Hydro One Networks Inc.
7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5680
Cell: (416) 568-5534
frank.dandrea@HydroOne.com

Frank D'Andrea
Vice President, Reliability Standards and Chief Regulatory Officer

BY EMAIL, COURIER AND RESS

March 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-2018-0275 – Niagara Reinforcement Limited Partnership's 2020-2024 Transmission Revenue Cap IR Application – Settlement Proposal

Pursuant to Procedural Order No. 2 dated January 17, 2020, please find enclosed Niagara Reinforcement Limited Partnership's ("NRLP") 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 February 12, 2020.

Commensurate with the Settlement Agreement, the Parties are requesting that the OEB vary its Decision and Order in EB-2018-0275, issued December 19, 2019. That order required NRLP to record any foregone revenue in the NRLP Deferral Account. However, the Parties have agreed on an alternative method for recording such revenue and request the Board's consideration on the matter. This is discussed in further detail in the preamble section as well as under Issue 14 of the Settlement Agreement.

This filing has been submitted electronically using the OEB's Regulatory Electronic Submission System and two (2) copies will be sent via courier.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea
Submitting on behalf of NRLP

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

SETTLEMENT AGREEMENT

EB-2018-0275
Niagara Reinforcement Limited Partnership
2020-2024 Revenue Requirement

March 6, 2020

TABLE OF CONTENTS

NRLP
2020-2024 Revenue Requirement
EB-2018-0275

SETTLEMENT AGREEMENT

PREAMBLE:

This Settlement Agreement is filed with the Ontario Energy Board ("OEB") in connection with the application by Niagara Reinforcement Limited Partnership ("NRLP") for an Order or Orders approving its proposed revenue requirement for the 2020 to 2024 period (the "Application").

NRLP is a partnership between Hydro One Indigenous Partnerships Inc. ("HOIP"), Hydro One Networks Inc. ("HONI"), Six Nations of the Grand River Development Corporation ("SNGRDC"), and the Mississaugas of the Credit First Nation ("MCFN"). NRLP owns assets that are located in southern Ontario in the Niagara region, comprised of a 76 km double circuit 230 kV transmission line, primarily connecting the Allanburg Transformer Station and the Middleport Transformer Station. NRLP's assets were placed in-service on August 30, 2019.

Further to the OEB's Procedural Order No. 2 issued January 17, 2020, a Settlement Conference was held on February 12, 2020, with the assistance of a neutral third-party facilitator, in accordance with the OEB's *Rules of Practice and Procedure* and the OEB's *Practice Direction on Settlement Conferences*.

NRLP and Ontario Energy Board Staff ("OEB staff") (collectively, the "Parties") participated in the Settlement Conference. Procedural Order No. 2, issued on January 17, 2020, established that OEB staff would be a party to the Settlement Conference and any settlement proposal arising from the Settlement Conference. There were no registered intervenors in this proceeding.

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 a submission from OEB staff will not be required. For the purpose of the settlement, Parties agreed to use the draft issues list proposed by NRLP in the Application in addition to three further issues that were introduced by OEB staff.

This Settlement Agreement provides a brief description of each of the settled issues, together with references to the evidence filed. The Parties agree that the evidence in respect of each settled issue, as supplemented in some instances by additional information recorded in this Settlement Agreement, supports the proposed settlement. In addition, the 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 agree that no settled issues need 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 Settlement 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 collectively 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.

As described in more detail under Issue #14, the Parties agree that is appropriate to request that the OEB vary its Decision and Order[1] that required NRLP to record any foregone revenue in the NRLP Deferral Account (NRLPDA). The Parties request that the OEB consider one of the following three alternatives to address this issue:

1. The OEB may approve a motion to vary under Rule 41
2. The OEB may cancel on its own motion the portion of the previous decision related to foregone revenue
3. The OEB may approve the clearing of the portion of the NRLPDA related to foregone revenue as part of the final 2020 Uniform Transmission Rates ("UTRs")

OVERVIEW:

Below is a summary of key aspects of NRLP's Application and the Settlement Agreement:

Base revenue requirement: The base 2020 revenue requirement is $8.66 million. With the OEB's release of the 2020 capital cost parameters, at Exhibit I, Tab 1, Schedule 17, NRLP updated its test year 2020 base revenue requirement from $9.39 million, as included in evidence, to $8.66 million.

