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BY EMAIL

November 12, 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 Supplemental Interrogatories**

Ontario Energy Board File Number: EB-2019-0178

In accordance with Procedural Order No. 2, please find attached the OEB staff supplemental 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 November 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 Supplemental Interrogatories
November 12, 2019

OEB Staff-43 (Exhibit I, Tab 1, Schedule 43)

Ref: (1) Exhibit I, Tab 1, Schedule 4
(2) Exhibit I, Tab 1, Schedule 32

Preamble:

In part c) of Exhibit I, Tab 1, Schedule 4, B2M confirmed that the forecasted depreciation expense for each year of the plan from 2020 to 2024 is \$7 million, on the basis that B2M has no forecasted capital expenditures. In Exhibit I, Tab 1, Schedule 38, B2M declined to provide a table of depreciation expense, capital expenditures and the difference for each year of the plan for the period 2020-2024, on the basis that “[f]orecasted amounts for 2021-2024 are not provided as amounts for these years will be managed under the Revenue Cap framework.” B2M provided the following table for the period 2014 to 2020:

Year	2015	2016	2017	2018	2019	2020
Capital Spending	-	-	-	-	3.0	-
Depreciation	7.2	7.2	7.2	7.2	7.2	7.0
Delta	-7.2	-7.2	-7.2	-7.2	-4.2	-7.2

Question:

- a) Please confirm that the numbers shown are in millions of dollars.
- b) Please explain why the delta shown for 2020 is -7.2, with \$nil capital spending and \$7.0 depreciation expense.
- c) Please confirm the following expansion of the table provided in the response to Exhibit I, Tab 1, Schedule 32. OEB staff have entered the numbers shown in italics. In the alternative, please explain any changes.

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Spending	-	-	-	-	3.0	-	-	-	-	-
Depreciation	7.2	7.2	7.2	7.2	7.2	7.0	7.0	7.0	7.0	7.0
Delta	-7.2	-7.2	-7.2	-7.2	-4.2	-7.0	-7.0	-7.0	-7.0	-7.0

OEB Staff-44 (Exhibit I, Tab 1, Schedule 44)

- Ref: (1) Exhibit I, Tab 1, Schedule 5
(2) [Letter from the OEB regarding the Cost of Capital Parameters for 2020](#)

Preamble:

In its response to part e) at the first above noted reference, B2M LP declined to provide the following requested information:

...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.

B2M declined the request on the basis that it “is inconsistent with the Revenue Cap framework.”

In its response to part f), B2M provided its explanation of why it believed that a rate freeze would be insufficient to meet its forecasted revenue requirement over the plan period, stating:

... freezing the 2019 rates revenue requirement will not allow B2M LP to recover its costs and earn its allowed return on capital. B2M LP forecasts that the incremental cost of debt will rise substantially (\$8.4M forecast for 2020 and \$10M forecast for 2021 versus \$5.5M for 2019). Moreover, pressures from the exhaustion of OCMT credits and the increased forestry spending also offset the lower capital costs due to a falling rate base over the rate period.

Question:

- a) With respect to part e) of Exhibit I, Tab 1, Schedule 5, please provide the opening, closing and average net fixed assets for each year of the plan from 2020 to 2024.
- b) With respect to part f) of Exhibit I, Tab 1, Schedule 5, please provide the following:

- i. Since OM&A expenses, for services provided by Hydro One staff under a Service Agreement, represent only 3.2% of B2M's revenue requirement, as shown in Table 1 of the response to part b) of Exhibit I, Tab 1, Schedule 5, please explain and quantify the “increased forestry spending” that B2M is forecasting over the plan period.
- ii. On October 31, 2019, the OEB issued a letter setting out the cost of capital parameters for 2020, with the deemed long-term debt rate being calculated at 3.21% in accordance with the OEB's cost of capital policies. Taking into consideration the response to OEB staff's supplemental interrogatory Exhibit I, Tab 1, Schedule 45, please explain the substantial increase in debt costs.
- iii. As necessary, please revise the response to Exhibit I, Tab 1, Schedule 5 f).

OEB Staff-45 (Exhibit I, Tab 1, Schedule 45)

- Ref: (1) Exhibit G, Tab 1, Schedule 1
 (2) Exhibit I, Tab 1, Schedule 38
 (3) [Letter from the OEB regarding the Cost of Capital Parameters for 2020](#), issued October 31, 2019

Preamble:

On page 4 of Exhibit G, Tab 1, Schedule 1, B2M states:

B2M LP will update the long-term debt rate for the 2020 Test year based on B2M LP's weighted average of its existing debt rate and the September 2019 Consensus Forecast, consistent with the proposed update of the return on common equity and deemed short term interest rate.

B2M has also requested that its revenue requirement be updated for 2021 reflecting its actual debt re-issuance scheduled to occur in 2020.

On October 31, 2019, the OEB issued its approved cost of capital parameters for rates effective in 2020, in accordance with the OEB's policies in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The OEB's letter set out the following cost of capital parameters for 2020:

Cost of Capital Parameter	Value for Applications for rate changes in 2020
ROE	8.52%
Deemed LT Debt rate	3.21%
Deemed ST Debt rate	2.75%

The deemed LT (long-term) debt rate represents long-term or 30-year bond rate for a low-risk utility with a credit rating of A or higher. The deemed ST (short-term) rate represents a short-term, 3-month rate that a commercial bank would lend money at with a preferred and low-risk commercial customer.¹

The OEB, in its Handbook of Utility Rate Applications, states the following:²

Utilities have the opportunity to recover their cost of capital through their rates. The OEB sets the cost of capital using a formula-based approach, which has streamlined the regulatory process considerably.²⁴ The same approach is used for all utilities, and the results are predictable, stable and fully transparent. The general expectation is that the cost of capital parameters will remain unchanged throughout the rate-setting term, typically 5-years.

