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BY EMAIL

October 4, 2019

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

**Re: B2M Limited Partnership (B2M LP)
2020-2024 Transmission Revenue Cap Incentive Rate-Setting Application
OEB Staff Interrogatories**

Ontario Energy Board File Number: EB-2019-0178

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to B2M LP and to all other registered parties to this proceeding.

B2M LP is reminded that its responses to interrogatories are due by October 25, 2019.

Yours truly,

Original Signed By

Andrew Pietrewicz
Project Advisor, Generation & Transmission

Encl.

B2M LP
2020-2024 Transmission Revenue Cap Incentive Rate-Setting Application
EB-2019-0178
OEB Staff Interrogatories
October 4, 2019

A-Staff-1

Ref: (1) Letters of Comment
(2) Filing Requirements, pages 11 & 13, sections 2.3.2 & 2.3.4

Preamble:

OEB staff notes that B2M LP has not received any letters of comment to date regarding this proceeding. However, sections 2.3.2 and 2.3.4 of the Filing Requirements¹ indicate that transmitters are expected to file with the OEB their response to the matters raised in any letters of comment sent to the OEB related to the transmitter's application.

Question:

- a) Going forward, please ensure that responses to any matters raised in subsequent comments or letter are filed in this proceeding. All responses must be filed before the argument (submission) phase of this proceeding.

A-Staff-2

Ref: (1) Exhibit A, Tab 2, Schedule 2, page 3

Preamble:

With respect to benchmarking, B2M LP states:

Benchmarking: Operations and management services are provided to B2M LP through a service level agreement with Hydro One Networks Inc. These types of activities are subject to review through Hydro One Networks Inc.'s

¹ Filing Requirements For Electricity Transmission Applications Chapter 2 Revenue Requirement Applications, February 11, 2016

external benchmarking evidence provided in its transmission rate applications.

Questions:

- a) Please confirm that B2M LP is stating that, as its operations and management are provided by Hydro One Networks' Transmission staff, B2M LP's cost and operational performance would be the same as for Hydro One Networks' Transmission's operations, if it was benchmarked against a comparator group of electricity transmitters.
- b) Hydro One Networks' Transmission total costs are being benchmarked against a sample of U.S. transmitters in the current Custom IR application for the 2020-2022 period.² Hydro One Networks has filed evidence on its Total Factor Productivity (TFP) and Total Cost Benchmarking, as prepared by Power Systems Engineering, Inc. (PSE). OEB staff have retained Pacific Economics Group Research LLP (PEG), who has also filed evidence on these matters, but based on its own analyses.

The TFP and Total Cost Benchmarking analyses are used as quantitative evidence in support of the base productivity (base X) and the stretch factor for incentive rate-setting plans like price caps and revenue caps, respectively. The base X should be set based on the sector productivity, or on a representative sample of the firms in the sector, not on the TFP of the one firm. The stretch factor is firm-specific, and this has been the OEB's approach in IRM since the 3rd Generation IRM for electricity distributors.³

Since B2M LP's operations and management is performed by Hydro One Networks' Transmission staff, please provide B2M LP's views on whether it would be appropriate to adopt the X and stretch factors as determined by the OEB as being appropriate for Hydro One Networks' Transmission Custom IR plan in EB-2019-0082.

- c) If B2M LP does not believe that the parameters that the OEB may set or approve for Hydro One Networks' Transmission should not apply to B2M LP, please explain and support the reasons.

² EB-2019-0082

³ EB-2007-0673

A-Staff-3

Ref: (1) Exhibit A, Tab 2, Schedule 2, page 4
(2) Exhibit A, Tab 3, Schedule 1, page 5

Preamble:

B2M LP states:

Protecting Customers: Exhibit A, Tab 4, Schedule 1 outlines B2M LP's proposed Earnings Sharing Mechanism which shares the benefit of productivity improvements with customers during the term and provides rate payers with protection from utility earnings that may exceed proposed levels.

Question:

- a) The Earnings Sharing Mechanism (ESM) will provide some level of protection against excessive over-earnings (i.e., above the 100 b.p. threshold), and productivity improvements may be an underlying factor for the occurrence of the over-earnings. However, the ESM would not apply outside of this situation. With B2M LP's proposed X-factor (of a base X and stretch) of 0%, B2M LP is proposing that no realized productivity improvements are shared with ratepayers during the term of the plan.

In line with the proposed revenue cap adjustment formula, please explain how the ESM "shares the benefit of productivity improvements with customers during the term [of the plan]".

A-Staff-4

Ref: (1) Exhibit A, Tab 3, Schedule 1, pages 8, 11, 12

Preamble:

At the above noted reference, a table has been provided showing B2M LP's 2019 and 2020 revenue requirements. This table is shown below.

Table 2 - Revenue Requirement (\$ Millions)

Components	2019¹	2020	Reference
OM&A	1.5	1.2	Exhibit F, Tab 1, Schedule 1
Depreciation	6.8	7.0	Exhibit F, Tab 5, Schedule 1
Income Taxes	0.8	1.0	Exhibit F, Tab 6, Schedule 1, Attachment 1
Return on Capital	23.4	26.6	Exhibit G, Tab 1, Schedule 1
Start-Up and Development Costs Recovery	1.9	0.0	Exhibit F, Tab 1, Schedule 1
Base Revenue Requirement	34.4	35.7	
Deduct External Revenues and Other ⁵	(1.6)	(0.1)	Exhibit H, Tab 1, Schedule 1
Rates Revenue Requirement	32.8	35.7	

Exhibit Reference: E-1-1, Table 1.

Questions:

- a) Table 2 above, provided on page 8, shows an increase in depreciation expense from \$6.8 million in 2019 to \$7.0 million in 2020. Please confirm that the increase in depreciation expense is primarily due to the replacement of defective insulators as described on pages 11-12.
- b) If there are other reasons for the change in depreciation expenses from 2019 to 2020, please explain (e.g. the new depreciation study).
- c) Please confirm that, with no capital expenditures or in-service capital additions forecast for the 2020-2024 period for replacement or growth, depreciation expense should remain constant at \$7.0 million per annum over the plan period.
- d) In the alternative, please explain.