Revenue cap index: To establish the annual revenue requirement for each of 2021 to 2024, NRLP 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

[1] EB-2018-0275 Niagara Reinforcement Limited Partnership, Decision and Order on Interim Revenue Requirement, December 19, 2019, page 2

is expressed as RCI = I – X, where "I" is the Inflation Factor, based on HONI's custom weighted two-factor input price index, and "X" is the Productivity Factor.
NRLP proposed to adopt the RCI Inflation Factor ("I") parameter proposed by HONI in its current transmission rates proceeding (EB-2019-0082), to be consistent with the transmission sector. In the Application, NRLP proposed a 0% Productivity Factor ("X") to be applied annually over the 2021 to 2024 period. The proposal also includes an Earnings Sharing Mechanism ("ESM") intended to protect customers by sharing with customers 50% of earnings that exceed the OEB-approved return on equity by more than 100 basis points in any year of the Revenue Cap Index term.

NRLP, in lieu of an X Factor, agreed during the Settlement Conference to include a capital adjustment factor (the "Settlement Capital Adjustment Factor") to account for NRLP's circumstances wherein the rate base of the company, and the resulting costs of capital, generally decline over time. As a result, the Parties agree that NRLP will apply a Settlement Capital Adjustment Factor of 0.6%.

In addition, given NRLP is a new entity with no capital investments forecasted over the period of the Application (2020-2024), and that OM&A expenses are predominantly managed through a Service Level Agreement ("SLA") with HONI, the Parties agreed that an equal sharing of the RCI inflation factor more appropriately reflected the costs of the entity in 2021 through to 2024. Therefore, the I factor of the Revenue Cap Index will equal the HONI Input Price Index multiplied by 50%.

The revenue cap index as agreed to by the Parties will therefore be written as RCI = (0.5 x I) – SCAF, where:

- "I" is the Inflation Factor, based on HONI's custom weighted two-factor input price index; and
- "SCAF" is the Settlement Capital Adjustment Factor, which the Parties agree should be set to equal 0.6%.

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

Performance monitoring and reporting: NRLP agreed that it would provide two additional performance metrics that measure interruptions to Hydro One delivery points caused by NRLP's circuits. These other metrics are described under Issue 8, below.

The particulars of the Settlement Agreement are detailed below by issue, as set out in the draft issues list of the Application (issues 1-15), together with the three additional issues proposed by OEB staff (issues 16-18). Parties reached agreement on all issues and OEB staff was the sole representative for customers. Therefore, each issue below omits the distinct listing of Supporting Parties.

A. GENERAL

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

<u>Settled</u>

In its Application, NRLP proposed a 2020 base revenue requirement of $9.39 million. With the OEB's issuance of its approved cost of capital parameters for rates effective 2020, through interrogatory responses, NRLP revised its 2020 test year base revenue requirement to $8.66 million to reflect these updates.

The 2020 revenue requirements shown in Tables 1 and 2 reflect the updated cost of capital parameters.[2]

Table 1 – Revenue Requirement ($ Millions)

Components	2020
OM&A	0.85
Depreciation	1.59
Income Taxes	0.06
Return on Capital	6.16
Total Revenue Requirement	**8.66**
Deduct Regulatory Accounts Disposition/Foregone/Other	4.50
Rates Revenue Requirement	**13.16**

Table 2 - Return on Capital ($ Millions)

	2020
Return on Debt	2.14
Return on Equity	4.02
Return on Capital	**6.16**

Table 3 illustrates the average net bill impacts for transmission and distribution customers.

