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

BY EMAIL

August 20, 2024

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

**Re: Niagara Reinforcement Limited Partnership (NRLP)
2025-2029 Transmission Revenue Requirement
Ontario Energy Board (OEB) Staff Interrogatories
OEB File Number: EB-2024-0117**

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to NRLP, Hydro One Networks Inc., and to all other registered parties to this proceeding.

NRLP is reminded that its responses to interrogatories are due by **September 9, 2024**. Responses to interrogatories, including supporting documentation, must 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.

Yours truly,

Yunusmu Digitally signed by Yunusmu Date: 2024.08.20 15:11:05 -04'00'

Muhammad Yunus
Advisor, Generation & Transmission

Encl.

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OEB Staff Interrogatories
Niagara Reinforcement Limited Partnership
EB-2024-0117

Staff – 1

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

Preamble:

In the amended application submitted by NRLP stated that:

"In terms of the materiality used by NRLP, 0.5% of the average of 5 years of the revenue requirement in the revenue requirement period of $45k is applicable."

Question(s):

a) To account for the appropriate materiality threshold, please update all values in the following tables to two decimal places. Please submit this in a complete version of the Application which contains the amended and non-amended sections in one unified document.

   i. Exhibit A, Tab 3, Schedule 1: Table 2 p. 8, Table 4 p.11, Table 3 p.14, Table 4 p.15

   ii. Exhibit B, Tab 3, Schedule 1: Table 5, p.16

   iii. Exhibit C, Tab 1, Schedule 1: Tables 1 to 5

   iv. Exhibit E, Tab 1, Schedule 1: Tables 1 to 7

   v. Exhibit F, Tab 1, Schedule 1: Table 1

   vi. Exhibit F, Tab 2, Schedule 1: Tables 1 to 3

b) Please ensure all subsequent quantitative responses to IRs are provided to two decimal places and in excel format.

Staff – 2

Ref (1): Exhibit A, Tab 4, Schedule 1, p.1

Preamble:

NRLP 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.

NRLP has suggested that the OEB's Renewed Regulatory Framework (RRF), as most recently set out in the Handbook, provides that electricity transmitters are to choose either Custom IR or a Revenue Cap IR. NRLP further asserts that the RRF was not conceived for a single-asset utility such as NRLP. NRLP 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 NRLP model showing how the proposed model is a benefit 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%.

    ii. 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 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 Earnings Sharing Mechanism deferral account balance for each year of the 5-year period

    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.

   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 NRLP proposal incentivizes productivity.

e) The NRLP Proposal includes an Earnings Sharing Mechanism and an off-Ramp which are typical features for transmitter applications. Please identify all features of the NRLP proposal that provide for ratepayer protection.

   i. Please indicate why an alternative that aligns with the RRF was not considered before developing the proposed revenue requirement model.

Staff – 3

Ref (1): Exhibit A, Tab 3, Schedule 1, p. 13

Ref (2): Exhibit B, Tab 1, Schedule 3, Attachment 1, p. 15

Ref (3): Exhibit F, Tab 2, Schedule 1, p. 5

Ref (4): Exhibit F, Tab 3, Schedule 1, p. 4

Preamble:

Starting in 2023, NRLP is also charged transfer pricing by HONI for the use of certain shared assets. The shared asset costs allocated to NRLP include those for major fixed assets and intangible assets, as well as minor fixed assets. NRLP states that the forecast amounts of $0.1M per year mainly relates to use of HONI's SAP system.

Question(s):

a) Please describe the shared assets that NRLP is charged transfer pricing by HONI and the amounts.

b) Please provide the annual productivity savings over the 5-year rate term with respect to shared assets costs

c) Provide a detailed breakdown of the costs incurred by NRLP through this agreement for all shared assets in addition to SAP costs.

Staff – 4

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

Preamble:

NRLP claims that its management and work programs are provided by a service level agreement, resulting in minimal overhead as well as qualified and flexible resources when needed, allowing NRLP to remain cost efficient.

NRLP's service level agreement integrates HONI's productivity improvements into NRLP's maintenance operations.

Question(s):

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

b) Please provide the details of how the SLA affects the management and work programs of NRLP. In your response, provide a list of each management and work program covered by the SLA and include:

   i. A description of the program
   ii. The total cost of the for each year of the 5-year term
   iii. The total cost to HONI for each year of the 5-year term
   iv. The role of the SLA for each program

Staff – 5

Ref (1): Exhibit F, Tab 2, Schedule 1, p. 1

Preamble:

NRLP states that its OM&A spending is low in comparison to other transmitters in Ontario and that this relates primarily to the characteristics of the assets that it owns.

Question(s):

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

Staff – 6

Ref (1): Exhibit E, Tab 1, Schedule 1, Table 2, p. 2

Ref (2): Exhibit F, Tab 2, Schedule 1, p. 7-9

Preamble:

Exhibit E, Tab 1, Schedule 1, Table 2 includes a row showing incremental expenses.

Exhibit F, Tab 2, Schedule 1, Table 3 shows a breakdown of these incremental expenses.