A-Staff-5

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 5
 (2) Exhibit A, Tab 2, Schedule 2, page 2

Preamble:

On Exhibit A, Tab 3, Schedule 1, page 5, B2M LP states (in part):

- B2M LP's assets are new. As such they require lower OM&A in comparison to other transmitters and no forecast capital expenditures during the rate period;
- B2M LP's 2020 Test year OM&A is lower than 2015-2019 OEB-approved levels;
- B2M LP's only controllable costs are OM&A (there are no forecast capital expenditures) where productivity is normally realized. B2M LP's OM&A costs are a small fraction of the total costs and are significantly less than the non-controllable portion of its costs (Cost of Capital, Depreciation, Income Tax), which are market driven or determined by law. Cost efficiencies determined by the application of a Productivity and Stretch Factor similar to other transmitters would be effectively impossible to realize;

Also, on Exhibit A, Tab 2, Schedule 2, page 2, B2M LP states:

The assets owned by B2M LP are relatively new and approximately 90% of the line is less than ten years old. As such, B2M LP is not proposing any capital expenditure in this Application, and hence did not undertake a capital expenditure planning process, or participate in a regional planning process. B2M LP has not provided external cost benchmarking, justification for capital expenditures, or details on material investments as none are included in this Application.

Questions:

- a) Please confirm that, if B2M LP does not have any capital expenditures during the plan term, the average net fixed assets (NFA), and hence B2M LP's rate base decrease each year over the plan term.
- b) What percentage of B2M LP's revenue requirement is OM&A, as opposed to the capital-related revenue requirement (depreciation/amortization expense, cost of capital, associated taxes such as income-tax and capital-related taxes such as property tax)?
- c) Please confirm that, with no capital investments for growth or replacement, depreciation expense is fixed and not subject to an (inflation less productivity) increase each year. In this case, please explain the rationale for applying the I – 0% (inflation less 0%) adjustment to the depreciation expense portion, and the return on capital and associated taxes portions, of the revenue requirement.

- d) B2M LP's proposal for the revenue cap would apply the I – 0% adjustment to the whole revenue cap, even though it is only actually OM&A expenses, mostly incurred per the service agreement with Hydro One Networks, which are subject to inflation during the period. Further, since, with no capital expenditures, the rate base actually decreases each year, and the capital-related revenue requirement would also decrease, the actual increase on the capital-related revenue requirement, relative to what it would be under cost of service, is greater than inflation. Please provide B2M LP's views on why its revenue cap proposal is reasonable in light of its circumstances of no projected capex during the five year period and given that OM&A is a smaller proportion of its overall revenue requirement.
- e) Please provide a table showing the average net book value, the rate base, and the calculated capital-related revenue requirement for each year of the plan (i.e., as if B2M LP was on annual cost of service). For OM&A, calculate the OM&A assuming an average annual inflation increase of 1.8% (which is approximately the IPI annual percentage change since 2006). Please provide the annual revenue requirement for B2M LP for each year.
- f) Please explain whether, given a declining rate base, no projected capital expenditures, and operating expenses being a small percentage of the total revenue requirement, a rate freeze for the plan period of 2020-2024 would be sufficient to allow B2M LP to recover its allowed costs, including having an opportunity to earn its allowed return on capital, and to recover costs from Hydro One for operating services under the service agreement with B2M LP.

A-Staff-6

- Ref: (1) Exhibit A, Tab 3, Schedule 1, Page 2
(2) Exhibit B, Tab 1, Schedule 3, Attachment 1, Page 14, Table 4
(3) Exhibit B, Tab 1, Schedule 3, Attachment 1, Page 16, Table 5

Preamble:

The above noted first reference states the following:

A number of internal and external challenges will have to be managed over the Test Period. They include:

...c) Managing B2M LP's Right-of-Way vegetation maintenance program, taking into consideration the six-year vegetation cycle and the expected increase in forestry expenses during certain test years with greater work volumes, similar to the historical trend.

B2M LP's Revenue Cap IR Application, as proposed, will mitigate these challenges, maintain the Partnership's financial performance and ensure that B2M LP's assets are managed efficiently and effectively.

The above noted second reference and third reference also address the Right-of-Way.

Questions:

- a) Please clarify the challenges B2M LP faces in managing its Right-of-Way vegetation maintenance program.
- b) Why are these challenges specific to this Test Period?
- c) How is B2M LP proposing to manage these challenges?
- d) Please specify the costs of the Right-of-Way vegetation maintenance program and indicate where those costs are found in B2M LP's evidence.
- e) What is the basis of B2M LP's cost estimates for the Right-of-Way vegetation maintenance program?
- f) Please provide a timeline of the maintenance activities listed in the above noted second reference between 2015 and 2024.
- g) Analogous to the above noted third reference, please summarize, as applicable, the planned, actual and forecast spend (and variance) on the Right-of-Way vegetation maintenance program between 2015 and 2019 and planned spend between 2020 and 2024.

- h) What percentage of B2M LP's total 2020 proposed OM&A will be the Right-of-Way vegetation maintenance program?

A-Staff-7

Ref: (1) Exhibit A, Tab 3, Schedule 1, Page 5

Preamble:

At the above noted reference, B2M LP stated the following:

B2M LP's assets are new. As such they require lower OM&A in comparison to other transmitters and no forecast capital expenditures during the rate period.

Question:

- a) Please identify any initiatives considered and/or undertaken by B2M LP, including any analysis conducted, to optimize plans and activities from a cost perspective, for example, balancing cost levels of OM&A versus capital.

A-Staff-8

Ref: (1) Exhibit A, Tab 5, Schedule 1

Preamble:

The above noted reference provides a description of B2M LP and its structure.

Questions:

- a) Please confirm whether the B2M LP shareholder structure described in the above noted reference remains up to date. If not, please provide an update.
- b) Please summarize any key changes (if applicable) to the B2M LP shareholder structure and organizational structure since B2M LP's last cost of service application.⁴

⁴ EB-2015-0026

A-Staff-9

Ref: (1) Exhibit A, Tab 6, Schedule 2, Attachment 1, 2018 Financial Statements
(2) Exhibit C, Tab 2, Schedule 4, page 4. Appendix 2-BA

Preamble:

The fixed assets in B2M LP's 2018 audited financial statements and the Appendix 2-BA for the year end 2018 are below.

