Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

January 10, 2020

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: Niagara Reinforcement Limited Partnership
Application for 2020-2024 Transmission Revenue Cap Incentive Rate-Setting Application

OEB Staff Interrogatories

Ontario Energy Board File Number: EB-2018-0275

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to Niagara Reinforcement Limited Partnership (NRLP).

NRLP is reminded that its responses to interrogatories are due by January 24, 2020.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Generation & Transmission

Encl.

NRLP
2020-2024 Transmission Revenue Cap Incentive Rate-Setting Application
EB-2018-0275
OEB Staff Interrogatories
January 10, 2020

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 NRLP has not received any letters of comment to date regarding this proceeding. However, sections 2.3.2 and 2.3.4 of the Filing Requirements[1] 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 any responses to letters of comment or other applicable correspondence that may be received are filed with the OEB. Such correspondence must be filed before the argument (submission) phase of this proceeding.

Staff-2

Ref: (1) Decision and Order EB-2004-0476, page 9
(2) Exhibit B, Tab 2, Schedule 1, page 1
(3) Exhibit B, Tab 2, Schedule 1, page 6

Preamble:

At the above noted reference (1), the OEB provided the following findings with respect to Hydro One's section 92 application to construct the transmission asset for which

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

NRLP is now seeking approval of its 2020-2024 Transmission Revenue Cap Incentive Rate-Setting Application (the Application):

> First, leave to construct in this case is granted without a determination that the Applicant has proven the financial benefits of the Project. As a result, this decision cannot be taken as a finding that the costs of the Project are appropriately recovered from ratepayers. Hydro One will have to demonstrate this when seeking to recover those costs in the future.

In the Application, at reference (2), NRLP states:

> In assessing the transfer of assets from Hydro One Networks Inc. to NRLP, the OEB made the following finding:
>
> > *The OEB finds that the proposed transfer is reasonable and is not anticipated to have any negative effects. However, for greater clarity, the OEB notes that the leave to sell the NR* [Niagara Reinforcement] *Assets does not constitute an approval of the value of the NR Assets for the purpose of rates or any entitlement of NRLP to recover the full cost of the assets. The prudence of the cost of these assets will be determined by the OEB in the future transmission rate proceedings.* [Quote from Decision and Order EB-2018-0276, September 12, 2019]

At reference (3), the Application states:

> HONI also submits that the expenditures were prudent given the significant benefits to Ontario's ratepayers from (a) providing increased supply capacity, (b) reducing transmission line losses and (c) facilitating outage reliability in the Niagara region.

The OEB has issued *Filing Requirements For Electricity Transmission Applications – Chapter 4 – Applications under Section 92* (Filing Requirements) that are intended to assist applicants during their preparation of leave to construct applications. Page 4 of the Filing Requirements states the following with respect to how the OEB assess such applications:

> In determining a leave to construct application, the Board seeks information about the project and evaluates whether it is in the public interest taking into consideration aspects of:

a) Price;
b) Reliability;
c) Quality of electricity service; and
d) Promotion of the use of renewable energy sources.

The OEB has not made a determination to date if the Project's construction costs were prudent. The questions that follow have been designed to allow the OEB to better assess the prudence of the costs in respect of which NRLP is seeking inclusion in its rate base and cost recovery.

Questions:

a) In accordance with the Filing Requirements, please provide the information necessary for the OEB to assess the prudency of the Project's costs. At a minimum, this should include, but may not be limited to, the following:

   i) **Cost-benefit analysis**: evidence of the various options that were considered by the applicant as alternatives to the NRLP project (*Filing Requirements, Page 9*). Please note that as a "Discretionary Project", the cost-benefit analysis completed by NRLP must include a comparison against the "doing nothing" scenario.
   ii) **Qualitative benefits**: if the project is expected to have significant qualitative benefits that cannot reasonably be quantified, evidence about these qualitative benefits must be provided. (*Filing Requirements, Page 10*).
   iii) **Quantitative benefits:** where an applicant attributes market efficiency benefits to a proposed project, such as lower energy market prices, congestion reduction, or transmission loss reduction, the evidence submitted must include quantification of each of the market efficiency benefits listed for that proposed project. (*Filing Requirements, Page 10*).

b) Please provide additional support for NRLP's statements on the need for and the prudence of the costs for the project with respect to "the significant benefits to Ontario's ratepayers from (a) providing increased supply capacity, (b) reducing transmission line losses and (c) facilitating outage reliability in the Niagara region."

Staff-3

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

Preamble:

At the above noted first reference, NRLP states:

> As part of this application, NRLP is filing, on behalf of HONI, an update on the final Niagara Reinforcement project costs. This request arises from the OEB decision in the asset transfer application that determined that the value of the Niagara Reinforcement assets would be determined in a future rates proceeding.

