

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

Tel: (416) 345-5393  
Cell: (416) 902-4326  
Fax: (416) 345-6833  
Joanne.Richardson@HydroOne.com



**Joanne Richardson**  
Director – Major Projects and Partnerships  
Regulatory Affairs

BY EMAIL AND RESS

December 1, 2020

Ms. Christine E. Long  
The Registrar  
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 – Reply Submission**

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In accordance with Procedural Order No.1 in this proceeding, please find enclosed Niagara Reinforcement Limited Partnership’s reply submission.

An electronic copy of this submission 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

Niagara Reinforcement Limited Partnership  
Reply Submission  
EB-2020-0225  
December 1, 2020

1. In light of the submissions of OEB Staff, Niagara Reinforcement Limited Partnership (NRLP) is providing this Reply Argument. In accordance with Procedural Order 1, issued on November 19, 2020, NRLP's submissions are limited 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 OEB-approved Settlement Proposal in NRLP's Application for 2020-2024 Transmission Rates<sup>1</sup>.
2. In summary, the NRLP submissions are that the OEB Decision and Order in EB-2018-0275 (the Decision) clearly and appropriately approved a forecast weighted average long-term debt rate of 3.05% to underpin the 2020 NRLP Revenue Requirement as agreed to by OEB Staff in the Settlement Proposal in that case (the Settlement Proposal)<sup>2</sup>. The 2020 forecast long-term debt rate of 3.05% has been updated in this Application to provide the actual 2020 debt rates resulting from the refinancing that occurred on April 30, 2020, as directed by the Decision. The updated LTD debt rate provided in this Application is calculated in a manner consistent with the current OEB-approved 3.05% LTD rate. The result is an updated LTD rate of 2.58% for the 2020 test year.
3. The OEB Staff submission attempts to vary the Settlement Proposal and now opines that it would be more appropriate to utilize the actual 2021 go-forward LTD rate of 2.34% to underpin the 2020 NRLP Revenue Requirement. NRLP disagrees. OEB Staff received a forecast of 2021 LTD rates as part of the Settlement Proposal. That forecast of the 2021 LTD at the time of the Settlement Proposal was 2.94%. OEB Staff had every opportunity to suggest that the 2.94% rate should be utilized to underpin the 2020 NRLP revenue requirement at the time of the Settlement Proposal, but that was not considered most appropriate by the parties to the Settlement Proposal and the OEB.
4. NRLP submits that the OEB Staff submissions unequivocally contravene the basis of the Settlement Proposal, are inconsistent with the incentive rate-setting framework of the OEB, and undermine the integrity of the Decision.
5. This Reply Argument will address the issues brought forward by OEB Staff by focusing discussions primarily on the following: the OEB-approved Settlement Proposal; the Decision; NRLP responses to OEB Staff questions in this proceeding; OEB Policy<sup>3</sup>; and other jurisprudence. Supported by the submission that will be provided herein, NRLP submits that the LTD rate proposed in this

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<sup>1</sup> EB-2018-0275

<sup>2</sup> EB-2018-0275 – Settlement Proposal Issue 12

<sup>3</sup> EB-2009-0084 - Cost of Capital for Ontario's Regulated Utilities

Application is reasonable and consistent with the OEB-approved Settlement Proposal and provides ratepayers benefits by reducing the current OEB-approved 2020 NRLP revenue requirement by \$311,393<sup>4</sup>.

#### **The NRLP Proposal to Update the Long-Term Debt Rate for the 2020 Test Year**

6. Underlying the intent of the Revenue Cap Framework is the fact that the base year going-in revenue requirement (in this case 2020) should represent the recovery of fair and prudent costs for the test year determined in a single forward test-year cost of service review<sup>5</sup>. A Revenue Cap Index (RCI) is applied mechanically thereafter in subsequent years. In effect, had the parties not agreed to NRLP's proposal to make this one-time adjustment in 2021, the LTD-rate underpinning NRLP's 2021 revenue requirement would have continued to be set at the current approved forecast long-term debt rate of 3.05%, and the RCI would be applied to the current OEB-approved revenue requirement.
7. OEB Staff submissions distort the application of the accepted regulatory framework. OEB Staff argue that recovery of the 2020 LTD debt rate is no longer appropriate and that the NRLP 2020 revenue requirement should be based on 2021 LTD rates<sup>6</sup>. NRLP submits that this is inconsistent with the OEB incentive-rate setting framework and was never the intent of the NRLP proposal.
8. All of NRLP's Long Term Debt was to be refinanced during the rate period, causing refinancing risk for both the utility and customers. NRLP's proposal to reduce this risk in the future was to implement a one-time reset of the NRLP 2020 revenue requirement because of the extraordinary scale of the refinancing. This would protect both the utility and ratepayers from inappropriate additional costs/savings.
9. The methodology for this LTD update as proposed in the NRLP evidence is found at Exhibit G, Tab 1, Schedule 1 of EB-2018-0275, which documents the following:

