



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

DECISION AND ORDER

EB-2020-0225

NIAGARA REINFORCEMENT LIMITED PARTNERSHIP

**Application for electricity transmission revenue requirement
beginning January 1, 2021**

BEFORE: Cathy Spoel
Presiding Commissioner

Pankaj Sardana
Commissioner

December 17, 2020

TABLE OF CONTENTS

1	INTRODUCTION AND SUMMARY.....	1
2	THE PROCESS	2
3	STRUCTURE OF THE DECISION.....	3
4	2021 REVENUE CAP ADJUSTMENT	4
5	DEFERRAL AND VARIANCE ACCOUNTS	9
6	IMPLEMENTATION.....	10
7	ORDER	11
	SCHEDULE A.....	12

1 INTRODUCTION AND SUMMARY

This is a Decision and Order of the Ontario Energy Board (OEB) on an application filed by Niagara Reinforcement Limited Partnership (NRLP) under section 78 of *the Ontario Energy Board Act, 1998* (OEB Act) for approval of changes to the rates that NRLP charges for electricity transmission, beginning January 1, 2021 (Application). The Application requested an OEB order approving a 2021 revenue requirement of \$8,375,826, to be made effective January 1, 2021, along with an amendment to the 2021 Uniform Transmission Rates (UTRs) to allow for recovery of that amount. NRLP's proposed 2021 revenue requirement was calculated based on an average long-term debt rate of 2.58%, among other assumptions.

The OEB sets rates for rate-regulated electricity transmitters in Ontario by setting a revenue requirement for each transmitter. Transmitter revenue requirements are incorporated into the UTRs that are recovered from ratepayers across the province.

NRLP is an OEB licensed electricity transmitter located in the Niagara region of southern Ontario. NRLP's assets, placed in-service on August 30, 2019, consist of a 76 km double circuit 230 kV transmission line connecting the Allanburg and Middleport Transformer Stations.

In its Decision and Order on NRLP's 2020 transmission revenue cap incentive rate-setting application¹ (2020 Application), the OEB approved the proposed Revenue Cap Incentive Rate (IR) methodology and established that it would be used to determine NRLP's base transmission revenue requirement for the years 2021 through 2024. The methodology adjusts NRLP's revenue requirement by a Revenue Cap Index (RCI) comprised of an inflation factor multiplied by 50% and a settlement capital adjustment factor.

The OEB approves a 2021 revenue requirement for NRLP of \$8,227,858. The approved revenue requirement has been calculated based on an average long-term debt rate of 2.34% which reflects NRLP's actual long-term debt cost in 2021. NRLP's request for a 2021 revenue requirement calculated on the basis of an average long-term debt rate of 2.58% is denied for the reasons set out below.

¹ EB-2018-0275, Decision and Order, April 9, 2020

2 THE PROCESS

NRLP filed its Application with the OEB on September 15, 2020 under section 78 of the OEB Act. The Application sought approval of a 2021 revenue requirement of \$8,375,826, to be made effective January 1, 2021, along with an amendment to the 2021 UTRs to allow for recovery of that amount.

NRLP's application was supported by pre-filed written evidence. OEB staff filed clarification questions about NRLP's evidence on October 14, 2020; NRLP filed its responses on October 23, 2020. OEB staff filed supplementary clarification questions on November 3, 2020; NRLP filed its responses on November 6, 2020.

At the time NRLP filed its Application, the OEB had not yet released the inflation factor applicable to applications requesting approval of revenue requirements effective January 1, 2021. The Application indicated that NRLP would update its 2021 revenue requirement calculation to reflect the OEB's updated inflation factor once it was issued. On November 9, 2020, the OEB issued a letter specifying that electricity transmitters, including NRLP, should calculate their 2021 rates based on a 2.0% inflation factor. NRLP's Application had assumed a rate of 1.8%. To adjust for the revised inflation factor, on November 19, 2020 NRLP filed a letter updating its 2021 revenue requirement calculation from \$8,375,826 to \$8,384,177.

Procedural Order (PO) No. 1, issued by the OEB on November 19, 2020, served as notice that a limited-scope hearing would commence in order to allow the OEB to consider written arguments from NRLP and OEB Staff on NRLP's proposed updated weighted average long-term debt rate of 2.58%. OEB staff filed its written argument on November 25, 2020. NRLP filed its reply to OEB staff's argument on December 1, 2020.

3 STRUCTURE OF THE DECISION

The OEB addresses the following issues in this Decision and Order:

- 2021 Revenue Cap Adjustment
- Deferral and variance accounts
- Implementation

4 2021 REVENUE CAP ADJUSTMENT

The Application requested OEB approval of an adjustment to NRLP's base revenue requirement, determined using the OEB-approved Revenue Cap IR methodology, in which the revenue requirement for the Test Year + 1 is equal to the revenue requirement in the Test Year, inflated by an RCI.