At the above noted second reference, NRLP states the following in respect of final Niagara Reinforcement project costs:

> A primary reason for the increase since the 2005 estimate is simple inflation. Costs, including the price of the various inputs to the project such as labour and materials, would normally and reasonably be expected to increase over the 14 years between the original estimate and the final construction cost. Hydro One was able to reuse certain assets and negotiated favourable terms with its contractor to minimize cost increases due to inflation.

Questions:

a) As stated by NRLP at Exhibit B, Tab 2, Schedule 1, page 3, the Niagara Reinforcement project was near completion in the summer of 2006. Please provide the following details related to the status of the project:

   i. Amount of the forecasted construction budget of $116.0 million that had been spent before the land claim dispute referenced at Exhibit B, Tab 2, Schedule 1, page 3 required NRLP to suspend construction in 2006.
   ii. The amount of additional funds Hydro One/NRLP incurred to remediate the completed assets and to complete the remaining elements of the project during 2018-2019 period.

Staff-4

Ref: (1) Exhibit B, Tab 2, Schedule 1, page 4

Questions:

a) At the above noted reference, NRLP lists a number of “project challenges”. These challenges represent investments NRLP was required to make in order to complete the project following the 2006 suspension, putting upward pressures on project costs. For each of the listed project challenges, please discuss/provide the following:

   i. The extent to which the challenge was considered during NRLP’s July 8, 2005 leave to construct approval proceeding. If the challenge was not reflected in NRLP’s original project plan, please detail why the investment became necessary post-2006 suspension. As an example, one of the project challenges is described as “stringing of 8.5km of transmission line was required to connect to the conductor termination points.” If this project challenge was not considered during the previous leave to construct proceeding, please discuss why it became necessary post-2006 suspension.
   ii. The actual costs incurred by NRLP to address each project challenge. If the challenge was considered during NRLP’s July 8, 2005 leave to construct proceeding, please provide a comparison of the challenge’s forecast versus actual costs (and provide rationale for any variances).

b) NRLP indicates that it was required to repurchase certain materials to complete the project, including lattice structures and insulators. For each repurchased material, please provide the following:

   i. A description for why a repurchase was necessary as well as what happened to the originally purchased materials.
   ii. The original purchase price of these materials as well as the price of their replacements.

Staff-5

Ref: (1) Exhibit B, Tab 2, Schedule 1, page 6

Preamble:

At the above noted reference, NRLP states:

> As documented in Exhibit C, Tab 1, Schedule 1, the in service additions that NRLP is seeking to include in its rate base through this application are $119.4 million. The remaining $15.8 million of project costs be added [*sic*] to HONI's Rate Base. This residual amount of assets was not included in the transfer to NRLP and is primarily related to station assets and Optical Ground Wire, which will continue to be owned by HONI.

Question:

a) OEB staff have identified one or more missing words in the above reference. Please correct the sentence such that NRLP's proposal with respect to how the remaining $15.8 million of project costs will be treated is clear.

Staff-6

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

Preamble:

With respect to benchmarking, NRLP states:

> **Benchmarking:** Operations and management services are provided to NRLP through a service level agreement with Hydro One Networks Inc. These types of activities are subject to review through Hydro One Networks Inc.'s external benchmarking evidence provided in its transmission rate applications.

Question:

a) Please confirm that NRLP is stating that, as its operations and management are provided by Hydro One Networks' Transmission staff, NRLP's operational costs and operational performance would be the same as for Hydro One Networks' Transmission's operations, if it were benchmarked against a comparator group of electricity transmitters. If not, why not?

Staff-7

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

Preamble:

NRLP states:

> **Protecting Customers:** Exhibit A, Tab 4, Schedule 1 outlines NRLP's proposed Earnings Sharing Mechanism (ESM) 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 ESM will provide some level of protection against excessive over-earnings (i.e., above the 100 basis point threshold), and productivity improvements may be an underlying factor for the occurrence of the over-earnings. However, the ESM would not apply unless earnings exceed the allowed return by 100 basis points. With the OEB's established return on equity (ROE) of 8.52%, achieved earnings on a regulated basis would have to exceed 9.52% for the ESM to be triggered during the plan term. With NRLP's proposed X-factor (of a base X and stretch) of 0%, it may be the case that NRLP 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]".

Staff-8

Ref: (1) Exhibit A, Tab 3, Schedule 1, pages 3-18

Questions:

At the above reference, NRLP provides an overview of its proposed Revenue Cap Index mechanism.

a) NRLP'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 NRLP'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.

b) 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 NRLP 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 NRLP.

Staff-9

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

Preamble:

The above noted reference provides a description and chart of NRLP and its structure.

Questions:

a) Figure 1 at Exhibit A, Tab 5, Schedule 1, Page 2 identifies Hydro One B2M LP as an NRLP shareholder. Please confirm Hydro One B2M LP as a shareholder or, if it is not, please provide a corrected version of Figure 1.

b) Please provide an update of NRLP's shareholder structure, if there are any changes since the Application was filed.

