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Frank D'Andrea

Vice President, Regulatory Affairs

BY EMAIL, COURIER AND RESS

November 25, 2019

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

Dear Ms. Long,

EB-2019-0178 – B2M Limited Partnership’s 2020-2024 Transmission Revenue Cap IR Application – Responses to OEB Staff Supplemental Interrogatories

Please find attached B2M Limited Partnership (“B2M LP”)’s responses to supplementary interrogatories received from OEB Staff and dated November 12, 2019. The enclosed responses to supplementary interrogatories have been submitted electronically using the Board’s Regulatory Electronic Submission System. Two (2) hard copies will be sent to the Board.

As requested in the supplementary interrogatories, updates have been made (i) to reflect the OEB’s 2020 cost of capital letter of October 31, 2019; and (ii) to the forecasted cost of long-term debt. Updates have also been made to reflect that capital expenditures scheduled for 2019 have now been planned for 2020 due to re-scheduling of the outages necessary for the insulator replacements on B2M LP’s line.

Sincerely,

ORIGINAL SIGNED BY FRANK D’ANDREA

Frank D’Andrea
Submitting on behalf of B2M LP

OEB INTERROGATORY #43

Reference:

- (1) Exhibit I, Tab 1, Schedule 4
- (2) Exhibit I, Tab 1, Schedule 32

Interrogatory:

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

Witness: Joel Jodoin

1 **Response:**

2 a) Confirmed.

3
4 b) The delta shown for 2020 as -7.2 was a typographical error and should have stated
5 -7.0 as variance.

6
7 c) As noted in the interrogatory, forecasted amounts for 2021-2024 were not provided as
8 amounts for these years will be managed under the Revenue Cap framework. B2M
9 LP continues to believe that it is appropriate not to provide amounts for 2021-2024.
10 Moreover, the OEB's filing requirements for Electricity Transmission Applications
11 do not require this information. Despite the foregoing, B2M LP provides below the
12 information requested in this instance in order to assist in moving this proceeding
13 forward in an efficient manner.

14
15 B2M LP confirms that OEB Staff's expanded table was accurate, but it is no longer
16 accurate because the \$3 million in capital expenditures scheduled for 2019 is now
17 planned for 2020 due to re-scheduling of the outages necessary for the defective
18 insulator replacements on B2M LP's line. Please see below for an updated chart.

19

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	-7.2	-4.0	-7.0	-7.0	-7.0	-7.0

1 **OEB INTERROGATORY #44**

2
3 **Reference:**

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

6
7 **Interrogatory:**

8 **Preamble:**

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

11
12 *...a table showing the average net book value, the rate*
13 *base, and the calculated capital-related revenue*
14 *requirement for each year of the plan (i.e., as if B2M LP*
15 *was on annual cost of service). For OM&A, calculate the*
16 *OM&A assuming an average annual inflation increase of*
17 *1.8% (which is approximately the IPI annual percentage*
18 *change since 2006). Please provide the annual revenue*
19 *requirement for B2M LP for each year.*

20
21 B2M declined the request on the basis that it “is inconsistent with the Revenue Cap
22 framework.”

23
24 In its response to part f), B2M provided its explanation of why it believed that a rate
25 freeze would be insufficient to meet its forecasted revenue requirement over the plan
26 period, stating:

27
28 *... freezing the 2019 rates revenue requirement will not*
29 *allow B2M LP to recover its costs and earn its allowed*
30 *return on capital. B2M LP forecasts that the incremental*
31 *cost of debt will rise substantially (\$8.4M forecast for 2020*
32 *and \$10M forecast for 2021 versus \$5.5M for 2019).*
33 *Moreover, pressures from the exhaustion of OCMT credits*
34 *and the increased forestry spending also offset the lower*
35 *capital costs due to a falling rate base over the rate period.*