[2] Exhibit I, Tab 1, Schedule 17 part e.

Table 3: Average Bill Impacts on Transmission and Distribution-Connected Customers

	2019	2020 (Note)	2021	2022	2023	2024
Rates Revenue Requirement ($Millions)	0.0	13.2	8.7	8.7	8.7	8.8
% Increase in Rates Revenue Requirement over prior year		N/A*	-34.0%	0.3%	0.3%	0.3%
% Impact of load forecast change		0.0%	0.0%	0.0%	0.0%	0.0%
Net Impact on Average Transmission Rates		0.79%	-0.27%	0.00%	0.00%	0.00%
Transmission as a % of Tx-connected customer's Total Bill		8.2%	8.2%	8.2%	8.2%	8.2%
Estimated Average Bill impact		0.06%	-0.02%	0.00%	0.00%	0.00%
Transmission as a % of Dx-connected customer's Total Bill		6.8%	6.8%	6.8%	6.8%	6.8%
Estimated Average Bill impact		0.05%	-0.02%	0.00%	0.00%	0.00%

Note: 2020 Rates Revenue Requirement per Table 1,
*N/A as 2019 rates revenue requirement is zero.

The Parties agree that, as modified by the Settlement Agreement and as demonstrated in Tables 1-3, 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; B-01-01; B-01-03; 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-03-01; F-05-01; F-06-01; F-06-01-01_02; G-01-01; G-01-02; G-01-03; I-04-01; I-04-01-01; I-04-01-02

Interrogatories

I-01-17; I-01-28

B. REVENUE REQUIREMENT

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

Settled

The OEB's *Handbook for Utility Rate Applications* ("Rate Handbook") establishes an outcomes-based approach that provides flexibility in rate-setting options for utilities. It sets out the OEB's expectation that utilities are to demonstrate ongoing continuous improvement in their productivity and cost performance while delivering on system reliability and quality objectives. The Rate Handbook notes that utilities are expected to demonstrate sustainable improvements in their efficiency and in doing so 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.[3]

The Parties agree that, when modified by the Settlement Agreement as described in Issues 3 and 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-01-07; I-01-08; I-01-17

[3] OEB Rate Handbook, p. 3

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

Settled

To establish the annual revenue requirement for years 2021 to 2024, NRLP 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 HONI's custom weighted two-factor input price index, and "X" is the Productivity Factor. In the Application, NRLP proposed a 0% Productivity Factor ("X") to be applied annually over the 2021 to 2024 period.

NRLP agreed during the Settlement Conference that in lieu of a Productivity Factor, a capital adjustment factor (the "Settlement Capital Adjustment Factor") should be applied. This was deemed appropriate given NRLP's circumstances wherein the rate base of the company, and the resulting capital costs, generally decline over time. The Parties agree that NRLP will apply a Settlement Capital Adjustment Factor of 0.6%, consistent with the Settlement Capital Adjustment Factor approved by the OEB for B2M Limited Partnership[4].

In addition, given NRLP is a new entity with no capital investments forecast over the period of the Application (2020-2024) and that OM&A expenses are predominantly managed through an SLA with HONI, the parties agreed that an equal sharing of the RCI inflation factor more appropriately reflected the costs of the entity in 2021 through to 2024.

The revenue cap index as agreed to by the Parties will therefore be written as RCI = (0.5 x I) – SCAF, where:

- "I" is the Inflation Factor, based on HONI's custom weighted two-factor input price index; and
- "SCAF" is the Settlement Capital Adjustment Factor, which the Parties agree should be set to equal 0.6%.

---

[4] EB-2019-0178 – Decision and Order

The proposed methodology is generally consistent with that approved by the OEB for B2M LP[5]. However, the additional reduction of half of the Inflation Factor has been introduced in order to reflect the specific circumstances of NRLP. Specifically, there are no capital investments forecast over the period of the Application (2020-2024) and OM&A expenses, which make up a small portion of NRLP's annual revenue requirement, are predominantly managed through an SLA.