Staff-10

Ref: (1) Exhibit F, Tab 3, Schedule 1, and Attachment 1

Preamble:

NRLP's operations, maintenance, and common administrative and corporate services are provided by Hydro One Networks Inc. through a service level agreement effective for a five-year period beginning September 18, 2019.

Questions:

a) How is NRLP ensuring that the OM&A services provided to it by Hydro One Networks are appropriate and cost effective?

b) Sections 2.3.2.1 and 2.3.2.2 of the Affiliate Relationship Code (ARC) state, respectively:

If a utility intends to enter into an Affiliate Contract for the receipt of a service, product, resource, or use of asset that it currently provides to itself, the utility shall first undertake a business case analysis, unless the Affiliate Contract would have an annual value of less than $100,000 or 0.1% of the utility's utility revenue, whichever is greater.

-and-

For the purposes of section 2.3.2.1, the business case analysis shall contain (a) description of relevant utility needs on a per-service basis, (b) identification of the options available internally or externally from an affiliate or third party, (c) *economic evaluation of all available options including the utility's current fully-allocated cost (which may include a return on the utility's invested capital equal to the approved weighted average cost of capital), (d) explanation of the selection criteria (including any non-price factors to be taken into account), (e) estimate of any benefits to the utility's Ontario ratepayers from outsourcing, and (f) justification of why any separate items were bundled together when considered for outsourcing.*

Please provide a copy of the business case analysis developed by NRLP that supports the service level agreement established with Hydro One Networks.

c) Sections 2.3.3.1 and 2.3.3.2 of the ARC state, respectively:

Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource or use of asset from an affiliate.

-and-

A fair and open competitive bidding process shall be used to establish the market price before a utility enters into or renews an Affiliate Contract under which the utility is acquiring a service, product, resource or use of asset from an affiliate.

Please describe how the activities undertaken by NRLP when establishing its agreement with Hydro One Networks comply with the above referenced sections of the ARC. If NRLP believes that Sections 2.3.3.1 and 2.3.3.2 of the ARC do not apply to their circumstance, please discuss/provide the assessment undertaken to arrive at this determination.

d) Section 2.3.4.1 of the ARC states:

Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost may include a return on the affiliate's invested capital. The return on invested capital shall be no higher than the utility's approved weighted average cost of capital.

If NRLP believes Section 2.3.4.1 applies to its circumstances, please discuss/provide the assessment undertaken by NRLP to establish that a competitive market for the services contemplated in the service level agreement does not exist.

e) Please detail how the service level agreement integrates Hydro One Networks' productivity improvements into NRLP's maintenance operations, including how efficiencies gained by Hydro One Networks are passed through to NRLP.

Staff-11

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

Preamble:

At the above noted reference, NRLP states:

> The ***majority*** of NRLP's OM&A services are provided by HONI through a Service Level Agreement. The Agreement and the charges therefore are in accordance with the Affiliate Relationships Code and are billed on a cost basis. Efficiencies gained by HONI are passed through to NRLP. [emphasis added]

Questions:

a) As stated in the above reference, Hydro One fulfils the majority of NRLP's OM&A services. Please indicate the OM&A services not covered by the service level agreement.

b) Please identify who, other than Hydro One, provides these services given that NRLP has no staff.

Staff-12

Ref: (1) Exhibit D, Tab 1, Schedule 1, Page 1
(2) B2M LP Settlement Proposal (EB-2018-0271), filed January 7, 2019

Preamble:

At the above noted reference, NRLP stated the following:

> Given the nature of NRLP's assets, the performance of the equipment does not lend itself to applying the typical measures that might be in place for other transmitters. NRLP's assets consist of a single 230kV double circuit transmission line between the Allanburg and Middleport Transmission Stations, but do not include any terminal breakers or other operable assets. 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. NRLP 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. NRLP's single transmission line is relatively new; whereas other transmitters own a portfolio of assets that traverse the various stages of asset life.
>
> For NRLP to adopt a slate of performance measures similar to other transmitters would not readily provide meaningful comparisons. On this basis, NRLP proposes that System Average Interruption Frequency and System Average Interruption Duration not be measured. Furthermore, NRLP has no customers, so no Customer Focus measures have been proposed.

At Page 16 of the B2M LP Settlement Proposal, accompanying these interrogatories as Attachment 1, the parties to the Settlement Proposal stated the following with respect to performance monitoring:

> 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.

Question:

a) Subject to the OEB's approval of the B2M LP Settlement Proposal, would NRLP agree to track and report the same reliability performance measures agreed to for B2M LP in the Settlement Proposal? If not, why not?