<u>2018 PP&E</u>	2018 AFS (\$M)	Appendix 2-BA (\$M)
Gross book value	526.446	547.7
Accumulated depreciation	28.977	50.1
Net book value	497.471	497.6

Question:

- a) Please explain and reconcile the differences.

A-Staff-10

Ref: (1) Exhibit A, Tab 6, Schedule 2, Attachment 1, 2018 Financial Statements

Preamble:

At the above noted reference, B2M LP has provided its audited financial statements.

Questions:

- a) Please indicate whether B2M LP has any leases.
- b) If yes, please explain any regulatory impact from ASC 842 under USGAAP.

A-Staff-11

Ref: (1) Exhibit A, Tab 4, Schedule 1, Page 6

Preamble:

At the above noted reference, B2M LP stated that events that may necessitate the use of the Z-factor mechanism include items such as changes to IESO market rules.

Question:

- a) Given that the IESO is undertaking the Market Renewal Program to introduce fundamental reforms to the province's electricity markets, please explain any impacts that B2M LP may foresee at this time, including those on the proposed 2020 test year revenue requirement.

B-Staff-12

Ref: (1) Exhibit F, Tab 3, Schedule 1, Attachment 1
(2) Exhibit B, Tab 1, Schedule 3, Attachment 1
(3) Exhibit D, Tab 1, Schedule 1, Page 3, Table 1

Preamble:

The majority of B2M LP's OM&A services are provided by Hydro One Networks through a service level agreement. B2M LP is renewing its agreement with Hydro One Networks which is to be effective December 18, 2019, as per the first above noted reference.

At the second above noted reference, B2M LP indicates that it "[...] relies on HONI's asset management process to develop its plan [...]".

At the above noted third reference, B2M LP has provided a table of its performance measures.

Questions:

- a) Please provide a brief overview of the Hydro One Networks' asset management process relied upon by B2M LP.
- b) How is B2M LP ensuring that the OM&A services provided to it by Hydro One Networks are appropriate and cost effective?

- c) B2M LP's OM&A cost per circuit km is provided in the above noted third reference. How does B2M LP's performance on this metric compare to other transmitters in Ontario?
- d) Please describe what would happen if the updated service level agreement does not become effective December 18, 2019 and any contingency plans that B2M LP may have.

B-Staff-13

Ref: (1) Exhibit A, Tab 3, Schedule 1, Page 5
(2) Exhibit B, Tab 1, Schedule 3, Attachment 1, Page 5

Preamble:

At the above noted first reference, B2M LP stated the following:

B2M LP's service level agreement integrates Hydro One Networks Inc.'s productivity improvements into B2M LP's maintenance operations.

At the above noted second reference, B2M LP stated the following:

The majority of B2M LP's OM&A services (accounting for approximately 75% of the 2020 forecast) are provided by HONI through a Service Level Agreement. The Agreement and the charges therefrom are in accordance with the Affiliate Relationships Code and are billed on the lower of cost and market price. Efficiencies gained by HONI are passed through to B2M LP. B2M LP's asset is a 500kV double circuit transmission line that is located directly adjacent to a comparable line owned by HONI. Given the proximity of the assets, there are meaningful efficiencies inherent in having one party, HONI, plan and perform the work on both lines simultaneously.

Questions:

- a) Please provide more detail regarding how the service level agreement integrates Hydro One Networks' productivity improvements into B2M LP's maintenance operations, also describing how efficiencies gained by Hydro One Networks are

passed through to B2M LP. How will continuous improvement/ efficiency gains benefit customers?

- b) Please confirm that B2M LP's statement in the above noted second reference that its service level agreement costs provided by Hydro One Networks is 75% of the 2020 test year OM&A or a different percentage.
 - i. If yes, please provide the calculation supporting the 75%.
 - ii. If no, please explain and quantify the correct percentage.

B-Staff-14

Ref: (1) Exhibit B, Tab 1, Schedule 1
(2) Exhibit B, Tab 1, Schedule 3, Attachment 1
(3) Exhibit C, Tab 1, Schedule 1
(4) Exhibit A, Tab 3, Schedule 1

Preamble:

As noted in the above references, B2M LP proposes to spend \$3 million on unplanned capital additions in 2019 to address defective insulators on the older section of its transmission line.

Questions:

- a) Please describe the consequence of premature and unpredictable failure of the insulators. Why do they need to be replaced before they fail?
- b) Please describe the need to replace the insulators from the perspective of B2M LP's reliability and safety standards obligations.
- c) Are there alternatives to replacing the insulators? If so, why is the proposed approach recommended?
- d) How many insulators will be replaced?
- e) When would the existing insulators that are being replaced otherwise have been replaced?

- f) What is the basis for the cost estimate for the insulator replacements? Why is the proposed amount a reasonable price to pay for the insulators?
- g) Does the estimate include a contingency? Please explain.
- h) What process will B2M LP follow to acquire the replacement insulators? Why is this process proposed over alternatives? How is B2M LP pursuing cost effectiveness in the acquisition of the new insulators?
- i) Do the insulators being replaced represent all of the insulators that have been identified as high risk, or are there others that have been identified as high risk but that are not being replaced? (i.e. is this it, or will there be more?)
- j) How will B2M LP ensure that the new insulators are installed cost effectively? Is there opportunity for coordinating the work with other work that may be taking place near the affected insulators?
- k) Please describe the key activities and schedule for replacing the insulators.

B-Staff-15

Ref: (1) Exhibit B, Tab 1, Schedule 3, Attachment 1
(2) Exhibit D, Tab 1, Schedule 1, Page 3, Table 1

Preamble:

At the above noted first reference, B2M LP has stated the following:

On behalf of B2M LP, HONI completes an annual investment planning process to establish a plan that appropriately reflects operational needs, while minimizing rate impacts. [...] B2M LP's 2020 to 2024 plan is an output of this asset management framework.

At the above noted second reference, B2M LP has provided a table of its performance measures.

