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BY E-MAIL

November 3, 2020

Eryn MacKinnon
Senior Regulatory Coordinator
Hydro One Networks Inc.
483 Bay Street, 7th Floor South Tower
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Dear Ms. Mackinnon:

**Re: Supplementary OEB Staff Questions
Niagara Reinforcement Limited Partnership
Application for 2021 Transmission Rates
Ontario Energy Board File Number: EB-2020-0225**

Further to your responses to Ontario Energy Board (OEB) staff questions received on October 23, 2020, OEB staff requests additional clarification on your application and has prepared the attached supplementary questions for you. Your responses will help OEB staff to further process your application.

OEB staff would appreciate your responses by November 10, 2020. This letter, the supplementary questions and your responses will be included as part of the record of this proceeding.

Please direct any questions relating to this application to the Case Manager, Andrew Bishop, Project Advisor, at 416-440-8108 or Andrew.Bishop@oeb.ca.

Yours truly,

Original signed by
Andrew Bishop



Supplementary OEB Staff Questions

Niagara Reinforcement Limited Partnership

Application for 2021 Transmission Rates

EB-2020-0225

November 3, 2020

Question 5

Reference: NRLP reply to OEB Staff Questions, response to question #2, pages 2 – 3.

Preamble: NRLP proposes an updated weighted average long-term debt rate of 2.58%, which is used to adjust the 2020 starting Revenue Requirement on which NRLP's 2021 Base Revenue Requirement is calculated.

The rate is a weighted average of NRLP's previously approved deemed long-term debt rate of 3.05% (for four months) and NRLP's refinanced debt rate of 2.34% (for 8 months).

NRLP outlines the calculation of its proposed long-term debt rate as follows:

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

(3.05% x 4 months* + 2.34% x 8 months) / 12 months = 2.58%

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

OEB staff notes that in its reply to OEB staff questions¹, B2MLP - which like NRLP, is also incorporating a one-time update to its long-term debt into its 2021 transmission rates application - clarified that its proposed weighted long-term debt rate is *not* blended with any long-term debt costs from prior periods. Instead, B2MLP uses the rate of 2.34% to adjust the 2020 starting Revenue Requirement on which B2MLP's 2021 Base Revenue Requirement is calculated. The 2.34% rate used by B2MLP represents the weighted average rate of debt that was refinanced in 2020.

In this regard, OEB staff notes a seeming difference in the approach taken by NRLP to that taken by B2MLP (both affiliates of Hydro One and both having the same refinanced long-term debt rates effective April 30, 2020) with respect to adjusting the long-term cost of debt for 2021-2024 to reflect the actual market rate achieved on the long-term debt issued in 2020. NRLP has proposed a weighted average of its new debt and previous debt, B2MLP has proposed a weighted average of its new debt only.

¹ B2M Limited Partnership EB-2020-0226, Reply to OEB staff questions, October 23, 2020.

Questions:

- a. Please explain why the approach taken by NRLP to determine its updated long-term debt rate differs from that used by B2MLP and, if applicable, why this different approach is appropriate.

- b. Please provide a table and accompanying live, workable Microsoft Excel spreadsheet which shows what the effect would be on NRLP's proposed 2021 revenue requirement if NRLP, like B2MLP, were to use its new debt rate only (2.34%) instead of its proposed blended debt rate of 2.58% (i.e. to establish an adjusted 2020 revenue requirement for purposes of calculating NRLP's 2021 revenue requirement). NRLP may wish to follow the format of Table 1 and related commentary provided in B2MLP's October 23, 2020 response to OEB staff question #2 – B2MLP's full response to OEB staff question #2 is attached at Appendix A for reference.

Question 6

Reference: NRLP reply to OEB Staff Questions, response to question #2, page 2, Table 2.

Question: OEB staff was unable to replicate the \$311,393 value at the reference above ("long-term debt rate adjustment for 2021 revenue requirement calculation"). Please provide the numbers and calculations that underlie the \$311,393 value in a spreadsheet table at a resolution that will allow OEB staff to trace the calculations. Please include the principal amount of debt and debt rates on which the long-term debt adjustment was calculated.