Staff-13

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

Preamble:

At the above noted reference, NRLP stated the following:

> NRLP is proposing to track and demonstrate its performance by utilizing the same measures proposed for B2M LP in its recent application (EB-2019-0178). Filing a common set of measures as B2M LP serves to accomplish the following:
>
> a) Provide meaningful comparisons in asset performance with a similar transmitter,
> b) Minimize ratepayer costs by optimizing administrative costs through a single set of items, and,
> c) Provide the Board and customers with confidence that NRLP is meeting its five-year plan as described in this Application.
>
> The performance measures will be tracked annually, and the results of this tracking will be reported to the Board at the next proceeding. A description of the performance measures is provided in Appendix A of this schedule.

Questions:

a) For each performance measure described in Appendix A, please indicate how in future proceedings NRLP will demonstrate achievement against each. For example, will a single metric to demonstrate performance against the Average System Availability (ASA) measure be established? For the NERC Vegetation Compliance, will NRLP only provide a statement indicating its compliance with FAC-003-02, or will NRLP detail the vegetation prevention related actions it has undertaken?

b) As it relates to the proposed ASA measure, on what basis will NRLP determine success? I.e., what is NRLP's proposed ASA target for 2020 against which success will be measured?

Staff-14

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

Preamble:

At the above noted reference, NRLP 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.

Question:

a) As NRLP has no staff, please identify the senior officers who will represent NRLP during disputes. Please describe how these senior officers will monitor Hydro One's performance against its obligations defined in the services agreement. Please also identify whether and how NRLP will be independently represented in any dispute resolution processes.

Staff-15

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

Preamble:

At the above noted first reference, NRLP identifies total OM&A costs of $0.83 million for 2020.

At the above noted second reference, NRLP identifies total OM&A costs of $0.85 million for 2020.

Question:

a) Please confirm the correct forecast of total OM&A costs for 2020.

Staff-16

Ref: (1) Ontario provincial government's Bill 2 (i.e. Schedule 1 of Bill 2 is *the Hydro One Accountability Act, 2018*),[2] February 21, 2019 Directive, and the Hydro One Networks Distribution March 7, 2019 decision and order

Question:

a) Please confirm whether NRLP's executive compensation and costs for its board of directors are in compliance with Bill 2, the February 21, 2019 Directive, and the Hydro One Networks Distribution March 7, 2019 decision and order.[3]

Staff-17

Ref: (1) Exhibit G, Tab 1, Schedule 1
(2) Letter from OEB regarding Cost of Capital Parameters for 2020[4]
(3) B2M LP Settlement Proposal (EB-2018-0271), filed January 7, 2019

Preamble:

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

> NRLP will update the long-term debt rate for the 2020 Test year based on NRLP's weighted average of the OEB's deemed long-term debt rate for 2020 and the September 2019 Consensus Forecast, along with the proposed update of the return on common equity and deemed short-term interest rate.

[2] *The Urgent Priorities Act, 2018*
[3] EB-2017-0049
[4] https://www.oeb.ca/sites/default/files/Ltr-2020-Cost-of-Capital-Update-20191031.pdf

NRLP 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.[5]

The OEB, in its *Handbook of Utility Rate Applications*, states the following:[6]

> 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.

[5] *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), December 11, 2009, Appendices C and D
[6] *Handbook of Utility Rate Applications*, October 13, 2016, Appendix 2, p. iii

Questions:

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

b) In its evidence, NRLP has identified the weighted average debt rate to be 3.82% for 2020 and a forecast new long-term debt rate of 3.63% for 2021. This is well above the 3.21% deemed long-term debt rate that the OEB has calculated as being applicable for 2020.

   i. Please provide an updated forecasted long-term debt rate for the replacement debt based on current market conditions. If NRLP believes that the rate it forecasts will exceed the 3.21% deemed long-term debt rate issued by the OEB and calculated in accordance with the OEB's cost of capital policy,[7] 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 NRLP'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."[8]

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

e) Please update all tables in the application as appropriate to reflect the updates cost of capital parameters.

f) Please indicate whether NRLP's updated cost of capital parameters, and the proposed treatment for the new debt to be issued April 30, 2019 differ in any

[7] *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), December 11, 2009
[8] Exhibit I, Tab 1, Schedule 5, part e)

material way from what is documented in the B2M LP Settlement Proposal filed on January 7, 2020.

Staff-18

Ref: (1) Exhibit A, Tab 3, Schedule 1, Page 2
(2) EB-2011-0268 Hydro One Networks Inc. – Transmission, Decision and Order, November 23, 2011, page 10

Preamble:

At the above noted first reference, NRLP stated that it is requesting an order allowing NRLP to utilize United States Generally Accepted Accounting Principles ("US GAAP") for financial reporting purposes.

At the above noted second reference, the OEB stated the following in a previous decision and order:

> It should be noted that the Board does not regulate the accounting system adopted by any regulated utility for general financial reporting purposes. Unless otherwise constrained by other regulatory requirements, utilities are free to adopt whatever accounting system they choose for such purposes…

Question:

a) Please explain why NRLP is seeking approval to use US GAAP for financial reporting purposes, considering the prior OEB direction at the above noted second reference. This direction was that the OEB "does not regulate the accounting system adopted by any regulated utility for general financial reporting purposes."