NRLP states that the partnership has a Managing Director, who is empowered to oversee and operate the partnership. The duties of this person include:

- Monitoring and ensuring that the terms and conditions of the partnership agreement are fulfilled;
- Working with employees from HONI and other entities to ensure that the Applicant and its assets are properly maintained and administered;
- Managing and Chairing Advisory Committee meetings with the partners on a regular basis, as spelled out in the partnership agreement;
- Ensuring that the partners are kept well informed and advised of the partnership's operations, and educated on what it means to be a transmission owner and operator in Ontario;
- Authorizing the disbursement of funds by the partnership to meets its obligations and expenses;
- Instituting communications with communities and the public at large, through meetings, websites and other media;
- Representing the partnership with various stakeholders at hearings, industry events and other situations; and
- Any and all other duties that may be required to represent the partnership and effectively support its operations.

To complete these tasks, the Managing Director’s Office is provided with an annual budget for things such as salary, office, communication, and other expenses that may be required. As such, the Managing Director’s Office expense included in the test years is $0.2M annually.

Question(s):

a) Since NRLP has no employees, please describe who employs the Managing Director

b) Please describe the number of employees in the Managing Director’s office and their roles as well as the salaries received by each employee.

Staff – 7

Ref (1): Exhibit F, Tab 1, Schedule 1, p. 1

Preamble:

The annual average proposed operating costs for the 2025 – 2029 is forecast to be $2.8M, a $0.4M increase compared to 2020 – 2024. The Application states that the increase in OM&A expenses is primarily due to higher vegetation management maintenance needs in 2029, as well higher advisory committee costs and shared asset allocation.

Question(s):

a) Please provide detailed explanations for all OM&A SLA annual increases of 10% or higher from 2024 to 2029 of including maintenance expenses, shared asset allocation and administrative and corporate expenses

b) Please provide detailed explanations for all OM&A total incremental expenses annual increases of 10% or higher from 2024 to 2029 of including insurance, regulatory, administrative and managing director's office

c) Please provide a detailed description of what are included in advisory committee costs.

Staff – 8

Ref (1): Exhibit F, Tab 2, Schedule 1, p. 4-5

Preamble:

Line Clearing for all three projects was completed in 2023, Brush Control for all three projects is being completed in 2024. The total Line Clearing and Brush Control cost is forecasted to be $500k. For 2025 – 2029, the O&M cost forecasted for the overall period is $1.1M. The next Line Clearing and Brush Control for all three projects is scheduled for 2029 and is forecasted to cost roughly $900k. These are reflected in the forecasted O&M values in Table 2.

Question(s):

a) Please provide details on who will be performing the vegetation management. If this will not be performed by HONI, please provide details on the procurement process being used.

b) When is the next Line Clearing and Brush Control scheduled after 2029?

Staff – 9

Ref (1): Exhibit B, Tab 1, Schedule 3, Table 4, p. 12

Ref (2): Exhibit F, Tab 2, Schedule 1, p. 3-5

Preamble:

The Maintenance expenses relate to maintenance services performed by HONI, on behalf of NRLP under the SLA. Examples of the services received are listed below:

- Overhead Transmission Lines maintenance including thermovision, helicopter and ground patrols; and
- Transmission ROW maintenance, including mandatory annual NERC vegetation patrols, line clearing, brush control, condition patrol and property owner notifications.

Question(s):

a) Please provide a detailed breakdown of the expected costs associated with each of the activities listed in Exhibit B-1-3 Table 4, on a per year basis.

Staff – 10

Ref (1): Exhibit F, Tab 3, Schedule 1, p. 4

Preamble:

NRLP states that if the parties have a dispute under the agreement that cannot be resolved by a conference of their respective senior officers, a written notice outlining the specifics of the dispute will be passed to the parties' respective Leaders. Five business days after receipt of written notice, if the dispute remains unresolved, the matter is referred to arbitration for final resolution.

Question(s):

a) Given that NRLP has no employees:

   i. Please identify who the senior officers representing NRLP at the conference would be.

   ii. Please identify which Leaders the aforementioned senior officers would pass on responsibility to if a resolution is not found.

Staff – 11

Ref (1): Amended Application Cover Letter

Ref (2): Exhibit A, Tab 3, Schedule 1, p. 5

Preamble:

On July 31, 2024, Hydro One, on behalf of NRLP, submitted an amendment to the OEB to reflect a correction to the depreciation expense and subsequent changes to the components of the revenue requirement requested for approval in the Application.

NRLP is also using this opportunity to file an updated DVA Continuity Schedule to align the adjustments affecting the ESM balance to the year it relates. This has updated the ESM balance requested for disposition and has been incorporated in the revised UTRs to be collected from customers.

NRLP states that as a result of its 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 detailed in Exhibit G-01-01 of this Application. Once the 2025 update for cost of long-term debt is complete (impacting 2026-2029 revenue requirements), NRLP'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 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 which the OEB has not been notified about?

d) NRLP 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 assurance is NRLP providing that this type of unexpected update will not occur again during the 5-year term?

e) Please provide the updated UTR 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.