*"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."*

The proposal articulates that the update will include the actual market rate achieved on the long-term debt to be issued in 2020; it does not in any way exclude the OEB-deemed rate prior to April 30, 2020, as argued by OEB Staff.

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<sup>4</sup> EB-2020-0225 - NRLP Reply to OEB Staff Question 5 – November 6, 2020

<sup>5</sup> OEB Chapter 3 Filing Requirements, Table 1 – May 14, 2020

<sup>6</sup> EB-2020-0225 - OEB Staff Submission, Table 2 – November 25, 2020

### Long Term Debt Rate: EB-2018-0275 - Decision & Settlement Proposal

10. In their submission in this Application, OEB Staff opine that neither the Settlement Proposal nor the Decision refers to the use of a blended (deemed/actual) long-term debt rate for 2021 rates<sup>7</sup>. In support of their argument, OEB Staff's submissions also provide a table that suggests that the NRLP 2020 revenue requirement should be adjusted to reflect a long-term debt rate of 2.34%<sup>8</sup>. The Revenue Cap Index (RCI) adjustment would then be applied to this reduced revenue requirement. This opinion and the corresponding argument are flawed.
11. As provided in NRLP's reply to OEB Staff Question 5<sup>9</sup>, the Decision that approved the Settlement Proposal clearly and appropriately approved a *forecast* weighted average cost of long-term debt rate with respect to the rate underpinning the 2020 NRLP Revenue Requirement:

*“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<sup>10</sup>.”*
12. Contrary to OEB Staff submissions, the explicitly documented forecast weighted average cost of long-term debt of 3.05% in the Decision is a *blend* of the OEB deemed long-term debt rate and the NRLP *forecast* of the debt refinancing that occurred on April 30, 2020. OEB Staff argue that the Settlement Proposal is *clear* in its requirement that NRLP's long-term debt be updated such that the actual cost of debt (2.34% as OEB Staff view it) is reflected in rates as the effective debt rate for the entire 2021 calendar year<sup>11</sup>. OEB Staff failed to provide a citation as to where this “clear” requirement is documented in the Settlement Proposal. NRLP submits that the OEB Staff submissions were never the intent of the Settlement Proposal and that this is clearly documented by the evidence and interrogatories that support the OEB-approved Settlement Proposal.
13. The OEB-approved Settlement Proposal in NRLP's Application for 2020-2024 Transmission Rates addresses long-term debt rates in-depth in two settled issues, specifically, Issues 12 and 13<sup>12</sup>. This Reply Argument will focus on these issues in turn and discuss how the long-term debt rate proposed in this Application is reasonable and consistent with the OEB-approved Settlement Proposal.

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<sup>7</sup> EB-2020-0225 – OEB Staff Submission – Page 6 – November 25, 2020

<sup>8</sup> EB-2020-0225 – OEB Staff Submission – Table 2 – November 25, 2020

<sup>9</sup> EB-2020-0225 – NRLP Reply to OEB Staff Question 5 – November 6, 2020

<sup>10</sup> EB-2018-0275 – Decision and Order, page 4 – April 9, 2020

<sup>11</sup> EB-2020-0225 – OEB Staff Submission, page 7 – November 25, 2020

<sup>12</sup> EB-2018-0275 -Decision and Order, Schedule A, Issue 12 and 13 - April 9, 2020

14. For ease of reference, Issues 12 and 13 of the Settlement Proposal are repeated below:

**Issue 12: Is the forecast of long-term debt appropriate?**

**Issue 13: Is the 2021 update of the cost of long-term debt appropriate?**

*Issue 12: Is the forecast of long-term debt appropriate?*

15. On Issue 12, the Parties agreed that the forecast of long-term debt, as updated in Exhibit I, Tab 1, Schedule 17, for 2020 was appropriate<sup>13</sup>. In that interrogatory response, NRLP informed Board Staff how the update would occur and, in so doing, provided Board Staff with a *forecast* of the long-term debt rate that would underpin the 2020 NRLP Revenue Requirement:

*“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.”*

Exhibit I, Tab 1, Schedule 17 in EB-2018-0275, is provided as Appendix A of this Reply Argument in its entirety for contextual purposes and to assist the reader, as the interrogatory is referred to often in this Reply Argument.