Staff-19

Ref: (1) Exhibit A, Tab 6, Schedule 1, Page 1
(2) EB-2011-0268 Hydro One Networks Inc. – Transmission, Decision and Order, November 23, 2011, pp. 5-6

(3) EB-2011-0268 Hydro One Networks Inc. – Transmission, Decision and Order, November 23, 2011, page 12

Preamble:

At the above noted first reference, NRLP stated the following:

> NRLP is seeking permission to US GAAP as its accounting standard for the purpose of rate setting, regulatory accounting, and regulatory reporting as authorized under section 74 of the Act.
>
> In this regard, NRLP relies on the following provision of the Act:
>
> i. Subsection 70(1), which states that a licence under Part V of the OEB Act may prescribe the conditions under which a person may engage in an activity set out in section 57 and such other conditions as are appropriate having regard to the objectives of the Board and the purpose of the Electricity Act, 1998; and
>
> ii. Subsection 70(2), which provides examples of conditions that may be included in a licence, one of which, as set out in paragraph (f), is a condition requiring the licensee to maintain specific accounting records or to prepare accounting recordings according to specified principles.
>
> Both HONI's distribution and transmission businesses have received OEB approval to utilize US GAAP as its approved framework for rate setting, regulatory accounting and regulatory reporting. Approval to use US GAAP for NRLP will facilitate Hydro One Inc.'s consolidated reporting for securities filing purposes, thus avoiding incremental costs and/or reduced productivity.

At the above noted second reference, some of the advantages and disadvantages of Hydro One Networks Inc. Transmission moving to US GAAP were outlined.

At the above noted third reference, the OEB stated the following:

> In summary, the advantages of Hydro One transitioning to [US GAAP] argue in favour of granting the applicant's request to use [US GAAP] for regulatory purposes…

Questions:

a) Please confirm that the advantages and disadvantages of NRLP using US GAAP for regulatory purposes would be similar to those as outlined in the previous Hydro One Networks Inc. Decision and Order referenced above.

b) If this is not the case, please explain.

Staff-20

Ref: (1) EB-2018-0275 Niagara Reinforcement Limited Partnership Decision and Order, Application for a Deferral Account, September 26, 2019, page 2
(2) EB-2018-0275 Niagara Reinforcement Limited Partnership Decision and Order, Application for a Deferral Account, September 26, 2019, page 6
(3) Exhibit A, Tab 3, Schedule 1, Page 16
(4) EB-2018-0275/0276/0278 Application for NRLP and Hydro One Networks Inc. Approvals for the NR Project, August 1, 2019, page 19 and Appendix 5 (page 2)

Preamble:

At the above noted first reference, NRLP stated the following regarding the NRLP deferral account (NRLPDA):

> NRLP's request for the establishment of a new deferral account to record the revenue requirement for the NR project is approved…

At the above noted second reference, NRLP stated the following:

> The effective date of the deferral account is September 1, 2019, as requested by NRLP. The OEB is not approving the calculation of the interim revenue requirement or the specific accounting order put forward by NRLP at this time…

At the above noted third reference, NRLP provided the following table regarding the proposed NRLPDA balance as at December 31. 2019:

Table 8 – Forecast Balance in NRLPDA on December 31 ($ Million)

Components	2019
OM&A	0.28
Depreciation	0.79
Income Taxes	0.03
Return on Capital	3.57
Start-Up and Development Costs Recovery	1.71
Total	**6.38**

At the above noted fourth reference, NRLP indicated that the start-up costs were estimated to be $1.15 million.

Questions:

OEB staff has generated interrogatories below regarding the components of the proposed NRLPDA balance of $6.38 million.

OM&A

a) OEB staff notes that the NRLPDA 2019 OM&A of $0.28 million is calculated by taking the proposed 2020 OM&A of $0.85 million[9] multiplied by 4/12 months. As noted at the above noted second reference, the OEB approved the NRLPDA effective September 1, 2019, so multiplying the proposed amount by 4/12 months may be reasonable.

   i) Please confirm whether NRLP is in agreement with OEB staff's calculations of the NRLPDA 2019 OM&A of $0.28 million.

   ii) If this is not the case, please explain.

Depreciation

b) OEB staff notes that the NRLPDA 2019 depreciation amount of $0.79 million reflects the following:

   - The proposed 2019 capital additions of $119.43 million[10]
   - The multiplication by 50% for the half year rule

[9] Exhibit A, Tab 3, Schedule 1, Page 9, Table 2
[10] Exhibit B, Tab 2, Schedule 1, Page 6

- The division by an average useful life of approximately 76 years

i) Please confirm whether NRLP is in agreement with OEB staff's calculations of the NRLPDA 2019 deprecation of $0.79 million.

ii) If this is not the case, please explain.

iii) Please confirm whether NRLP agrees that the NRLPDA 2019 depreciation should instead be $0.26 million. This amount would be comprised of the proposed NRLPDA 2019 depreciation of $0.79 million multiplied by 4/12 months to reflect the NRLPDA effective date of September 1, 2019.

iv) If this is not the case, please explain.

