Ontario Energy Board | Commission de l'énergie de l'Ontario

**BY EMAIL**

August 20, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: B2M Limited Partnership (B2M LP)**
**2025-2029 Transmission Revenue Requirement**
**Ontario Energy Board (OEB) Staff Interrogatories**
**OEB File Number: EB-2024-0116**

Please find attached OEB staff's interrogatories in the above referenced proceeding, pursuant to Procedural Order No. 1.

Please note, B2M LP is responsible for ensuring that all documents that it files with the OEB, including responses to OEB staff questions and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*. B2M LP is reminded that its responses to interrogatories are due by **September 9, 2024.**

Yours truly,

Tina Zhu
Digitally signed by Tina Zhu
Date: 2024.08.20 15:31:59 -04'00'

Tina Zhu
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2024-0116

# OEB Staff Interrogatories
# B2M Limited Partnership (B2M LP)
# 2025-2029 Transmission Revenue Requirement
# EB-2024-0116

**Staff-1**

Ref: (1) Exhibit A, Tab 4, Schedule 1, page 1

**Preamble:**

In the reference above, OEB staff notes that B2M LP proposes to set its revenue requirements for a five-year period using a forecast of OM&A and capital (including tax) costs for each of the five years. Customer protection mechanisms such as an earnings sharing mechanism (ESM) and off-ramps are proposed. No productivity mechanism appears to have been proposed.

OEB staff notes that, in Chapter 3 of the *Filing Requirements For Electricity Distribution Rate Applications*, for the Price Cap Incentive Rate-setting (IR) and Annual IR index rate-setting options, a regulatory review may be triggered if earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity (ROE).

Since B2M LP proposes not to use any type of incentive rate-setting option to set its revenue requirements, annual check-ins and updates to set the revenue requirements for 2026-2029 will not be required if the proposal is approved as filed.

**Question(s):**

Please discuss how an off-ramp mechanism would be monitored and reported to the OEB, in the absence of annual check-ins and updates.

**Staff-2**

Ref: (1) Exhibit A, Tab 4, Schedule 1, page 1

**Preamble:**

In the reference above, B2M LP states that it understands that electricity transmitters are required to choose either Custom IR or a Revenue Cap IR to set revenue requirements.

However, in the current application, B2M LP proposes to set its revenue requirements for a five-year period using a forecast of operating, maintenance and administrative expenses (OM&A) and capital (including tax) costs for each of the five years, which deviates from the Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications.

B2M LP states that its proposal has a number of benefits including:

i. it considers the appropriate framework for single-asset utilities with a declining rate base, providing transparency to ratepayers and lower potential for overearning than a revenue cap index framework, especially in the later years of a rate period; and

ii. it provides appropriate protection for ratepayers and does not disincentivize productivity.

The OEB's Renewed Regulatory Framework (RRF) is intended to move the focus from costs and cost recovery to focus on long-term value for money.

**Question(s):**

a) Please confirm that B2M LP's proposed methodology on setting revenue requirements is a five-year annual cost-of-service method. And if not, what is the difference between a five-year annual cost-of-service method and the B2M LP proposal.

b) OEB staff notes that the risk of overearning using a revenue cap index framework may be mitigated by effectively calibrating the formula components. Please comment on whether B2M LP considered such an approach. If so, please provide details on the considered revenue cap index framework (productivity factor, stretch factor and any additional adjustment factors).

**Staff-3**

Ref: (1) Exhibit A, Tab 4, Schedule 1, page 1

**Preamble:**

In the reference above, B2M LP proposes to set its revenue requirement for a five-year period using a forecast of OM&A and capital (including tax) costs for each of the five years.

B2M LP has suggested that the OEB's Handbook for Utility Rate Applications provides that electricity transmitters are to choose either Custom IR or a Revenue Cap IR. B2M LP further asserts that the RRF was not conceived for a single-asset utility such as B2M LP. B2M LP believes that its proposal has a number of benefits:

- it considers the appropriate framework for single-asset utilities with a declining rate base, providing transparency to ratepayers and lower potential for overearning than a revenue cap index framework, especially in the later years of a rate period; and

- it provides appropriate protection for ratepayers and does not disincentivize productivity.

**Question(s):**

a) Please provide an annual quantitative analysis for the rate term including the OM&A, depreciation, taxes, rate base, return on equity, short-term debt and long-term debt, comparing the proposed revenue requirement model with the current OEB-approved B2M LP model as well as the current OEB-approved NRLP model showing how the proposed model is beneficial to ratepayers:

   i. please provide the results using an inflation rate of 2% as shown in the application and another calculation using the 2025 OEB inflation rate of 3.7%; and

   ii. please provide the impact over the 5-year rate term as well as on an annual basis.

b) Please provide a quantitative analysis on how the use of the proposed revenue requirement model will impact shareholders over the 5-year period, and what the estimated earnings would be on an annual basis when compared with the current OEB-approved B2M LP model as well as the current OEB-approved NRLP model:

   i. please provide the results using an inflation rate of 2% as shown in the application and another calculation using the 2025 OEB inflation rate of 3.7%;

   ii. please provide the estimated ESM deferral account balance for each year of the 5-year period; and

   iii. please provide the estimated ROE for each year of the 5-year period.

c) Please indicate if an alternative Custom IR formula was considered to align with the RRF requirements:

   i. if yes, please indicate the alternative formula that was considered and why it was not proposed; and

   ii. if no, please indicate why an alternative that aligns with the RRF was not considered before developing the proposed revenue requirement model.

d) Please quantify how the B2M LP proposal incentivizes productivity.

e) The B2M LP proposal includes an ESM and off-ramps which are typical features for transmitter applications. Please identify all features of the B2M LP proposal that provides for ratepayer protection.

