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Vice President, Reliability Standards and Chief Regulatory Officer

BY EMAIL, COURIER AND RESS

January 6, 2020

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 – Settlement Proposal

Pursuant to Procedural Order No. 2 dated November 8, 2019, please find enclosed B2M Limited Partnership's ("B2M LP") settlement proposal to the Ontario Energy Board (the "Board"), in the form of a settlement agreement[1] between the parties who participated in the settlement conference held on December 9, 2019.

B2M LP notes that pursuant to the Board's letter dated December 4, 2019, OEB staff participated in the settlement conference as a party and is therefore a party to the enclosed settlement agreement. As a result, OEB staff has indicated that it will not be making a submission on the settlement proposal as originally contemplated in item 5 of Procedural Order No. 2, and the Board may proceed with adjudication upon receipt of this settlement proposal.

Please do not hesitate to contact us should you have any questions in regards to the foregoing.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea
Submitting on behalf of B2M LP

[1] The enclosed document is titled a "Settlement Agreement" as it is binding on the parties who have agreed to it; however, for clarity, B2M LP notes that it is a settlement proposal to the Board.

SETTLEMENT AGREEMENT

EB-2019-0178
B2M Limited Partnership
2020-2024 Revenue Requirement

January 6, 2020

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SETTLEMENT AGREEMENT

PREAMBLE:

This Settlement Agreement is filed with the Ontario Energy Board ("OEB") in connection with the application by B2M LP for an Order approving its proposed revenue requirement for the 2020 to 2024 period (the "Application").

B2M LP is a partnership between Hydro One Indigenous Partnerships GP Inc. and Hydro One B2M LP Inc. (both of which are affiliates of Hydro One Inc.), and Saugeen Ojibway Nation Finance Corporation, a corporation owned by, and the nominee of, the Chippewas of Saugeen First Nation and Chippewas of Nawash First Nation. SON FC owns 34% of B2M LP.

B2M LP owns a double-circuit, high-voltage transmission line operating at 500 kV. It runs for 176 km from just east of the Bruce Nuclear Power Development to just west of Hydro One Networks Inc.'s Milton Switching Station. On critical days B2M LP's transmission system is responsible for the delivery of over 3,000 MW of power, which is about 15% of Ontario's peak load.

Further to the OEB's Procedural Order No. 2 issued November 8, 2019, a Settlement Conference was held on December 9, 2019, with the assistance of a third-party neutral facilitator, in accordance with the OEB's *Rules of Practice and Procedure* and the OEB's *Practice Direction on Settlement Conferences.*

B2M LP and the following intervenors participated in the settlement conference: Vulnerable Energy Consumers Coalition ("VECC"), Power Workers' Union ("PWU"), and the Society of United Professionals ("SUP"). Ontario Energy Board Staff ("OEB Staff") also participated in the settlement conference and is a party to this Settlement Agreement.

Outlined below are the positions of the parties following the settlement conference. As all issues were settled, each issue is characterized as Settled. As a result, if the Settlement Agreement is accepted by the OEB, the parties will not adduce evidence on any issue, and submissions from parties will not be required. For the purpose of the settlement Parties used the draft issues list proposed by B2M LP in the Application.

This Settlement Agreement provides a brief description of each of the settled issues, together with references to the evidence filed. The supporting parties to each settled issue agree that the evidence in respect of that settled issue, as supplemented in some instances by additional information recorded in this Settlement Agreement, supports the proposed settlement. In addition, the supporting parties agree that the evidence filed in support of each settled issue and the additional information as recorded herein contains sufficient detail, rationale and quality of information to allow the OEB to approve the settlement reached.

The OEB's *Practice Direction on Settlement Conferences* (p. 4) states that participants in a settlement conference should bear in mind that where an issue that may be affected by external factors remains on the list of issues for settlement, parties must consider whether an adjustment mechanism is required. The parties consider that no settled issues require such an adjustment mechanism other than those expressly set forth in this settlement agreement.

None of the parties can withdraw from the Settlement Agreement except in accordance with Rule 30.05 of the OEB's *Rules of Practice and Procedure*.