The RCI approved by the OEB for NRLP through its decision on the 2020 Application includes an industry-specific inflation factor ("I") and settlement capital adjustment factor ("SCAF"). NRLP had originally proposed in the 2020 Application that the RCI include a productivity factor of 0%. As part of the settlement reached by the Parties and approved by the OEB in the 2020 Application, the SCAF of 0.6% was established in lieu of the productivity factor. The RCI is expressed as:

$$\text{RCI} = (0.5 \times I) - \text{SCAF}$$

The proposed Inflation Factor is 2.0%, which is the OEB-approved industry-specific inflation rate for 2021 applications, effective January 1, 2021. The Inflation Factor will be updated annually. The SCAF is 0.6%, as approved by the OEB in the 2020 Application, for use between 2021 and 2024.

The components of the RCI applicable to NRLP's 2021 revenue requirement are shown in Table 1. They result in a total proposed RCI of 0.4%.

Table 1: Components of NRLP's 2021 RCI

Components	Amount (%)
50% of Inflation Factor (I) (0.5 x 2.0%)	(1.0)
Settlement Capital Adjustment Factor (SCAF)	(0.6)
Total Revenue Cap Index (RCI)	0.4

In addition to the RCI adjustment, NRLP was to incorporate its actual debt costs resulting from the refinancing of all of its long-term debt at market rates in its 2021 revenue requirement application. This was the methodology approved by the OEB in NRLP's 2020 Application, with the actual debt costs underpinning an update to NRLP's

return on capital in its 2020 revenue requirement for the purpose of setting rates for the Revenue Cap IR period from January 2021 to December 31, 2024.²

NRLP submitted that the OEB's decision on the 2020 Application clearly and appropriately approved a forecast weighted average long-term debt rate of 3.05% to underpin its 2020 revenue requirement. The utility noted that this was agreed to by all Parties in the Settlement Proposal in that case.³ Accordingly, NRLP used the 2020 forecast long-term debt rate of 3.05% for the first four months of 2020 and its actual debt cost of 2.34% for the remaining eight months of 2020 to derive a weighted average long-term debt cost of 2.58% as the basis for updating the long-term debt component of its cost of capital for the update to its 2020 revenue requirement.

Table 2 shows NRLP's proposed 2021 revenue requirement calculated on the basis of a 0.4 RCI and blended long-term debt rate of 2.58%.

Table 2: NRLP's Proposed 2021 Revenue Requirement⁴

Year	Formula	Base Revenue Requirement
2020	OEB-approved revenue requirement	\$8,662,167 ⁵
	Less: long-term debt rate adjustment for 2021 revenue requirement calculated at 2.58%	\$(311,393)
2020	Base reset for reduction in long-term debt rate (impact of long-term debt rate being updated for 2021 to 2024)	\$8,350,774
2021	Base Revenue Requirement x RCI = \$8,350,774 x 1.004	\$8,384,177

OEB Staff noted that, with respect to updating the weighted average long-term debt, the OEB-approved Settlement Proposal in EB-2018-0275 stated:

“To reflect the terms of the external issue in its revenue requirement, NRLP proposes to make a one-time update of the cost of long-term debt at the first annual update of rates for 2021. This update will include the actual market rate achieved on the long-term debt to be issued in 2020. This update will adjust the long-term cost of debt for 2021-2024 to reflect the actual market rate achieved on the long-term debt issued in 2020.

² EB-2018-0275, Decision and Order, April 9, 2020

³ EB-2018-0275, Settlement Proposal Issue 12, pp. 25-26

⁴ EB-2020-0225, NRLP Application Update to reflect Inflation Update, November 19, 2020, p. 1

⁵ OEB-Approved 2020 Base Revenue Requirement calculated using a long-term debt rate of 3.05%

The Parties agree that the 2021 update of the cost of long-term debt is appropriate as it allows for the actual cost of debt to be reflected in rates".⁶

OEB staff also noted that NRLP's proposed approach to updating its weighted average long-term debt rate did not reflect the approved Settlement Proposal because it did not result in the actual cost of debt being reflected in rates going forward.

OEB staff further noted that NRLP's use of the weighted average long-term debt rate of 2.58% was not consistent with the Settlement Proposal nor the OEB decision on the 2020 Application, in that neither the Settlement Proposal nor the OEB's decision referred to the use of a blended (deemed/actual) long-term debt rate for 2021 rates. OEB Staff then noted that this meant that NRLP should update its cost of debt in a manner that allows for the actual cost of debt to be reflected in rates, which cost is now 2.34%.