**Staff-4**

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 2
(2) Exhibit A, Tab 3, Schedule 1, page 10
(3) Exhibit F, Tab 2, Schedule 1, page 4 & 5

**Preamble:**

In the first reference above, B2M LP states that throughout 2020 to 2024, and over the 2025-2029 test period, it faces increased maintenance costs related to repair of spacer dampers which was initiated in 2020 and will be completed in 2029. B2M LP has been expensing such costs, rather than capitalizing.

In the second reference above, B2M LP states that, in 2019, insulator strings were identified on the older section of line that B2M LP owned as having an elevated risk of failure. These were replaced between 2020 and 2022 resulting in total in-service capital asset additions of $2.7 million.

In the third reference above, B2M LP states that in late 2019, a failure occurred due to broken conductors, which caused a significant outage impacting Bruce Power. This was due to a defective spacer damper. Upon conducting Detailed Helicopter Inspections (DHI) it was observed that many other spacer dampers had similar issues. To ensure reliability and prevent further conductor failures, B2M LP is continuing the unplanned maintenance program until 2029. This program consists of the annual DHIs supplementing thermosvision helicopter patrols to identify high risk line defects requiring immediate mitigation, and prioritization of other defects requiring mitigation within the next 12 months; and specifically identifying spacer dampers requiring repairs over the next 12 months and completing work in a cost-effective manner. B2M LP states that the spacer damper replacement program is expected to cost $1.2 million annually for the 2025 to 2029 rate period.

**Question(s):**

a) Please provide the actual annual amounts spent between 2020 and 2023, and annual amount expected to be spent in 2024, on the spacer damper repairment project.

b) Please confirm the spacer damper repairment costs have been recognized as a part of the Service Level Agreement (SLA) costs, under the maintenance expense (as a part of the OM&A), rather than capitalizing the costs. Please provide the reasons if the costs are capitalized.

c) Comparing the insulator replacement project with the spacer damper repairment project, in terms of costs and project time duration, please provide reasonings on the different accounting treatments on the two projects, whether it is a betterment (which is to capitalize) or a repair (which is to expense), respectively.

d) Please illustrate the expected service life / useful life of a spacer damper. Please illustrate any efficiency and benefit expected by spreading out the spacer damper repairment project in 10 years i.e. between 2020 and 2029, especially if the spacer damper useful life is shorter than 10 years.

**Staff-5**

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 4 & 8
(2) Exhibit F, Tab 2, Schedule 1, page 3

**Preamble:**

In the first reference above, B2M LP states that its management and work programs are provided by an SLA with HONI, resulting in minimal overhead as well as qualified and flexible resources when needed, allowing B2M LP to remain cost efficient.

In the first reference above, B2M LP proposes a general 2% inflation in its OM&A budgets.

In the second reference above, the OEB staff notes the total SLA costs consist of:

i. Maintenance expenses;

ii. Shared asset allocation; and

iii. Administrative and corporate expenses.

**Question(s):**

a) Please confirm whether the 2% general inflation assumption is applied to calculate each category of the SLA costs in 2025-2029, and if this inflation assumption is in alignment with the SLA costs calculation approach which HONI has used in determining the 2025-2029 SLA charges to B2M LP.

b) If an alternative SLA cost assumption exists, please provide details of the assumptions, and how the inflationary consideration is being built into the 2025-2029 SLA charges to B2M LP.

c) Other than the inflationary consideration in the SLA charge determination, have HONI and B2M LP identified any efficiency and productivity improvements which would offset inflationary pressure on SLA charges over 2025-2029.

**Staff-6**

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 2

**Preamble:**

In the reference above, with respect to B2M LP's Right-of-Way vegetation maintenance program, B2M LP states it expects an increase in forestry expense during certain test years with greater work volumes.

**Question(s):**

a) Please provide, in dollar figures, the annual Right-of-Way vegetation maintenance program expense budget, between 2024 and 2029.

b) What is the basis of B2M LP's cost estimates for the Right-of-Way vegetation maintenance program between 2024 and 2029?

c) Please provide the actual timeline of the Right-of-Way vegetation maintenance activities between 2020 and 2023, and the actual annual costs.

d) Please clarify if the 2025-2029 forestry expense increase is mainly due to greater work volumes, or if other cost pressures are also present, such as material and supply inflation, labor cost increase, and so on.

e) What percentage of B2M LP's total 2025-2029 proposed OM&A is for the Right-of-Way vegetation maintenance program costs?

f) Please comment if any efficiency opportunities have been explored to lower the future Right-of-Way vegetation maintenance program costs.

**Staff-7**

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 4

**Preamble:**

With respect to B2M LP's productivity improvement, B2M LP states its main controllable costs are maintenance and a small amount of administration. These costs are a small fraction of the total costs and are significantly less than the non-controllable portions of B2M LP's costs (cost of capital, depreciation, income tax, operations, corporate allocation). As a result, it is only in respect of a modest portion of OM&A costs that productivity can be achieved.

B2M LP also states that its SLA with HONI has minimal overhead as well as qualified and flexible resources when needed, allowing B2M LP to remain cost efficient; and the SLA integrates HONI's productivity improvements into B2M LP's maintenance operations. As a result of the above, B2M LP receives the benefit of HONI's productivity improvements in B2M LP's maintenance operations, regardless of the regulatory framework under which B2M LP operates.