Finally, unless stated otherwise, the settlement of any particular issue in this proceeding and the positions of the parties in this settlement agreement are without prejudice to the rights of parties to raise the same issue and/or to take any position thereon in any other proceedings, unless explicitly stated otherwise.

Consistent with the *Practice Direction on Settlement Conferences*, the parties understand and agree that all positions, negotiations and discussion of any kind whatsoever that took place during the Settlement Conference and all documents exchanged during the conference that were prepared to facilitate settlement discussions are strictly confidential, without prejudice and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Settlement Agreement.

It is fundamental to the agreement of the parties that no provision of this Settlement Agreement is severable. If the OEB does not accept the provisions of the Settlement Agreement in their entirety, there is no Settlement Agreement unless the parties agree to the contrary. In the event that the OEB directs the parties to make reasonable efforts to revise the Settlement Agreement, the parties agree to use reasonable efforts to discuss any potential revisions, but no party shall be obligated to accept any proposed revisions. The parties agree that all of the parties who took a position on a particular issue must agree with any revisions to the Settlement Agreement as they relate to that issue prior to its resubmission to the OEB.

OVERVIEW:

Parties reached agreement on all issues. Below is a summary of key aspects of B2M LP's Application and the agreed settlement:

Base revenue requirement: With the OEB's release of the 2020 capital cost parameters, B2M LP updated its test year 2020 base revenue requirement from $35.7 million to $33.2 million.

Revenue cap index: To establish the annual revenue requirement for each of 2021 to 2024, B2M LP proposed a Revenue Cap Index ("RCI") in which the revenue requirement for the Test year t+1 is equal to the revenue requirement in year t, inflated by the RCI. The RCI is expressed as: RCI = I – X, where "I" is the Inflation Factor, based on Hydro One Networks Inc.'s custom weighted two-factor input price index; and "X" is the Productivity Factor.

B2M LP proposed to adopt the RCI Inflation Factor ("I") parameter proposed by Hydro One Networks Inc. in its current transmission rates proceeding (EB-2019-0082), to be consistent with the transmission sector.

In the Application, B2M LP proposed a 0% Productivity Factor ("X") to be applied annually over the 2021 to 2024 period. The proposal also includes a 50% sharing of any earnings that exceed 100 basis points of the OEB approved return on equity in any year of the Revenue Cap IR term. B2M LP agreed in settlement to include a capital adjustment factor (the “Settlement Capital Adjustment Factor”) to account for B2M LP’s circumstances wherein the rate base of the company, and the resulting capital costs, generally decline over time. As a result, the parties agree that B2M LP will apply a Settlement Capital Adjustment Factor of 0.6%. The revenue cap index, as agreed to by the parties, will be equal to the proposed inflation factor minus the Settlement Capital Adjustment Factor.

With respect to the update in long term debt rates following the expiry of B2M LP’s current debt issue, the Parties agree with the methodology proposed in evidence whereby B2M LP will use a forecast amount for 2020 and then incorporate any changes resulting from the refinancing of the debt into its anticipated revenue requirement update for 2021.

Performance monitoring and reporting: B2M LP currently measures Average System Availability, which does not rely on a delivery point (customer) interruption taking place. B2M LP agreed that it would provide two performance metrics which measure interruptions to Hydro One delivery points caused by B2M LP’s circuits. These additional metrics are described under Issue 8, below.

The particulars of the Settlement Agreement are detailed below by issue, as set out in the Application.

A. GENERAL

1. Has B2M LP responded appropriately to all relevant OEB directions from previous proceedings?

<u>Settled</u>

There are no OEB directives or undertakings from B2M LP's previous cost of service proceeding (EB-2015-0026) in respect of this Application.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-02-03

Interrogatories

N/A

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

2. Are all elements of the proposed revenue requirement and their associated total bill impacts reasonable?

<u>Settled</u>

In its Application, B2M LP proposed a 2020 base revenue requirement of $35.7 million. With the OEB's issuance of its approved cost of capital parameters for rates effective 2020, B2M LP updated its 2020 test year base revenue requirement to $33.2 million to reflect these changes.