1 **Question:**

- 2 a) With respect to part e) of Exhibit I, Tab 1, Schedule 5, please provide the opening,
3 closing and average net fixed assets for each year of the plan from 2020 to 2024.
4
- 5 b) With respect to part f) of Exhibit I, Tab 1, Schedule 5, please provide the following:
- 6 i. Since OM&A expenses, for services provided by Hydro One staff under a Service
7 Agreement, represent only 3.2% of B2M's revenue requirement, as shown in
8 Table 1 of the response to part b) of Exhibit I, Tab 1, Schedule 5, please explain
9 and quantify the "increased forestry spending" that B2M is forecasting over the
10 plan period.
11
- 12 ii. On October 31, 2019, the OEB issued a letter setting out the cost of capital
13 parameters for 2020, with the deemed long-term debt rate being calculated at
14 3.21% in accordance with the OEB's cost of capital policies. Taking into
15 consideration the response to OEB staff's supplemental interrogatory Exhibit I,
16 Tab 1, Schedule 45, please explain the substantial increase in debt costs.
17
- 18 iii. As necessary, please revise the response to Exhibit I, Tab 1, Schedule 5 f).
19

20 **Response:**

- 21 a) B2M LP continues to submit that the request made in this interrogatory is inconsistent
22 with the Revenue Cap framework. However, B2M LP will provide the information
23 requested in this instance in order to assist in moving this proceeding forward in an
24 efficient manner. Please note that the tables below reflect the recent timing change to
25 capital expenditures described in answer to supplemental IR 43 c).

CONTINUITY OF PROPERTY, PLANT AND EQUIPMENT
Total – Gross Balances
(\$ Millions)

Line No.	Year	Opening Balance	Additions	Retirements	Sales	Transfers In/Out	Closing Balance	Average
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>Bridge</u>								
1	2019	547.7	0.0	0.0	0.0	0.0	547.7	547.7
<u>Test</u>								
2	2020	547.7	3.0	0.0	0.0	0.0	550.7	549.2
3	2021	550.7	0.0	0.0	0.0	0.0	550.7	550.7
4	2022	550.7	0.0	0.0	0.0	0.0	550.7	550.7
5	2023	550.7	0.0	0.0	0.0	0.0	550.7	550.7
6	2024	550.7	0.0	0.0	0.0	0.0	550.7	550.7

1
2

ACCUMULATED DEPRECIATION
(\$ Millions)

Line No.	Year	Opening Balance	Additions	Disposals	Closing Balance	Average
		(a)	(b)	(c)	(d)	(e)
<u>Bridge</u>						
1	2019	50.1	7.2	0.0	57.3	53.7
<u>Test</u>						
2	2020	57.3	7.0	0.0	64.3	60.8
3	2021	64.3	7.0	0.0	71.3	67.8
4	2022	71.3	7.0	0.0	78.3	74.8
5	2023	78.3	7.0	0.0	85.2	81.7
6	2024	85.2	7.0	0.0	92.2	88.7

3
4

5 b)

6 i. Following the construction of the B2M LP line, initial vegetation management
 7 costs were relatively low since the land had been cleared for construction. B2M
 8 LP's right of way is managed on a six year cycle (for Southern Ontario) with
 9 different sections of the line being cleared each year. Post-construction
 10 vegetation, especially brush, reasserts itself in the right of way and expenses to
 11 control this growth increase. The average annual spending on vegetation
 12 maintenance over the previous 5 years (2015-2019) was just under \$280k.¹ Over
 13 the proposed rate period (2020-2024), the average annual spending is expected to

¹ Interrogatory I-1-6 d)

Witness: Joel Jodoin, Samir Chhelavda

1 increase to over \$420k per year. As a result of the six year cycle for the forestry
2 work, the timing of work forecast in the 2020 test year is \$89k² which is
3 substantially lower than what is required over the test period. The shortfall
4 between the 2020 forecast forestry cost and forecast funding over the test period
5 will not be met by an inflation factor limited to OM&A which is why B2M LP's
6 Revenue Cap IR Application, as filed, will mitigate this cost challenge.

7

8 ii. As discussed in part (b) of the response to supplemental interrogatory Exhibit I,
9 Tab 1, Schedule 45, and consistent with lines 23 to 26 of Exhibit G, Tab 1,
10 Schedule 5, B2M LP is updating the long-term debt cost based on the September
11 2019 Consensus Forecast. Based on updated forecast rates B2M LP has calculated
12 the weighted average debt rate to be 2.59% for 2020 and the forecast new long-
13 term debt rate of 2.94% for 2021, which are below the 3.21% deemed long-term
14 debt rate issued by the OEB.