Table 3 shows NRLP's 2021 revenue requirement calculated on the basis of a 0.4 RCI and actual long-term debt rate of 2.34%.

Table 3: 2021 Revenue Requirement⁷

Year	Formula	Base Revenue Requirement
2020	OEB-approved revenue requirement	\$8,662,167
	Less: long-term debt rate adjustment for 2021 revenue requirement calculation calculated at 2.34%	\$(467,089)
2020	Base reset for reduction in long-term debt rate (impact of long-term debt rate being updated for 2021 to 2024)	\$8,195,078 ⁸
2021	Base Revenue Requirement x Revenue Cap Index (RCI) = \$8,195,078 x 1.004	\$8,227,858

NRLP posited that OEB Staff's submission attempted to vary the Settlement Proposal reached in NRLP's 2020 Application by stating that NRLP should use 2.34% as the debt cost to underpin the 2020 revenue requirement. NRLP further stated that underlying the intent of the Revenue Cap Framework was the fact that the base year going-in revenue requirement (in this case 2020) should represent the recovery of fair and prudent costs for the test year determined in a single forward test-year cost of service review. An RCI

⁶ EB-2018-0275, Settlement Proposal Issue 13, p. 27

⁷ EB-2020-0225, OEB staff submission, p. 7

⁸ EB-2020-0225, NRLP Response to OEB staff Supplementary Question 5, p. 3.

would then mechanically be applied thereafter in subsequent years. NRLP noted that, had the Parties not agreed to NRLP's proposal to make this one-time adjustment in 2021, the long-term debt rate underpinning NRLP's 2021 revenue requirement would have continued to be set at the current approved forecast long-term debt rate of 3.05%, and the RCI would be applied to the current OEB-approved revenue requirement.

Lastly, NRLP noted that OEB Staff's submission seemed like selective updating after the fact because the Settlement Proposal had included two distinct forecasts of long-term debt costs – 3.05% as the forecast for 2020 long term debt rate and 2.94% as the forecast for 2021 long-term debt rates, but the Parties agreed to use 3.05% as the basis for reflecting long-term debt costs for NRLP's 2020 revenue requirement. Importantly, NRLP also noted that a one-time update to any component of cost of capital during an IRM period was atypical, but that this one-time update remained appropriate as it allowed the actual cost of debt to be reflected in rates to the benefit of both the utility and ratepayers. NRLP also expressed some concern that the update to the long-term debt rate should not disregard fair and prudent costs incurred by the utility in 2020, and disagreed with OEB staff's submission that reflecting 2.58% in the cost of capital resulted in an over-collection to the detriment of ratepayers.

Findings

There is no dispute that all Parties agreed to the one-time update in long-term debt rates, and that NRLP would incorporate any actual changes resulting from the refinancing of the debt into its revenue requirement update for 2021. At issue now is whether NRLP's proposed 2021 weighted average long-term debt rate has been calculated in a manner consistent with the Settlement Proposal and subsequent Decision and Order in NRLP's 2020 Application. The updated debt rate (along with other mechanistic changes to the Revenue Cap IR formula) will be used to recalculate NRLP's 2020 base revenue requirement for the express purpose of setting rates for the 2021 to 2024 Revenue Cap IR period.

The OEB finds that NRLP's use of 3.05% as the forecast weighted average cost of long-term debt was entirely appropriate for determining NRLP's revenue requirement for 2020 transmission rates. In fact, NRLP's OEB-approved 2020 revenue requirement of \$8,662,167 incorporates the forecast rate of 3.05% for all of 2020, despite NRLP's now lower actual weighted average cost of debt in 2020 of 2.58%. The weighted average rate of 2.58% is now known with certainty given NRLP's long-term debt financing on April 30, 2020. The use of 3.05% as the long-term debt rate ensures that the utility fairly and prudently recovered its long-term debt costs for all of 2020 as that was the forecast of long-term debt rates at the time when NRLP's 2020 transmission rates were set. The

use of the forecast long-term debt rate of 3.05% was also appropriate given NRLP's unique circumstances as the utility had no third-party long-term debt at the time of setting its initial transmission rates for the 2020 rate year.

The OEB disagrees with NRLP that the weighted average long-term debt cost of 2.58% is the utility's actual cost of debt for the purpose of updating its revenue requirement for setting 2021 rates. NRLP's actual cost of long-term debt is now a weighted average rate of 2.34%, which rate reflects the three different terms to maturity of NRLP's long-term debt, as shown in Schedule A. This rate also captures all the costs associated with issuing NRLP's long-term debt, which costs were prudently incurred, thereby ensuring that both the utility and ratepayers are treated fairly. 2.34% (less the portion of the weighted debt rate reflecting issuance and treasury costs) is also the rate that NRLP will actually pay to bondholders. The OEB fails to see the prudence and fairness of NRLP's proposal to use a weighted average rate of 2.58%, comprised of forecast and actual long-term debt costs, as being reflective of actual debt costs on a go-forward basis for rate-setting purposes for the Revenue Cap IR period 2021 to 2024.