The 2020 revenue requirements shown in the tables below reflect the updated cost of capital parameters as well as B2M LP's update to the timing of capital expenditures.[1] Specifically, $3 million in capital spending to replace defective insulators was initially planned for 2019. The work is now planned to take place in 2020 due to rescheduling of the necessary outages.[2]

The base revenue requirement proposed for 2020 represents a 3.4% decrease from B2M LP's base revenue requirement in 2019. The rates revenue requirement proposed for 2020 represents a 1.2% increase from B2M LP's rates revenue requirement in 2019.

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**

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**	

The table below illustrates average net bill impacts for transmission and distribution customers. The table is excerpted from B2M LP's Application as initially filed and does not include the updates outlined above. These updates would not materially impact the estimated average bill impacts as originally calculated and shown below.[3]

[1] Interrogatory I-1-OEB Staff-45 e) p6.
[2] Interrogatory I-1-43 c).
[3] Exhibit I-2-1 Table 2 p4.

Table 2 - Average Bill Impacts on Transmission and Distribution-connected Customers

	2019*	2020	2021	2022	2023	2024
Rates Revenue Requirement ($ millions)	32.8	35.7	36.2	36.7	37.3	37.8
% Increase in Rates Revenue Requirement over prior year		8.8%	1.6%	1.4%	1.4%	1.4%
% Impact of load forecast change		0.0%	0.0%	0.0%	0.0%	0.0%
Net Impact on Average Transmission Rates		**0.18%**	**0.03%**	**0.03%**	**0.03%**	**0.03%**
Transmission as a % of Tx - connected customer's Total Bill		*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*
Estimated Average Bill Impact		**0.01%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Transmission as a % of Dx - connected customer's Total Bill		*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*
Estimated Average Bill Impact		**0.01%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

** 2019 rates revenue requirement as per the OEB's Decision and Order for B2M LP's Transmission Revenue Requirement application (EB-2018-0320, Schedule A, Exhibit 1.0), issued on 20th December, 2018.*

The parties agree that as modified by the Settlement Agreement, all elements of the proposed revenue requirement and their associated total bill impacts are reasonable.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01; C-01-01; C-02-01; C-02-02; C-02-03; C-02-04; E-01-01; E-01-02; F-01-01; F-02-01; F-05-01; F-05-01-02; F-06-01; F-06-01-01_04; G-01-01; G-01-02; G-01-03; I-04-01; I-04-01-01; I-04-01-02

Interrogatories

I-01-41; I-01-42; I-01-45

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

B. REVENUE REQUIREMENT

3. Is the proposed Incentive Rate Methodology consistent with the OEB's Rate Handbook?

Settled

The OEB's Rate Handbook establishes an outcomes-based approach which provides flexibility in rate setting options for utilities. It establishes the expectation that utilities are to demonstrate ongoing continuous improvement in their productivity and cost performance while delivering on system reliability and quality objectives. The OEB's Rate Handbook notes that utilities will have the opportunity to earn a fair return and that the OEB will monitor utility financial performance to assess continuing financial viability and to determine whether returns are excessive.

The parties agree that when modified by the Settlement Agreement as described in Issue 4 below, the proposed Incentive Rate Methodology is consistent with the OEB's Rate Handbook.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-02-01; A-02-02; A-02-02-01; A-03-01; A-04-01

Interrogatories

I-01-02; ; I-01-03; I-01-05; I-01-13; I-01-42; I-02-05; I-01-44; I-01-45

Supporting Parties:

VECC
OEB Staff

Parties taking no position:

PWU
SUP

4. Are the proposed industry-specific inflation factor and the proposed productivity factor appropriate?

Settled

The parties agree that the proposed industry-specific inflation factor is appropriate. Regarding the proposed productivity factor, in its Application, B2M LP originally proposed a 0% Productivity Factor ("X") to be applied annually over the 2021 to 2024 period. Parties recognized that B2M LP will have almost no capital expenditures over the 2020-2024 period due to the fact that its assets are relatively new. Because of this B2M LP could eventually over-earn due to a declining rate base.