15

16 The updated rates are still a substantial increase over the existing 5 year debt
17 which has a coupon rate of 1.62%. As discussed in part (c) of Exhibit I, Tab 1,
18 Schedule 37, the 1.62% coupon rate for the debt issue in April 2015 had the
19 lowest Hydro One coupon rate ever at the time, over 1.0% lower than the next
20 lowest coupon rate of 2.78% on the 5 year debt Hydro One issued in October
21 2013. As discussed on lines 22 to 24, page 6, Exhibit G, Tab 1, Schedule 1, the
22 selection of the 5 year term has provided ratepayers with a substantial cost benefit
23 over the last five years.

24

25 iii. There is no need to revise I-1-5 f) as it has not materially changed.

² *Ibid*

OEB INTERROGATORY #45

Reference:

- (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

Interrogatory:

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

Witness: Joel Jodoin, Samir Chhelavda, Jeffrey Smith

1 represents a short-term, 3-month rate that a commercial bank would lend money at with a
2 preferred and low-risk commercial customer.¹

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

4
5 *Utilities have the opportunity to recover their cost of*
6 *capital through their rates. The OEB sets the cost of capital*
7 *using a formula-based approach, which has streamlined*
8 *the regulatory process considerably.²⁴ The same approach*
9 *is used for all utilities, and the results are predictable,*
10 *stable and fully transparent. The general expectation is that*
11 *the cost of capital parameters will remain unchanged*
12 *throughout the rate-setting term, typically 5-years.*

13
14 ²⁴ *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, December
15 11, 2009 and OEB Staff Report: Review of the Cost of Capital for Ontario's Regulated
16 Utilities, January 14, 2016 and associated OEB cover letter.
17

18 **Question:**

19 a) Please explain how B2M is proposing to update its 2020 long-term debt rate as
20 documented above, and what specific information from Consensus Forecasts B2M is
21 intending to use.

22
23 b) In its evidence, B2M has documented that its forecast for the rate for the debt to be
24 renewed on April 30, 2020 is 3.63%. This is well above the 3.21% deemed long-term
25 debt rate that the OEB has calculated as being applicable for 2020, and is also well
26 above B2M's existing cost of long-term debt at 3.08%.

27
28 i. B2M documents that its existing debt has a five year maturity.³ What is the
29 expected maturity for the replacement debt to be issued April 30, 2020?

30
31 ii. Please provide an updated forecasted long-term debt rate for the replacement debt
32 based on current market conditions. If B2M believes that the rate it forecasts will
33 exceed the 3.21% deemed long-term debt rate issued by the OEB and calculated

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

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

3

4 c) Since the cost of capital parameters are not changed during an IRM plan (e.g., price
5 cap or revenue cap), please explain how B2M's proposals to update the long-term
6 debt rate, and hence the cost of capital, in its revenue requirement for 2020 and 2021
7 outside of the revenue cap formula, are not "inconsistent with the Revenue Cap
8 framework."⁵

9

10 d) Please update Table 1, shown on page 2 of Exhibit G, Tab 1, Schedule 1, to reflect
11 the OEB's 2020 cost of capital letter of October 31, 2019 and responses to the
12 supplemental interrogatories.

13

14 e) Please update Table 2 of Exhibit A, Tab 3, Schedule 1 and Table 1 of Exhibit I, Tab
15 1, Schedule 5 to reflect the updated cost of capital parameters.

16

17 **Response:**

18 a) As discussed on lines 8 to 11, page 9 of Exhibit G, Tab 1 Schedule 1, B2M LP
19 assumes that, for rates effective January 1, 2020, the forecast interest rate for Hydro
20 One Inc.'s debt issues will be based on the September 2019 Consensus Forecasts and
21 the average of indicative new issue spreads for September 2019 that will be obtained
22 from the Hydro One Inc. MTN dealer group for each planned issuance term.