16. For the purposes of this hearing, it is important to establish that the only difference between the two aforementioned *forecast* LTD rate values of 3.05% and 2.94% is that the former includes the OEB deemed long-term debt rate up until April 30, 2020. The debt instruments were otherwise exactly alike for both 2020 and 2021. This is shown in Attachment 1 of Exhibit I, Tab 1, Schedule 17. However, for ease of reference, the offering date, coupon rate and maturity of each debt instrument for each year provided at that reference are replicated below in Table 1. All shaded cells are exactly the same except for the 2020 LTD rate calculation, including the OEB-deemed long-term debt rate (3.21%).

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<sup>13</sup> EB-2018-0275 -Decision and Order, Schedule A, Issue 12

Table 1: Comparison of 2020 & 2021 Debt Instruments Provided in Exhibit I, Tab 1, Schedule 17

**2020 Debt Instruments Provided in Exhibit I, Tab 1, Schedule 17**

Line No.	Offering Date	Coupon Rate	Maturity Date
1	18-Sep-19	3.21%	30-Apr-20
2	30-Apr-20	2.33%	30-Apr-25
3	30-Apr-20	2.66%	30-Apr-30
4	30-Apr-20	3.31%	30-Apr-50
<b>Projected Average Embedded Cost in Rates</b>			<b>3.05%</b>

**2021 Debt Instruments Provided in Exhibit I, Tab 1, Schedule 17**

Line No.	Offering Date	Coupon Rate	Maturity Date
1	30-Apr-20	2.33%	30-Apr-25
2	30-Apr-20	2.66%	30-Apr-30
3	30-Apr-20	3.31%	30-Apr-50
<b>Projected Average Embedded Cost in Rates</b>			<b>2.94%</b>

17. As aforementioned, OEB Staff and NRLP settled that the 3.05% forecast of long-term debt was more appropriate than the 2021 calculated rate of 2.94% (the method of calculation that OEB Staff are now proposing), and the OEB approved a 2020 NRLP revenue requirement underpinned by a 3.05% weighted-average long-term debt rate, accordingly<sup>14</sup>. The agreement to use the 3.05% long-term debt rate was explicitly documented in Table 5 of the Settlement Proposal that stratified the 2020 Cost of Capital. That table has been extracted and included below for ease of reference. The long-term debt rate has been shaded grey.

<sup>14</sup> It is also important to note here that OEB Staff had the option to utilize the 2.94% LTD rate forecast provided by NRLP for 2021 that excluded the OEB deemed long-term debt rate up to April 30, 2020, but that was not considered most appropriate, likely because it contravened OEB Policy as discussed in Exhibit I, Tab 1, Schedule 17.

**2020 Cost of Capital<sup>15</sup>**

<b>2020</b>				
<b>Amount of Deemed Return</b>	<b>(\$M)</b>	<b>%</b>	<b>Cost Rate (%)</b>	<b>Return (\$M)</b>
Long-term debt	65.99	56%	3.05%	2.01
Short-term debt	4.71	4%	2.75%	0.13
Common equity	47.14	60%	8.52%	4.02
<b>Total</b>	<b>117.84</b>	<b>100%</b>	<b>5.39%</b>	<b>6.16</b>

18. Contrary to OEB Staff assertions, by updating the 2020 long-term debt rate as part of this 2021 annual update application, NRLP is ensuring that the actual cost of debt is reflected in the NRLP 2020 revenue requirement, i.e., not a forecast, as directed by the Decision and contemplated by the Settlement Agreement. The RCI is then applied to that adjusted 2020 NRLP Revenue Requirement.
19. Simplistically, the OEB-approved weighted-average cost of long-term debt rate that was a *forecast* of 3.05% is now actually 2.58% as a result of the refinancing. Similarly, the 2.94% 2021 *forecast* (that was not utilized by the OEB to underpin the current 2020 NRLP revenue requirement and was not considered appropriate by OEB Staff in the Settlement Proposal) is now actually 2.34% as a result of the refinancing.
20. The *forecast* long-term debt rates utilized as a part of the Settlement Proposal are compared side by side to the actual long-term debt rate achieved as a result of refinancing in Table 2 below. The shaded line depicts the LTD debt rate that was deemed appropriate in the Settlement Proposal.