Questions:

- a) How is B2M LP ensuring that the annual investment planning process conducted by Hydro One Networks results in cost effective outcomes for B2M LP facilities, including by controlling costs in relation to its proposed investments through appropriate optimization, prioritization and pacing of capital-related expenditures? What criteria does B2M LP use to assess the above?
- b) Please provide a summary of the how B2M LP's assets in particular were considered by Hydro One Networks in its recent annual investment planning activities. Please include a corresponding summary of any key conclusions related to B2M LP's assets and describe the methodology and criteria used to arrive at those conclusions.

B-Staff-16

Ref: (1) Exhibit B, Tab 1, Schedule 3, Attachment 1, page 12

Preamble:

At the above noted reference, B2M LP stated that the "...specific strategies related to overhead transmission line assets are outlined in detail in HONI's Transmission Rate Application (EB-2019-0082) in Exhibit B, Tab 1, Schedule 1, TSP Section 2.3.2."

Questions:

- a) Please provide a summary of how B2M LP's assets in particular were considered by Hydro One Networks in its asset lifecycle optimization activities. Please include a corresponding summary of any key conclusions related to B2M LP's assets and describe the methodology and criteria used to arrive at those conclusions.
- b) How does B2M LP maintain awareness of key Hydro One Networks' asset lifecycle optimization policies and practices as they relate to B2M LP's assets?
- c) How does B2M LP assess and ensure the appropriateness and cost effectiveness of Hydro One Networks' activities on behalf of B2M LP in these regards?

B-Staff-17

Ref: (1) Exhibit B, Tab 1, Schedule 3, Attachment 1, page 17

Preamble:

The above noted reference represents B2M LP's Transmission System Plan. In it, B2M LP indicates that "B2M LP is not anticipating the need for any planned capital spending over the five-year horizon."

Question:

- a) What are the key facts, methods of assessment and evaluation criteria which form the basis for B2M LP's conclusion that it does not anticipate the need for any planned capital spending over the five-year horizon?

C-Staff-18

Ref: (1) Exhibit C, Tab 1, Schedule 1, Table 4

Preamble:

At the above noted reference, B2M LP provided a table showing in-service capital additions from 2015 – 2020.

Questions:

- a) Please confirm that B2M LP uses the term "capital addition" interchangeably with the term "capital expenditure" throughout the evidence. If this is not the case, please explain.
- b) Please confirm that when the term "capital expenditures" is used, B2M LP has presented all information on the basis of capital additions and has not included work in process in its numbers. If this is not the case, please explain and indicate areas of the evidence that are impacted.

D-Staff-19

Ref: (1) Exhibit D, Tab 1, Schedule 1, Page 3, Table 1

Preamble:

At the above noted reference, B2M LP has provided a table of its performance measures. These measures indicate that B2M LP's average system availability improved between 2015 and 2017 and is projected to remain 100% in 2019 and 2020.

Questions:

- a) What are the key factors that drive good average system availability performance for B2M LP?
- b) What is B2M LP doing to maintain good average system availability performance?
- c) What led to the improvement in average system availability between 2015 and 2017?
- d) On what grounds does B2M LP anticipate continued good average system availability performance in 2019 and 2020?

D-Staff-20

Ref: (1) Exhibit D, Tab 1, Schedule 1, Page 1
(2) Exhibit D, Tab 1, Schedule 1, Page 2

Preamble:

At the above noted first reference, B2M LP stated the following:

In the B2M LP Transmission Cost of Service Application (EB-2015-0026); B2M LP proposed the tracking and annual reporting of four outcome measures:

- System Average Interruption Frequency;
- System Average Interruption Duration;

- Average System Availability; and
- NERC Vegetation Compliance.

In the Decision and Order, the OEB approved B2M LP's proposal and directed B2M LP to also report annually on the operations, maintenance and administration cost per kilometre of line as a measure to track B2M LP's continuous improvement in cost efficiency. The Decision and Order also stated that the OEB did not require B2M LP to file a draft scorecard at that time.

At the above noted second reference, B2M LP stated the following:

...The performance measures will be tracked annually, and the results of this tracking will be reported to the Board at the next proceeding...

OEB staff notes that the tracking and annual reporting of the above noted measures will be reported to the OEB. This tracking and reporting may result in B2M LP moving towards generating a draft scorecard.

Question:

- a) Regarding any draft scorecard, please indicate how B2M LP has complied with the current OEB scorecard requirements, including the OEB's *Renewed Regulatory Framework and Report of the Board Performance Measurement for Electricity Distributors: A Scorecard Approach*.⁵
- b) Please provide B2M LP's draft scorecard, if available.

D-Staff-21

Ref: (1) Exhibit D, Tab 1, Schedule 1, Page 1 & 2

Preamble:

At the above noted reference, B2M LP stated the following:

⁵ EB-2010-0379, *Report of the Board Performance Measurement for Electricity Distributors: A Scorecard Approach*, March 5, 2014

Given the nature of B2M LP's assets, the performance of the equipment does not lend itself to applying the typical measures that might be in place for other transmitters. B2M LP's assets consist solely of a single 500kV double circuit transmission line (circuits B560M and B561V) between the Bruce Nuclear Power Development and the Milton Switching Station, but does not include any terminal breakers or other operable assets, as the demarcation point of each of the circuits is at a tower outside of the station, as noted in Exhibit B, Tab 1, Schedule 1. B2M LP does not have any customer delivery points (or meter assets), which are the basis of interruption-based reliability performance measures like SAIDI and SAIFI. In addition to these operating characteristics, the life-cycle portfolio also detracts from meaningful comparisons. B2M LP's single transmission line is relatively new; whereas other transmitters own a portfolio of assets that traverse the various stages of asset life.

Therefore, B2M LP's performance measures do not readily provide meaningful comparisons to those of other transmitters. On this basis, B2M LP proposes that System Average Interruption Frequency and System Average Interruption Duration no longer be measured. Furthermore, B2M LP has no customers, so no Customer Focus measures have been proposed.