In order to address the unique asset composition of B2M LP and provide B2M LP with sufficient funding to cover its forecast expenditures, the parties agreed to include a Settlement Capital Adjustment Factor (see "Overview" above). B2M LP will apply the Settlement Capital Adjustment Factor of 0.6% in each year of the rate plan such that the revenue cap index will be equal to the proposed inflation factor minus the Settlement Capital Adjustment Factor, i.e., 1.8% - 0.6% using current rates.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01

Interrogatories

I-02-04; I-02-05

Supporting Parties:

VECC
OEB Staff

Parties taking no position:

PWU
SUP

5. Are the proposed annual updates appropriate?

Settled

B2M LP proposes to update the industry-specific inflation factor annually, based on the methodology set out in Exhibit A-4-1, page 3 of the Application, in order to reflect the actual annual percent changes for each of the two indices used in the inflation factor, as made available by the OEB when it sets the inflation factor for distributors each year.

The proposed Inflation Factor is an external measurement of the transmission industry labour/non-labour weights. The parties agree to B2M LP's proposed RCI Inflation Factor parameter. Updated to reflect the inputs to the OEB's inflation factor for incentive rate setting for 2020[4], the Inflation Factor is currently 1.8%.

The parties agree that the proposed annual updates are appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01; G-01-01

Interrogatories

I-02-14; I-01-45

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

[4] Released on October 31, 2019: https://www.oeb.ca/sites/default/files/2020_IPI_input_price_index.png

6. **Is the proposed Earnings Sharing Mechanism appropriate?**

Settled

B2M LP proposes to share with customers 50% of any earnings that exceed the OEB-approved regulatory ROE by more than 100 basis points in any year of the Revenue Cap IR term. The customer share of the earnings will be adjusted for any tax impacts and will be credited to a new deferral account for clearance at the time of B2M LP's next rebasing. The calculation of the actual ROE for a given year will use the OEB-approved mid-year rate base for that period.

The parties agree that the proposed Earnings Sharing Mechanism is appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01; H-01-01

Interrogatories

I-01-03; I-01-40; I-01-47

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

C. TRANSMISSION SYSTEM PLAN

7. Does the investment planning process consider appropriate planning criteria? Does it adequately address the condition of the transmission system assets?

Settled

B2M LP's assets include a double circuit transmission line from Bruce Power Complex in Kincardine to a point near Highway 7 just east of Acton, where the new double circuit joins a short section of pre-existing 500kV double circuit line which carries on from Highway 7 south to Milton SS.[5] Therefore, approximately 90% of the line is less than eight years old, and the remaining 10% of the line is about 35 years old.[6]

Capital spending is expected to be limited to $3 million in 2020[7] to replace defective insulators on the older portion of B2M LP's line.[8]

The parties have no issues in regard to B2M LP's capital expenditures or Transmission System Plan and considered this issue settled.

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[5] See Exhibit B-1-1 p 3, lines 1-4.
[6] See Exhibit B-1-3 p 1, lines 7-8.
[7] The $3 million in capital spending to replace defective insulators initially planned for 2019 is now planned for 2020 due to re-scheduling of the outages necessary for the defective insulator replacements on B2M LP's line. See I-1-43 p 2 (c).
[8] As explained at Exhibit A-3-1 p 12 lines 7-22:
The majority of B2M LP's assets were placed into service in 2012. Therefore, little degradation has occurred, and these assets are considered to have a low condition risk. However, there is a population of insulators on the older section of line that B2M LP owns because it allowed the new line to be diverted around a specific property. The insulators on the older section of line are defective and, due to their condition, are high risk.

This insulator defect is related to the porcelain insulators manufactured by Canadian Ohio Brass ("COB") and Canadian Porcelain ("CP") between 1965 and 1982 that suffer from a phenomenon known as cement expansion or cement growth. Insulators suffering from cement expansion are expected to fail prematurely and unpredictably. This topic is discussed extensively in Hydro One's Transmission Rate application (EB-2019-0082) in Exhibit B, Tab 1, Schedule 1, TSP Section 2.2.2.4.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

B-01-01; B-01-02; B-01-03; B-01-03-01

Interrogatories

I-01-12; I-01-14; I-01-15; I-01-16; I-01-17; I-01-18

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

D. PERFORMANCE

8. Is the proposed monitoring and reporting of performance adequate?

Settled

As set out at Exhibit D-1-1 of B2M LP's Application:

> 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.