23

24 Below is an updated Table 4 from Exhibit G, Tab 1 Schedule 1

25

26 **Updated Table 4 - Forecast Yield for 2020 Issuance Terms – September 2019**

	2020		
	5-year	10-year	30-year
Government of Canada	1.52%	1.50%	1.70%
Hydro One Spread	0.80%	1.16%	1.61%
Forecast Hydro One Yield	2.33%	2.66%	3.31%

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)

1 Each rate comprises the forecast Government of Canada bond yield plus the Hydro
2 One Inc. credit spread applicable to that term. The ten-year Government of Canada
3 bond yield forecast for 2020 is based on the average of the three-month and 12-month
4 forecast from the September 2019 Consensus Forecast. The five-year Government of
5 Canada bond yield forecasts are derived by subtracting the September 2019 average
6 spreads (five-year to ten-year for the five-year forecast) from the ten-year
7 Government of Canada bond yield forecast. The thirty-year Government of Canada
8 bond yield forecasts are derived by adding the September 2019 average spreads (30-
9 year to ten-year for the 30-year forecast) to the ten-year Government of Canada bond
10 yield forecast. Hydro One's credit spreads over the Government of Canada bonds are
11 based on the average of indicative new issue spreads for September 2019 obtained
12 from the Company's MTN dealer group for each planned issuance term.

13

14 Based on updated forecast rates, B2M LP has calculated the weighted average debt
15 rate to be 2.59% for 2020 and the forecast new long-term debt rate of 2.94% for 2021.
16 Please refer to page 1 and 2 of Attachment 1 of this IR response for an update to
17 Exhibit G, Tab 1, Schedule 2.

18

19 b)

20 i. As discussed on lines 24 to 28 page 6 of Exhibit G, Tab 1 Schedule 1, for
21 planning purposes it is assumed that B2M LP's new debt issues will be distributed
22 evenly over the standard terms of 5, 10 and 30-years. These are the standard
23 maturity terms preferred by investors and represent the typical financing terms
24 that Hydro One Inc. utilizes to execute its financing strategy and raise required
25 funds. The actual term(s) of issuance will depend on market conditions and
26 investor receptiveness to particular terms at the time of issuance.

27

28 ii. Updated forecast debt rates based on September 2019 Consensus Forecast and
29 September 2019 data are provided in the updated Table 4 above in response to
30 part (a). Updated weighted average rates of 2.59% for 2020 and the forecast new
31 long-term debt rate of 2.94% for 2021 are below the 3.21% deemed long-term
32 debt rate issued by the OEB.

33

34 c) B2M LP notes that the OEB's Filing Requirements for Electricity Transmission
35 Applications dated February 11, 2016 state as follows at page 33:

1 *Applicants requesting multi-year revenue requirement*
2 *approvals must indicate whether they are proposing that*
3 *the cost of capital be updated annually or fixed for all test*
4 *years, and the reasons for that proposal.*
5

6 Therefore, it is not clear that a proposal to update cost of capital is inconsistent with
7 the Revenue Cap framework.
8

9 Irrespective of the foregoing, however, the update proposed by B2M LP serves to
10 ensure that the cost of debt in rates reflects the cost of debt incurred by B2M LP. As
11 discussed in part (c) of Exhibit I, Tab 1, Schedule 37, the 1.62% coupon rate for the
12 debt issue in April 2015 and expiring in 2020 had the lowest Hydro One coupon rate
13 ever at the time, over 1.0% lower than the next lowest coupon rate of 2.78% on the 5
14 year debt Hydro One issued in October 2013. As discussed on lines 22 to 24, page 6,
15 Exhibit G, Tab 1, Schedule 1, the selection of the 5 year term has provided ratepayers
16 with a substantial cost benefit over the last five years. However, the consequence of
17 this substantial cost benefit is that in 2020, 100% of B2M LP's debt must be re-
18 financed. This is an unusual circumstance and B2M LP's proposal to update the cost
19 of capital is, in B2M LP's submission, an equitable solution to ensure that the cost of
20 debt in rates reflects the cost of debt actually incurred by B2M LP.
21

