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BY EMAIL AND RESS

October 23, 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-2020-0225 – Niagara Reinforcement Limited Partnership’s 2021 Transmission Revenue Requirement Application – OEB Staff Questions - Responses

Hydro One Networks Inc. on behalf of Niagara Reinforcement Limited Partnership (“NRLP”), is submitting responses to the Ontario Energy Board (“OEB”) Staff questions received October 14, 2020 on NRLP’s annual Transmission Revenue Cap IR Application.

As described and revised in response to OEB Staff Question #2, minor typographical errors were identified at Page 4 of Exhibit A, Tab 4, Schedule 1 of the Application. These have been corrected and updated in the Application.

An electronic copy of the responses and the updated Application has been submitted using the Board’s Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in black ink, appearing to read "Joanne Richardson".

Joanne Richardson

cc. Andrew Bishop

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OEB STAFF QUESTIONS #1

Reference:

Exhibit A/Tab 03/Schedule 01/Attachment 1, page 1 of 1 (Table: Niagara Reinforcement Limited Partnership Cost of Long-Term Debt Capital 2021 Year ending December 31)

Question:

OEB staff was unable to replicate the calculations shown in columns (g), (h), (l) and (m) of the table (lines 1,2,3,4 and 7).

If the results do not align because of rounding, please confirm and provide the table at a resolution (i.e. at the right number of decimal places) that will allow OEB staff to trace the calculations. If rounding is not to blame, please clarify.

Response:

NRLP confirms that the results do not align because of rounding. Please see Attachment 1 of this response for the Excel file of the above-referenced prefiled evidence, Exhibit A, Tab 3, Schedule 1, Attachment 1.

1 **OEB STAFF QUESTION #2**

2
3 **Reference:**

4 Exhibit A/Tab 3/Schedule 1, page 2 of 2, Table 1 - Adjusted Weighted Average of Long
5 Term Debt Rate;

6
7 Exhibit A/Tab 4/Schedule 1, page 4 of 9, Table 2 – 2021 Base Revenue Requirement

8
9 **Question:**

10 Please further clarify how NRLP's debt refinancing in 2020 results in the revenue
11 requirement proposed by NRLP for 2021 and how it results in a reduction of \$311,396
12 compared to NRLP's approved 2020 revenue requirement.

13
14 **Response:**

15 In responding to this question, NRLP has recognized that there are minor typos in Table 2
16 of Exhibit A, Tab 4, Schedule 1 that require correction.

17
18 Specifically, the long-term debt rate adjustment for the 2021 revenue requirement
19 calculation should be \$311,393 not \$311,396. This results in an immaterial change to the
20 adjusted 2020 base revenue requirement of \$3, and should read as \$8,350,774 not
21 \$8,350,771. Lastly, the RCI is currently displayed as 1.03%¹ in the table and should
22 actually be expressed as 1.003 for the purposes of the calculation. The typos are limited to
23 this Table and do not impact any other component of the Application. An update to this
24 Table is provided below identifying the rows that have been modified and will also be
25 updated in the Application and Evidence.

¹ Should be 0.03%

Table 2 – 2021 Base Revenue Requirement

Year	Formula	Base Revenue Requirement
2020	OEB-approved revenue requirement	\$8,662,167 ²
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation	\$311,393
2020	Base reset for reduction in long-term debt rate ³ (impact of long-term debt rate being updated for 2021 to 2024)	\$8,350,774 ⁴
2021	2020 Base Revenue Requirement x RCI* = \$8,350,774 x 1.003	\$8,375,826

* RCI from Table 1.

With respect to the question posed, as discussed at Exhibit A, Tab 3, Schedule 1, Page 2, at the time of filing NRLP’s initial revenue requirement application reviewed under docket EB-2018-0275, NRLP did not have any actual existing debt at third-party market rates. Thus, NRLP used the OEB’s deemed long-term debt rate for debt up to April 29, 2020, and a forecast of the debt refinancing scheduled for April 30, 2020.

Given the aforementioned, NRLP had forecast a weighted average cost of long-term debt of 3.05% for 2020 which was agreed to by all parties in the Settlement Agreement⁵. It was also agreed by all parties that 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 2021⁶. The OEB directed the same as part of its decision and order⁷.

After refinancing of the debt, an updated weighted average LTD rate for 2020 was calculated using the rates included in the new financing. This calculation reduced the previously approved cost of long-term debt from 3.05% to 2.58%. The calculation supporting the updated weighted average LTD rate for 2020 is provided at Exhibit A, Tab 3, Schedule 1, page 2 of 2, Table 1. For clarity, the calculation for the weighted average long-term debt rate for 2020 is detailed below:

² OEB-Approved 2020 Base Revenue Requirement utilizing deemed LTD rate of 3.05%

³ Refer to Exhibit A, Tab 3, Schedule 1, and Exhibit A, Tab 3, Schedule 1, Attachment 1 for the calculation of the 2021 LTD rate.

⁴ Adjusted 2020 Base Revenue Requirement utilizing weighted average LTD rate of 2.58% as described in Exhibit A, Tab 3, Schedule 1.