Transmission SAIDI and SAIFI measure interruptions at delivery points in the system. The number of delivery points is the denominator of the equation. B2M LP has no delivery points and therefore is unable to calculate SAIDI or SAIFI for its circuits independently.

B2M LP measures Average System Availability[9], which does not rely on a delivery point (customer) interruption taking place. This metric focuses on equipment performance, i.e., the availability for service of B2M LP's circuits.

The Parties agree that in the absence of SAIDI and SAIFI metrics, additional information will be provided to reflect the performance of B2M LP's transmission circuits. B2M LP agreed that it would provide two performance metrics, which measure interruptions to Hydro One delivery points caused by B2M LP's circuits. The proposed contribution measures would not be B2M LP's T-SAIDI and T-SAIFI measure because B2M LP has no delivery points, but the denominator would be all Hydro One Networks Inc. delivery points. The formulas for the two proposed measures are:

$$T - SAIFI_{B2MLP\ Contribution} = \frac{\sum_{i=1}^{k}(SF_i + MF_i)}{n}$$

$$T - SAIDI_{B2MLP\ Contribution} = \frac{\sum_{i=1}^{k}(SD_i)}{n}$$

Where:

- n is the total number of Hydro One delivery points.
- k is the total number of Hydro One delivery points that may be impacted by B2M LP circuits.
- *SF* and *MF* are the number of sustained and momentary interruptions experienced at Delivery Point i in a given year caused by B2M LP circuits.
- *SD* is the duration of the sustained interruptions experienced at Delivery Point i in a given year caused by B2M LP circuits.

[9] The full set of B2M LP performance measures proposed are set out at Exhibit D-1-1.

The parties agree that with the above measures added to the performance measures initially proposed by B2M LP, this issue is settled.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

D-01-01

Interrogatories

I-01-19; I-01-20; I-01-21; I-02-06; I-02-08; I-02-09

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

E. OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

9. Are the proposed spending levels for OM&A in 2020 appropriate, including consideration of factors such as system reliability and asset condition?

Settled

The proposed OM&A spending for the 2020 Test year is forecast to be $1.2 million. As shown in the table below, $0.7 million of the total OM&A forecast for 2020 relates to "Service Level Agreement Costs", while $0.4 million relates to "Incremental Expenses".[10]

[10] Exhibit F-2-1 p1.

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**	**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**

B2M LP's "Service Level Agreement Costs" arise as a result of a Service Level Agreement between Hydro One Networks Inc. (HONI) and B2M LP and consist of Operating Services and Maintenance Services performed by HONI on behalf of B2M LP.

B2M LP's "Incremental Expenses" relate to functions that must be executed by B2M LP that are not supported by the Service Level Agreement with HONI. These include insurance, regulatory and administrative expenses and an annual budget for the B2M LP Managing Director's Office.

The parties agree that the proposed spending levels for OM&A in 2020 are appropriate, including consideration of factors such as system reliability and asset condition.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; F-01-01; F-02-01; F-03-01; F-03-01-01; F-04-01

Interrogatories

I-01-02; I-01-05; I-01-06; I-01-07; I-01-10; I-01-12; I-01-13; I-01-22; I-01-23; I-01-24; I-01-25; I-01-26; I-01-27; I-01-28; I-01-29; I-01-30; I-01-31; I-02-01; I-02-02; I-02-03; I-02-06; I-02-10; I-02-11; I-01-44

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

10. **Are the amounts proposed to be included in the revenue requirement for income taxes appropriate?**

Settled

As a limited partnership, B2M LP is not a taxable entity for federal and provincial income tax purposes. Accordingly, no current or deferred tax expenses are recognized in the Partnership's financial statements. Tax on B2M LP's net income is borne by Hydro One Indigenous Partnerships GP Inc. and Hydro One B2M LP Inc. through the allocation of taxable income. Saugeen Ojibway Nation Finance Corporation is a tax-exempt entity and, as such, is not subject to tax.