*Table 2*

<b>LTD Rate Instruments Provided</b>	<b>Forecast LTD Rate (%) Provided As Part of Settlement</b>	<b>Comparable Actual LTD Rate (%) As A Result of Refinancing</b>
2020 Long-term debt	3.05% <sup>16</sup>	2.58% <sup>17</sup>
2021 Long-term debt	2.94% <sup>18</sup>	2.34% <sup>19</sup>

<sup>15</sup> EB-2018-0275 – Exhibit J, Tab 1, Schedule 1, Page 26, Table 5, - Filed March 6, 2020.

<sup>16</sup> EB-2018-0275 – Exhibit I, Tab 1, Schedule 17, Attachment 1, Page 1 – Filed January 24, 2020

<sup>17</sup> EB-2020-0225 – Exhibit A, Tab 3, Schedule 1, Page 1 – Filed September, 15, 2020

<sup>18</sup> EB-2018-0275 – Exhibit I, Tab 1, Schedule 17, Attachment 1, Page 2 – Filed January 24, 2020

<sup>19</sup> EB-2020-0225 – Exhibit A, Tab 3, Schedule 1, Attachment 1, Page 1 – Filed September 15, 2020

NRLP notes that the 3.05% LTD rate was considered appropriate by OEB Staff and has underpinned the 2020 NRLP revenue requirement to date, yet OEB Staff question the validity of utilizing the 2.58% LTD rate now, despite the fact that it was computed in a consistent manner, a weighted-average rate, albeit with actuals instead of *forecasts* as directed by the OEB.

21. If OEB Staff did not think that inclusion of the OEB-deemed long-term debt rate up to April 2020 was appropriate to create what OEB Staff submission refers to as a “blended rate” or is alternatively called a “weighted average cost of long-term debt rate” per the Decision, then NRLP expects OEB Staff would not have deemed it appropriate to set the 2020 NRLP revenue requirement utilizing that rate. NRLP would have expected that OEB Staff and the OEB would have expressed concern earlier in the process and definitely prior to approving the terms of the Settlement Proposal.
22. Put another way, if OEB Staff did not think it was appropriate to include the OEB-deemed long-term debt rate for four months of 2020, the long-term debt rate that currently underpins NRLP’s 2020 revenue requirement should have been 2.94% and not 3.05%. However, that is not what happened and not what was considered most appropriate at the Settlement Proposal. From NRLP’s perspective, the OEB Staff submission seems like *selective updating* after the fact, and NRLP seriously questions if OEB Staff would be making the same submission if the debt rate had increased after refinancing.
23. It is clear that OEB Staff were aware of the difference between the 2020 and 2021 LTD rate; and despite the difference, NRLP submits that OEB Staff reasonably and appropriately settled on Issue 12 of the Settlement Proposal by utilizing the *blended* 2020 long-term debt rate that included the OEB-deemed long-term debt rate for four months. The OEB approved the Settlement Proposal, accordingly.
24. OEB Staff agreed in Issue 12 of the Settlement Proposal that the now actual rate of 2.58% for LTD, and not the now actual rate of 2.34%, was the appropriate rate to underpin the 2020 revenue requirement that would be utilized for establishing future year revenue requirements via an RCI. OEB Staff are now attempting to revise the Settlement Proposal, and their submissions should be dismissed on the principles of *res judicata* or *issue estoppel*.

*Issue 13: Is the 2021 update of the cost of long-term debt appropriate?*

25. Starting at Page 6 of their submission, OEB Staff state that they disagree with NRLP’s assertion that the spirit of the Settlement Proposal allows for a blended rate, and reference page 27 of the approved Settlement Proposal. OEB Staff argue that it reads as “[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.”