Questions:

- a) Please explain why the elimination of B2M LP's System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) performance measures is appropriate given that even though there is no supply delivered to a specific customer, B2M LP's single transmission asset would still go through periods of interruptions.
- b) Please describe how B2M LP will proactively track and report customer focus performance measures on a timely basis, in the event that it obtains directly served customers.

F-Staff-22

Ref: (1) Exhibit F, Tab 2, Schedule 1, Page 1, Table 1
(2) Exhibit A, Tab 3, Schedule 1, Page 15 & 16

Preamble:

At the above noted first reference, B2M LP provided a summary of its OM&A as follows:

Table 1 - Summary of OM&A (\$ Millions)

Description	Historical								Bridge	Test	
	2015		2016		2017		2018		2019	2020	
	Plan	Act	Plan	Act	Plan	Act	Plan	Act	Plan	Frcst	
Service Level Agreement Costs	0.9	0.7	0.8	0.8	0.8	1.0	2.0	1.1	0.8	0.7	0.7
Incremental Expenses	0.9	0.4	0.4	0.3	0.5	0.3	0.4	0.3	0.7	0.7	0.4
Total OM&A	1.8	1.1	1.2	1.1	1.2	1.3	2.4	1.4	1.5	1.3	1.2

At the above noted second reference, B2M LP stated the following:

Over the 2015 to 2019 period, the OM&A spending has generally been on plan. The two exceptions are:

- i. 2015, which saw spending below plan by about \$0.7 million, resulting from lower than anticipated Operating Services costs and lower than anticipated Incremental expenses (including Regulatory and Advisory Committee expenses) as discussed below; and
- ii. 2018, which saw spending below plan by about \$1.0 million, due mainly to variances in the Service Level Agreement costs.

OEB staff notes that regarding the “Service Level Agreement Costs” component of OM&A in the above table, the actual amounts for the years 2015 and 2018, as well as the forecasted amount for 2019, are less than the “Plan” amounts for each respective year. In particular, the 2018 actual amount of \$1.1 million is 45.0% less than the Plan amount of \$2.0 million.

OEB staff notes that regarding the “Incremental Expenses” component of OM&A in the above table, the actual amounts for the years 2015, 2016, 2017, and 2018 are less than the “Plan” amounts for each respective year. In particular, the 2015 actual amount of \$0.4 million is 55.6% less than the Plan amount of \$0.9 million.

Questions:

- a) Also considering what B2M LP stated in the above noted second reference, please discuss whether or not B2M LP’s ability to remain below the OEB-approved Plan funding envelopes, as compared to actual spending in certain

years, would reasonably raise concerns that it may be over-forecasting OM&A requirements in the current application 2020 test year.

- b) Considering what B2M LP stated in the above noted second reference regarding 2015 and 2018 spending, please articulate the steps that B2M LP has taken to ensure that going forward there are not any significant variances between Plan and actual with respect to both:
- i. Service level agreement expenses
 - ii. Incremental expenses

F-Staff-23

Ref: (1) Exhibit F, Tab 2, Schedule 1, Table 2

Preamble:

At the above noted reference, B2M LP provided its service level agreement Operations and Maintenance Expenses, however, no breakdown was provided between Operations and Maintenance Expenses.

Question:

- a) Please generate a revised Table 2 which shows a breakdown provided between Service Level Agreement Operations and Maintenance Expenses.

F-Staff-24

Ref: (1) Exhibit A, Tab 2, Schedule 2, Page 3
(2) Exhibit F, Tab 3, Schedule 1, Page 2, Table 1
(3) Exhibit F, Tab 3, Schedule 1, Attachment 1

Preamble:

At the above noted first reference, B2M LP stated the following:

Operations and management services are provided to B2M LP through a service level agreement with Hydro One Networks Inc.

At the above noted second reference, B2M LP provided a table that shows a description of the services contained in the service level agreement from 2020 to 2024.

At the above noted third reference and as noted in the Exhibit List (i.e. Table of Contents) in this application, B2M LP has provided a revised service level agreement titled the “Renewed Draft of B2M-HONI Agreement for provision of Operating and Mgmt Services.”

Questions:

- a) Please provide a copy of the service level agreement presented in B2M LP’s last cost of service proceeding.⁶
- b) Please confirm that other than the updated service level agreement filed in conjunction with this application that will be effective December 2019, there have been no additional service level agreements generated since the filing of B2M LP’s previous cost of service application.⁷ If this is not the case, please explain and provide a copy of any additional service level agreements that have been generated since then.
- c) Please confirm that the “draft” version of the service level agreement provided at the above noted third reference is now “final” and is underlying the current application. If this is not the case, please provide an updated service level agreement and explain.
- d) Building on the table provided at the above noted second reference, please:
 - i. Provide a table summarizing and comparing the key components of the service level agreement underlying the current application with that filed in B2M LP’s previous cost of service application,⁸ and any other service level agreements filed since then, if applicable.

⁶ EB-2015-0026

⁷ EB-2015-0026

⁸ EB-2015-0026

- ii. Include an explanation for any changes between the components in the service level agreement underlying the current application and those in previous service level agreements.
- iii. Describe whether and how any changes were made that would materially impact the 2020 test year revenue requirement.

F-Staff-25

Ref: (1) Exhibit F, Tab 2, Schedule 1
(2) Exhibit A, Tab 2, Schedule 2, Page 3

Preamble:

At the above noted first reference, B2M LP stated the following:

The partnership has one employee, the Managing Director, who is empowered to oversee and operate the partnership.

At the above noted second reference, B2M LP stated the following:

B2M LP has no employees. Operations and management services are provided by Hydro One by a service level agreement...

However, OEB staff notes that no detail regarding compensation are provided.

Question:

- a) Please provide more detail as to how B2M LP controls and manages the compensation costs it ultimately pays through the service level agreement with Hydro One Networks.
- b) Please confirm that B2M LP has one employee, the Managing Director, which is contradictory to its statement at the above noted second reference that B2M LP has no employees. If B2M LP does in fact have zero employees, please explain.