The parties agree that the amounts proposed to be included in the revenue requirement for income taxes are appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-05-01; F-06-01; F-06-01-01_04; F-06-01-01_04

Interrogatories

I-01-08; I-01-35; I-01-36; I-01-39; I-01-46

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

11. Is the proposed depreciation expense appropriate?

Settled

B2M LP's projected depreciation expense for 2020 is $7.0 million. This is shown in the table below, along with depreciation expenses between 2015 and 2019. B2M LP has revised its depreciation rates for 2020 to align with HONI's 2017 Transmission depreciation study.[11]

Table 1 - B2M LP 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**

B2M LP's 2020 depreciation expense is shown according to applicable accounts in the OEB's Uniform System of Accounts (USofA) in the table below:[12]

USofA	USofA Description	Proposed Rate*	Asset Cost ($M)	Depreciation Expense ($M)
		A	B	C=A*B
1720	Towers, Fixtures & Poles	1.28%	281.35	3.60
1730	OH Conductors & Devices	1.44%	146.12	2.10
1705	Land (depreciable)**	0.96%	12.16	0.12
1706	Land Rights	0.96%	99.46	1.07
1745	Roads & Trails	1.81%	11.62	0.21
1708	Buildings and Fixtures	1.81%	0.01	0.00
1955	Communication Equipment	4.16%	0.01	0.00
	Depreciation on Fixed Assets			6.99

The parties agree that the proposed depreciation expense is appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

[11] Exhibit F-5-1 Table 1, p2.
[12] Interrogatory I-1-OEB Staff-34 b)

Pre-Filed Evidence

F-05-01; F-05-01-01; F-05-01-02; F-05-01-03

Interrogatories

I-01-04; I-01-09; I-01-32; I-01-33; I-01-34; I-01-43

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

F. RATE BASE AND COST OF CAPITAL

12. Are the amounts proposed for rate base and capital structure reasonable?

Settled

B2M LP incurred no capital expenditures during 2015 to 2019 because no new assets were placed in service. To address defective insulators on the older section of its transmission line, B2M LP expects to place $3 million of new assets in-service in 2020. The tables below summarize B2M LP's projected gross property, plant and equipment and accumulated depreciation for the period 2019 to 2024.[13]

[13] Interrogatory I-1-OEB Staff-44 a).

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)
Bridge								
1	2019	547.7	0.0	0.0	0.0	0.0	547.7	547.7
Test								
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

ACCUMULATED DEPRECIATION
($ Millions)

Line No.	Year	Opening Balance	Additions	Disposals	Closing Balance	Average
		(a)	(b)	(c)	(d)	(e)
Bridge						
1	2019	50.1	7.2	0.0	57.3	53.7
Test						
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

B2M LP's deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base, as affirmed by the OEB's Decision in B2M LP's 2015 to 2019 transmission rate application (EB-2015-0026). The 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt.

The parties agree that the amounts proposed for rate base are reasonable and that the proposed capital structure is reasonable.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

C-01-01; C-02-01; C-02-02; C-02-03; C-02-04; G-01-01

Interrogatories

I-01-04; I-01-05; I-01-07; I-01-09; I-01-12; I-01-14; I-01-15; I-01-17; I-01-18
I-01-32; I-02-07; I-02-08; I-01-43; I-01-44

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

13. Is the forecast of long-term debt appropriate?

Settled

B2M LP's forecast yields are shown in the table below. Based on updated forecast rates, B2M LP has calculated the weighted average debt rate to be 2.59% for 2020. B2M LP expects to issue approximately $273.5 million of long-term debt in 2020. The forecast weighted long-term debt rate for 2021 is currently set at 2.94% for 2021.[14]

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%

Each rate comprises the forecast Government of Canada bond yield plus the Hydro One Inc. credit spread applicable to that term. The ten-year Government of Canada bond yield forecast for 2020 is based on the average of the three-month and twelve-month forecast from the September 2019 Consensus Forecast. The five-year Government of Canada bond yield forecasts are derived by subtracting the September 2019 average spreads from the ten-year Government of Canada bond yield forecast. The thirty-year Government of Canada bond yield forecasts are derived by adding the September 2019 average spreads

[14] Interrogatory I-01-OEB Staff-45 a).

to the ten-year Government of Canada bond yield forecast. Hydro One's credit spreads over the Government of Canada bonds are based on the average of indicative new issue spreads for September 2019 obtained from the Company's Medium Term Note dealer group for each planned issuance term.