26. The main subject of Issue 13 was whether it was appropriate to update the cost of long-term debt, not the rate itself. More specifically, the issue was intended to address whether the NRLP proposal to update the long-term debt rate was consistent with the Revenue Cap framework, given that reconsideration of cost of capital parameters is not typically permitted in this forum.
27. As correctly documented by OEB Staff, OEB Staff and NRLP agreed that the one-time atypical update to be completed in 2021 was appropriate for the reasons discussed in paragraphs 6 through 8 of this submission, despite the limitations of the Revenue Cap framework. The resolution on this issue in no way provided clear direction that the NRLP proposal to update the LTD Rate for the 2020 Test Year must disregard fair and prudent costs incurred by the utility in 2020.
28. NRLP continues to agree that this one-time update is appropriate because it allows the actual cost of debt to be reflected in rates to the benefit of both the utility and ratepayers. However, NRLP disagrees with OEB Staff's application of the one-time update. For the reasons already discussed, 2.58% does not reflect the actual 2020 weighted average long-term debt rate and is consistent with the Decision. The actual 2.58% LTD rate is akin to the *forecast* 3.05% LTD rate that is currently approved by the OEB and that OEB Staff agreed was appropriate. Adjusting the 2020 revenue requirement to reflect a 2.34% LTD rate is akin to utilizing the original 2021 forecast rate of 2.94%, as outlined in Table 2 above. NRLP submits that adjusting the 2020 revenue requirement for any value that does not reflect fair and prudent costs, including the OEB deemed LTD rate up until April 30, 2020, is inequitable and unjust, unequivocally contravenes the basis of the Settlement Proposal, and undermines the integrity of the Decision.

#### *Over-Collection*

29. To support their argument, OEB Staff submitted that the NRLP proposed update to reduce the LTD rate to 2.58% from 3.05% results in over-collection to the detriment of ratepayers<sup>20</sup>. NRLP adamantly disagrees. Contrary to OEB Staff's assertion, there is no over-collection.
30. Since inception, NRLP's accepted proposal was to reduce the refinancing risk for both the utility and customers in the future by implementing a one-time reset of the 2020 revenue requirement because of the extraordinary scale of the refinancing NRLP was undertaking. This protected both the utility and ratepayers from inappropriate additional costs/savings. The 2.58% LTD rate update proposed in this Application is calculated in a manner consistent with the OEB-approved 3.05% LTD rate forecast, which was deemed to be the appropriate long-term debt rate to underpin the 2020 NRLP revenue requirement. Given the results of the refinancing, OEB Staff's submissions may be that NRLP should deviate from the manner in which the 2020 NRLP 3.05% LTD rate was calculated and should utilize 2.34% as its LTD rate for 2020. However, NRLP submits that doing so would be inconsistent with the Decision and would inappropriately be selective updating. A 2.58% LTD rate reflects the actual costs in the 2020 test year. The update, as proposed, provides an

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<sup>20</sup> EB-2020-0225 – OEB Staff Submission, Page 7 – November 25, 2020

adjustment to the current, OEB-approved 2020 NRLP revenue requirement of \$311,393 to the benefit of ratepayers prior to the application of the RCI.

31. Additionally, for contextual purposes to address OEB Staff claims that the NRLP proposed long-term debt rate of 2.58% generates over-collection, NRLP has demonstrated prudence in updating its costs. For comparison, the proposed LTD rate of 2.58% is less than half that of other similar-sized transmitters such as CNPI and FNEI, who have LTD rates in excess of 5% currently underpinning their respective revenue requirements<sup>21</sup>.

*Conclusion*

32. NRLP submits that by updating the 2020 long-term debt rate to 2.58% as part of this 2021 annual update application, NRLP is ensuring that the actual cost of debt is reflected in the 2020 NRLP revenue requirement consistent with the Decision. NRLP submits that adjusting the 2020 revenue requirement for any value that does not reflect fair and prudent costs incurred during the test year, including the OEB deemed LTD rate up until April 30, 2020, is inequitable and thereby contravenes the basis of the Settlement Proposal, which undermines the integrity of the Decision.

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<sup>21</sup> EB-2016-0231 – Decision – Issued January 18, 2018, and EB-2014-0204 –Decision and Order – Issued May 14, 2015

**OEB INTERROGATORY #17**

**Reference:**

- (1) Exhibit G, Tab 1, Schedule 1
- (2) Letter from OEB regarding Cost of Capital Parameters for 2020<sup>1</sup>
- (3) B2M LP Settlement Proposal (EB-2018-0271), filed January 7, 2019

**Interrogatory:**

**Preamble:**

On page 4 of Exhibit G, Tab 1, Schedule 1, NRLP states:

*NRLP will update the long-term debt rate for the 2020 Test year based on NRLP's weighted average of the OEB's deemed long-term debt rate for 2020 and the September 2019 Consensus Forecast, along with the proposed update of the return on common equity and deemed short-term interest rate.*

NRLP has also requested that its revenue requirement be updated for 2021 reflecting its actual debt re-issuance scheduled to occur in 2020.