Attachment A:

Response provided by B2MLP on October 23, 2020 to OEB staff Question #2 in the matter of B2MLP's 2021 transmission rates application (EB-2020-0226)

1 **OEB STAFF QUESTION #2**

2
3 **Reference:**

4 Exhibit A/Tab 4/Schedule 1, page 4 of 8, footnotes 6 and 7

5
6 **Question:**

7 B2M LP indicates that its cost of long-term debt has decreased from its forecast of 2.59%
8 to 2.34%, that this decrease has been incorporated into the calculation of B2M LP's base
9 2021 revenue requirement, and that it drives a reduction of approximately \$679,364 from
10 B2M LP's approved 2020 revenue requirement.

11
12 Please explain how B2M LP's debt refinancing in 2020 results in the revenue requirement
13 proposed by B2M LP for 2021 and how it results in a reduction compared to B2M LP's
14 approved 2020 revenue requirement.

- 15
16 - For example, please clarify whether the 2.34% above describes the weighted
17 average cost of long-term debt for 2020 (i.e. including the contribution of long-
18 term debt for the months prior to refinancing/April 30, 2020) or does it describe
19 only the refinanced debt?
20
21 - If the 2.34% represents a "blended" or weighted average cost of long-term debt
22 for 2020, please comment on whether/how the blending of the refinanced debt
23 with the debt which existed in the months prior to April 30, 2020 results in lower
24 costs to ratepayers compared to a scenario in which only the cost of the refinanced
25 debt was used.
26

27 **Response:**

28 The 2.34% describes only the weighted average cost of the long-term debt that was
29 refinanced in 2020.
30

31 The Excel file provided as Attachment 1 to OEB Staff Questions Response #1 provides the
32 detail regarding how the weighted long-term rate was derived. The weighted long-term
33 debt rate in Attachment 1, is **not** blended with any long-term debt costs from prior periods.
34 It is the average of B2MLP's current debt issuances. The use of the current long-term rate
35 results in an annual ratepayer benefit of \$229,173. For more information, please refer
36 to Table 1 below which illustrates how the benefit is calculated.

1 **Table 1 – 2021 Base Revenue Requirement Calculation – Alternative Calculation**
 2 **Comparison**

Year	Formula	Base Revenue Requirement (Rate using the Refinanced Long-Term Debt)¹	Base Revenue Requirement (Rate using the 2020 Weighted Average Long-Term Debt Rate)
2020	OEB-Approved Base Revenue Requirement	\$33,248,018 ²	\$33,248,018
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation in prefiled evidence at 2.34% (12 months at refinanced rate)	\$(679,364) ³	
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation in prefiled evidence at 2.43%. Calculated as the weighted average of; 4 months @ 2.59% (the ‘old’ rate) and, 8 months @ 2.34% (the refinanced, or ‘new’ rate)		(\$452,910)
2021	Base Revenue Requirement for 2020 reset for the reduction in the long-term Debt rate	\$32,568,654	\$32,795,108
2021	2020 Base Revenue Requirement x 2021 RCI = \$32,568,654 x 1.2%	\$32,959,477	\$33,188,650
	Benefit to Customers		\$229,173

3 As shown in Table 1 above, using the 2020 refinanced debt rate for the 12-month period
 4 results in a “Base Revenue Requirement for 2020 reset for the reduction in the long-term

¹ This is the calculation that is included in B2MLP’s 2021 revenue requirement application.

² Prefiled Evidence - Exhibit A, Tab 4, Schedule 1, Table 2.

³ Ibid.

1 Debt rate” of \$32,568,654. Applying the 2021 RCI results in a 2021 revenue requirement
2 of \$32,959,477.

3

4 Whereas, if the blended rate of 2.43% was used to determine the 2020 “Base Revenue
5 Requirement for 2020 reset for the reduction in the long-term Debt rate” the result would
6 have been \$32,795,108. Applying the 2021 RCI would result in a 2021 revenue
7 requirement of \$33,188,650.

8

9 Using the refinanced 2020 long-term debt rate, as provided in the Application, results in a
10 benefit to customers in 2021 of \$229,173. Additionally, this benefit will have a sustained
11 impact on B2MLP’s revenue requirement for periods beyond 2021 where the Revenue Cap
12 IR mechanism is used to set rates (i.e. up until the next rebasing year).