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

BY EMAIL

September 13, 2024

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

Dear Ms. Marconi:

Re: Chatham x Lakeshore Limited Partnership (CLLP)
2025 Electricity Transmission Rates
OEB Staff Interrogatories
Ontario Energy Board File Number: EB-2024-0216

In accordance with Procedural Order #1, please find attached the Ontario Energy Board (OEB) staff interrogatories in the above proceeding. The applicant has been copied on this filing.

CLLP is reminded that its responses to interrogatories are due by September 27, 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,

Original Signed By

Abla Nur
Digitally signed by Abla Nur
Date: 2024.09.13 16:39:27 -04'00'

Abla Nur
Analyst, Generation & Transmission

cc. CLLP
Encl.

Chatham x Lakeshore Limited Partnership (CLLP)
EB-2024-0216
OEB Staff Interrogatories

Staff-1

Ref (1): Exhibit B / Tab 2 / Schedule 1 / page 3
Ref (2): CLLP Letter dated August 29, 2024

Preamble:
CLLP states that the Chatham to Lakeshore line will be in service approximately three months ahead of the original application in-service date of December 2024. CLLP also states that total project costs are trending slightly under CLLP's as-filed application due to risks not materializing and CWIP savings.

Question(s):

a) Please provide all updated evidence reflecting the new forecast project costs and revenue requirement. Please ensure that all relevant evidence, including Excel tables, charts, and other supporting documents, is updated to reflect these changes.
b) Please confirm whether the total project costs for the Chatham to Lakeshore line have been finalized. If so, provide updated figures with a detailed breakdown of costs. If not, please explain how CLLP plans to identify and manage any variance in capital expenditures as well as how any capital variances will be addressed in the revenue requirement?

Staff-2

Ref (1): Exhibit F / Tab 6 / Schedule 1
Ref (2): Exhibit F / Tab 6 / Schedule 1 / Attachment 1
Ref (3): Exhibit A / Tab 5 / Schedule 1 / p 4

Preamble:

As CLLP describes in reference 1, CLLP is a limited partnership pursuant to the Limited Partnerships Act (Ontario). A partnership is not a taxpayer under the Income Tax Act. A partnership is required to compute its taxable income, which is then allocated and taxed in the hands of its partners. The expected CLLP partners include: HONI LP, First Nations Partners, Chatham x Lakeshore GP Inc.

The First Nations are exempt from corporate income tax. Therefore, the taxable income in CLLP that is allocated to the First Nations partners will not be subject to income tax. This leads to less total income tax paid, which is a savings to ratepayers.

Regulatory income taxes for CLLP are determined by applying the statutory tax rate to the regulatory taxable income allocated to HONI and CLGP, the taxable corporate partners of CLLP.

In reference 3, CLLP states that though negotiations are ongoing the potential First Nation partner communities are working through their respective protocols to make a final decision on the investment and to secure community approvals to execute final agreements which is expected later in 2024. The decision to invest in the project has been made available to five First Nations in the region, and should one or more decide not to invest, their portion of equity will be offered to the remaining First Nations partners who made a decision to invest. This will ensure the 50% First Nations ownership commitment is maintained.

Question(s)

a) Please provide an update on the negotiation and provide the updated ownership % by First Nation communities.
b) How will a change in ownership % of the First Nations partners impact the overall income taxes recovered through the revenue requirement?
c) Please confirm that the forecast income tax expenses are based on the proposed final structure of the partnership as described in reference 3.
d) Please confirm the specific reduction in revenue requirement due to the tax-exempt status of the First Nations partners.

e) How does CLLP's partnership structure compare to other Hydro One partnerships with First Nations, such as B2M LP and NRLP, in terms of cost savings and ratepayers benefits?

Staff-3

Ref (1): Exhibit F / Tab 2 / Schedule 1 / pg 5
Ref (2): Exhibit F / Tab 4 / Schedule 1

Preamble

In reference 1, CLLP states that since 2004, in connection with each major cost of service application, Hydro One Networks Inc. (“HONI”) has commissioned a study by Black & Veatch to recommend a best practice methodology to allocate common corporate costs among the business entities using the common services. The adopted methodology represents the industry’s best practices, identifying appropriate cost drivers to reflect cost causality and benefits received. In B2M LP and NRLP’s recent 2025 to 2029 Transmission Rates Applications (EB-2024-0116 and EB-21 2024-0117, respectively), the same corporate cost allocation prepared by an independent expert, Black & Veatch (“BV Method”), in HONI’s 2023 - 2027 Custom IR application (EB-2021-0110) was included.