On October 31, 2019, the OEB issued its approved cost of capital parameters for rates effective in 2020, in accordance with the OEB's policies in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The OEB's letter set out the following cost of capital parameters for 2020:

<b>Cost of Capital Parameter</b>	<b>Value for Applications for rate changes in 2020</b>
ROE	8.52%
Deemed LT Debt rate	3.21%
Deemed ST Debt rate	2.75%

<sup>1</sup> <https://www.oeb.ca/sites/default/files/Ltr-2020-Cost-of-Capital-Update-20191031.pdf>

1 The deemed LT (long-term) debt rate represents long-term or 30-year bond rate for a low-  
2 risk utility with a credit rating of A or higher. The deemed ST (short-term) rate represents  
3 a short-term, 3-month rate that a commercial bank would lend money at with a preferred  
4 and low-risk commercial customer.<sup>2</sup>

5  
6 The OEB, in its *Handbook of Utility Rate Applications*, states the following:<sup>3</sup>

7  
8 *Utilities have the opportunity to recover their cost of capital*  
9 *through their rates. The OEB sets the cost of capital using a*  
10 *formula-based approach, which has streamlined the*  
11 *regulatory process considerably.<sup>24</sup> The same approach is*  
12 *used for all utilities, and the results are predictable, stable*  
13 *and fully transparent. The general expectation is that the*  
14 *cost of capital parameters will remain unchanged*  
15 *throughout the rate-setting term, typically 5-years.*

16  
17 *24 Report of the Board on the Cost of Capital for Ontario's*  
18 *Regulated Utilities, December 11, 2009 and OEB Staff*  
19 *Report: Review of the Cost of Capital for Ontario's*  
20 *Regulated Utilities, January 14, 2016 and associated OEB*  
21 *cover letter.*

22  
23 **Questions:**

- 24 a) Please explain how NRLP is proposing to update its 2020 long-term debt rate as  
25 documented above, and what specific information from Consensus Forecasts NRLP is  
26 intending to use.
- 27  
28 b) In its evidence, NRLP has identified the weighted average debt rate to be 3.82% for  
29 2020 and a forecast new long-term debt rate of 3.63% for 2021. This is well above the  
30 3.21% deemed long-term debt rate that the OEB has calculated as being applicable for  
31 2020.
- 32  
33 i. Please provide an updated forecasted long-term debt rate for the replacement  
34 debt based on current market conditions. If NRLP believes that the rate it  
35 forecasts will exceed the 3.21% deemed long-term debt rate issued by the OEB

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<sup>2</sup> *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), December 11, 2009, Appendices C and D

<sup>3</sup> *Handbook of Utility Rate Applications*, October 13, 2016, Appendix 2, p. iii

1 and calculated in accordance with the OEB's cost of capital policy,<sup>4</sup> please  
2 provide a detailed explanation for its debt rate forecast.

- 3
- 4 c) Since the cost of capital parameters are not changed during an IRM plan (e.g., price  
5 cap or revenue cap), please explain how NRLP's proposals to update the long-term  
6 debt rate, and hence the cost of capital, in its revenue requirement for 2020 and 2021  
7 outside of the revenue cap formula, are not "inconsistent with the Revenue Cap  
8 framework."<sup>5</sup>
- 9
- 10 d) Please update Table 1, shown on page 2 of Exhibit G, Tab 1, Schedule 1, to reflect  
11 the OEB's 2020 cost of capital letter of October 31, 2019,
- 12
- 13 e) Please update all tables in the application as appropriate to reflect the updates cost of  
14 capital parameters.
- 15
- 16 f) Please indicate whether NRLP's updated cost of capital parameters, and the proposed  
17 treatment for the new debt to be issued April 30, 2019, differ in any material way from  
18 what is documented in the B2M LP Settlement Proposal filed on January 7, 2020.

19

20 **Response:**

- 21 a) As discussed on line 25 page 1 to line 2 page 2 of Exhibit G, Tab 1 Schedule 1, to  
22 reflect the terms of the external issue in its revenue requirement, NRLP proposes to  
23 make a one-time update of the cost of long-term debt at the first annual update of rates  
24 for 2021<sup>6</sup>. This update will include the actual market rate achieved on the long-term  
25 debt to be issued in 2020.