B2M LP's proposed 2020 cost of capital is shown in the table below.[15]

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**

The parties agree that the forecast of long-term debt, as updated in answer to Supplementary IR I-1-45, is appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

G-01-01; G-01-02; G-01-03

Interrogatories

I-01-37; I-01-38; I-02-12; I-02-13; I-01-44; I-01-45

Supporting Parties:

VECC
OEB Staff
SUP

[15] Interrogatory I-01-OEB Staff-45 d) Table 1.

Parties taking no position:

PWU

14. Is the 2021 update of the cost of long-term debt appropriate?

Settled

In 2015, Hydro One Inc. issued a five-year note to third-party investors to finance 100% of B2M LP's debt. That note matures on April 30th, 2020, and B2M LP will need to refinance this debt at that time. Interest rates have increased since the original financing. The long-term debt rate proposed by B2M LP for 2020 is calculated as the weighted average cost rate on existing debt, which matures on April 30, 2020, and the forecast for the debt planned to be issued in 2020.

To ensure correct recovery of the interest cost of the 2020 debt issue, B2M LP proposes a one-time update of the cost of long-term debt at the first annual update of rates for 2021. This update will adjust the long-term cost of debt for 2021-2024 to reflect the actual market rate achieved on the long-term debt issued in 2020.

The parties agree that the 2021 update of the cost of long-term debt is appropriate as it allows for the actual cost of debt to be reflected in rates.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01; G-01-01

Interrogatories

I-01-38; I-02-14; I-01-45

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

G. DEFERRAL/VARIANCE ACCOUNTS

15. Are the proposed amounts, disposition and continuance of existing deferral and variance accounts appropriate?

Settled

B2M LP proposed to continue its Tax Rate and Rule Changes Variance Account, which has had and currently has a zero balance. No issues were raised with this proposal.

B2M LP proposed to continue its Forgone Revenue Deferral Account, which has a forecast $0.1 million balance as at Dec. 31, 2019. The parties did not raise any issues with B2M LP's requested disposition of the ($55,379) balance in its Forgone Revenue Deferral Account as at Dec. 31, 2019 over a one-year period commencing January 1, 2020.

The parties agreed on an effective date of January 1, 2020 for B2M LP's revised revenue requirement, which will be incorporated into the 2020 Uniform Transmission Rates (UTRs). The parties note that the 2020 UTRs were declared interim by the OEB in a Decision issued December 19, 2019[16]. When the 2020 UTRs are declared final, any forgone revenue for B2M LP between the effective date of January 1, 2020 and the implementation date of the final 2020 UTRs will be recovered by B2M LP during the period between the implementation date of the final 2020 UTRs and December 31, 2020. As a result, the Forgone Revenue Deferral Account is not required.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

H-01-01; H-01-02

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[16] EB-2019-0296 http://www.rds.oeb.ca/HPECMWebDrawer/Record/663134/File/document

Interrogatories

I-02-15; I-03-01

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU

16. Are the proposed new deferral and variance accounts appropriate?

Settled

B2M LP proposes to establish an ESM Deferral Account which would record and share with customers 50% of any over-earnings that exceed the OEB-allowed regulatory ROE by more than 100 basis points realized during any year of the Revenue Cap IR term.

The parties agree that the newly-proposed earnings sharing mechanism deferral account, which is the only new deferral and variance account proposed, is appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

A-03-01; A-04-01; H-01-01; H-01-02

Interrogatories

I-01-40; I-01-47

Supporting Parties:

VECC
OEB Staff

SUP

Parties taking no position:

PWU

H. COST ALLOCATION

17. Is the proposed cost allocation appropriate?

Settled

All assets associated with B2M LP are classified as Network assets, consistent with the cost allocation methodology approved by the OEB for B2M LP in proceeding EB-2015-0026. All of the rates revenue requirement associated with B2M LP's transmission assets will be allocated to the Network pool.

The parties agree that the proposed cost allocation is appropriate.

Evidence: Key evidence in relation to this issue is found in the following exhibits:

Pre-Filed Evidence

I-01-01; I-02-01; I-04-01; I-04-01-01; I-04-01-02

Interrogatories

I-01-41; I-01-42

Supporting Parties:

VECC
OEB Staff
SUP

Parties taking no position:

PWU