued on November 23, 2017.

B2M LP Inc.
Update to Implementation of Decision with Reasons on EB-2015-0026

Income Tax

(\$ millions)	Supporting Reference	B2M LP Proposed	OEB Decision Impact	OEB Approved	Cost of Capital Update	Revised
		2018	2018	2018	2018	2018
Income Taxes	<i>See supporting details below</i>	0.9	0.0	0.9	(0.2)	0.7

Income Tax Supporting Details

Rate Base	Exhibit 1.2	(a) \$	502.4	\$	-	502.4	-	502.4
Common Equity Capital Structure		(b)	40.0%			0.4	-	0.4
Return on Equity	Exhibit 1.4	(c)	10.03%			0.1	(0.0)	0.1
Return on Equity		(d) = a x b x c	20.1		(0.1)	20.0	(1.9)	18.1
Regulatory Income Tax		(e) = l	0.9			0.9	(0.3)	0.7
Regulatory Net Income (before tax)		(f) = d + e	21.0		(0.1)	21.0	(2.2)	18.7
Timing Differences		(g) Note 1	(15.9)		-	(15.9)	-	(15.9)
Add Other Taxable Revenue		Note 2	-			2.0		2.0
Taxable Income		(h) = f + g	5.1		(0.1)	7.0	(2.2)	4.8
Opening Loss Carry Forward			(0.4)			(1.3)		(1.3)
Taxable Income Allocated to Taxable Partners	Note 3		3.7			4.9		3.4
Closing Loss Carry Forward			-			-		-
Tax Rate		(i)	26.50%			26.50%	-	26.50%
Income Tax		(j) = h x i	0.9	0.1		1.0	(0.4)	0.6
Add: Corporate Minimum Tax		(k) Note 4	(0.0)	-		(0.0)	0.1	0.1
Regulatory Income Tax		(l) = j + k	0.9	0.0		0.9	(0.3)	0.7

	B2M LP Proposed 2018	OEB Decision Impact 2018	OEB Approved 2018	Cost of Capital Update 2018	Revised 2018
Note 1. Book to Tax Timing Differences					
Depreciation	6.8	-	6.8	-	6.8
CCA	(22.7)	-	(22.7)	-	(22.7)
Other Timing Differences	-	-	-	-	-
Total Timing Differences	<u>(15.9)</u>	-	<u>(15.9)</u>	-	<u>(15.9)</u>
Note 2. Other Taxable Revenue					
Add: Managing Director Costs			0.1		0.1
Less: 20(1)(e) Deductions			(0.0)		(0.0)
Add: Setup Costs recovered in Rates			<u>1.9</u>		<u>1.9</u>
			2.0		2.0
Note 3. Amount to Allocate to Taxable Partners					
Taxable Income	5.1		7.0		4.8
Less Income Tax in Rates	(0.9)		(0.9)		(0.7)
Multiply by Ownership Share of Taxable Partners	65.81%		65.81%		65.81%
Taxable Income Allocated to Taxable Partners	2.8		4.0		2.7
Add Taxes in Rates	<u>0.9</u>		<u>0.9</u>		<u>0.7</u>
Taxable Income Allocated to Taxable Partners	3.7		4.9		3.4

Note 4. Corporate Minimum Tax

Corporate Minimum Tax ("CMT") is an Ontario Tax at the rate of 2.7% of Accounting Income.

The amount payable is the difference between the CMT calculated at 2.7% of Accounting Income and the Ontario portion of Income Tax at 11.5% of Taxable Income.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #002**

2
3 **Reference:**

4 Exhibit 1.5 – Income Tax

5
6 **Interrogatory:**

7 Please indicate whether B2M LP incurred a departure tax and/or recognized deferred tax benefits
8 as a result of Hydro One’s 2015 Initial Public Offering (IPO). If so, please provide the amounts
9 related to each.

- 10
11 a) If the response to the above is no, then please also explain why B2M LP would not have
12 been subject to a deemed disposition and reacquisition of its assets at Fair Market Value
13 triggered by Hydro One’s change in tax status as a result of its 2015 IPO.

14
15 **Response:**

16 B2M LP did not incur departure tax or recognized any deferred tax benefits as a result of Hydro
17 One’s 2015 Initial Public Offering.

18
19 B2M LP is a partnership and not a corporation exempt from tax under subsection 149(1) of the
20 Income Tax Act (ITA). As a result there is no change in the tax regime applicable to the
21 partnership on the IPO and the deemed dispositions rules in subsection 149(10) of the ITA do not
22 apply. Consequently, there was no departure tax and deferred tax benefits in B2M LP as result
23 of the IPO.

1 **Ontario Energy Board (Board Staff) INTERROGATORY #003**

2
3 **Reference:**

4 Exhibit 1.5 – Income Tax

5
6 **Interrogatory:**

7 In the Decision and Order for B2M LP’s 2017 Revenue Requirement Application¹, the OEB
8 noted that the impact of the loss carry forward should be included in the tax proxy calculation.

- 9
10 a) Please indicate whether B2M LP included the impact of the loss carry forward in the tax
11 proxy calculation. If so, please provide the detailed calculation. If not, please update the
12 tax calculation.

13
14 **Response:**

15 The B2M LP loss carry forward has been included in the tax proxy calculation.

16
17 Please see Exhibit 1.5 of the Draft Rate Order attached which shows the detailed calculations of
18 how the loss carry forward has been applied to reduce taxable income.

¹ Decision and Order, EB-2016-0349, June 08, 2017, page 6.