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BY EMAIL

November 25, 2020

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
registrar@oeb.ca

Dear Ms. Long:

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

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

Niagara Reinforcement Limited Partnership is reminded that their reply submission is due by December 2, 2020, should they choose to file one.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Generation & Transmission

Encl.



OEB Staff Submission

Application for 2021 Transmission Rates

Niagara Reinforcement Limited Partnership

EB-2020-0225

November 25, 2020

1 INTRODUCTION

1.1 Overview of the Application

Niagara Reinforcement Limited Partnership (NRLP) filed its annual Transmission Revenue Cap Incentive Rate-setting (IR) application (Application) with the Ontario Energy Board (OEB) on September 15, 2020 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) (Act). The Application sought approval for changes to the rates that NRLP charges for electricity transmission, beginning January 1, 2021.

1.2 Process to Date

In response to the filing, on October 14, 2020, OEB staff requested that NRLP respond to clarification questions. NRLP responded to these questions on October 23, 2020. On November 3, 2020, OEB staff requested that NRLP respond to supplementary questions in order to provide additional clarifications. Included in this second round of enquiry was a question related to NRLP's proposed updated weighted average long-term debt rate, which is the focus of this OEB staff submission. NRLP responded to OEB staff's supplementary questions on November 6, 2020.

Procedural Order (PO) No. 1, issued by the OEB on November 19, 2020, served as notice that a limited-scope hearing would commence in order to allow the OEB to consider written arguments from NRLP and OEB Staff on NRLP's proposed updated weighted average long-term debt rate of 2.58%. Specifically, PO No. 1 stated that submissions should be restricted to arguments on the degree to which NRLP's proposed weighted average long-term debt rate is reasonable and calculated in a manner consistent with the Settlement Proposal (Settlement Proposal) approved by the OEB through its decision on NRLP's application for 2020-2024 Transmission Rates.¹

At the time NRLP filed its Application, the OEB had not yet released the inflation factor applicable to applications requesting approval of revenue requirements effective January 1, 2021. The Application indicated that NRLP would update its 2021 revenue requirement calculation to reflect the OEB's updated inflation factor once it was issued. On November 19, 2020, NRLP filed its updated calculation.

¹ EB-2018-0275

2 OEB STAFF SUBMISSION

Introduction

The Application requested an OEB order approving a 2021 revenue requirement of \$8,375,826, to be made effective January 1, 2021, along with an amendment to the 2021 Uniform Transmission Rates to allow for recovery of this amount. NRLP's proposed 2021 revenue requirement is 3%, or \$286,341 lower than the approved 2020 base revenue requirement of \$8,662,167. NRLP stated that its 2021 revenue requirement was determined using the methodology approved in NRLP's 2020 Cost of Service proceeding². On November 9, 2020, the OEB issued a letter specifying that electricity transmitters, including NRLP, should calculate their 2021 rates based on a 2.0% inflation factor. NRLP's Application had assumed a rate of 1.8%. To adjust for the revised inflation factor, on November 19, 2020 NRLP filed a letter updating its 2021 revenue requirement calculation from \$8,375,826 to \$8,384,177.

The OEB's decision on NRLP's 2020 Cost of Service proceeding established the methodology that NRLP is required to follow when calculating its revenue requirements for years 2021 through 2024. The decision required NRLP to update its long-term debt rate to reflect any changes resulting from 2020 debt refinancing when calculating its 2021 revenue requirement.

NRLP's Application proposed an updated weighted average long-term debt rate for 2021 of 2.58%. This rate represents a weighted average of NRLP's previously approved deemed long-term debt rate of 3.05% (for the period January 1, 2020 to April 29, 2020) and NRLP's refinanced debt rate of 2.34%³ (for the period April 30, 2020 to December 31, 2020). The rate was calculated using the following formula:

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

At the time NRLP filed its 2020 Cost of Service application, it did not have any actual existing debt at third party market rates. Accordingly, the OEB approved NRLP's use of 3.05% which represented 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.

² EB-2018-0275

³ As detailed in Appendix A, NRLP's refinanced debt rate of 2.34% represents a blended average of three separate debt instruments.

Table 1 shows NRLP’s requested 2021 Revenue Requirement as presented in its November 19, 2020 update. Line 2 of Table 1 illustrates the impact of NRLP’s proposed long-term debt rate update.

Table 1: Proposed 2021 Revenue Requirement

Line	Year	Formula	Base Revenue Requirement
1	2020	OEB-approved revenue requirement	\$8,662,167 ⁴
2		Less: long-term debt rate adjustment for 2021 revenue requirement calculation	\$(311,393)
3	2020	Base reset for reduction in long-term debt rate (impact of long-term debt rate being updated for 2021 to 2024)	\$8,350,774 ⁵
4	2021	Base Revenue Requirement x Revenue Cap Index (RCI) ⁶ = \$8,350,774 x 1.004	\$8,384,177

Submission

Consistent with OEB direction provided through PO No. 1, this OEB Staff submission is limited to arguments on the degree to which NRLP’s proposed 2021 weighted average long-term debt rate is reasonable and calculated in a manner consistent with the Settlement Proposal.⁷

With respect to the updating of the weighted average long-term debt, the OEB-approved Settlement Proposal states:

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.⁸
[emphasis added]

⁴ OEB-Approved 2020 Base Revenue Requirement calculated using a long-term debt rate of 3.05%

⁵ Adjusted 2020 Base Revenue Requirement calculated using a long-term debt rate of 2.58%.