Income Taxes

c) OEB staff notes that the NRLPDA 2019 income taxes of $0.03 million is calculated by taking the proposed 2020 income taxes of $0.06 million[11] multiplied by 50%.

i) Please provide the rationale for NRLP having multiplied the proposed 2020 income taxes of $0.06 million by 50% to generate the NRLPDA 2019 income taxes of $0.03 million.

ii) Please confirm whether NRLP is in agreement with OEB staff's calculations of the NRLPDA 2019 income taxes of $0.03 million.

iii) If this is not the case, please explain.

iv) Please confirm whether NRLP is in agreement that the NRLPDA 2019 income taxes should instead by $0.02 million. This amount would be comprised of the proposed 2020 income taxes of $0.06 million multiplied by 4/12 months to reflect the NRLPDA effective date of September 1, 2019.

v) If this is not the case, please explain.

[11] Exhibit A, Tab 3, Schedule 1, Page 9, Table 2

Return on Capital

d) Please provide the calculations and rationale for the NRLPDA 2019 return on capital amount of $3.57 million, including any detailed spreadsheet analysis used to arrive at this amount.

Start-Up and Development Costs Recovery

e) Please provide more details on the NRLPDA 2019 Start-Up and Development Costs Recovery amount of $1.71 million, as there is no explanation in NRLP's application, including any detailed spreadsheet analysis used to arrive at this amount.

f) Please explain why the one-time setup cost was previously estimated to be $1.15 million in the deferral account application submitted on August 1, 2019 (as per the above noted fourth reference), and then updated to $1.71 million in the current application submitted on October 25, 2019. Please also explain the delta.

Staff-21

Ref: (1) EB-2018-0275 Niagara Reinforcement Limited Partnership Decision and Order, Application for a Deferral Account, September 26, 2019, page 6

Preamble:

At the above noted reference, the OEB stated that it was not approving "the specific accounting order put forward by NRLP at this time." The OEB also stated that the methodology for recording entries in the deferral account, including the appropriateness of interest charges, was also to "be considered in the proceeding for the revenue requirement planned to be filed in October 2019" (i.e. the current proceeding).

Questions:

a) Please provide NRLP's proposed accounting order for the NRLPDA, as it was not approved in the prior decision and order.

b) Please explain NRLP's rationale for including carrying charges on the NRLPDA.

Staff-22

Ref: (1) EB-2018-0275 Niagara Reinforcement Limited Partnership Decision and Order, Application for a Deferral Account, September 26, 2019, page 4

Preamble:

At the above noted reference, the OEB stated the following in a decision and order:

> As part of its revenue requirement application, NRLP is requesting a new deferral account, the NRP Transmission Line Revenue Deferral Account (NRLPDA), to record the revenue requirement relating to the transmission assets transferred from HONI regarding the NR Project…

Questions:

a) Please confirm that the transmission assets transferred from Hydro One Networks regarding the NR Project have not already been incorporated into a prior OEB approved Hydro One Networks revenue requirement.

b) If the assets have been incorporated into a prior OEB approved Hydro One Networks revenue requirement, please explain.

Staff-23

Ref: (1) Exhibit F, Tab 6, Schedule 1, Page 4
(2) Exhibit B, Tab 2, Schedule 1, Page 4
(3) OEB Letter, Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019
(4) Exhibit H, Tab 1, Schedule 1, Page 6
(5) Exhibit A, Tab 3, Schedule 1, Page 11

Preamble:

At the above noted first reference, NRLP stated the following:

> CCA is calculated on a declining balance and, as a result, the amount of CCA available to reduce taxable income decreases. Under the Accelerated

Investments Incentive program included in the Bill C-97, *the Budget Implementation Act, 2019, No. 1,* it provides for a first-year increase of CCA deductions for eligible capital assets acquired after November 20, 2018, and placed into service prior to January 1, 2028 (Accelerated CCA). Although the NRLP assets were placed into service in 2019, a large percentage of the assets were completed prior to the November 20, 2018 date. As such, only a small portion of the costs incurred during the period from November 21, 2018, to the in-service date would be eligible for the Accelerated CCA. This has been reflected in the computation of the taxable income for the applicable years.

At the above noted second reference, NRLP provided the following table:

Table 1 – Chronology of Project Value for NRP

Reference Point	Project Value	(Planned) In-service Date
Leave to Construct – Jul 2005	$116.0 million	Summer 2007
Project Update Letter – Apr 2018	$129.2 million	May 2019
Current Application	$135.2 million	August 30, 2019

At the above noted third reference, the OEB stated that it “expects Utilities to record the impacts of CCA rule changes in the appropriate account (Account 1592 - PILs and Tax Variances and similar accounts for natural gas utilities and OPG) for the period November 21, 2018 until the effective date of the Utility’s next cost-based rate order.”