F-Staff-26

Ref: (1) Exhibit F, Tab 3, Schedule 1, Page 3
(2) Exhibit F, Tab 2, Schedule 1, Page 3, Table 2

Preamble:

At the above noted first reference, B2M LP described the fees paid to Hydro One Networks, as follows:

Pursuant to the ARC, where a utility provides a service, resource product or use of an asset to an affiliate, the utility shall charge no less than the greater of (i) the market price of that service, product, resource or use of asset, and (ii) the utility's fully-allocated cost to provide that service, product, resource or use of asset. In purchasing a service, resource, product or use of an asset from an affiliate, a utility shall pay no more than the market price for that service, product, resource or use of asset. Where no market exists, a utility shall charge no less than its fully-allocated cost to provide the service, product, resource or use of asset, and shall pay no more than the affiliate's fully-allocated cost to provide the service, product, resource or use of asset. The level of costs for B2M LP's services was determined in accordance with the principles above.

At the above noted second reference, B2M LP has provided a table of its service level agreement costs.

Questions:

- a) Please provide a table showing fees payable by B2M LP for services received from Hydro One Networks on a historical basis from 2015 to 2018, and on a forecasted basis from 2019 to 2024. This table should be broken down by Maintenance Services, Operations Services, and Administrative and Corporate Services.
- b) Regarding the amounts requested in part a) of this interrogatory, please provide a table which shows the amounts paid to Hydro One Networks, the amounts shown at the above noted second reference, the amounts that were embedded in previously OEB-approved rates, and the differences. Please explain the differences.

- c) Regarding the amounts requested in part a) of this interrogatory, please provide the proportion of costs determined under the market price or under the fully allocated cost criteria.

F-Staff-27

Ref: (1) Exhibit F, Tab 3, Schedule 1, Page 4

Preamble:

At the above noted reference, B2M LP stated the following regarding its budgeted costs that are to be provided by Hydro One Networks:

If HONI becomes aware that the costs of services for the current fiscal year may exceed the Budget by 5% or more, HONI must promptly notify HOIP of such anticipated budget overrun and provide HOIP with a proposed amendment to the Budget.

Questions:

- a) Please quantify and explain any situations where the costs of services for a fiscal year exceeded the budget by 5% or more.
- b) Please quantify and explain the impacts of any overruns of budgeted costs as described in part a) of this interrogatory on both historical and forecasted OM&A, including any impacts on the 2020 test year revenue requirement.

F-Staff-28

Ref: (1) Exhibit F, Tab 3, Schedule 1, Page 4 & 5

Preamble:

At the above noted reference, B2M LP stated the following regarding its dispute resolution procedures with Hydro One Networks:

If the parties have a dispute under the agreement that cannot be resolved by a conference of their respective senior officers, a written notice outlining the specifics of the dispute will be passed to the parties' respective Presidents. Five business days after receipt of written notice, if the dispute remains unresolved, the matter is referred to arbitration for final resolution.

Questions:

- a) Please quantify and explain any disputes that were directed to be resolved by the respective senior officers, including the outcome.
- b) Please quantify and explain the impacts of the disputes identified in part a) of this interrogatory on both historical and forecasted OM&A, including any impacts on the 2020 test year revenue requirement.

F-Staff-29

Ref: (1) Exhibit F, Tab 2, Schedule 1
(2) Exhibit A, Tab 2, Schedule 2, Page 3

Preamble:

At the above noted first reference, B2M LP stated the following:

The partnership has one employee, the Managing Director, who is empowered to oversee and operate the partnership.

At the above noted second reference, B2M LP stated the following:

Operations and management services are provided to B2M LP through a service level agreement with Hydro One Networks Inc.

Although B2M LP has only one employee and B2M LP pays for the service of "virtual" employees with a service level agreement with Hydro One Networks, more evidence is required regarding B2M LP's "virtual" executive compensation and board of director costs. Specifically, more evidence is required regarding B2M LP's compliance with the Ontario provincial government's Bill 2 (i.e. Schedule 1 of Bill 2 is *the Hydro One*

Accountability Act, 2018),⁹ February 21, 2019 Directive, and the Hydro One Networks Distribution March 7, 2019 decision and order.¹⁰

Question:

- a) Please clarify and explain whether B2M LP's executive compensation and board of directors costs are in compliance with Bill 2, the February 21, 2019 Directive, and the Hydro One Networks Distribution March 7, 2019 decision and order.¹¹

F-Staff-30

Ref: (1) B2M_Exhibit_A-02-02-01_20190731.XLSX, cell D164
(2) B2M_Exhibit_A-02-02-01_20190731.XLSX, cell D165, D166, D167

Preamble:

At the first above noted reference, B2M LP indicated that its employee complement, compensation and benefits are not applicable.

At the second above noted reference, B2M LP indicated that outcomes of plans and changes to headcount and compensation, as well as associated explanations, are not applicable.

However, OEB staff notes that B2M LP has "virtual" employees through its service level agreement with Hydro One Networks.

Questions:

- a) Please explain why B2M LP is of the view that its employee complement, compensation and benefits are not applicable in this application, including those of any "virtual" employees.
- b) Although B2M LP has only one employee and B2M LP pays for the service of "virtual" employees with a service level agreement with Hydro One Networks, more evidence is required regarding the "virtual" headcount and compensation:

⁹ *The Urgent Priorities Act, 2018*

¹⁰ EB-2017-0049

¹¹ EB-2017-0049

- i. Please provide more detail regarding the underlying employee complement, compensation and benefits.
- ii. Please provide a discussion of the outcomes of previous plans and how those outcomes have impacted their proposed plans including an explanation of the reasons for all material changes to headcount and compensation.
- iii. Please provide an explanation for historic, bridge, and test years including:
 - a) Year over year variances
 - b) Basis for performance pay, eligible employee groups, goals, measures and review process for pay-for-performance plans
 - c) Benchmarking studies
- iv. Please provide more detail regarding employee benefit programs including pensions.

F-Staff-31

Ref: (1) B2M_Exhibit_A-02-02-01_20190731.XLSX, cell D162
(2) B2M_Exhibit_A-02-02-01_20190731.XLSX, cell D169
(3) Exhibit F, Tab 2, Schedule 1, Page 6

Preamble:

At the above noted first reference, B2M LP indicated that shared services and the purchase of non-affiliate services are not applicable to B2M LP.