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

Pre-Filed Evidence

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

Interrogatories

I-01-02; I-01-07; I-01-08; I-01-17; I-01-28

[5] EB-2019-0178

4. **Are the proposed annual updates appropriate?**

<u>Settled</u>

NRLP proposes to update the industry-specific inflation factor annually, based on the methodology set out in Exhibit A, Tab 4, Schedule 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 Inflation Factor proposed by NRLP, and agreed to by the Parties of 0.5 x I, will be calculated consistent with the latest information proposed by HONI in its most recent transmission rate filing, EB-2019-0082, where I is 1.8% for 2020.

The Parties agree to NRLP's proposed RCI Inflation Factor parameter annual adjustment and 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

5. Is the proposed Earnings Sharing Mechanism appropriate?

Settled

NRLP 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 NRLP's next rebasing. The calculation of the actual ROE for a given year will use the actual mid-year rate base for that period.

An Accounting Order supporting the ESM is included as an Attachment to this Settlement Agreement.

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-01-07; I-01-13; I-01-26

C. TRANSMISSION SYSTEM PLAN

6. Has the investment planning process been appropriately considered? Does it adequately address the condition of the transmission system assets?

Settled

NRLP's assets are comprised of a 76 km double circuit 230 kV transmission line connecting Allanburg Transformer Station and Middleport Transformer Station. Given the vintage of this line, that was placed in-service on August 30, 2019[6], no planned capital spending is forecast to be required to meet NRLP's business objectives over the 2020-2024 planning period. The forecasted ongoing OM&A expenses comprise a relatively small proportion of NRLP's request as expenditures in 2020 represent less than 10% of the total base revenue requirement. The Parties agree that the proposed OM&A should provide the funds necessary for NRLP to operate and maintain its assets in accordance with good utility practice and reliability standards.[7]

The Parties support NRLP's determination that no capital expenditures are necessary over the 2020-2024 planning period, and support NRLP's Transmission System Plan, and consider this issue settled.

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-01-02; I-01-10; I-01-11; I-01-12; I-01-23; I-01-28;

---

[6] Exhibit B, Tab 2, Schedule 1
[7] Exhibit B, Tab 1, Schedule 3, Attachment 1

D. PERFORMANCE

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

Settled

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

> 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 solely 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.

Transmission SAIDI and SAIFI (respectively, T-SAIDI and T-SAIFI) measure interruptions at delivery points in the system. The number of delivery points is the denominator of the equation. NRLP has no delivery points and therefore is unable to calculate T-SAIDI or T-SAIFI for its circuits independently.

To demonstrate performance, NRLP will measure Average System Availability (ASA). Measurement of ASA is not reliant on a delivery point (customer). Rather, this metric focuses on equipment performance, i.e., the availability of NRLP's circuits, and is therefore an appropriate indicator given NRLP's circumstance.

Further, the Parties agree that, in the absence of T-SAIDI and T-SAIFI metrics, NRLP will provide additional information, on a best efforts basis, to demonstrate the performance of NRLP's transmission circuits. NRLP agreed that it would provide two performance metrics, which measure interruptions to HONI delivery points caused by NRLP's circuits. The proposed contribution measures would not be NRLP's true T-SAIDI and T-SAIFI measure because NRLP has no delivery points, but the denominator would be all HONI delivery points. The formulas for the two proposed measures are:

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

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

Where:

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

The Parties agree that with the above measures added to the performance measures initially proposed by NRLP, 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-01-06; I-01-12; I-01-13

E. OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

8. 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 $0.85 million. As shown in evidence[8], less than 40% of those costs are "Incremental Expenses" and the remainder of the total OM&A forecast for 2020 relates to "Service Level Agreement Costs".

NRLP's "Service Level Agreement Costs" arise from the SLA executed between HONI and NRLP and consist primarily of Operating Services and Maintenance Services performed by HONI on behalf of NRLP.