The OEB accepts NRLP's assertion that the extraordinary scale of refinancing all of NRLP's long-term debt could have caused significant risk for both the utility and customers. Clearly, that risk factor weighed significantly into why the Parties agreed to undertake a one-time reset of NRLP's 2020 revenue requirement. What is equally clear to the OEB is that the one-time update to NRLP's 2020 revenue requirement to incorporate the utility's actual cost of debt is not for the purpose of resetting NRLP's 2020 rates. Had that been the purpose and agreement, there would be a cogent argument to set the actual long-term debt cost at 2.58%. Rather, the one-time update to NRLP's 2020 revenue requirement is to determine rates for 2021. For the reasons stated above, the OEB finds that the actual go-forward long-term debt costs for 2021 rates is the actual cost of long-term debt of 2.34%, and NRLP will use this rate to update the long-term debt component of its return on capital for its 2020 revenue requirement.

As shown in Table 3, NRLP's approved revenue requirement for 2021, calculated using a long-term rate debt rate of 2.34%, is \$8,227,858.

5 DEFERRAL AND VARIANCE ACCOUNTS

NRLP has not requested approval to disburse any additional deferral and variance account balances beyond those amounts approved by the OEB in NRLP's 2020 Application.⁹ In its 2020 UTR Decision, the OEB determined that the approved interim 2020 UTRs would remain in place for the remainder of 2020. The OEB also approved the continued use of NRLP's NRLP Deferral Account (NRLPDA) to track foregone revenue until all foregone revenue has been collected through UTRs.¹⁰

NRLP filed its full year 2020 forgone revenue calculation on December 1, 2020 for consideration during the 2021 UTR rate setting process, as requested by the OEB in the 2020 UTR Decision.

Findings

The OEB finds NRLP's proposal, and subsequent submission of its 2020 forgone revenue as part of the 2021 UTR rates setting process is in accordance with direction provided by the OEB.

⁹ Application, Exhibit A, Tab 2, Schedule 1, p. 2

¹⁰ EB-2020-0180, Decision and Order, July 31, 2020, p. 16

6 IMPLEMENTATION

The OEB directs NRLP to update Table 6 of the Application to reflect the estimated bill impacts of the approved revenue requirement on typical residential and general service customers and file the update with the OEB.

7 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. NRLP's 2021 revenue requirement of \$8,227,858, with an effective date of January 1, 2021, is approved. NRLP's resultant revenue requirement will be included in the Ontario Energy Board's determination of the 2021 Interim Uniform Transmission Rates for Ontario.
2. NRLP shall file its updates to the customer bill impacts of the approved revenue requirement no later than **January 15, 2021**.
3. NRLP shall pay the OEB's costs incidental to this proceeding upon receipt of the Ontario Energy Board's invoice.

DATED at Toronto December 17, 2020

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar

SCHEDULE A
DECISION AND ORDER
NIAGARA REINFORCEMENT LIMITED PARTNERSHIP
EB-2020-0225
DECEMBER 17, 2020

**Schedule A:
NRLP Cost of Long-Term Debt Capital
2021
Year ending December 31
EB-2020-0225**

Line No.	Offering Date	Coupon Rate	Maturity Date	Principal Amount Offered (\$Millions)	Premium Discount and Expenses (\$Millions)	Net Capital Employed		Effective Cost Rate	Total Amount Outstanding		Avg. Monthly Averages (\$Millions)	Carrying Cost (\$Millions)	Projected Average Embedded Cost Rates
						Total Amount (\$Millions)	Per \$100 Principal Amount (Dollars)		at 12/31/2020 (\$Millions)	at 12/31/2021 (\$Millions)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1	30-Apr-20	1.780%	28-Feb-25	24.3	0.1	24.2	99.63	1.86%	24.3	24.3	24.3	0.5	
2	30-Apr-20	2.180%	28-Feb-30	24.3	0.1	24.2	99.58	2.23%	24.3	24.3	24.3	0.5	
3	30-Apr-20	2.730%	28-Feb-50	18.2	0.1	18.1	99.42	2.76%	18.2	18.2	18.2	0.5	
4		Subtotal							66.9	66.9	66.9	1.5	2.24%
5		Treasury OM&A costs										0.02	
6		Other financing-related fees										0.05	
7		Total							66.9	66.9	66.9	1.6	2.34%