At the above noted second reference, B2M LP indicated that shared services are applicable to B2M LP.

At the above noted third reference, B2M LP indicated that it incurs non-affiliate services such as auditor and professional fees.

Questions:

- a) Please clarify and explain why B2M LP is of the view that shared services is both applicable and non-applicable in this application.
- b) Please confirm that B2M LP's only shared services are conducted with a service level agreement with Hydro One Networks. If this is not the case, please explain.
- c) Please explain why B2M LP is of the view that the purchase of non-affiliate services are both applicable and not applicable in this application, as it also indicated that it incurs charges such as auditor and professional fees.
- d) Please provide more detail regarding the purchase of non-affiliate services.
- e) Please discuss how it is determined which services will be undertaken by Hydro One Networks via the service level agreement and which will be acquired through non-affiliates, including the determination of which option is most cost effective.
- f) For any material transactions that are not in compliance with B2M LP's procurement policy, or that were undertaken pursuant to exceptions contemplated within the policy, please provide an explanation as to why this was the case, as well as the following information for these transactions:
 - i. A summary of the nature and cost of the product or service that is the subject of the transaction.
 - ii. A description of the specific methodology used for selecting the vendor, including a summary of the tendering process/cost approach, etc.

F-Staff-32

Ref: (1) Exhibit F, Tab 5, Schedule 1, Page 2, Table 1
(2) Exhibit C, Tab 1, Schedule 1, Page 4, Table 4

Preamble:

At the above noted first reference, B2M LP has provided the following table showing depreciation expense:

Table 1 - B2MLP Depreciation Expense (\$ Million)

Description	Historical				Bridge	Test
	2015	2016	2017	2018	2019	2020
Depreciation On Fixed Assets	7.2	7.2	7.2	7.2	7.2	7.0
Less Capitalized Depreciation	-	-	-	-	-	-
Asset Removal Costs	-	-	-	-	-	-
Losses/(Gains) On Asset Disposition	-	-	-	-	-	-
Total	7.2	7.2	7.2	7.2	7.2	7.0

At the above noted second reference, B2M LP has provided the following table showing capital additions:

Table 4 - In-Service Capital Additions 2015 – 2020 (\$ millions)

	Historical												Bridge			Test
	2015			2016			2017			2018			2019			2020
	Actual	Plan	Var*	Actual	Plan	Var*	Actual	Plan	Var*	Actual	Plan	Var*	Actual	Plan	Var*	Plan
System Access	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
System Renewal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	3.0	0.0
System Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Plant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	3.0	0.0

*Var: Variance

Question:

- a) Given that the depreciation funding is relatively linear and the capital spending is generally zero from year to year, there is not a 1:1 correspondence between these parameters. Please provide a table showing the annual delta between depreciation funding and capital spending for each historical and forecast year over the plan period (2015-2024).

F-Staff-33

Ref: (1) Exhibit F, Tab 5, Schedule 1

Preamble:

B2M LP has revised its depreciation rates for 2020 to align with Hydro One Networks Transmission's depreciation study.

Questions:

- a) Please explain whether B2M LP has changed its depreciation policy since its last cost of service application besides the change in rates.
- b) It is stated that "...there is no need to maintain unique B2M LP depreciation rates". Please explain why B2M LP believes that the Hydro One Networks Transmission depreciation study is applicable to its assets and why there is no need to maintain unique B2M LP depreciation rates.

F-Staff-34

Ref: (1) Exhibit F, Tab 5, Schedule 1, Attachment 1, 2017 Depreciation Rate Review
(2) Exhibit F, Tab 5, Schedule 1, Attachment 2, Depreciation Continuity Schedule

Preamble:

At the above noted references, B2M LP has provided some evidence related to depreciation.

Questions:

- a) Please provide a breakdown of the depreciation schedule by asset account.
- b) Please also reconcile the 2020 depreciation rate of 1.3% in B2M LP's depreciation continuity schedule to the depreciation rates shown on page 20 of Hydro One Transmission's 2017 Depreciation Rate Review.

F-Staff-35

Ref: (1) Exhibit F, Tab 6, Schedule 1, Attachment 1, pages 1-4
 (2) Exhibit A, Tab 5, Schedule 1, page 3

Preamble:

The allocation percentage of taxable income and income for the corporate minimum tax calculation to the partners do not seem agree to that in Exhibit A, the allocations are shown in the table below. The difference in the allocation affects the tax expense calculation as HOIP has a 26.5% tax rate while SON does not pay taxes.

	Allocation % from Exhibit A	Allocation % of Taxable Income from Exhibit F	Allocation % of Income for Corporate Minimum Tax Calculation from Exhibit F
HOIP	65.70%	71.24%	67.51%
Hydro One B2M	0.10%	0.17%	0.11%
SON	34.20%	28.60%	32.38%

Question:

- a) Please explain the difference in the allocation of taxable income and revise the tax expense calculation as necessary.

F-Staff-36

Ref: (1) Exhibit F, Tab 6, Schedule 1

Preamble:

At the above noted reference, B2M LP has provided details regarding taxes.

Questions:

- a) B2M LP's tax status has not changed as a result of Hydro One's initial public offering. Please confirm that B2M LP and its partners' tax status have also not changed since its last transmission rate application for 2015 – 2019 rates.
- b) If not confirmed, please discuss the impacts of the change.

G-Staff-37

Ref: (1) Exhibit G, Tab 1, Schedule 1, Page 1
(2) Exhibit G, Tab 1, Schedule 1, Page 6

Preamble:

At the above noted first reference, B2M LP stated the following:

...B2M LP proposes a one-time update of the cost of long-term debt at the first annual update of rates for 2021, to reflect the actual market rate achieved on the long-term debt it will issue. In the alternative, if approval to update the long-term debt at the first annual update for rates in 2021 is not granted, B2M LP proposes to apply the forecast rate of 3.63% for new long term debt beginning in 2020 to determine the cost of debt during the five-year period.

At the above noted second reference, B2M LP stated the following:

B2M LP issued a five-year note in 2015 for the entire amount of its debt...