⁶ RCI has been calculated by NRLP in accordance with the OEB-approved Settlement Proposal in NRLP’s application for 2020-2024 Transmission Rates. The RCI, calculated using the following formula, results in a 0.4% increase to NRLP’s adjusted 2020 Base Revenue Requirement [0.4% RCI = (0.5 x 2% Inflation Factor) – 0.6% Settlement Capital Adjustment Formula].

⁷ EB-2018-0275

⁸ Settlement Proposal, p. 27

OEB staff's view is that NRLP's proposed approach to updating its weighted average long-term debt rate does not reflect the approved Settlement Proposal because it does not result in the actual cost of debt being reflected in rates going forward.

As previously described, NRLP's Application proposed an updated weighted average long-term debt rate of 2.58%; a blend between its previously approved deemed long-term debt rate of 3.05% and its refinanced debt rate of 2.34%. Neither the Settlement Proposal nor the OEB decision on NRLP's 2020 Cost of Service application refer to the use of a blended (deemed/actual) long-term debt rate for 2021 rates. To the contrary, as noted above, it appears clear that NRLP must update its cost of debt in a manner that allows for the actual cost of debt to be reflected in rates.

Simply put, 2.58% is not the long-term debt rate that applies to NRLP in 2021. All of NRLP's debt is now third party and attracts an interest rate of 2.34%.

In response to OEB staff's supplemental questions, NRLP supported its proposed approach by stating:

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

*Currently, NRLP does not have any actual existing debt at third-party market rates and it therefore 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. NRLP has thus forecasted a weighted average cost of long-term debt of 3.05% for 2020 (emphasis added).** As described in the Settlement Proposal, NRLP will incorporate any changes in the actual debt rates resulting from the refinancing of the long-term debt on April 30, 2020 into its revenue requirement update for 2021.*

OEB staff disagrees with NRLP's assertion that the spirit of the Settlement Proposal allows for a blended rate. The referenced discussion on page 4 of the 2020 decision specifically referred to the treatment of its long-term debt for the 2020 year, and it did not discuss that this approach needed to be maintained moving forward. In fact, as noted above, page 27 of the approved Settlement Proposal reads "[t]he 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." This sentence is clear in its meaning and in

OEB staff's view, eliminates the need to opine on the spirit of the approved Settlement Proposal.

In response to supplementary questions, NRLP provided a table illustrating the difference in its 2021 revenue requirement using a weighted average long-term debt rates of 2.34%, rather than 2.58%. NRLP showed that the 2021 revenue requirement calculated using the 2.58% is \$156,164⁹ higher than when the 2.35% rate is used or 1.8% of revenue requirement pre RCI adjustment. Over the 2021-2024 period, OEB staff estimates that through use of the 2.58% rate instead of the 2.34% rate, NRLP would over-collect by roughly \$624,656 (i.e., \$156,164 X 4 years)¹⁰.

Conclusion

OEB staff is of the view that NRLP's proposed weighted average long-term debt rate of 2.58% is not appropriate as it has not been calculated in a manner consistent with the approved Settlement Proposal. OEB staff believes that the Settlement Proposal is clear in its requirement that NRLP's long-term debt be updated such that the actual cost of debt (i.e. 2.34%) is reflected in rates as the effective debt rate for the entire 2021 calendar year.

Table 2 demonstrates OEB staff's recommended 2021 revenue requirement calculated using an average long-term debt rate 2.34%. OEB staff requests NRLP confirm this calculation through its reply submission.

Table 2: Proposed 2021 Revenue Requirement

Line	Year	Formula	Base Revenue Requirement
1	2020	OEB-approved revenue requirement	\$8,662,167
2		Less: long-term debt rate adjustment for 2021 revenue requirement calculation calculated at 2.34%	\$(467,089)
3	2020	Base reset for reduction in long-term debt rate (impact of long-term debt rate being updated for 2021 to 2024)	\$8,195,078
4	2021	Base Revenue Requirement x Revenue Cap Index (RCI) = \$8,195,078 x 1.004	\$8,227,858

All of which is respectfully submitted.

⁹ Calculation based on NRLP's pre-inflation factor adjusted revenue requirement of \$8,375,826.

¹⁰ OEB staff's calculation does not reflect the inflationary increases that will accrue annually on the \$156,164 overcollection. Therefore, the stated overcollection for the 2021-2024 period of roughly \$624,656 represents a slight underestimation.

Appendix A

Niagara Reinforcement Limited Partnership
Cost of Long-Term Debt Capital
2021
Year ending December 31

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/2020 (\$Millions)	at 12/31/2021 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	30-Apr-20	1.780%	28-Feb-25	24.3	0.1	24.2	99.63	1.86%	24.3	24.3	24.3	0.5	
2	30-Apr-20	2.180%	28-Feb-30	24.3	0.1	24.2	99.58	2.23%	24.3	24.3	24.3	0.5	
3	30-Apr-20	2.730%	28-Feb-50	18.2	0.1	18.1	99.42	2.76%	18.2	18.2	18.2	0.5	
4		Subtotal							66.9	66.9	66.9	1.5	2.24%
5		Treasury OM&A costs										0.02	
6		Other financing-related fees										0.05	
7		Total							66.9	66.9	66.9	1.6	2.34%