In reference 2, the forecast allocation of Common Corporate Costs to CLLP for the test years (2025 to 2029) is forecast to be an average of $0.5M annually based on the same methodology.

Question(s)

a) Please confirm that the forecast allocation of $0.5M annually of common corporate costs described in reference 2 is the same as those costs broken down in Table 3 total incremental expenses of reference 1.
    i. Please confirm that these are OM&A costs and not capital costs.
    ii. If not confirmed, please explain.

Staff-4

Ref (1): Exhibit C / Tab 2 / Schedule 1 / Attachment 1, Atrium Report
Ref (2): EB-2021-0110, Exhibit E / Tab 4 / Schedule 8 / Black & Veatch Report
Ref (3): Exhibit C / Tab 2 / Schedule 1 / p 4

Preamble

To execute large discrete projects, HONI has implemented the Early Contractor Involvement Engineering Procurement and Construction Delivery Model (referred to herein as "ECI-EPC Model"). The ECI-EPC Model engages the services of an external Owner's Engineer (OE) and the services of Engineering, Procurement, and Construction (EPC) contractors.

Following the development of the ECI-EPC Model, HONI engaged Atrium Economics to determine whether any refinement of the OEB-approved overhead capitalization methodology, which can be found in reference 2, and applicable rates for HONI's transmission business is required for projects utilizing the ECI-EPC Model. Through this review, Atrium Economics determined that the size and delivery model of projects utilizing the ECI-EPC Model warrants a refinement to the HONI OEB-approved overhead capitalization methodology ("B&V Method"), and its applicable rate, as the nature of the shared services provided by HONI are different than those provided under the HONI standard delivery model.

> In the findings of their report, Atrium Economics recommended that EPI-EPC projects use a blended overhead rate that would be determined by the weighted average portion of a project's type/source of costs, specifically the two differentiated types of project costs being:
>
> i. ECI-EPC costs, which do not rely as heavily on HONI's corporate support functions
>
> ii. Non-ECI-EPC costs, that should attract the standard Transmission overhead rate as they rely on HONI's corporate support functions.

Section 5.4 in the Atrium Economics Report recommends a blended rate calculated using the overhead capitalization rate ("OCR") for costs associated with external contractor payments weighted at 79.5% and the standard delivery Transmission overhead capitalization rate weighted at 20.5%.

Figure 3 – Blended OCR for ECI-EPC Contracted Projects

EPI-EPC Projects	2023	2024	2025	2026	2027	5 yr avg	Rounded

Blended Overhead Rate	**2.6%**	**2.6%**	**2.4%**	**2.5%**	**2.6%**	**2.5%**	**3.0%**

Additionally, Atrium Economics recommended that Hydro One annually evaluate the OCR calculation for each year and ascertain if the OCR for the 79.5% of costs associated with external contractor payments used in the blended rate should be updated. CLLP has adopted the Atrium Economics overhead capitalization methodology but, as stated in reference 3, has developed a specific annual overhead rate for projects using the EPI-EPC model.

Table 1 – Overhead Capitalization Rate for EPI-EPC Projects (reference 3)

EPI-EPC Projects	2024	2025	2026	2027	2028	5 yr avg	Rounded
Blended Overhead Rate	**2.02 %**	**1.95 %**	**2.10 %**	**2.26 %**	**2.37 %**	**2.14 %**	**2.0%**

Question(s)

a) Please discuss in detail the adjustments made to the OCR in reference 3 compared to reference 1.
   i. Please confirm which OCR CLLP applied and for which years, e.g. whether it was the rounded rate of 2.0% or other.
   ii. If CLLP applied the rounded rate of 2.0%, please discuss why that is appropriate versus applying the blended OCR for the specific years of construction.
b) Please provide a comparison of $ overhead capitalized to CLLP's project costs using the annual rate (as indicated reference 3) versus what is filed in the application for the historical period. Indicate any assumptions made.
c) Please extend Table 1 in reference 3 to the year 2023.
d) Please explain the relevance of providing the OCR for the forecast period when there are no planned capital expenditures between 2025 and 2029.
e) Please provide a comparison of $ overhead capitalized to CLLP's project costs using the ECI-EPC method and the B&V method for the historical period.
f) Please provide a breakdown of external versus internal costs between 2022 and 2024.
   i. How has Hydro One/CLLP addressed Atrium Economics' recommendation that the overhead capitalization rate be evaluated

annually to determine if 79.5% of costs associated with external contractor payments used in the blended rate should be updated?