At the above noted fourth reference, NRLP has requested an accounting order to reflect Account 1592 which NRLP has been labelled “Tax Rate and Rule Changes Variance Account.”

At the above noted fifth reference NRLP indicated that there is no planned capital spending over the 2020 to 2024 planning period and no capital additions will be incurred.

Questions:

a) Please provide a high level analysis to support NRLP’s assertion at the above noted first reference that a “large percentage of the assets were completed prior to the November 20, 2018 date.” In NRLP’s response, please consider the table it provided at the above noted second reference which shows approximately $6 million more capital expenditures were estimated to be incurred since its evaluation on April 2018, as well as $13.2 million more capital expenditures that were expected to be incurred since its evaluation on July 2005

b) Please explain whether the impacts of the CCA rule change on the relevant capital additions will be included in Account 1592, as well as NRLP's requested accounting order, in 2019. If not, please explain why not.

c) NRLP has forecasted $0 capital additions from 2020 to 2024 and therefore, there will be no accelerated CCA to apply to new additions. Please describe how NRLP plans to implement accelerated CCA for tax purposes if there are capital additions in the next five years.

Staff-24

Ref: (1) Exhibit A, Tab 5, Schedule 1, Page 2
(2) Exhibit F, Tab 6, Schedule 1, Attachment 1

Preamble:

OEB staff has prepared the following table based on information from the above noted references and notes that there are some discrepancies that need to be explained, as follows.

OEB Staff Table A - NRLP Allocations ($ and %) to Affiliates

	Allocation % from Exhibit A, Tab 5, Schedule 1, Page 2 (Organization Chart)	Allocation % of Taxable Income - Based on Column D	Allocation % of Income for Corporate Minimum Tax Calculation - Based on Column E	$ of Taxable Income from Exhibit F, Tab 6, Schedule 1, Attachment 1	$ of Accounting Income for Corporate Minimum Tax Calculation from Exhibit F, Tab 6, Schedule 1, Attachment 1
	A	B	C	D	E
Hydro One Networks Inc	0.0%	54.0%	55.6%	$ (1.75)	$ 2.39
Hydro One B2M LP Inc.	54.9%	0.0%	0.0%	$ -	$ -
Hydro One Indigenous Partnerships GP Inc	0.1%	0.0%	0.0%	$ -	$ -
11100726 Canada Limited (Six Nations)	25.0%	25.6%	24.7%	$ (0.83)	$ 1.06
Mississaugas of the New Credit First Nation Toronto Purchase Trust	20.0%	20.4%	19.8%	$ (0.66)	$ 0.85
	100.0%	100.0%	100.0%	$ (3.24)	$ 4.30

Questions:

a) Please confirm whether NRLP agrees with the calculations in the above OEB Staff Table A. If this is not the case, please explain.

b) Please explain the differences in the allocations of ownership, taxable income, and accounting income.

c) Please explain why taxable income (Column B and Column D) and accounting income (Column C and Column E) are allocated to Hydro One Networks Inc. at the above noted second reference, when Hydro One Networks Inc. is not included on the "Organization Chart for the NRLP Shareholder Structure" (Column A) at the above noted first reference.

Staff-25

Ref: (1) Exhibit B, Tab 2, Schedule 1, Page 6
(2) EB-2006-0117, OEB Letter, November 28, 2006, Approval of Accounting Interest Rates Methodology for Regulatory Accounts
(3) OEB webpage titled "Prescribed Interest Rates for Accounts of Natural Gas and Electricity Distributors"[12]
(4) Accounting Procedures Handbook for Electricity Distributors, December 2011, Article 410, Accounting for Specific Items, Property, Plant & Equipment and Intangible Assets, page 27

Preamble:

At the above noted first reference, NRLP provided the following table regarding borrowing costs related to construction work in progress (CWIP). These borrowing costs are referred to as allowance for funds used during construction (AFUDC).

Table 2 – Annual AFUDC Breakdown

Year	AFUDC ($M)
Up to 2006	5.02
2007- 2017	0.00
2018	4.37
2019	3.01
Total	12.40

At the above noted second reference, the OEB indicated that AFUDC should not be based on the weighted average cost of capital, which would include an equity component. The OEB's current policy can be found at the above noted second

[12] https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates-accounts

reference and reflects only a debt component and excludes an equity component for calculating AFUDC.

The OEB's CWIP rates are based on the following data which can be found at the above noted third reference:

> The prescribed interest rate for the construction work in progress (CWIP) account is equal to the FTSE TMX Canada (formerly DEX) Mid Term Bond Index All Corporate yield.

