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BY E-MAIL

April 18, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: B2M Limited Partnership (B2M LP)
Application for electricity transmission revenue requirement effective
January 1, 2018
OEB File No. EB-2017-0380
OEB Staff Submission**

In accordance with Procedural Order No. 2, please find attached OEB staff's submission on B2M LP's 2018 electricity transmission revenue requirement application. This document is also being forwarded to B2M LP.

Yours truly,

Original Signed By

Shuo Zhang
Advisor, Major Applications

Encl.

**2018 ELECTRICITY TRANSMISSION
REVENUE REQUIREMENT**

B2M Limited Partnership

EB-2017-0380

OEB STAFF SUBMISSION

April 18, 2018

INTRODUCTION

B2M Limited Partnership (B2M LP) filed an application with the Ontario Energy Board (OEB) on December 20, 2017, seeking approval for changes to its electricity transmission revenue requirement, to be effective January 1, 2018.

In its Decision and Order on B2M LP's 2015-2019 Transmission Revenue Requirement application, the OEB approved B2M LP's application subject to certain adjustments set out in that Decision and Order. The OEB directed B2M to prepare exhibits showing the final revenue requirements for each of 2015 through 2019 reflecting the OEB's findings. In its Draft Rate Order, B2M showed a 2018 revenue requirement of \$37.5 million.¹ The OEB also directed B2M LP to adjust its revenue requirement annually going forward for updates to the cost of capital. The current application thus proposes a revenue requirement for 2018 of \$36.5 million.² The originally approved application set a tentative revenue requirement of \$37.5 million and this amount was included in the calculation of 2018 Uniform Transmission Rates (UTRs) due to the unavailability of the final 2018 revenue requirement at that time.³

This submission is based on the record in this proceeding, which includes B2M LP's application, OEB staff's interrogatories, and B2M LP's associated responses to the OEB staff interrogatories. This submission reflects observations which arise from OEB staff's review of the evidence. It is intended to assist the OEB in making a determination on B2M LP's application.

SUBMISSION

OEB staff is satisfied that B2M LP has updated the cost of capital parameters appropriately. OEB staff finds it necessary to make submissions on the following three items and has no other concerns with the application beyond those set out below.

¹EB-2015-0026 B2M LP 2015-2019 Revenue Requirement January 7, 2016 Draft Rate Order, Exhibit 1.0, page 1 of 1.

² EB-2017-0380 B2M LP 2018 Updated Revenue Requirement March 23, 2018 Response to Interrogatories #001, Rate Order Update, Exhibit 1.0, page 1 of 1.

³ EB-2017-0359 2018 Uniform Transmission Rates February 1, 2018, Decision and Rate Order, Appendix A.

- Item #1 – 2017 Forgone Revenue Deferral Account
- Item #2 – Income Tax Proxy
- Item #3 – 2018 Excess Revenue

1. 2017 Forgone Revenue Deferral Account

Background

In its Decision and Order dated June 8, 2017⁴, the OEB approved B2M LP's application for changes to its transmission revenue requirement effective January 1, 2017. As part of the Decision and Order, the OEB approved the establishment of a forgone revenue deferral account to capture differences between revenue earned by B2M LP under the interim 2017 rates set at the 2016 UTRs level, and the revenues that would have been received under the approved 2017 UTRs.⁵ On November 23, 2017, the OEB approved 2017 UTRs effective January 1, 2017 and established the implementation date as of November 1, 2017.⁶

In its application, B2M LP requested approval to include a forgone revenue amount of \$1.1 million from 2017 in the revised 2018 revenue requirement. The forgone revenue amount is calculated on a monthly basis for the period between the January 1, 2017 effective date of the 2017 UTRs and the November 1, 2017 implementation date. As presented by B2M LP, the monthly forgone revenue captures the difference between the following two amounts for the 2017 period January 1 to November 1:

- a) B2M LP's share of the revenue collected under the 2017 interim rates set at 2016 UTRs level multiplied by the approved 2017 load forecast⁷.
- b) B2M LP's share of the revenue that would have been collected under the approved 2017 UTRs multiplied by the approved 2017 load forecast.

⁴ EB-2016-0349 B2M LP June 8, 2017 Decision and Order

⁵ *ibid*, page 5

⁶ EB-2017-0280 2017 Uniform Transmission Rates November 23, 2017 Decision and Rate Order, page 6.

⁷ 2017 load forecast was approved in EB-2017-0280 2017 Uniform Transmission Rates November 23, 2017 Decision and Rate Order.