Questions:

- a) Please provide the promissory note supporting the five-year note issued in 2015.
- b) If any promissory notes have been generated since the filing of the current application, please provide a copy and update the evidence.
- c) Please describe in more detail the business decision that was made in 2015 to invest 100% of B2M LP's debt in a five-year note, instead of laddering the debt over the standard terms of 5, 10 and 30-years.

G-Staff-38

Ref: (1) Exhibit G, Tab 1, Schedule 1, Page 1
(2) Exhibit G, Tab 1, Schedule 1, Page 6
(3) *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*,¹²
December 11, 2009, page 51

Preamble:

At the above noted first reference, B2M LP stated the following:

...B2M LP proposes a one-time update of the cost of long-term debt at the first annual update of rates for 2021, to reflect the actual market rate achieved on the long-term debt it will issue. In the alternative, if approval to update the long-term debt at the first annual update for rates in 2021 is not granted, B2M LP proposes to apply the forecast rate of 3.63% for new long term debt beginning in 2020 to determine the cost of debt during the five-year period.

At the above noted second reference, B2M LP stated the following:

The long-term debt rate for 2020 is calculated as the weighted average cost rate on existing debt, which matures on April 30, 2020, and forecast debt planned to be issued in 2020. The proposed weighted average long-term debt rate for 2020 is 3.08%.

At the above noted third reference, the OEB's policy with respect to long-term debt for electricity transmitters is articulated:

...in a forward test year rate application the onus is on the applicant utility to forecast the amount and cost of new long-term debt. These values are then factored into the estimated cost of existing long-term debt for the purpose of setting...rates...

¹² EB-2009-0084

Questions:

- a) Please confirm that B2M LP is requesting a long-term debt rate of 3.63% for the rate years 2020 to 2024, for either of the following scenarios. If this is not the case, please explain.
 - a. Scenario #1 – the OEB approves B2M LP’s proposed one-time update of the cost of long-term debt for 2021 rates. This update would reflect the actual market rate achieved on the long-term debt it will issue. At this time, this anticipated rate is 3.63% which may be updated at the time the OEB approves B2M LP’s 2021 revenue requirement.
 - b. Scenario #2 – the OEB approves B2M LP’s alternate request to apply the forecast rate of 3.63% for new long-term debt beginning in 2020 rates.
- b) Please confirm that if the OEB does not approve either of the above-noted scenarios proposed by B2M LP, the applicant is requesting a long-term debt rate of 3.08% for the rate years 2020 to 2024. If this is not the case, please explain.
- c) Please confirm that the 3.08% long-term debt rate includes the impact of existing debt that is expected to mature April 30, 2020, whereas the 3.63% long-term debt rate excludes this impact.
- d) Please describe the basis that a 3.63% debt rate for 2020 rates is appropriate, as it does not include the impact of existing debt that is expected to mature April 30, 2020, and the exclusion of this impact contradicts the above noted OEB policy. The OEB policy articulates that the cost of existing long-term debt needs to be included.

H-Staff-39

Ref: (1) Exhibit H, Tab 1, Schedule 1, page 1
(2) Exhibit C, Tab 2, Schedule 4, page 5

Preamble:

B2M LP has Account 1592 to track differences from a legislative or regulatory change to the tax rates or rules compared to costs approved by the OEB as part of 2015 to 2019

transmission rates. In the July 25, 2019 letter regarding *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB indicated that it expected “Utilities to record the impacts of CCA rule changes in the appropriate account for the period November 21, 2018 until the effective date of the Utility’s next cost-based rate order.” B2M LP recognized a \$0 balance in Account 1592 as at December 31, 2018. Per Exhibit C, B2M LP will add \$3M of fixed assets in 2019.

Questions:

- a) Please explain whether B2M will implement accelerated CCA in 2019 for tax purposes. If not, please explain why not.
- b) Please explain whether the impacts of the CCA rule change on the \$3 million addition will be included in Account 1592 in 2019. If not, please explain why not.
- c) B2M LP forecasted \$0 capital additions from 2020 to 2024 and therefore, there will be no accelerated CCA to apply to new additions. However, does B2M LP plan to implement accelerated CCA for tax purposes if there are capital additions in the next five years?

H-Staff-40

Ref: (1) Exhibit H, Tab 1, Schedule 1, page 4

Preamble:

B2M LP proposed the establishment of an earnings sharing mechanism account.

Questions:

- a) Please explain how B2M LP’s ROE will be calculated annually.
- b) It states that the “customer share of earnings will be adjusted for any tax impacts...”. Please clarify what these tax impacts are and what type of adjustments is expected.
- c) For the accounting order,

- i. Please revise the accounting order to include the definition of “over-earnings”, the 50/50 sharing mechanism, a description on how the ROE will be calculated and details on the proposed tax adjustment.
- ii. Please explain why a sub-account of Account 2435 is not used for carrying charges and why the debit is going to Account 4395 and not Account 6035 Other Interest Expense

I-Staff-41

Ref: (1) Exhibit I, Tab 4, Schedule 1, Attachment 2

Preamble:

At the above noted reference, B2M LP has proposed interim 2020 UTRs, spanning the period January 1, 2020 to December 31, 2020. However, these UTRs do not incorporate some inputs from the final 2019 UTRs approved by the OEB on July 25, 2019.¹³ For example, the following updates have not been included:

- The final OEB approved Hydro One SSM 2019 revenue requirement¹⁴
- The final OEB approved allocations to the rate pools

Question:

- a) Please provide an updated interim 2020 UTRs schedule that reflects the final 2019 UTRs approved by the OEB.

I-Staff-42

Ref: (1) Exhibit I, Tab 2, Schedule 1, Pages 4, Table 2
(2) Exhibit A, Tab 3, Schedule 1, Table 4

¹³ EB-2019-0164

¹⁴ EB-2018-0218

Preamble:

The above noted first reference shows a 1.6% increase in “Rates Revenue Requirement” between 2020 and 2021, followed by a 1.4% increase in subsequent years.

However, the above noted second reference shows a 1.4% increase in the revenue requirement between 2020 and 2021.

Questions:

- a) Please confirm whether the 1.6% increase shown in the above noted first reference should instead be 1.4%.
- b) If yes, please update the evidence as appropriate.
- c) If no, please explain.