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

DECISION AND ORDER

EB-2018-0130

HYDRO ONE NETWORKS INC.

Application for 2019 Electricity Transmission Revenue Requirement

BEFORE: **Emad Elsayed**
Presiding Member

Lynne Anderson
Member

Michael Janigan
Member

April 25, 2019

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1 INTRODUCTION AND SUMMARY

This Decision responds to the application by Hydro One Networks Inc. (Hydro One) for Ontario Energy Board (OEB) approval of its transmission revenue requirement for 2019.

Hydro One is a wholly owned subsidiary of Hydro One Inc. In turn, Hydro One Inc. is a wholly owned subsidiary of the parent company, Hydro One Limited. Neither Hydro One Limited nor Hydro One Inc. is regulated by the OEB. As an electricity transmission and distribution service provider, Hydro One is licensed and rate regulated by the OEB.

The Hydro One transmission system currently accounts for about 98% of Ontario's electricity transmission capacity. This system consists of a network of about 29,000 circuit kilometers of high voltage transmission lines, steel towers, 290 transmission stations and other related electricity transmission equipment.[1]

Hydro One also owns and operates an electricity distribution system for which rates were addressed in a separate proceeding. Hydro One proposes to increase its transmission revenue requirement through an incentive rate-setting mechanism (IRM) for 2019. The IRM would adjust the transmission revenue requirement by a Revenue Cap Index (RCI) comprised of inflation, less a productivity factor.

The OEB is setting the RCI at 1.4% on a final basis, effective May 1, 2019. As a result, neither a subsequent true up of the revenue requirement nor an associated variance account is required. The OEB finds Hydro One's general proposed approach to compensation, deferral and variance accounts, cost allocation and rate design to be appropriate, with a number of noted exceptions. The approved transmission revenue requirement reflects a year-over-year increase of 2.8% for 2019 over the 2018 approved level, when other adjustments are included.[2]

The revenue requirement and charge determinants approved in this proceeding form the key inputs to the approval of the 2019 Ontario Uniform Transmission Rates (UTRs) currently set as interim as of January 1, 2019.

[1] EB-2019-0082, Exhibit A-3-1, page 7.
[2] Please refer to Table 2 in this Decision and Order.

2 THE PROCESS AND ORGANIZATION OF THE DECISION

Hydro One applied to the OEB on October 26, 2018 for approval of a transmission revenue requirement for 2019.

Following the publication of a Notice of the Application, the OEB granted intervenor status to 12 parties:

- Anwaatin Inc. (Anwaatin)
- Association of Major Power Consumers of Ontario (AMPCO)
- Building Owners and Managers Association, Greater Toronto (BOMA)
- Consumers Council of Canada (CCC)
- Energy Probe Research Foundation (EP)
- HQ Energy Marketing Inc. (HQEM)
- Independent Electricity System Operator (IESO)
- London Property Management Association (LPMA)
- Ontario Power Generation Inc. (OPG)
- Power Workers' Union (PWU)
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers' Coalition (VECC)

OEB staff and nine intervenors filed written submissions on March 14, 2019. Hydro One filed its reply submission on March 28, 2019. In its reply submission, Hydro One substantially followed the argument structure established by OEB staff with some additional topics raised by intervenors in their submissions that were not addressed in the OEB staff submission.

This Decision and Order is organized to substantially follow Hydro One's reply submission. Following the introductory chapters, this Decision and Order addresses matters in chapters entitled:

- Revenue Cap Index
- Executive Compensation and Bill 2 Adjustment
- Deferral and Variance Accounts
- Cost Allocation and Rate Design
- Effective Date

3 REVENUE CAP INDEX

Hydro One's application is based on the use of a revenue cap incentive rate-setting approach to determine its 2019 transmission revenue requirement. The Revenue Cap Index (RCI) consists of an industry-specific inflation factor and two custom productivity factors, and is expressed as:

$$RCI = I - X$$

Where "I" is the Inflation Factor proposed by Hydro One to be 1.4%, based on a custom weighted two-factor input price index; and "X" is the Productivity Factor proposed by Hydro One to equal to the sum of Hydro One's Custom Industry Total Factor Productivity measure of 0% and Hydro One's Custom Productivity Stretch Factor of 0%.[3]

Hydro One proposed to adopt on a preliminary basis the RCI and associated parameters (inflation, productivity and stretch factors) that are being considered in the proceeding arising out of Hydro One Sault St. Marie LP's (Hydro One SSM) application for approval of its 2019 revenue requirement.[4] The RCI parameters were supported by various benchmarking analyses conducted by Power System Engineering, Inc. (PSE). Hydro One stated that the PSE study is based on Hydro One's costs and the recommended RCI parameters are directly applicable to Hydro One.[5]

Hydro One requested a variance account to true up the revenue requirement impact, if any, resulting from changes in parameters proposed in this application (the same parameters proposed by Hydro One SSM) and those approved for Hydro One SSM.