NRLP's "Incremental Expenses" relate to functions that must be executed by NRLP outside of the SLA with HONI. These include insurance, regulatory and administrative expenses and an annual budget for the NRLP Managing Director's Office.

The Parties agree that the proposed spending level of $0.85 million for OM&A in 2020, which is less than 10% of NRLP's total requested revenue requirement, is appropriate. Agreement was reached following 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-01-07; I-01-10; I-01-11; I-01-15; I-01-17; I-01-28

---

[8] Exhibit F, Tab 2, Schedule 1

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

Settled

As a limited partnership, NRLP 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 NRLP's net income is borne by HOIP and HONI through the allocation of taxable income. Mississaugas of the Credit First Nation Toronto Purchase Trust and 11100726 Canada Limited are tax-exempt entities and, as such, are not subject to tax[9].

The Parties agree that the amounts proposed of $0.06 million for 2020 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_02

Interrogatories

I-01-20; I-01-23; I-01-24; I-01-26; I-01-28

[9] Exhibit F, Tab 6, Schedule 1

10. Is the proposed depreciation expense appropriate?

Settled

NRLP's projected depreciation expense for 2020 is $1.59 million[10].

The Parties agree that the proposed depreciation expense of $1.59 million for 2020 is reasonable.

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

Pre-Filed Evidence

F-01-01; F-05-01; F-06-01-01; F-06-01-02

Interrogatories

I-01-17; I-01-20; I-01-27

[10] Exhibit I, Tab 1, Schedule 17 part e

F. RATE BASE AND COST OF CAPITAL

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

Settled

The Parties agree that final project costs of $135.2 million and the proposed rate base of $119.4 million are appropriate. In making this determination, Parties considered investments from two perspectives: amounts spent prior to the 2006 land dispute; and amounts spent since then in order to complete the project. In its application, NRLP indicated these amounts totaled $98.2 million and $37 million, respectively.

The OEB's Decision on Hydro One's 2007 and 2008 Electricity Transmission Revenue Requirement[11] included the following finding with respect to NRLP's pre-2006 investments:

> The Board accepts that the need for NRP should be assessed based on the circumstances that existed at the time the project was initially conceived and the information available at that time. For this project, the relevant time period was 2004/2005. When the historical context is taken into account, the economic evaluation provided by the Company is sufficiently persuasive to allow the Board to make this finding. The Board accepts the expenditures associated with the project as prudent, and requires no further analysis from Hydro One to justify the expenditures incurred to date.[12]

NRLP described the benefits associated with the project in interrogatory responses, confirming the value of having undertaken this project. Among other benefits, NRLP indicates that the line:

1. Increases transmission capability between New York state and Ontario
2. Facilitates connection of new renewable or clean energy projects in the Niagara area
3. Increases transfer capability to the rest of the Ontario system by approximately 700 MW

[11] EB-2006-0501
[12] EB-2006-0501 Decision with Reasons, p. 47

4. Allows for more cost effective and timely refurbishment of the "very critical" Sir Adam Beck II transmission station.

The additional $37 million investment represents the amounts spent to complete the project following resolution of the land claim dispute. Of this $37 million, NRLP proposes to allocate $21.2 million to its rate base with the remainder ($15.8 million[13]) being assigned to Hydro One's rate base. NRLP's proposed rate base of $119.4 million is the sum of the pre-2006 expenditure of $98.2 million and the $21.2 million.

The original leave to construct application[14] provided an initial project cost estimate of $116 million. NRLP indicated the primary reason for the increased costs was simple inflation - specifically, that the costs of labour and materials required to complete the line had increased over the 14-year period between the original estimate and the final construction cost. Further, NRLP indicated that it had encountered the following unforeseen project challenges that required investments to remediate, putting additional upward pressure on project costs:

- Rebuilding of 13 towers and related line rework due to vandalism at a cost of $10.2 million
- Restringing 1.2 km of transmission line due to damage caused by conductor creep at a cost of $1 million
- Repurchase of tower steel and insulators due to vandalism and theft at a cost of $1.7 million
- Protection changes due to Generator connection at a cost of $1.5 million

The additional $21.2 million in costs incurred by NRLP to complete the line were largely attributable to the above listed cost drivers. Responses to interrogatories demonstrated that these cost drivers were reasonable.

