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BY EMAIL AND RESS

November 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-2020-0225 – Niagara Reinforcement Limited Partnership’s 2021 Transmission Revenue Requirement Application – Responses to Board Staff Questions**

Hydro One Networks Inc., on behalf of Niagara Reinforcement Limited Partnership (“NRLP”), is submitting responses to the Ontario Energy Board (“OEB”) Staff questions received November 3, 2020 regarding NRLP’s annual Transmission Revenue Cap IR Application.

An electronic copy of these responses has been submitted using the OEB’s Regulatory Electronic Submission System.

Sincerely,

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

Joanne Richardson

1                                   **SUPPLEMENTARY OEB STAFF QUESTIONS #5**  
2

3       **Reference:**

4       NRLP reply to OEB Staff Questions, response to question #2, pages 2 – 3.  
5

6       **Preamble:**

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

10      The rate is a weighted average of NRLP’s previously approved deemed long-term debt rate  
11      of 3.05% (for four months) and NRLP’s refinanced debt rate of 2.34% (for 8 months).  
12

13      NRLP outlines the calculation of its proposed long-term debt rate as follows:  
14

15                   (OEB-deemed LTD rate x months of year + refinanced LTD rate x months of year)  
16                   / 12 months = weighted average long-term debt rate for 2020.

17  
18                   (3.05% x 4 months\* + 2.34% x 8 months) / 12 months = 2.58%

19                   \**NRLP used the OEB’s deemed long-term debt rate for debt up to April 29, 2020*  
20

21      OEB staff notes that in its reply to OEB staff questions<sup>1</sup>, B2MLP - which like NRLP, is  
22      also incorporating a one-time update to its long-term debt into its 2021 transmission rates  
23      application - clarified that its proposed weighted long-term debt rate is *not* blended with  
24      any long-term debt costs from prior periods. Instead, B2MLP uses the rate of 2.34% to  
25      adjust the 2020 starting Revenue Requirement on which B2MLP’s 2021 Base Revenue  
26      Requirement is calculated. The 2.34% rate used by B2MLP represents the weighted  
27      average rate of debt that was refinanced in 2020.  
28

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

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

1 **Question:**

- 2 a) Please explain why the approach taken by NRLP to determine its updated long-term  
3 debt rate differs from that used by B2MLP and, if applicable, why this different  
4 approach is appropriate.
- 5
- 6 b) Please provide a table and accompanying live, workable Microsoft Excel spreadsheet  
7 which shows what the effect would be on NRLP's proposed 2021 revenue requirement  
8 if NRLP, like B2MLP, were to use its new debt rate only (2.34%) instead of its  
9 proposed blended debt rate of 2.58% (i.e. to establish an adjusted 2020 revenue  
10 requirement for purposes of calculating NRLP's 2021 revenue requirement). NRLP  
11 may wish to follow the format of Table 1 and related commentary provided in  
12 B2MLP's October 23, 2020 response to OEB staff question #2 – B2MLP's full  
13 response to OEB staff question #2 is attached at Appendix A for reference.
- 14

15 **Response:**

- 16 a) Although similar, NRLP and B2MLP are different utilities, most notably, NRLP is a  
17 new entity with no actual existing debt at third-party market rates prior to April 30,  
18 2020. Consequently, consistent with the OEB's policy, Cost of Capital Report, that  
19 outlines where a utility has no actual debt, the deemed long-term debt rate shall apply,  
20 the OEB deemed long-term debt rate has been applied to the revenue requirement  
21 calculation up until the debt issuance on April 30, 2020.
- 22

23 NRLP submits updating the 2020 revenue requirement to incorporate any changes in  
24 the actual debt rates resulting from the refinancing of the long-term debt on April 30,  
25 2020 is consistent with the spirit of the EB-2018-0275 Settlement Agreement and more  
26 importantly, the Decision of that proceeding, which, at page 4 reads:

27

28 *Currently, NRLP does not have any actual existing debt at*  
29 *third-party market rates and it therefore used the OEB's*  
30 *deemed long-term debt rate for debt up to April 29, 2020,*  
31 *and a forecast of the debt refinancing scheduled for April*  
32 *30, 2020. NRLP has thus forecasted a weighted average*  
33 *cost of long-term debt of 3.05% for 2020 (emphasis added).*  
34 *As described in the Settlement Proposal, NRLP will*  
35 *incorporate any changes in the actual debt rates resulting*  
36 *from the refinancing of the long-term debt on April 30, 2020*  
37 *into its revenue requirement update for 2021.*

1 NRLP has updated the forecast of the debt refinancing that was scheduled for April 30,  
 2 2020 with the actual debt results from the refinancing of the long-term debt that  
 3 occurred on April 30, 2020. The weighted average cost of long-term debt for 2020 is  
 4 no longer a forecast but rather an actual weighted average of 2.58% as described in the  
 5 NRLP reply to OEB Staff Question #2, pages 2 – 3.

6

7 b) NRLP submits that the blended rate is most appropriate because it is consistent with  
 8 OEB Policy and the OEB decision in NRLP’s EB-2018-0275 proceeding as indicated  
 9 above.

10

11 The table below illustrates the difference in revenue requirement using the refinanced  
 12 LTD rate of 2.34% versus the blended rate of 2.58% (as filed). The results indicate  
 13 that either alternative provides a reduction in the 2020 adjusted base revenue  
 14 requirement and corresponding 2021 base revenue requirement after applying the  
 15 utility-specific RCI. NRLP further notes that the NRLP RCI captures some of the  
 16 NRLP-specific circumstances referenced in question a.) above, e.g., a new utility with  
 17 newly energized assets. A live excel spreadsheet is provided as Attachment 1.

18

**NRLP 2021 Revenue Requirement Application**

**OEB Staff Question #5 - Calculation Support**

Year	Formula	Base Revenue Requirement (Rate using the Refinanced Long-Term Debt)	Base Revenue Requirement (Rate using the 2020 Weighted Average Long-Term Debt Rate) <sup>[1]</sup>
2020	OEB-Approved Base Revenue Requirement <sup>[2]</sup>	8,662,167	8,662,167
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation in prefiled evidence at 2.34% (12 months at refinanced rate)	(467,089)	
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation in prefiled evidence at 2.58%. Calculated as the weighted average of; 4 months @ 3.05% (the OEB-deemed LTD rate) and, 8 months @ 2.34% (the actual result from April 2020 debt refinancing)		(311,393)
2021	Base Revenue Requirement for 2020 reset for the reduction in the long-term Debt rate	8,195,078	8,350,774
2021	2020 Base Revenue Requirement x 2021 RCI = \$8,350,774 x 1.003	8,219,663	8,375,826
	Difference		(156,164)

[1] This is the calculation that is included in NRLP’s 2021 revenue requirement application.

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

1                                   **SUPPLEMENTARY OEB STAFF QUESTIONS #6**

2  
3                   **Reference:**

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

5  
6                   **Question:**

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

12  
13                  **Response:**

14                  Please refer to Attachment 1 of NRLP’s OEB Staff Question Response #5 for a live  
15                  working excel model. It will allow OEB Staff to track the calculation referenced above,  
16                  specifically comparing the original “NRLP Approved” cost of debt as compared to the cost  
17                  of debt calculated using the “NRLP Actual Blended Rate”.