**Question(s):**

a) Please provide details on how B2M LP forecasts the 2025-2029 annual SLA costs. Do these costs match HONI's SLA income forecasts for the corresponding periods?

b) The SLA covers multi-year services and only renews every a few years. During the terms of the SLAs, does B2M LP review the service offerings, and frequency of service offerings with HONI, to ensure the SLA costs maximize its intended benefits?

c) How is B2M LP ensuring that the OM&A related services provided to it by HONI are appropriate and cost effective?

d) Please provide a few recent examples on how B2M LP exercises its flexibility to add and/or remove services, and change frequency of performing services.

**Staff-8**

Ref: (1) Exhibit A, Tab 3, Schedule 1, page 3 & 4
(2) Exhibit A, Tab 4, Schedule 1, page 1 & 2 & 3

**Preamble:**

The OEB's Handbook for Utility Rate Applications establishes the expectation that utilities are to demonstrate ongoing continuous improvement in their productivity and cost performance while delivering on system reliability and quality objectives.

In the first reference above, B2M LP states it has few, if any opportunities to unilaterally achieve productivity improvements, regardless of the revenue requirement framework under which it is operating at any given time.

In the second reference above, B2M LP also states its SLA integrates HONI's productivity improvements into B2M LP's maintenance operations, regardless of the regulatory framework under which B2M LP operates.

**Question(s):**

a) Please provide a quantitative analysis of how B2M LP's SLA with HONI integrates HONI's productivity improvements into B2M LP's maintenance operations.

b) Please provide the details of how the SLA affects the management and work programs of B2M LP and costs incurred by HONI in providing these services.

   i. in the response, please provide a list of management and work programs; and

   ii. please explain the role of the SLA in each category of the management and work program listed.

**Staff-9**

Ref: (1) Exhibit A, Tab 6, Schedule 2, Attachment 1, page 12
(2) Exhibit H, Tab 1, Schedule 1, page 6
(3) Exhibit H, Tab 1, Schedule 1, page 7

**Preamble:**

In the first reference above, OEB staff notes the regulatory liabilities account shows a $736,000 balance as at December 31, 2023.

In the second reference above, OEB staff notes the ESM principal balance shows $732,119 as at December 31, 2023.

In the third reference above, B2M LP states its regulatory account balances are updated monthly and interest applied to the monthly opening principal balances in the accounts according to the OEB-approved rate.

**Question(s):**

a) Please confirm if the difference ($736,000 versus $732,119) is due to the 2023-year interest.

b) Please clarify how the 2023-year interest is being calculated, given the ESM balance is being calculated at year-end, while B2M LP states the interest is being calculated on monthly opening principal balances.

**Staff-10**

Ref: (1) Exhibit A, Tab 6, Schedule 3, page 1

**Preamble:**

In the reference above, B2M LP provides the 2023-year reconciliation between audited financial statements and regulatory financial statements.

**Question(s):**

Please provide such reconciliations for 2020-2022, with an explanation for each adjusted item in those years.

**Staff-11**

Ref: (1) Exhibit B, Tab 1, Schedule 3, Attachment 1, page 11 & 12
(2) Exhibit C, Tab 1, Schedule 1, page 6

**Preamble:**

In the first reference above, B2M LP states that a critical failure occurred in December 2019 due to a broken conductor, which caused an outage impacting Bruce Power. This failure was due to a defective spacer damper. Upon conducting Detailed Helicopter Inspections (DHIs), it was observed that many other spacer dampers had similar issues. To ensure reliability and prevent further conductor failures, HONI undertook a multi-year and multi-faceted maintenance program to identify and repair defective spacer dampers. The program is expected to last until 2029. Depending on outage availability, the cost can fluctuate from year to year, but it is estimated to be approximately $1.2 million per year on average for the next 5 years.

In the second reference above, B2M LP states that in 2020, it received approval for $3.0 million in capital expenditures to address defective insulators on the older section of its transmission line. From 2020 to 2022, B2M LP incurred $2.7 million in capital expenditures for these new assets, which were placed in-service.

**Question(s):**

a) Please clarify, if the spacer damper replacement project and the defective insulators replacement project are both to address the same issue as relates to the critical failure occurred in late 2019. If so, please explain:

   i. between the two projects, what is B2M LP's rationale that the spacer damper replacement project has a span of nine years, which is still on-going and will continue to carry out annually until 2029; while the defective insulators have been replaced between 2020 and 2022; and

ii. why the urgency of replacing spacer dampers is much lower than the insulators replacement.

b) The B2M LP states that the spacer damper replacement project is to ensure reliability and prevent further conductor failures:

i. please describe the consequence of premature and unpredictable failure of the insulators;

ii. what is the probability of failure each year in 2025-2029, considering the project is on-going until 2029; and

iii. why do the spacer dampers need to be replaced before they fail? What are the criteria to determine whether a spacer damper will need to be replaced within the year?

c) Was there alternative timeline (as opposed to a long span between 2020 and 2029) to replacing the spacer dampers? If so, why is the proposed approach recommended?

d) How many spacer dampers will be replaced each year? Has B2M LP factored in inflationary pressure on spacer damper cost, as well as the possible supply chain challenge over 2025-2029, into the project timeline?

e) What is the cost to replace each spacer damper, including labor and material?

f) Please describe the key activities to identify insulators that are at a higher risk to fail (over 2025-2029), and if there is any failure prevention strategy being adopted since the 2019 failure.