Staff – 12

Ref (1): Exhibit G, Tab 1, Schedule 1, p.1

Ref (2): Exhibit A, Tab 3, Schedule 1, p.15-16

Preamble:

In the above first reference, NRLP proposes, for the 2026 revenue requirement year, that 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 above second reference, NRLP 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 NRLP will provide the cost of long-term debt update to the OEB.

b) Please confirm, for the NRLP's proposal, the actual 2025 long-term debt re-financing cost rate(s) will only impact base revenue requirements in 2026-2029, by NRLP doing a one-time update. And please confirm if the 2025 base revenue requirement will be updated to reflect the 2025 re-financing rate.

c) Under NRLP'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 NRLP does not adjust downwards the 2025 base revenue requirement, how will this variance be tracked?

Staff – 13

Ref (1): Exhibit G, Tab 1, Schedule 1, p. 2

Preamble:

NRLP's deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base, as affirmed by the OEB's Decision in NRLP's 2020 to 2024 transmission rate application (EB-2018-0275). The 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt.

Question(s):

a) Please provide a quantitative analysis of the annual return on equity for each year of the 5-year term using the proposed approach and the current OEB-approved NRLP model and include the differences between the two.

Staff – 14

Ref (1): EB-2024-0063, Notice, March 6, 2024

Ref (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, amongst other issues:

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 the applicant 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 – 15

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 that the applicant will use the 2025 DSTDR to be set in October 2024 on an interim basis.

b) Please confirm that the applicant 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 – 16

Ref (1): EB-2018-0275, OEB Staff 23 Interrogatory Response
Ref (2): EB-2018-0275, Exhibit F, Tab 6, Schedule 1, p. 4
Ref (3): C-01-01-03_2020-2025 Fixed Asset Excel

Preamble:

In its 2018 interim revenue requirement application (EB-2018-0275), NRLP stated the following:

> *CCA is calculated on a declining balance and, as a result, the amount of CCA available to reduce taxable income decreases. Under the Accelerated Investments Incentive program included in the Bill C-97, the Budget Implementation Act, 2019, No. 1, it provides for a first-year increase of CCA deductions for eligible capital assets acquired after November 20, 2018, and placed into service prior to January 1, 2028 (Accelerated CCA). Although the NRLP assets were placed into service in 2019, a large percentage of the assets were completed prior to the November 20, 2018 date. As such, only a small portion of the costs incurred during the period from November 21, 2018, to the in-service date would be eligible for the Accelerated CCA. This has been reflected in the computation of the taxable income for the applicable years.*

Question(s):

a) Please confirm the CCA amounts embedded in the revenue requirement for 2018 through 2024 and what completed assets (Note 1) were subject to accelerated CCA. OEB staff provides the following suggested format:

Year	**$ Completed Assets**	**$ Accelerated CCA Embedded in Rates**	**$ Accelerated CCA per Tax Filing**

Note 1: OEB staff notes that the term “completed asset” is used in the NRLP applications to distinguish between the capitalization of those assets to rate base (e.g. 2019) vs. the time when the assets were ready for use. The Niagara Reinforcement transmission line was subject to a lengthy third-party land dispute when construction was halted in 2006-2007.

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

Staff – 17

Ref (1): Exhibit H, Tab 1, Schedule 1, p. 1-2
Ref (2): Exhibit H, Tab 1, Schedule 1, p. 5-6

Preamble:

In reference 1, NRLP proposes to dispose its ESM deferral account balance. In calculating the projected interest up to December 31, 2024 as part of the ESM balance to be disposed, NRLP 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 reference 2, NRLP states that its calculation of the ROE uses actual rate base as determined by the sum of the Average regulated fixed assets and working capital allowance, as set out in the "Calculation of ROE on a Deemed Basis" filed pursuant to the OEB's RRR reporting. The ROE calculation is normalized for revenue impacting items such as entries recorded in the year which relate to prior years to normalize the in-year net income. The ratepayers' share of the excess earnings are grossed up for the associated tax impact to the extent that there are no losses in the year.

NRLP further stated the 2022 and 2023 ESM amounts do not require a tax gross up because it was in a taxable loss position.

The above noted third reference 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 0.55 + P, where P is before tax grossed-up principal sharing with ratepayers.

Question(s):

a) NRLP states in reference 3 that it did not gross up the ESM balances for 2022 and 2023 because it was in a tax loss position. Please extend Exhibit F, Schedule 6, Tab 1 in Excel for the historical period of 2019-2023.

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

c) Please provide a list of items where the revenues of the year have been normalized between 2020-2023. 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.

d) Please comment on whether NRLP expects excess earnings in 2024 that will result in additional balance to be recorded in the ESM deferral account. If so, when does NRLP expect to dispose of the balance?

Staff – 18

Ref (1): Exhibit H, Tab 1, Schedule 1, p. 1-5

Preamble

NRLP 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 – Earnings Sharing Mechanism (ESM) Deferral Account

Question(s)

a) In the event that NRLP 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 to the OEB?