NRLP's deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base, where the 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt. This structure is consistent with the OEB's report on the Cost of Capital for Ontario's Regulated Utilities, dated December 11, 2009 (EB-

[13] Primarily relates to station assets and optical ground wire that will continue to be owned by Hydro One.
[14] EB-2004-0476

2009-0084), and its subsequent Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities, dated January 14, 2016.

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

Pre-filed Evidence

B-2-1

Interrogatories

I-1-2; Exhibit-I-01-02 Attachment 3; Exhibit-I-01-02 Attachment 7; I-1-3; I-1-4

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

Settled

NRLP's forecast yields are shown in the table below[15].

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 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.

Based on updated forecast rates, NRLP has calculated the weighted average debt rate to be 3.05% for 2020, and the forecast long-term debt rate is 2.94% for 2021.

NRLP's proposed 2020 cost of capital is shown in the table below.[16]

---

[15] Exhibit I, Tab 1, Schedule 17
[16] Exhibit I, Tab 1, Schedule 17, part d

Table 5: 2020 Cost of Capital

2020				
Amount of Deemed Return	**($M)**	**%**	**Cost Rate (%)**	**Return ($M)**
Long-term debt	65.99	56%	3.05%	2.01
Short-term debt	4.71	4%	2.75%	0.13
Common equity	47.14	40%	8.52%	4.02
Total	117.84	100%	5.23%	6.16

The Parties agree that the forecast of long-term debt, as updated in Exhibit I, Tab 1, Schedule 17, for 2020 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-01-17; I-01-25

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

Settled

Currently, NRLP does not have any actual existing debt at third-party market rates. Following the transfer of assets on September 18, 2019, NRLP issued a note in the amount of $66.9 million, representing 56% of NRLP's rate base, bearing interest at 4.13%. This rate reflects the OEB's deemed long-term debt rate for 2019. This note is planned to be refinanced during 2020 with debt issued by NRLP to Hydro One Inc. or an affiliate. The refinancing debt issue will mirror the terms included in an actual debt issue planned to be issued by Hydro One Inc. to third party public debt investors. The timing of the refinancing is expected to coincide with B2M LP's debt refinancing. Combining the debt issues will help to lower overall debt issue costs for ratepayers. This is expected to occur in mid-2020.

To reflect the terms of the external issue in its revenue requirement, NRLP proposes to make a one-time update of the cost of long-term debt at the first annual update of rates for 2021. This update will include the actual market rate achieved on the long-term debt to be issued in 2020. 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-01-17

G. DEFERRAL/VARIANCE ACCOUNTS

14. Are the proposed deferral and variance accounts appropriate?

Settled

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

NRLP also proposes to establish a new Tax Rate and Rule Changes Variance Account, effective January 1, 2020. The account shall track the revenue requirement impact of legislative or regulatory changes to tax rates or rules compared to costs approved by the OEB as part of 2020 to 2024 transmission rates, and differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

NRLP has received approval from the OEB[17] to establish the NRLPDA to record the revenue requirement for the transmission assets that were placed in-service on August 30, 2019. The NRLPDA is to record this interim revenue requirement effective September 1, 2019 until the OEB-approved effective date of the revenue requirement to be approved in the current proceeding.