**Staff-12**

Ref: (1) Exhibit D, Tab 1, Schedule 1, page 3
(2) Exhibit F, Tab 2, Schedule 1, page 3 & 6

**Preamble:**

OEB staff notes the 2023-year maintenance expenses as calculated by OEB staff ($0.9856 million) are different than the B2M LP stated amount ($1.1 million) in the

Total SLA Costs table under Exhibit F, Tab 2, Schedule 1, page 3.

**OEB staff re-performs the maintenance expenses calculation**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|
| Performance Measure - Maintenance Cost ($K) per circuit kilometer **(A)** | 2.8 | 4.9 | 4.9 | 3.6 | 6.9 | 7.4 | 3.4 |
| Circuit kilometer (kms)[1] **(B)** | 352 | 352 | 352 | 352 | 352 | 352 | 352 |
| **Maintenance Expenses ($M), OEB staff calculates (A)*(B)** | **0.9856** | **1.7248** | **1.7248** | **1.2672** | **2.4288** | **2.6048** | **1.1968** |

*Exhibit Reference: D-1-1, page 3, Table 1 - B2M LP Performance Measures*

**Total SLA Costs ($M)**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|
| **Maintenance Expenses, B2M LP states** | **1.1** | **1.7** | **1.7** | **1.3** | **2.4** | **2.6** | **1.2** |
| Shared Asset Allocation | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Administrative and Corporate Expenses | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Total SLA Costs** | **2.00** | **2.50** | **2.60** | **2.20** | **3.30** | **3.50** | **2.10** |

*Exhibit Reference: F-2-1, page 3, Table 2 - Total SLA Costs ($M)*

**Question(s):**

a) Please confirm the calculation method used for the Maintenance Cost ($K) per circuit kilometer performance measure and whether the measure is calculated as maintenance expenses / 352 kms. Please clarify the discrepancy between the OEB staff calculated amount for 2023 and the B2M LP stated amount.

b) Please comment on whether B2M LP has done any external benchmarking to the Maintenance Cost ($K) per circuit kilometer performance measure, in terms of:

[1] B2M LP states the circuit kms refer to total route kms multiplied by number of circuits per km. For B2M LP, this is 176 kms x 2 circuits = 352 kms.

i. the maintenance expenses are largely derived from the SLA costs. The calculation and allocation of the expenses can be largely impacted by the way HONI drafts the SLA with B2M LP. Please clarify if B2M LP has control on the measure performance, and whether and how the performance measure is the appropriate, objective measure to track B2M LP's operational excellence outcome;

ii. if the measure target in 2025-2029 still tracks the appropriate industry performance benchmark, noting the trend of Maintenance Cost ($K) per circuit kilometer performance measure shows dramatic fluctuation from year to year, i.e., it experienced ups and downs over the historical years, whether this measure was, and will still be comparable to the industry trend; and

iii. please provide a table comparing total OM&A costs and line OM&A costs to similar transmitters in Ontario. As part of this table please provide a column comparing OM&A as a percentage of total costs for each transmitter and $/km of line.

**Staff-13**

Ref: (1) Exhibit D, Tab 1, Schedule 1, page 2-3

**Preamble:**

In the reference above, B2M LP states it is proposing to continue to track its performance by utilizing most of the measures approved by the OEB in proceeding EB-2015-0026, and the settlement agreement in EB-2019-0178. Below is the list of performance measures:

- Transmission System Average Interruption Frequency (T-SAIFI) B2MLP Contribution;
- Transmission System Average Interruption Duration (T-SAIDI) B2MLP Contribution;
- Average System Availability;
- NERC Vegetation Compliance; and
- Maintenance Cost per Circuit Kilometer.

**Question(s):**

Please confirm if B2M LP proposes to continue to use all of the measures approved by the OEB in proceeding EB-2015-0026, and the settlement agreement in EB-2019-0178? Or, if any measure will be discontinued? As B2M LP states most (not all) measures will continue to track its performance.

**Staff-14**

Ref: (1) Exhibit E, Tab 1, Schedule 1, page 4

**Preamble:**

In the reference above, B2M LP states that the OEB-approved 2020-year total revenue requirement is $32.6 million.

OEB staff notes the OEB-approved 2020-year total revenue requirement is $33.2 million (EB-2019-0178)

**Question(s):**

Please confirm the source and accuracy of $32.6 million as the OEB-approved 2020-year total revenue requirement.

**Staff-15**

Ref: (1) Exhibit F, Tab 6, Schedule 1, page 2-3 & 6
(2) Exhibit F, Tab 6, Schedule 1, Attachment 2 in excel

**Preamble:**

In the first reference above, with respect to Ontario Corporate Minimum Tax (OCMT), B2M LP states the OCMT is designed to impose a minimum tax based on financial statement income calculated without most tax adjustments. The OCMT paid in the year can be applied to reduce taxes payable in future year. B2M LP recovered the OCMT expense from customers in the historical years and have utilized the maximum allowable OCMT credits to reduce regulatory income tax expenses and taxes payable in the test years. These credits are expected to be fully utilized prior to the start of the test period,

resulting in an increase to the overall regulatory income tax expense during the test period.
In the second reference above, B2M LP provides as an excel attachment for the calculation of bridge year (2024) and test years (2025-2029) OCMT amounts. OEB staff notes the OCMT payable amounts are projected to be $0 for all years, and this is the same case for all partners.