26

27 As discussed on page 8 of the same schedule, NRLP assumes that, for rates effective  
28 January 1, 2020, the forecast interest rate for Hydro One Inc.'s debt issues will be based  
29 on the September 2019 Consensus Forecasts and the average of indicative new issue  
30 spreads for September 2019 that will be obtained from the Hydro One Inc. MTN dealer  
31 group for each planned issuance term.

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<sup>4</sup> [Report of the Board on the Cost of Capital for Ontario's Regulated Utilities](#) (EB-2009-0084), December 11, 2009

<sup>5</sup> Exhibit I, Tab 1, Schedule 5, part e)

<sup>6</sup> To minimize ratepayer costs, HOIP intends to execute the external issue of NRLP debt commensurate with the same issue of debt for B2M LP. The intended update of the debt rate for 2021 is intended to be identical to that of B2M LP.

1 Below is an updated Table 4 from Exhibit G, Tab 1 Schedule 1

2  
3 **Updated Table 4 - Forecast Yield for 2020 Issuance Terms – September 2019**

	2020		
	5-year	10-year	30-year
<b>Government of Canada</b>	1.52%	1.50%	1.70%
<b>Hydro One Spread</b>	0.80%	1.16%	1.61%
<b>Forecast Hydro One Yield</b>	2.33%	2.66%	3.31%

4  
5 Each rate comprises the forecast Government of Canada bond yield plus the Hydro One  
6 Inc. credit spread applicable to that term. The ten-year Government of Canada bond  
7 yield forecast for 2020 is based on the average of the three-month and 12-month  
8 forecast from the September 2019 Consensus Forecast. The five-year Government of  
9 Canada bond yield forecasts are derived by subtracting the September 2019 average  
10 spreads (five-year to ten-year for the five-year forecast) from the ten-year Government  
11 of Canada bond yield forecast. The thirty-year Government of Canada bond yield  
12 forecasts are derived by adding the September 2019 average spreads (30-year to ten-  
13 year for the 30-year forecast) to the ten-year Government of Canada bond yield  
14 forecast. Hydro One's credit spreads over the Government of Canada bonds are based  
15 on the average of indicative new issue spreads for September 2019 obtained from the  
16 Company's MTN dealer group for each planned issuance term.

17  
18 Based on updated forecast rates, NRLP has calculated the weighted average debt rate  
19 to be 3.05% for 2020 and the forecast long-term debt rate is 2.94% for 2021. Please  
20 consider pages 1 and 2 of Attachment 1 of this IR response as an update to Exhibit G,  
21 Tab 1, Schedule 2.

22  
23 b)

- 24 i. Updated forecast debt rates based on September 2019 Consensus Forecast and  
25 September 2019 data are updated in Table 4 in response to part (a). Updated  
26 weighted average rates of 3.05% for 2020 and the forecast new long-term debt  
27 rate of 2.94% for 2021, which are both below the 3.21% deemed long-term  
28 debt rate issued by the OEB. As discussed on lines 13 to 15, page 5 of Exhibit  
29 G, Tab 1 Schedule 1, the long-term debt rate for 2020 is calculated as the  
30 weighted average cost rate of 3.21% on its deemed long-term debt until April

30, 2020 (based on 2019 OEB cost of capital parameters), and forecast debt planned to be issued in 2020. The reason for using the deemed long-term debt rate is discussed on lines 14 to 16, page 4 of Exhibit G, Tab 1 Schedule 1, consistent with the OEB’s policy, stated on page 54 of its Cost of Capital report, the deemed long-term debt rate will be used where an electricity distribution utility has no actual debt.

- c) Underlying the intent of the Revenue Cap Framework is the fact that the base year should represent the recovery of fair and prudent costs. A unique circumstance for NRLP (and B2M LP concomitantly), is that materially all of its Long Term Debt needs are to be refinanced simultaneously during the rate period. This creates refinancing risk for both the utility and customers.

NRLP’s proposal to reduce this risk in the future by implementing a one-time reset of the rates because of the extraordinary scale of the refinancing. This protects both the utility and ratepayers from inappropriate additional costs/savings. In terms of validity within the Revenue Cap Framework, NRLP would assert that this is an appropriate proposal under a Custom IR framework given the fact that the circumstances for NRLP are atypical. NRLP also notes that B2MLP and intervenors agreed on the exact same mechanism.