g) If CLLP needs to make capital expenditures in the forecast periods, how does it intend to apply the methodology from the Atrium Report?
h) Please explain how the updated overhead capitalization policy aligns with the capitalization requirements under USGAAP.

Staff-5

Ref (1): Exhibit C / Tab 2 / Schedule 1 / Attachment pg.1-6

Preamble

CLLP proposes the use of a refined overhead capitalization rate (OCR) for Early Contractor Involvement (ECI)-EPC projects, asserting that this approach provides cost benefits to both ratepayers and overall project management. The OCR includes a blended rate, with 79.5% allocated to external contractor costs and 20.5% allocated to internal Hydro One costs. CLLP suggests that this approach offers cost certainty and avoids over-allocation of common corporate costs.

Question(s)

a) Please provide a detailed reconciliation of the final costs for the project, including the actual overhead capitalization rate applied.
b) Given that 79.5% of the overhead costs were allocated to external contractor services, can CLLP confirm that contractor costs were effectively monitored and controlled during the project? What processes were used to ensure that contractor costs did not exceed the original projections, and how were any potential cost overruns managed?
c) Please explain in detail how the overhead capitalization rate is calculated for each year from 2024 to 2028. Specifically, what cost factors and assumptions drive the gradual increase in the rate from 2.02% to 2.37% in Reference 2?

Staff-6

Ref (1): EB-2023-0198, Waasigan Project, Decision and Order / pg 19
Ref (2): Exhibit C / Tab 2 / Schedule 1 /Attachment 1, Atrium Report

Preamble
In reference 1, the OEB included the following directive: “At the appropriate future proceeding, Hydro One should demonstrate how adopting the ECI-EPC model benefited ratepayers and how functions were reassessed to avoid cost duplication”.

Question(s)

The Atrium report emphasizes cost savings and risk allocation benefits associated with the ECI-EPC model.

a) Please address the OEB’s directive in Reference 1.
b) Please quantify the specific cost savings that CLLP expects to achieve using this model compared to the overhead capitalization methodology approved in the HONI Joint Rate Application (EB-2021-0110).

Staff-7

Ref (1): Exhibit F / Tab 6 / Schedule 1 / Attachment 1

Preamble

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024 and fully phased out in 2028. In its July 25, 2019 letter entitled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP.[1] The OEB established a separate sub-account, Account 1592 – PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

Question(s)

a) Please confirm whether CLLP considered applying the accelerated CCA provisions available for any of the capital expenditures included in this application. If not, please explain why accelerated CCA was not considered/applied.
b) Please provide an analysis of the impact on the revenue requirement for 2025-2029 with and without the application of accelerated CCA. How would this impact ratepayers in terms of cost reductions?
c) In the scenario where CLLP has capital expenditures during the forecast period, would it consider the application of accelerated CCA? Why or why not?

[1] OEB letter, Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019

Staff-8

Ref.: Exhibit F / Tab 6 / Schedule 1 / Attachment 1

Preamble

CLLP proposes to establish three regulatory accounts:

- 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)

a) Given that CLLP proposes no annual update between 2026 and 2029, in the event that CLLP 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-9

Ref (1): Exhibit A / Tab 3 / Schedule 1 / page 14

Preamble

The Chatham to Lakeshore Limited Partnership Deferral Account (CLLPDA) was established to record the revenue requirement once the Chatham to Lakeshore project was placed in service. By letter dated August 29, 2024, CLLP advised of the updated in-service date, three months ahead of schedule.

Question(s)

a) Please confirm the in-service date of the Chatham to Lakeshore line.

b) Please provide the current balance recorded in the CLLPDA deferral account, including a detailed breakdown of the amounts recorded since the project was placed in service. Provide any supporting evidence or documents, such as Excel tables or charts, that detail the transactions recorded in this deferral account.