**Question(s):**

a) Please confirm the amount of OCMT credits applied for each of the historical years. Please confirm in which year(s) the OCMT credits were incurred.

b) Please confirm the expected OCMT rates in 2024, and 2025-2029, and whether the same tax rate applies to all partners.

c) Please confirm the OCMT payable amounts are expected to be $0 in 2024, and 2025-2029, and if this is the same case for all partners regardless of their tax status.

d) Please clarify if any partner will expect to incur OCMT payable and receive OMCT tax credits in the future. If so, please provide the proposal regarding how to utilize these tax credits.

e) Please explain how the 2024-2029 OCMT payable amounts are being projected, given the OCMT is based on financial statement income calculated without most tax adjustments. What is the income base for the OCMT computation?

**Staff-16**

Ref: (1) Exhibit F, Tab 6, Schedule 1, page 4

**Preamble:**

In the reference above, B2M LP states it is imperative that the net income before tax (NIBT) be adjusted for amounts that have been included (or deducted) for accounting purposes that are not income (or deductible) for tax return purposes.

**Question(s):**

Other than the capital cost allowance (CCA) deduction versus accounting depreciation example, what are the other examples on amounts that have been included (or deducted) for accounting purposes that are not income (or deductible) for tax return purposes in 2024, and 2025-2029?

**Staff-17**

Ref: (1) EB-2019-0178, OEB Staff 39 Interrogatory Response
(2) C-01-01-03_2020-2025 Fixed Asset Excel

**Preamble:**

In the first reference above, in its 2020-2024 revenue requirement application (EB-2019-0178), B2M LP forecasted nil capital additions from 2020 to 2024 and therefore, it did not expect accelerated CCA to apply to new additions. When asked whether B2M LP planned to implement accelerated CCA for tax purposes and if there were capital additions in the next five years, B2M LP responded that in accordance with the tax legislation, B2M LP would implement accelerated CCA for tax purposes.

In the second reference above, B2M LP shows capital additions totaling $2.7 million for the years 2020 through 2025. The entire amount is capitalized to CCA Class 47.

**Question(s):**

a) Please confirm whether B2M LP applied accelerated CCA to the $2.7 million capital additions in class 47. Please provide the CCA claimed on its tax returns filed.

b) What would be the impact on the related tax expense if the $2.7 million capital additions were forecasted in last revenue requirement application?

c) B2M LP forecasted $0 capital additions from 2025 to 2029 and therefore, there will be no accelerated CCA to apply to new additions. What is B2M LP's opinion regarding the tax benefit that B2M LP receives from the application of the reduced accelerated CCA if there are capital additions in the next five years?

**Staff-18**

Ref: (1) Exhibit F, Tab 6, Schedule 1, page 1 & 2
(2) Exhibit F, Tab 6, Schedule 1, Attachment 2 in excel
(3) Exhibit A, Tab 5, Schedule 1, page 1 & 2

**Preamble:**

In the first reference above, B2M LP states that Saugeen Ojibway Nation Finance Corporation (SON FC) and its shareholders are not subject to corporate income tax. Therefore, the taxable income allocated to SON FC will not be subject to income tax.

In the second reference above, the excel attachment for calculation of test year utility income taxes and capital cost, the OEB staff notes the percentage allocation of taxable income to each partner does not agree to the ownership percentage of each partner as indicated in the description of partnership.

| Partner | Ownership % (Reference 3) | Allocation % for tax purposes* |
|---|---|---|
| Hydro One Networks Inc. | 65.7% | 72.3% |
| Hydro One Indigenous Partnership Inc. | 0.1% | 0.1% |
| SON Financial Corporation | 34.2% | 27.6% |

*Calculated from the second reference , Allocated Taxable Income divided by Total Taxable Income

**Question(s):**

a) Please confirm if the percentage allocation of taxable income differs from the partnership ownership percentage is due to SON FC's tax status. If not, please explain.

b) If B2M LP confirms (a), please provide the related adjustment(s) made, to arrive each partner's share of taxable income.

c) Please update the relevant evidence, as applicable.

**Staff-19**

Ref: (1) Exhibit F, Tab 5, Schedule 1, page 1 & 2

**Preamble:**

In the reference above, since the 2020 historical year, OEB staff notes that B2M LP has adjusted its annual depreciation expense twice:

i. from $7.4 million annually in 2020, to $6.9 million annually between 2021 and 2024; and
ii. from $6.9 million annually in 2024 to $7.3 million annually between 2025 and 2029.

B2M LP states that it has made those annual depreciation rate adjustments by adopting the two respective independent depreciation studies conducted by:

i. Foster Associates Inc. (Foster), for Hydro One Network Inc.'s (HONI) 2020-2022 Transmission Revenue Requirement application (EB-2019-0082). And the OEB accepted the depreciation study for the purposes of determining B2M LP's depreciation rates and depreciation expense for the 2020 to 2024 rate period; and

ii. Alliance Consultant Group (Alliance), for HONI.'s 2023 to 2027 Custom IR application (EB-2021-0110) for its transmission, distribution, and common assets as the basis for its transmission and distribution depreciation and amortization expenses from 2023 to 2027, while adjusting for B2M LP's depreciation reserves to calculate B2M LP's depreciation rate and depreciation expense.

**Question(s):**

OEB staff notes that the Foster study and the Alliance study have resulted in adjustments on B2M LP's annual depreciation expense at opposite directions, specifically:

i. the Foster study results in an overall slower depreciation rate and/or lower annual depreciation expense; and

ii. while the Alliance study results in a faster depreciation rate and/or higher annual depreciation expense.