In NRLP's pre-filed evidence in the current proceeding,[18] it proposed to expand the scope of the NRLPDA to include foregone revenue. In the OEB's decision and order[19] on NRLP's interim revenue requirement, the OEB ordered the following, regarding any potential foregone revenue:

---

[17] EB-2018-0275 Niagara Reinforcement Limited Partnership Decision and Order, Application for a Deferral Account, September 26, 2019, page 5 & 6
[18] Exhibit A, Tab 2, Schedule 1, Page 3 & 4
[19] EB-2018-0275 Niagara Reinforcement Limited Partnership, Decision and Order on Interim Revenue Requirement, December 19, 2019, page 2

> Niagara Reinforcement Limited Partnership will record any differences between the interim and final approved revenue requirement in the NRP Transmission Line Revenue Deferral Account and propose disposition of the account no later than through its 2021 rates application.

The Parties agree that is appropriate to request that the OEB vary its decision and order that required NRLP to record any foregone revenue in the NRLPDA. The Parties agree that, instead, a different mechanism for recording the foregone revenue is appropriate. For previous cases such as B2M LP,[20] foregone revenue was independently tracked without a deferral account and will instead be captured in a revised revenue requirement to be included in the final 2020 UTRs.

The Parties agree that this different mechanism is also appropriate for NRLP and requests the OEB's approval of this mechanism. The Parties note that the 2020 UTRs were declared interim by the OEB.[21] When the 2020 UTRs are declared final, any foregone revenue for NRLP between the effective date of January 1, 2020 and the implementation date of the final 2020 UTRs will be recovered by NRLP during the period between the implementation date of the final 2020 UTRs and December 31, 2020. As a result, the Parties agree that continuance of the NRLPDA is not required.

The parties agree that the newly-proposed deferral accounts are appropriate and a draft accounting order for each deferral account is attached to this Settlement Agreement for ease of reference

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-01-20; I-01-26

[20] EB-2019-0178
[21] EB-2019-0296, 2020 Uniform Transmission Rates, Decision and Interim Rate Order, December 19, 2019

H. COST ALLOCATION

15. Is the proposed cost allocation appropriate?

Settled

All assets associated with NRLP are classified as Network assets, consistent with the cost allocation methodology approved by the OEB for HONI's most recently approved transmission rate application[22]. All of the rates revenue requirement associated with NRLP'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-03-01; I-04-01-01; I-04-01-02

Interrogatories

None

[22] EB-2016-0160

I. ADDITIONAL ISSUES PROPOSED BY OEB STAFF

16. Is the proposed effective date of January 1, 2020, appropriate?

Settled

Although it is atypical that a revenue requirement application filed so late in the preceding year (October 25, 2019) would be afforded a January 1, 2020, effective date, the circumstances specific to NRLP are just as atypical. The entity is newly licensed, receiving its Transmitter licence on September 12, 2019, and the assets it operates were only in-service as of August 30, 2019.

Given this information, the parties agree that the effective date of January 1, 2020, is appropriate.

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

Pre-Filed Evidence

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

Interrogatories

None

17. Is NRLP's proposal to use US GAAP for purposes of rate-setting, regulatory accounting, and regulatory reporting appropriate?

Settled

HONI is currently using US GAAP as its approved framework for rate setting, regulatory accounting, and regulatory reporting. Therefore, it is beneficial for NRLP to do the same. This simplifies Hydro One Inc.'s consolidated reporting for securities filing purposes, thus avoiding incremental costs, increased regulatory burden and/or reduced productivity. HONI and B2M LP (which together account for approximately 96% of Ontario's transmission capacity) currently use US GAAP. NextBridge Infrastructure LP also has received OEB approval to utilize US GAAP for rate setting, regulatory accounting, and regulatory reporting[23]. This further supports the application of a consistent standard.

For these reasons, the Parties agree that the adoption by NRLP of US GAAP for rate setting, regulatory accounting, and regulatory reporting is appropriate.

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

Pre-Filed Evidence

A-03-01; A-06-01; F-06-01

Interrogatories

I-01-18, I-01-19, I-01-20

[23] EB-2014-0282 – Decision and Order

18. Is NRLP's proposal to dispose of the December 31, 2019 balance in the NRLP Deferral Account (NRLPDA) appropriate?

Settled

The Parties agree that NRLP's proposal to recover the 2019 audited revenue requirement associated with the NRLPDA are appropriate. The current, unaudited value of the NRLPDA is $4.50 million as at December 31, 2019. The Parties submit that the continuance of the NRLPDA is not required, as discussed in more detail under Issue #14.