⁵ EB-2018-0275 – Exhibit J, Tab 1, Schedule 1 – Page 26 of 33 – Filed March 6, 2020

⁶ Ibid – Page 7 of 33 – Filed March 6, 2020

⁷ EB-2018-0275 - Decision and Order - Page 4 – Issued April 9, 2020

1 (OEB-deemed LTD rate x months of year + refinanced LTD rate x months
2 of year) / 12 months = weighted average long-term debt rate for 2020.

3
4 $(3.05\% \times 4 \text{ months}^8 + 2.34\% \times 8 \text{ months}) / 12 \text{ months} = 2.58\%$

5
6 As described in Exhibit A, Tab 4, Schedule 1, Table 2, the updated weighted average LTD
7 rate for 2020 of 2.58% results in an adjustment that reduces the 2020 base revenue
8 requirement by \$311,393. The adjusted base revenue requirement for 2020 is \$8,350,774.
9 This base revenue requirement is the starting point to formulaically apply the RCI for 2021
10 and in each subsequent year through to 2024.

11
12 As described in Exhibit A, Tab 4, Schedule 1, Table 2, applying the NRLP specific RCI of
13 1.003 to the adjusted base revenue requirement for 2020 of \$8,350,774, results in 2021
14 base revenue requirement of \$8,375,826 for 2021.

⁸ NRLP used the OEB's deemed long-term debt rate for debt up to April 29, 2020

1 **OEB STAFF QUESTION #3**

2
3 **Reference:**

4 Exhibit A/Tab 4/Schedule 1, pages 8-9 of 9

5
6 **Question:**

7 NRLP discusses forgone revenues approved by the OEB at the above reference, including
8 forgone revenues related to 2019. NRLP indicates that it expects “to file these amounts
9 and supporting schedules at the time of the 2021 UTR rate-setting process”. Elsewhere,
10 NRLP states that it “plans to submit the full-year 2020 foregone revenue and accrued
11 interest for disposition as part of the process for establishing 2021 UTRs”.

12
13 Please clarify which forgone revenues discussed by NRLP at the above reference will be
14 filed by NRLP at the time of the 2021 UTR rate-setting process (i.e. all of them,
15 including those from 2019 and 2020, or just those from 2020?).

16
17 - As context:

- 18 ○ NRLP notes that in the Decision for NRLP’s Custom IR Application, the
19 OEB approved forgone revenue of \$4,498,426 from the period from
20 **September 1, 2019, to December 31, 2019 (emphasis added)**, resulting
21 in a 2020 rates revenue requirement of \$13,160,593.
- 22
23 ○ NRLP also notes that OEB approved a forgone revenue amount of
24 \$2,036,040 for the period from **January 1, 2020, to June 30, 2020**
25 **(emphasis added)**, based on the expectation that updated UTRs would be
26 issued effective July 1, 2020.
- 27
28 ○ NRLP further notes that as a result of the 2020 UTR Decision, which
29 provided that interim UTRs would remain in place for the remainder of
30 2020, “the difference between the approved amount and the 2020 amount
31 was not collected in 2020 as originally expected”.

32
33 **Response:**

34 The OEB’s July 31, 2020 UTR Decision (EB-2020-0180) stated that the 2020 Ontario
35 Uniform Transmission Rates Schedule, approved on an interim basis for January 1, 2020
36 would remain in place on an interim basis for the remainder of 2020. As such, the

1 revenue requirement that is being collected under the interim 2020 UTR for NRLP does
2 not include the recovery of the approved forgone revenue of \$4,498,426 for the period
3 from September 1, 2019, to December 31, 2019, nor does it include any foregone revenue
4 amounts for 2020.

5

6 Consequently, NRLP anticipates that it will file for recovery of the foregone revenue
7 amount associated with the OEB approved NRLP 2020 revenue requirement of
8 \$13,160,593 as shown in Table 5 of the 2020 UTR Decision (EB-2020-0180).

1 **OEB STAFF QUESTION #4**

2
3 **Reference:**

4 Exhibit A/Tab 4/Schedule 1, pages 2 through 8 of 9

- 5 - **Table 1** - 2021 Custom Revenue Cap Index (RCI) by Component (%) (page 3)
- 6 - **Table 2** - 2021 Base Revenue Requirement (page 4)
- 7 - **Table 3** - 2021 Rates Revenue Requirement by Rate Pool (page 5)
- 8 - **Table 4** - Estimated Transmission Cost as a Percentage of Total Electricity
9 Market Costs (page 6)
- 10 - **Table 5** - Average Bill Impacts on Transmission and Distribution-Connected
11 Customers (page 7)
- 12 - **Table 6** - 2021 Total Bill Impacts for Distribution-Connected Customers (page 8)

13
14 **Interrogatory:**

15 NRLP notes that at the time of filing its Application, the OEB had not yet released the
16 inflation factor applicable for revenue requirement applications beginning January 1,
17 2021. NRLP states that it will file an update to the revenue requirement calculation for
18 2021 rates once that inflation factor is released.

19
20 Please confirm that NRLP will also update Tables 1 through 6 referenced above once the
21 new inflation factor is released.

22
23 **Response:**

24 Confirmed. NRLP notes that Table 4 - Estimated Transmission Cost as a Percentage of
25 Total Electricity Market Costs - will not require an update as it is not impacted by any
26 changes to the inflation factor.