Please explain why the two studies reach different opinions, given that during the two studies (between 2020 and 2024), B2M LP's overall asset composition stays relatively stable i.e., with minimum or no capital investment incurred during 2020-2024.

**Staff-20**

Ref: (1) Exhibit F, Tab 2, Schedule 1, page 7 & 8

**Preamble:**

In the reference above, OEB staff notes the annual managing director's office expense actual has been $0.1 million per year from 2020 to 2023.

B2M LP forecasts the annual managing director's office expense will increase to $0.2 million per year in 2024 – 2025 and will again increase to $0.3 million per year in 2026 – 2029.

**Question(s):**

a) Since B2M LP has no employees, please describe who employs the managing director.

b) Please explain why the managing director's office expense is forecast to increase significantly over the 2025-2029 period. Please outline any steps being taken to mitigate the cost increase.

c) Please confirm if B2M LP has ability to control the managing director's office expense.

**Staff-21**

Ref: (1) Exhibit F, Tab 2, Schedule 1, page 3 & 6
(2) Exhibit F, Tab 3, Schedule 1, page 2

**Preamble:**

**Total SLA Costs ($M)**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|
| **Maintenance Expenses** | 1.1 | 1.7 | 1.7 | 1.3 | 2.4 | 2.6 | 1.2 |
| **Shared Asset Allocation** | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Administrative and Corporate Expenses** | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Total SLA Costs** | **2.00** | **2.50** | **2.60** | **2.20** | **3.30** | **3.50** | **2.10** |

*Exhibit Reference: F-2-1, page 3, Table 2 - Total SLA Costs ($M)*

In the first reference above, B2M LP breaks down the SLA costs into three categories:

i. Maintenance Expenses;

ii. Shared Asset Allocation; and

iii. Administrative and Corporate Expenses.

With respect to the administrative and corporate expenses including operating services, B2M LP states that such expenses include operating services such as monitoring/control of the transmission system, including alarm monitoring, asset monitoring, and minor control and so on.

In the second reference above, B2M LP states its SLA with HONI covers services including:

i. **Operations Services** – monitoring and control of the transmission system, in accordance with the requirements of B2M LP's transmission licence and all services required to fulfill all of B2M LP's obligations under its Connection

Agreement and the IESO-B2M LP operating requirements;

ii. **Maintenance Services** – all maintenance, repair and refurbishment services, in accordance with the requirements of B2M LP's transmission licence and all services required to fulfill all of B2M LP's obligations under its Connection Agreement and the IESO-B2M LP operating requirements; and

iii. **Administrative and Corporate Services** – some corporate and administrative services provided by HONI, including finance and regulatory support, tax advice and returns preparation, treasury, communications and government relations, legal advice, real estate support, corporate security services, and First Nations support.

**Question(s):**

a) Please provide, in dollar amount, how much of the shared asset allocation costs are incurred for:

   i. operations services purpose; and

   ii. administrative and corporate services purpose.

b) Please provide what percentage of the total SLA costs are related to:

   i. direct employee salaries and wages;

   ii. employee salaries and wages overhead;

   iii. contractor service fees;

   iv. direct supplies and materials; and,

   v. others.

c) Please clarify if the shared asset allocation and the administrative and corporate expenses contain an indirect portion that contributes to the maintenance function of B2M LP's transmission system. For instance, certain monitoring activities need to be in place to identify the maintenance and repairment works that are in need, and such activity expenses maybe recorded under administrative and corporate expenses according to B2M LP. Please provide explanation on how those indirect, supporting activity costs are being categorized under the different SLA costs categories.

**Staff-22**

Ref: (1) Exhibit F, Tab 2, Schedule 1, page 1 to 10

**Preamble:**

In the reference above, B2M LP states that there are various cost increase pressures in 2025-2029 – some are due to specific programs and projects that are carried out, while others are due to general inflationary pressure.

**Question(s):**

a) Please provide a sensitivity analysis to illustrate, with every one percent change on inflation rate assumption, what is the dollar impact to the annual OM&A costs.

b) Please provide inflation assumption parameters used in OM&A cost forecasts for 2025-2029, including specifying:

    i. which OM&A expenses are subject to the general 2% inflation rate as proposed by B2M LP; and

    ii. which OM&A expenses are subject to a specific inflation percentage that is different than the 2% general inflation rate as proposed by B2M LP.

**Staff-23**

Ref: (1) Exhibit F, Tab 2, Schedule 1, page 2
(2) Exhibit F, Tab 3, Schedule 1, page 3

**Preamble:**

In the first reference above, in the summary of OM&A table, OEB staff notes:

i. in 2020-2023, the annual actual total OM&A exceeds the planned value by $1.6 million, $0.8 million, $0.4 million, and $1,2 million, respectively; and

ii. in 2024, the forecasted total OM&A exceeds the planned value by $1.8 million.

B2M LP states that the planned values reflect the 2020 test year values approved by the OEB as part of the previous revenue requirement application (EB-2019-0178), as escalated by the approved Revenue Cap Index (RCI) values.

In the second reference above, it states if HONI becomes aware that the costs of services for the current fiscal year may exceed the budget by 5% or more, HONI must promptly notify HOIP of such anticipated budget overrun and provide HOIP with a proposed amendment to the budget.