24 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009 and OEB Staff Report: Review of the Cost of Capital for Ontario's Regulated Utilities, January 14, 2016 and associated OEB cover letter.

Question:

- a) Please explain how B2M is proposing to update its 2020 long-term debt rate as documented above, and what specific information from Consensus Forecasts B2M is intending to use.
- b) In its evidence, B2M has documented that its forecast for the rate for the debt to be renewed on April 30, 2020 is 3.63%. This is well above the 3.21% deemed long-term debt rate that the OEB has calculated as being applicable for 2020, and is also well above B2M's existing cost of long-term debt at 3.08%.
 - i. B2M documents that its existing debt has a five year maturity.³ What is the expected maturity for the replacement debt to be issued April 30, 2020?
 - ii. Please provide an updated forecasted long-term debt rate for the replacement debt based on current market conditions. If B2M believes that the rate it forecasts will exceed the 3.21% deemed long-term debt rate issued by the

¹ Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (EB-2009-0084), December 11, 2009, Appendices C and D

² Handbook of Utility Rate Applications, October 13, 2016, Appendix 2, p. iii

³ Exhibit G1, Tab 1, Schedule 1, p. 1

OEB and calculated in accordance with the OEB's cost of capital policy,⁴ please provide a detailed explanation for its debt rate forecast.

- c) Since the cost of capital parameters are not changed during an IRM plan (e.g., price cap or revenue cap), please explain how B2M's proposals to update the long-term debt rate, and hence the cost of capital, in its revenue requirement for 2020 and 2021 outside of the revenue cap formula, are not "inconsistent with the Revenue Cap framework."⁵
- d) Please update Table 1, shown on page 2 of Exhibit G, Tab 1, Schedule 1, to reflect the OEB's 2020 cost of capital letter of October 31, 2019 and responses to the supplemental interrogatories.
- e) Please update Table 2 of Exhibit A, Tab 3, Schedule 1 and Table 1 of Exhibit I, Tab 1, Schedule 5 to reflect the updated cost of capital parameters.

OEB Staff-46 (Exhibit I, Tab 1, Schedule 46)

Ref: Exhibit I, Tab 1, Schedule 36

Preamble:

The response at the above noted reference states that the fair market revaluation of the partnership units upon entering the federal tax regime only affected the tax basis of HOIP's partnership investment in B2M LP and thus, it has no impact on the underlying assets of B2M LP. B2M LP's taxable income is allocated to the partners and taxed at the partner level. B2M LP has included the partner's tax from its allocated income for recovery in the revenue requirement.

Question:

- a) Please explain if there is any future tax deduction/benefit that HOIP and Hydro One B2M LP Inc. realized as a result of Hydro One's IPO (and/or asset revaluation) that HOIP/Hydro One B2M LP Inc. is recognizing on its actual tax return(s) but is not proposing to include in its calculation of regulatory taxes as part of B2M's revenue requirement in the current application.
- b) If the response to part a) is yes,

⁴ [Report of the Board on the Cost of Capital for Ontario's Regulated Utilities](#) (EB-2009-0084), December 11, 2009

⁵ Exhibit I, Tab 1, Schedule 5, part e)

- i. Please explain what this tax deduction/benefit is and quantify the amount.
 - ii. The tax basis of HOIP's partnership investment only affected the tax basis of HOIP'S investment in B2M LP, which would be for B2M LP's net assets. Please explain why this fair market value bump and any resulting tax benefit should not flow into the calculation of B2M LP's regulatory taxes.
 - iii. Please explain how B2M LP's situation is different from that of Hydro One's distribution and transmission businesses where a portion of the future tax benefits from the fair market value bump that was triggered by Hydro One's recent IPO were to be shared with ratepayers.
- c) If the response to part a) is no, please explain how the fair market value bump impacts the actual tax return that HOIP/Hydro One B2M LP Inc. prepares annually.
 - d) Please explain whether the fair market value bump would have been attributable to B2M LP and its assets for regulatory purposes, ignoring the ownership structure of B2M LP (i.e. if B2M were a standard taxable corporation instead of a partnership).
 - e) Please explain whether HOIP and Hydro One B2M LP Inc. have other operations and assets besides owning B2M LP. If yes, please indicate the percentage of the B2M LP asset in comparison to total assets.
 - f) In its interrogatory response at Exhibit I, Tab 1, Schedule 36, B2M LP states that there is no change to the taxes payable at HOIP in the test years. Please explain whether there have been future tax savings generated at HOIP in the test years.

OEB Staff-47 (Exhibit I, Tab 1, Schedule 47)

Ref: Exhibit I, Tab 1, Schedule 40

Preamble:

The response at the above noted reference states that the calculation of ROE will use the OEB approved mid-year rate base for that period.

Question:

Please explain why it is using the OEB approved mid-year rate base and not actual mid-year rate base.