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

Pre-Filed Evidence

H-01-01; H-01-02

Interrogatories

I-01-20; I-01-21; I-01-22; I-01-26

Transmission Accounting Order – ESM Deferral Account

The "Earnings Sharing Mechanism ("ESM") Deferral Account" shall record 50% of earnings that exceed the regulatory return on equity (ROE) reflected in this Application by more than 100 basis points in any year of the five-year term through NRLP's transmission revenue. NRLP shall use a methodology which is similar to what is outlined in the annual RRR 2.1.5.6 filing. The calculation of actual ROE shall use the actual mid-year rate base for that period. The ROE calculation shall be normalized for revenue impacting items such as entries that are recorded in the year which relate to prior years to normalize the in-year net income. The portion of NRLP owned by Hydro One is subject to tax - this cost will be included as part of the calculation of ROE.

The account will be established as Account 2435, Accrued Rate-Payer Benefit effective January 1, 2020. NRLP shall record interest on any balance in the sub-account using the interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this deferral account.

USofA #	**Account Description**
DR: 4395	Rate-Payer Benefit Including Interest
CR: 2435	Accrued Rate-Payer Benefit

Initial entry to record the over-earnings realized in any year of the five-year term.

USofA #	**Account Description**
DR: 4395	Rate-Payer Benefit Including Interest
CR: 2435	Accrued Rate Payer Benefit

To record interest improvement on principal balance of ESM deferral account.

Transmission Accounting Order – Tax Rate and Rule Changes Variance Account

NRLP proposes the establishment of a new "Tax Rate and Rule Changes Variance Account" to track the revenue requirement impact of legislative or regulatory changes to tax rates or rules compared to costs approved by the OEB in NRLP's 2020 to 2024 transmission rates.

The account will be established as Account 1592, PILS and Tax Variances for 2006 and Subsequent Years effective January 1, 2020. NRLP will record interest on any balance in the sub-account using the interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this variance account.

USofA #	**Account Description**
DR: 1592	PILS and Tax Variances for 2006 and Subsequent Years
CR: 4110	Transmission Services Revenue

Initial entry to record the revenue requirement impact of legislative or regulatory changes to tax rates or rules compared to costs approved by the OEB.

USofA #	**Account Description**
DR: 1592	PILS and Tax Variances for 2006 and Subsequent Years
CR: 6035	Other Interest Expense

To record interest improvement on the principal balance of the tax rate and rule changes variance account.

TRANSMISSION ACCOUNTING ORDER

NRP Transmission Line Revenue Requirement Deferral Account

NRLP proposes the establishment of a new "NRP Transmission Line Revenue Requirement Deferral Account" to capture the preliminary revenue requirement relating to the operation associated with this project before such time that a S.78 Revenue Requirement application can be approved by the OEB and the associated Revenue Requirement can be included in the Uniform Transmission rates ("UTR") rates.

The account will be established as Account 1508, Other Regulatory Assets – Sub Account "NRP Transmission Line Revenue Requirement Deferral Account" effective September 1, 2019 to December 31, 2019. NRLP will record interest on the balance in the sub-account using the prescribed interest rates set by the Board. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this account:

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub account "NRP Transmission Line Revenue Requirement Deferral Account"
Cr: 4110	Transmission Service Revenue

To record the revenue related to NRLP's 2019 Interim Revenue Requirement for the NRP transmission facilities.

Dr: 1508	Other Regulatory Assets – Sub account "NRP Transmission Line Revenue Requirement Deferral Account"
Cr: 6035	Other Interest Expense

To record interest improvement on the principal balance of the "NRP Transmission Line Revenue Requirement Deferral Account".