**Question(s):**

a) Please provide any action plans B2M LP had taken in 2020-2023 to mitigate the OM&A overrun.

b) Considering that the OM&A costs are largely being charged from SLA costs:

    i. please provide any relevant terms and references in the SLA which address the potential cost overrun issue;

    ii. are the SLA charges subject to price ceilings, i.e., if the actual costs go beyond certain percentages of the agreed-upon SLA cost structure, will B2M LP be protected from extra costs; and

    iii. in the situation of OM&A overrun, what’s the internal control in place, and what is the governance and approving process on the portion of the SLA costs above the budget.

**Staff-24**

Ref: (1) Exhibit F, Tab 3, Schedule 1, page 1
(2) Exhibit F, Tab 2, Schedule 1, page 5 & 6
(3) Exhibit B, Tab 1, Schedule3, Attachment 1, page 4

**Preamble:**

In the first reference above, B2M LP states that as the term of the SLA expires at the end of 2024, a renewed agreement will be developed for the next five-year period, with substantially the same terms and conditions.

In the second reference above, B2M LP states that it is charged transfer pricing by HONI for the use of certain shared assets. The transfer pricing charges include major fixed assets and intangible assets usage, as well as minor fixed assets usage. HONI forecasts a charge amount of $0.3 million per year mainly related to B2M LP's use of HONI's SAP system, an enterprise-wide system that integrates work management, finance, supply chain and other enterprise software.

OEB staff notes that the shared cost allocation at $0.3 million per year for the SAP system only started since 2023.

In the third reference above, B2M LP states that the majority of its OM&A expenses (accounting for approximately 83% of the average annual OM&A expense for 2025-2029) are for services provided by HONI through an SLA.

**Question(s):**

a) Please provide a list of the changes made from the 2019 SLA to the proposed 2025 agreement, along with the necessary rationale/explanation.

b) Please confirm that, other than the existing SLA, there have been no additional service level agreements generated since the filing of B2M LP's last cost of service application:

   i. if this is the case, please clarify and provide any reference in the current SLA about the $0.3 million shared asset allocation starting 2023, as 2023 year is still within the 2019-2024 SLA timeframe and the $0.3 million costs were not charged in years prior to 2023; and

   ii. if this is not the case, please explain and provide a copy of any additional service level agreements that have been generated since then.

c) Given the significance of the SLA costs in B2M LP's OM&A budget, please discuss how it is determined which services will be undertaken by HONI via the SLA and which will be acquired through non-affiliates, including the determination of which option is most cost effective.

**Staff-25**

Ref: (1) Exhibit G, Tab 1, Schedule 1, page 1
(2) Exhibit A, Tab 3, Schedule 1, page 15

**Preamble:**

With respect to B2M LP's determination on its cost of capital, B2M LP intends to update the 2025 to 2029 revenue requirements based on the OEB's release of its 2025 cost of capital parameters to reflect:

i. the OEB-prescribed 2025 ROE and short-term debt rates; and

ii. it proposes to use a long-term debt rate based on B2M LP's forecast debt refinancing in 2025, using the September 2024 Consensus Forecast. The ROE and short-term debt rate parameters will remain fixed over the five-year rate term.

**Question(s):**

a) Please provide the information source of the September 2024 Consensus Forecast, and whether the forecasted 2025 long-term debt re-financing rate is based on fixed rate(s), or it is based on floating rate(s) which link to prime rate(s).

b) Given that there is currently uncertainly in 2025 long-term debt re-financing rate(s), please provide a sensitivity analysis to quantify what is the dollar impact on 2025 base revenue requirement with every one percent cost rate change for the 2025 long-term debt re-financing.

**Staff-26**

Ref: (1) Exhibit G, Tab 1, Schedule 1, page 1
(2) Exhibit A, Tab 3, Schedule 1, page 15 & 16

**Preamble:**

In the first reference above, B2M LP proposes, for the 2026 revenue requirement year, a one-time update will be made to the cost of long-term debt to reflect the actual market rate achieved on the long-term debt it will issue in 2025.

In the second reference above, B2M LP states its proposal will allow actual debt issuances made to refinance maturing debt in 2025 to be reflected in the 2026 revenue requirement and through to the end of the rate term.

**Question(s):**

a) Please confirm the approximate timing when B2M LP will provide the cost of long-term debt update to the OEB.

b) Please confirm, for the B2M LP's proposal, the actual 2025 long-term debt re-financing cost rate(s) will only impact base revenue requirements in 2026-2029, by B2M LP doing a one-time update. And please confirm if the 2025 base revenue requirement will not be updated to reflect the 2025 re-financing rate.

c) Under B2M LP's proposal of a one-time update to reflect the 2025 new cost of debt, how would any variance between the embedded cost of debt and the new cost of debt be addressed? For example, if the new actual cost of debt is much lower than forecast, but B2M LP does not adjust downwards the 2025 base revenue requirement, how will this variance be tracked?

**Staff-27**

Ref: (1) Exhibit H, Tab 1, Schedule 1, page 1 & 2
(2) Exhibit A, Tab 6, Schedule 1, Attachment 3
(3) Exhibit H, Tab 1, Schedule 1, page 5 & 6

**Preamble:**

In the first reference above, B2M LP proposes to dispose of its ESM deferral account balance. In calculating the projected interest up to December 31, 2024 as part of the ESM balance to be disposed, B2M LP states the projected interest for 2024 is calculated by applying interest on the December 31, 2023 principal balance, using the OEB's quarterly prescribed interest rates for deferral and variance accounts.

In the second reference above, B2M LP states that, for it to record earnings exceed the regulatory ROE, it shall use a methodology which the ROE calculation is based on normalized revenue. It also states, the share of B2M LP owned by Hydro One is subject to tax, and this tax cost will be included as part of the calculation of ROE.