22 d) Below is and updated Table 1, of Exhibit G, Tab 1, Schedule 1, to reflect the OEB's
23 2020 cost of capital letter of October 31, 2019 and responses to the supplemental
24 interrogatories. Please note that the table below also reflects the recent timing change
25 to capital expenditures described in answer to supplemental IR 43 c).
26
27

Updated Table 1 - 2020 Cost of Capital

2020				
Amount of Deemed Return	(\$M)	%	Cost Rate (%)	Return (\$M)
Long-term debt	273.5	56%	2.59%	7.1
Short-term debt	19.5	4%	2.75%	0.5
Common equity	195.4	40%	8.52%	16.6
Total	488.4	100%	4.97%	24.3

- 1 e) Table 2 of Exhibit A, Tab 3, Schedule 1 and Table 1 of Exhibit I, Tab 1, Schedule 5
2 have been updated to reflect the updated cost of capital parameters. Please note that
3 the tables below also reflect the recent timing change to capital expenditures
4 described in answer to supplemental IR 43 c).
5
6

Updated Table 2 of Exhibit A, Tab 3, Schedule 1

Components	2019	2020
OM&A	1.5	1.2
Depreciation	6.8	7.0
Income Taxes	0.8	0.8
Return on Capital	23.4	24.3
Start-Up and Development Costs Recovery	1.9	0.0
Base Revenue Requirement	34.4	33.2
Deduct External Revenues and Other ⁶	(1.6)	(0.1)
Rates Revenue Requirement	32.8	33.2

7
8

Updated Table 1 of Exhibit I, Tab 1, Schedule 5

	2020	
Operating, Maintenance & Administrative	1.2	3.5%
Depreciation	7.0	21.0%
Income taxes	0.8	2.6%
Return on capital	24.3	73.0%
Base revenue requirement	33.2	

⁶ B2M LP had a one-time over collection of revenue in 2018 of \$1.6 million. This was refunded in 2019.

Bruce to Milton Partnership
Cost of Long-Term Debt Capital
Test Year (2020)
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/2019 (\$Millions)	at 12/31/2020 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	30-Jun-15	1.640%	30-Apr-20	273.5	1.0	272.5	99.63	1.72%	273.5	0.0	84.2	1.4	
2	30-Apr-20	2.330%	30-Apr-25	91.2	0.5	90.7	99.50	2.44%	0.0	91.2	63.1	1.5	
3	30-Apr-20	2.660%	30-Apr-30	91.2	0.5	90.7	99.50	2.72%	0.0	91.2	63.1	1.7	
4	30-Apr-20	3.310%	30-Apr-50	91.2	0.5	90.7	99.50	3.34%	0.0	91.2	63.1	2.1	
5		Subtotal							273.5	273.5	273.5	6.8	
6		Treasury OM&A costs										0.1	
7		Other financing-related fees										0.2	
8		Total							273.5	273.5	273.5	7.1	2.59%

B2M LP
 Cost of Long-Term Debt Capital
 2021
 Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/2020 (\$Millions)	at 12/31/2021 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	30-Apr-20	2.330%	30-Apr-25	91.2	0.5	90.7	99.50	2.44%	91.2	91.2	91.2	2.2	
2	30-Apr-20	2.660%	30-Apr-30	91.2	0.5	90.7	99.50	2.72%	91.2	91.2	91.2	2.5	
3	30-Apr-20	3.310%	30-Apr-50	91.2	0.5	90.7	99.50	3.34%	91.2	91.2	91.2	3.0	
4		Subtotal							273.5	273.5	273.5	7.7	
5		Treasury OM&A costs										0.1	
6		Other financing-related fees										0.2	
7		Total							273.5	273.5	273.5	8.0	2.94%