Staff-10

Ref (1): Exhibit B / Tab 1 / Schedule 3 / pages 5

Preamble

CLLP states that it will retain Hydro One under a Service Level Agreement (SLA) to plan, organize, and execute the operation and maintenance of the Chatham to Lakeshore transmission line and provide certain corporate and administrative support. Further, CLLP states that a significant portion of the OM&A expenses required to satisfy the obligation and objectives of CLLP arise as result of the SLA.

Question(s)

a) Please provide a copy of the SLA.

b) How were the costs for the services provided by Hydro One under the SLA determined?

c) What performance metrics or key performance indicators are included in the SLA and how will CLLP monitor and evaluate Hydro One’s performance under the agreement?

d) Given that Hydro One is both a service provider and a stakeholder in CLLP, how does CLLP ensure that the terms of the SLA represent fair value for ratepayers?

e) How does the scope and cost structure of the SLA compare to similar agreements between Hydro One and other single-asset transmitters such as B2M LP or NRLP?

Staff-11

Ref (1): Exhibit A / Tab 3 / Schedule 1 / page 3

Preamble

CLLP 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. This proposed approach will not require an annual update except for a one-time update in 2025 to the cost of long-term debt to reflect the actual market rate achieved on the debt that CLLP will issue in 2025. CLLP states that its proposal has a number of benefits for single-asset utilities with a declining rate base, which include providing transparency to ratepayers and lower potential for overearning than a revenue cap index framework, especially in the later years of a rate period.

Question(s)

a) Please comment on whether CLLP considered calibrating the formula components of the revenue cap index framework. If so, please provide details on the considered revenue cap index framework (productivity factor, stretch factor and any additional adjustment factors).

Staff-12

Ref (1): EB-2024-0147 Application, pg. 5

Preamble

In the licensing application for the transfer of assets from Hydro One to CLLP, $32 million of the total project cost of the Chatham to Lakeshore line related to the station facility assets were not included in the sale and remain within Hydro One's transmission rate base.

Question(s)

a) Please confirm that the $32 million related to the transmission station facility assets retained by Hydro One is not included in CLLP's revenue requirement for the 2025-2029 period.

Staff–13

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

Preamble:

CLLP's proposed deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base. 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. Include a comparison with current models approved for other single-asset transmitters such as B2M.

Staff–14

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

Preamble:

CLLP has assumed generally 2% inflation rate in its OM&A budgets for the 2025-2029 period.

Question(s):

a) Please describe the specific strategies CLLP has implemented or plans to implement to manage OM&A costs and mitigate inflationary pressures.
b) Are there any specific initiatives aimed at improving productivity or operational efficiency over the five-year period? Please describe.
c) How does CLLP plan to address unexpected cost increases in its OM&A budget that might go beyond the assumed 2% per year? Does CLLP have contingency plans in place to control or offset such increases?

Staff-15

Ref (1): Exhibit C / Tab 1, Schedule 1, Table 1

Preamble:

Table 1 shows CLLP's forecasted transmission rate base from 2024 to 2029. It is OEB staff's assumption that this forecast incorporates CLLP's proposed blended overhead capitalization rate of 2 percent.

Question(s):

a) Please reproduce Table 1 using overhead capitalization rates under Hydro One's standard EPC delivery model

Staff–16

Ref (1): Exhibit C / Tab 1, Schedule 1 / Attachment 3

Ref (2): Exhibit C / Tab 1, Schedule 1, Continuity of Property, Plant and Equipment

Preamble:

Appendix 2-BA, Fixed Asset Continuity Schedule shows that land rights form a significant portion of CLLP's asset base, with a net book value of $77.3 million in 2025, and accumulated depreciation of $0.8 million.

In addition, the Continuity of Fixed Assets spreadsheet shows that trailing costs amounting to $4.89 million have been included in the in-service additions for 2025. These trailing costs reflect post-project expenses for the Chatham x Lakeshore project.

Question(s):

a) Please provide details on the nature of the land rights included in the schedule and explain the accumulated depreciation.
b) Please provide a detailed breakdown of the trailing costs included in the $4.89 million in-service additions for 2025. What specific activities or expenses contributed to these trailing costs?

Staff–17

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–18

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.