The OEB's policy regarding AFUDC is further described at the above noted fourth reference as follows:

> Where incurred debt is acquired on an arm's length basis, the actual borrowing costs should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm's length basis, the actual borrowing costs may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, a distributor should use the Board's published rates.

OEB staff notes the following regarding US GAAP and AFUDC which differs from the OEB's policy, as the OEB policy does not allow the inclusion of an equity component. US GAAP ASC 980-835 generally describes that an allowance for funds used during construction, including a designated cost of equity funds, may be capitalized in specified circumstances as part of the acquisition cost of the related asset.

Questions:

a) Please confirm that NRLP's proposed AFUDC amounts of $12.4 million do not reflect an equity component.

b) Please confirm that NRLP's proposed AFUDC amounts of $12.4 million are based on either the OEB's prescribed interest rates for CWIP found at the above noted third reference, or at NRLP's actual borrowing costs. Please explain how NRLP has addressed the OEB's policy at the above noted fourth reference, as the AFUDC borrowing costs depend on whether NRLP's debt is arm's length or non-arm's length.

c) If either of the above items is not the case, please explain and restate the AFUDC.

Staff-26

Ref: (1) Exhibit A, Tab 4, Schedule 1, Page 5 & 6
(2) Exhibit H, Tab 1, Schedule 1, Page 5

Preamble:

At the above noted first reference, NRLP stated the following:

> NRLP proposes to share, with customers, 50% of any earnings that exceed the OEB allowed 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 NRLP's next rebasing. The calculation of the actual ROE for a Test year will use the OEB-approved mid-year rate base for that period.

At the above noted second reference, NRLP provided an accounting order for the ESM deferral account.

Questions:

a) Please clarify what these tax impacts are and what type of adjustments is expected.

b) Please revise the accounting order to include details on the proposed tax adjustment.

c) Please confirm that, if NRLP does incur any capital expenditures added to rate base during the 2020-2024 plan term, it would use the actual mid-year rate base instead of the forecasted rate base.

d) 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

Staff-27

Ref: (1) Exhibit C, Tab 2, Schedule 4, Page 1-3

Preamble:

At the above noted reference, NRLP provided some detail on the calculation of depreciation expense.

Question:

a) Please provide a breakdown of the depreciation schedule by the Uniform System of Accounts (USoA).

Staff-28

Ref: (1) Exhibit A, Tab 3, Schedule 1, pp. 5-6
(2) B2M LP Settlement Proposal (EB-2018-0271), filed January 7, 2019

Preamble:

At reference (1), NRLP states:

> NRLP operates under unique circumstances unlike other transmission companies in Ontario when considering its corporate structure, asset holdings, and operating and management arrangements. NRLP's proposal reflects these circumstances …

NRLP then provides a description of its "unique" circumstances.

OEB staff notes that there is another electricity transmitter, B2M Limited Partnership (B2M LP), similarly owned through a partnership of Hydro One Networks Inc. (Hydro One) and First Nations. B2M LP also owns a single transmission asset, with operations and maintenance provided through service agreements with Hydro One. B2M LP's asset, while slightly older than NRLP's, is still relatively young compared to the expected service life.

B2M LP filed a 5-year (2020-2024) revenue cap application in 2019, with a similar proposed revenue cap formula.[13] B2M LP's application, as updated through the proceeding, forecasts minimal capital expenditures during the plan term. A Settlement Proposal for B2M LP's 2020-2024 revenue cap plan was filed with the OEB on January 7, 2020, and is being deliberated on by the OEB.

Questions:

a) Please identify whether, and if so, how, NRLP's circumstances differ from B2M LP's, in terms of ownership, asset age and condition, operations, etc. Please identify if any differences are material.

b) Through an Alternative Dispute Resolution process, B2M LP intervenors and OEB staff have reached a settlement proposal for a 5-year revenue cap plan with specific parameters. The settlement proposal has been filed with the OEB, and the OEB is currently deliberating on it. A copy of the settlement proposal is included as Attachment 1 to these interrogatories.

    i. Should the OEB accept B2M LP's revenue cap plan per the settlement proposal, please indicate whether a similar framework for the revenue cap plan would be reasonable for the 2020-2024 plan term. OEB staff notes that whether the same parameters should necessarily apply to NRLP will depend on specific information in NRLP's Application, including the responses to OEB staff's interrogatories.

    ii. If NRLP considers that alternative plan parameters and/or conditions than those in B2M LP's settlement proposal would be required, please identify what changes are needed, and the reasons for them.

[13] EB-2019-0178

Attachment 1

B2M Limited Partnership's 2020-2024 Transmission Revenue Cap IR Application – Settlement Proposal EB-2019-0178

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Frank D'Andrea
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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B2M LP
2020-2024 Revenue Requirement
EB-2019-0178

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?

Settled

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?

Settled

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]

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[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.

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[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]

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[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

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[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