1 **OEB INTERROGATORY #46**

2
3 **Reference:**

4 Exhibit I, Tab 1, Schedule 36

5
6 **Interrogatory:**

7 **Preamble:**

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

14
15 **Question:**

- 16 a) Please explain if there is any future tax deduction/benefit that HOIP and Hydro One
17 B2M LP Inc. realized as a result of Hydro One's IPO (and/or asset revaluation) that
18 HOIP/Hydro One B2M LP Inc. is recognizing on its actual tax return(s) but is not
19 proposing to include in its calculation of regulatory taxes as part of B2M's revenue
20 requirement in the current application.
- 21
- 22 b) If the response to part a) is yes,
- 23
- 24 i. Please explain what this tax deduction/benefit is and quantify the amount.
- 25
- 26 ii. The tax basis of HOIP's partnership investment only affected the tax basis of
27 HOIP'S investment in B2M LP, which would be for B2M LP's net assets. Please
28 explain why this fair market value bump and any resulting tax benefit should not
29 flow into the calculation of B2M LP's regulatory taxes.
- 30
- 31 iii. Please explain how B2M LP's situation is different from that of Hydro One's
32 distribution and transmission businesses where a portion of the future tax benefits
33 from the fair market value bump that was triggered by Hydro One's recent IPO
34 were to be shared with ratepayers.

- 1 c) If the response to part a) is no, please explain how the fair market value bump
2 impacts the actual tax return that HOIP/Hydro One B2M LP Inc. prepares annually.
3
4 d) Please explain whether the fair market value bump would have been attributable to
5 B2M LP and its assets for regulatory purposes, ignoring the ownership structure of
6 B2M LP (i.e. if B2M were a standard taxable corporation instead of a partnership).
7
8 e) Please explain whether HOIP and Hydro One B2M LP Inc. have other operations and
9 assets besides owning B2M LP. If yes, please indicate the percentage of the B2M LP
10 asset in comparison to total assets.
11
12 f) In its interrogatory response at Exhibit I, Tab 1, Schedule 36, B2M LP states that
13 there is no change to the taxes payable at HOIP in the test years. Please explain
14 whether there have been future tax savings generated at HOIP in the test years.
15

16 **Response:**

- 17 a) There are no future tax deduction/benefit that HOIP and Hydro One B2M LP Inc.
18 realized as a result of Hydro One's IPO (and/or asset revaluation) that HOIP/Hydro
19 One B2M LP Inc. recognized on its actual tax return(s).
20
21 b) Not applicable as the response to part a) is no.
22
23 c) The impact of Hydro One's IPO gave rise to an increase in the tax cost (adjusted cost
24 base) of the B2M Limited Partnership units held by HOIP and Hydro One B2M LP
25 Inc. Since the fair market value revaluation only affected the tax costs of HOIP and
26 Hydro One B2M LP Inc.'s B2M LP interests, until the partners dispose of their
27 respective interest, it does not impact the actual tax returns that HOIP/Hydro One
28 B2M LP Inc. prepares annually.
29
30 d) If B2M LP were a standard Taxable Corporation instead of a partnership for income
31 tax purposes prior to Hydro One's IPO, upon Hydro One's IPO, B2M LP would be
32 deemed to have disposed its assets at the fair market value and would have been
33 obligated to pay departure tax on the fair market value bump. Concurrently, B2M LP
34 would be deemed to have re-acquired the assets at fair market value which would lead
35 to an increase in the capital cost of the assets held by B2M LP equaled to the fair
36 market value bump. The fair market value bump would give rise to additional capital
37 cost allowance deduction in computing income tax for regulatory purposes.

- 1 e) Currently, HOIP has other operations/assets in addition to partnership units in B2M
2 LP. Hydro One B2M LP Inc. has no other operations or assets besides owning
3 partnership units in B2M LP. The percentage of the B2M LP assets held by HOIP and
4 Hydro One B2M LP Inc. in comparison to total assets (through owning partnership
5 units) is 99.99% and 100.00% respectively.
6
7 f) There have been no future tax savings generated at HOIP in the test years.

1 **OEB INTERROGATORY #47**
2

3 **Reference:**

4 Exhibit I, Tab 1, Schedule 40
5

6 **Interrogatory:**

7 **Preamble:**

8 The response at the above noted reference states that the calculation of ROE will use the
9 OEB approved mid-year rate base for that period.
10

11 **Question:**

12 Please explain why it is using the OEB approved mid-year rate base and not actual mid-
13 year rate base.
14

15 **Response:**

16 B2M LP will use the actual mid-year rate base.