In the third reference above, B2M LP states the ratepayers' share of the excess earnings are grossed up for the associated tax impact. The tax grossed-up principal amount is determined in a formula as: P / (0.735 – P) x 0.658 + P, where P is before tax grossed-up principal sharing with ratepayers.

**Question(s):**

a) Please update the deferral and variance account carrying charges with the Q3 and Q4 2024 prescribed interest rates.

b) Please provide a list of items where the revenues of the year(s) have been normalized between 2020 and 2023. Please list the items by the nature, the dollar amount, the % impact of this item on the achieved ROE for the year and rationale of why this item needs to be adjusted. Please provide these items by year.

c) OEB staff notes that NRLP's 2025-2029 application included a computation of its ESM balance for 2020 through 2023. Please provide a similar computation for B2M LP's historical years of 2020-2023.

d) Please confirm whether B2M LP calculated a tax gross up for the annual amount added to the ESM account. And if not, why.

**Staff-28**

Ref: (1) Exhibit H, Tab 1, Schedule 1, pages 1 – 5

**Preamble**

B2M LP proposes the continuance of the three regulatory accounts it currently has:

- Account 1508 – sub account Foregone Revenue Deferral Account
- Account 1592 – sub account Tax Rate and Rule Changes Variance Account
- Account 2435 – ESM Deferral Account

**Question(s):**

Given that B2M LP proposes no annual update between 2026 and 2029,

a) In the event that B2M LP wants to establish a new deferral or variance account, how does it propose to do so during its rebasing term?

b) In the event that any of the regulatory accounts has a balance for disposal, please confirm when the account balance disposition will be requested of the OEB?

**Staff-29**

Ref: (1) EB-2024-0063, Notice, March 6, 2024
(2) EB-2024-0063, OEB Letter, April 22, 2024

**Preamble:**

On March 6, 2024, the OEB commenced a hearing (EB-2024-0063) on its own motion to consider the methodology for determining the values of the cost of capital parameters and deemed capital structure to be used to set rates for electricity transmitters, electricity distributors, natural gas utilities, and Ontario Power Generation Inc. The methodology for determining the OEB's prescribed interest rates and matters related to the OEB's Cloud

Computing Deferral Account will also be considered, including what type of interest rate, if any, should apply to this deferral account.

On April 22, 2024, the OEB approved the final Issues List for this proceeding, including the following two issues, among others:

18. How should any changes in the cost of capital parameters and/or capital structure of a utility be implemented (e.g., on a one-time basis upon rebasing or gradually over a rate term)?

19. Should changes in the cost of capital parameters and/or capital structure arising out of this proceeding (if any) be implemented for utilities that are in the middle of an approved rate term, and if so, how?

**Question(s)**

a) Please confirm that B2M LP proposes to implement the outcomes from the OEB's generic cost of capital proceeding, including what the OEB decides with respect to implementation. If this is not the case, please explain.

**Staff-30**

Ref: (1) EB-2024-0063, OEB Letter, July 26, 2024

**Preamble:**

On July 26, 2024, the OEB issued a letter and accounting order regarding prescribed interest rates and the deemed short-term debt rate (DSTDR).

**Question(s):**

a) Please confirm whether B2M LP will use the 2025 DSTDR to be set in October 2024 on an interim basis.

b) Please confirm that the B2M LP will follow all other direction included in the OEB's Letter and Accounting Order issued on July 26, 2024, including the establishment of a new variance account for the DSTDR.

**Staff-31**

Ref: (1) Amended Application Cover Letter
(2) Exhibit H, Tab 1, Schedule 1, attachment 1, page 3 of the Excel

**Preamble:**

On July 31, 2024, Hydro One, on behalf of B2M LP, submitted an amendment to the OEB to reflect an update to the depreciation expense and subsequent changes to the components of the revenue requirements requested for approval in the application.

Following the July 31, 2024 update, OEB staff notes a $20,721 adjustment is being made in the ESM deferral account in 2022. B2M LP states there is no impact on the ESM total requested for disposition, as this adjustment was previously included under the 2023 principal adjustment.

As a result of B2M LP's proposed approach, annual updates to set the revenue requirements for 2026-2029 will not be required. Only one update is proposed to the cost of long-term debt in 2025 as stated in the original application. Once the 2025 update for cost of long-term debt is complete (impacting 2026-2029 revenue requirements), B2M LP's 2026, 2027, 2028 and 2029 revenue requirements will be final. As a result, the OEB can use these final revenue requirements approved to set 2026, 2027, 2028 and 2029 Uniform Transmission Rates (UTRs).

**Question(s):**

a) Please explain why the OEB was not notified to expect this update.

b) Please explain what triggered the need for the updated study.

c) Are there currently other studies ongoing about which the OEB has not been notified? Please identify and describe any such updates.

d) Please clarify what the $20,721 adjustment made to the 2022 year is for, and why it does not impact the EMS principal amount in 2023.

e) B2M LP has stated that an advantage of utilizing the proposed approach to determine annual revenue is that annual updates would not be required. However, this update provided has altered the revenue requirement during the proceeding.

    i. Are there further updates to depreciation expected during the 5-year term?

    ii. What assurances are B2M LP providing that this type of unexpected update will not occur again during the 5-year term?

f) Please provide the updated UTRs calculation showing the differences between the original evidence and the amended evidence. As part of this request, please use the updated 2024 UTRs issued by the OEB on June 27, 2024.