- d) Below is an updated Table 1 of Exhibit G, Tab 1, Schedule 1, to reflect the OEB’s 2020 cost of capital letter of October 31, 2019, and responses to the supplemental interrogatories.

**Updated Table 1 - 2020 Cost of Capital**

<b>2020</b>				
<b>Amount of Deemed Return</b>	<b>(\$M)</b>	<b>%</b>	<b>Cost Rate (%)</b>	<b>Return (\$M)</b>
Long-term debt	65.99	56%	3.05%	2.01
Short-term debt	4.71	4%	2.75%	0.13
Common equity	47.14	60%	8.52%	4.02
<b>Total</b>	<b>117.84</b>	<b>100%</b>	<b>5.39%</b>	<b>6.16</b>

- 1 e) The revenue requirement tables outlined in Exhibit E, Tab 1, Schedule 1, which have  
2 been impacted by the Cost of Capital components, are provided below.  
3

4 **Table 1 - Revenue Requirement (\$ Millions)**

<b>Components</b>	<b>2020</b>
OM&A	0.85
Depreciation	1.59
Income Taxes	0.06
Return on Capital	6.16
<b>Base Revenue Requirement</b>	<b>8.66</b>
Deduct External Revenues and Other <sup>2</sup>	0.0
Add/(Deduct) Regulatory Accounts Disposition/Foregone/Other	6.38
<b>Rates Revenue Requirement</b>	<b>15.04</b>

5  
6 **Table 5 - Return on Capital (\$ Millions)**

	<b>2020</b>
Return on Debt	2.14
Return on Equity	4.02
<b>Return on Capital</b>	<b>6.16</b>

- 7  
8  
9 f) The proposed treatment for the new debt to be issued April 30, 2019, does not differ  
10 from what is documented in the B2M LP Settlement Proposal filed on January 7, 2020.  
11 As discussed on page 4 of Exhibit G, Tab 1 Schedule 1, Hydro One Inc. plans to issue  
12 debt to third party public debt investors at the same time that B2M LP's debt  
13 refinancing will be done in mid-2020, depending on market conditions at the time. The  
14 long-term debt rate on 2020 long-term debt differs from B2M LP's because B2M LP  
15 issued five-year debt on April 30, 2015, which matures on April 30, 2020, whereas  
16 NRLP currently has no externally issued debt. As discussed in part (b) i) above and on  
17 page 4 of Exhibit G, Tab 1 Schedule 1, consistent with the OEB's policy, stated on  
18 page 54 of its Cost of Capital report, the deemed long-term debt rate will be used where  
19 an electricity distribution utility has no actual debt.



Niagara Reinforcement Limited Partnership  
 Cost of Long-Term Debt Capital  
 Test Year (2020)  
 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 12/31/2019 (\$Millions)	at 12/31/2020 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	18-Sep-19	3.21%	30-Apr-20	66.88	0.00	66.88	100.00	3.21%	66.88	0.00	20.58	0.66	
2	30-Apr-20	2.33%	30-Apr-25	22.00	0.11	21.89	99.50	2.44%	0.00	22.00	15.23	0.37	
3	30-Apr-20	2.66%	30-Apr-30	22.00	0.11	21.89	99.50	2.72%	0.00	22.00	15.23	0.41	
4	30-Apr-20	3.31%	30-Apr-50	22.00	0.11	21.89	99.50	3.34%	0.00	22.00	15.23	0.51	
5	<b>Subtotal</b>								66.88	66.00	66.27	1.95	
6	Treasury OM&A costs											0.02	
7	Other financing-related fees											0.05	
8	<b>Total</b>								<u>66.88</u>	<u>66.00</u>	<u>66.27</u>	<u>2.02</u>	<u>3.05%</u>

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)	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	2.330%	30-Apr-25	22.0	0.1	21.9	99.50	2.44%	22.0	22.0	22.0	0.5	
2	30-Apr-20	2.660%	30-Apr-30	22.0	0.1	21.9	99.50	2.72%	22.0	22.0	22.0	0.6	
3	30-Apr-20	3.310%	30-Apr-50	22.0	0.1	21.9	99.50	3.34%	22.0	22.0	22.0	0.7	
4		<b>Subtotal</b>							66.0	66.0	66.0	1.9	
5		Treasury OM&A costs										0.0	
6		Other financing-related fees										0.1	
7		<b>Total</b>							66.0	66.0	66.0	1.9	2.94%