Submission

OEB staff notes that B2M LP's methodology of calculating the 2017 forgone revenue is consistent with Hydro One's methodology as approved by the OEB. In its Decision and Order on Hydro One's 2017-2018 Transmission Revenue Requirement and Charge Determinants application, the OEB approved Hydro One's methodology for its calculation of a credit to customers of \$10.6 million which would be paid out when the 2018 UTRs were approved.⁸ OEB staff submits that B2M LP's proposed 2017 forgone revenue calculation of the amount of \$1.1 million to be recovered from customers based on that methodology is reasonable and should be approved for recovery in the 2018 revenue requirement.

2. Income Tax Proxy

Background

The 2018 income tax proxy originally approved in B2M LP's 2015-2019 Transmission Revenue Requirement proceeding was \$0.4 million. In its responses to OEB staff interrogatories, B2M LP updated the 2018 income tax proxy calculation to \$0.7 million. The update is related to the following adjustments:

- a) The recalculated return on equity reflecting OEB's updated cost of capital parameters for 2018.
- b) The inclusion of an annual value of \$1.9 million in start-up costs in the calculation of the income tax proxy. B2M LP explained that the regulatory accounts set up for the start-up costs are taxable assets on a cash basis. Therefore, additional taxes are being incurred as the costs are recovered in revenue during the 2016 to 2019 period.

⁸ EB-2016-0160 Hydro One Network Inc. 2017 and 2018 Transmission Revenue Requirements and Charge Determinants November 23, 2017 Decision and Order, page 5.

- c) The inclusion of corporate minimum tax (CMT) of \$0.1 million that was not included in the Draft Rate Order submitted on December 20, 2017.

Submission

OEB staff does not have concerns with the adjustment for impacts directly related to updates to cost of capital parameters. The expectation for this update was set out in B2M LP's 2015-2019 Transmission Revenue Requirement proceeding.

With respect to the adjustments relating to start-up costs and CMT, OEB staff notes that the Decision and Order in B2M LP's 2015-2019 proceeding did not set out the expectation for further updates.⁹ The scope of the adjustments provided to B2M LP was limited to adjusting its revenue requirement consistent with the OEB updated cost of capital parameters.

OEB staff also notes that a similar request to adjust the tax proxy (this time by excluding a loss carry forward) in B2M LP's 2017 revenue requirement update application was disallowed, as the adjustment was not directly related to the cost of capital updates.¹⁰ Therefore, OEB staff is of the view that the inclusions of \$1.9 million start-up costs and \$0.1 million CMT in the income tax proxy calculation should not be permitted and the income tax proxy should be revised accordingly.

3. 2018 Excess Revenue

Background

On February 1, 2018, the OEB approved the 2018 UTRs on an interim basis considering B2M LP's application is still under review. B2M LP's revenue requirement of \$37.5 million originally approved in 2015 was included in the network rate pool to determine 2018 UTRs.¹¹ In its responses to OEB staff interrogatories, B2M LP revised the 2018 revenue requirement to \$36.5 million.

⁹ EB-2015-0026 B2M LP 2015-2019 Revenue Requirement December 29, 2015 Decision and Order, page 21.

¹⁰ EB-2016-0349 B2M LP June 8, 2017 Decision and Order, page 6.

¹¹ EB-2017-0359 2018 Uniform Transmission Rates February 1, 2018, Appendix A.

As a result B2M LP will be collecting excess revenue in the amount of \$1.0 million.

Submission

OEB staff submits that the 2018 UTRs would stay at the current level when revising B2M LP's revenue requirement from \$37.5 million to \$36.5 million for the network rate pool, as the amount is immaterial. Therefore, OEB staff finds it unnecessary to update 2018 UTRs for the purpose of updating B2M LP's revenue requirement. However, OEB staff submits that the excess revenue of \$1.0 million should be credited to customers as part of B2M LP's 2019 revenue requirement and be incorporated in the next UTR update. OEB staff also notes that the excess revenue would be higher than \$1.0 million if the adjustments of tax proxy on start-up costs and CMT were disallowed by the OEB.

SUMMARY STATEMENT

OEB staff submits that B2M LP's request to include recovery of \$1.1 million forgone revenue is reasonable. The adjustments on tax proxy to include start-up costs and CMT should not be permitted. Therefore, the proposed 2018 revenue requirement of \$36.5 million should be revised to reflect OEB's final decisions on the tax proxy adjustments. OEB staff also submits that the 2018 excess revenue should be incorporated in the next UTR update by way of a downward adjustment to B2M LP's 2019 revenue requirement.

All of which is respectfully submitted