The OEB decided not to test the benchmarking and total factor productivity evidence filed in the Hydro One SSM proceeding in this current Hydro One transmission proceeding.[6] The OEB requested that parties address the following questions:

- Is it appropriate to use the rate-setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?

[3] Exhibit A, Tab 4, Schedule 1, page 2.
[4] EB-2018-0218.
[5] Staff Interrogatory #2.
[6] Procedural Order No.1, January 24, 2019.

- What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?
- What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

Question 1 - Is it appropriate to use the rate-setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?

Most parties[7] supported Hydro One's proposal to use the rate-setting parameters proposed for Hydro One SSM on a preliminary basis. Anwaatin did not oppose Hydro One's approach, but argued that the OEB should consider a simpler mechanism for 2019 to avoid customer confusion.[8] BOMA questioned Hydro One's one-year RCI rate-setting approach and submitted that the best course of action is to extend Hydro One's 2018 rates into 2019, adjusted for the proposed disposition of the deferral account balances.[9] In its reply submission, Hydro One stated that the proposed RCI adjustment is consistent with the OEB's established approach for incentive rate-setting applications.[10]

In response to BOMA's submission on Hydro One's proposed inflation factor and stretch factor, Hydro One reiterated that the proposed weighting of 14% labour and 86% non-labour (rather than the 30%/70% split suggested by BOMA) and a stretch factor of 0% (rather than the 0.3% suggested by BOMA) are supported by the recommendations provided by PSE. Hydro One also stated that the proposed parameters are specific to the electricity transmission industry.[11]

VECC pointed out the lateness of filing the application and argued that it is not incumbent upon ratepayers to make the shareholders whole where there has been a late filing. VECC noted that Hydro One exceeded the regulated rate of return over the past few years. VECC proposed adjusting the revenue requirement by 1.4%, but only for the period commencing May 1, 2019.[12] Hydro One disagreed with VECC's argument

[7] OEB staff, AMPCO, CCC, Energy Probe, LPMA, PWU and SEC.
[8] Anwaatin Submission, paragraph 5.
[9] BOMA Submission, page 4.
[10] Hydro One Reply Submission, page 5.
[11] *Ibid.* page 4.
[12] VECC Submission, paragraph 2.4 and 2.10.

and asserted that there is no evidence to support VECC's statement that the achieved return on equity does not support an upward adjustment to Hydro One's revenue requirement.[13]

Question 2 - What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?

OEB staff submitted that the variance account should provide for a true up to the parameters to be approved by the OEB for Hydro One SSM and noted that applicable parameters for 2019 should be based on information that is "known or knowable" at this point in time.[14] AMPCO and LPMA also supported Hydro One's proposal and expressed concerns that tying the 2019 revenue requirement to parameters determined in a future application (i.e. Hydro One's 2020-2022 Custom IR application) would result in a retroactive adjustment.[15]

BOMA submitted that there would be no need for a true up of RCI parameters if the OEB were to accept BOMA's submission on Question 1.[16]

PWU submitted that the proposed revenue requirement is appropriate subject to the RCI parameters to be determined for Hydro One SSM.[17]

CCC, Energy Probe and SEC submitted that the variance account should true up to parameters determined in Hydro One's Custom IR application to allow parties who are not intervenors in the Hydro One SSM proceeding to have an opportunity to test the proposed RCI parameters.[18] Hydro One asserted in its reply that evidence related to RCI parameters has been tested thoroughly in the Hydro One SSM proceeding and avoiding re-testing of the same evidence in separate proceedings encourages regulatory efficiency.

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[13] Hydro One Reply Submission, page 6.
[14] OEB Staff Submission, pp. 5-6.
[15] LPMA Submission, page 2. AMPCO Submission, pp. 1-2.
[16] BOMA Submission, page 4.
[17] PWU Submission, paragraph 11.
[18] CCC Submission, pp. 2-3. Energy Probe Submission, pp. 1-2. SEC Submission, page 2.

Anwaatin and VECC commented that the proposed variance account and true up proposal is complicated.[19] VECC submitted that the RCI parameters should be set at 1.4% in this proceeding, with no subsequent true up, so no variance account is required. Anwaatin argued that the proposed true up approach is adding complexity at a time when customers are anticipating simplicity and significant rate reductions. Hydro One explained that once the outcome of the Hydro One SSM proceeding is known, the resulting calculation would be disposing of balances in the variance account as an adjustment to Hydro One's revenue requirement.[20]

Question 3 - What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

Hydro One submitted its 2020-2022 transmission application on March 21, 2019. That application includes an updated PSE study.[21] The updated PSE study is based on a revised forward looking analysis for the test period reflecting the OM&A and capital spending levels of Hydro One's revised business plan.[22]

In its reply submission, Hydro One stated that Question 3 is moot and any consideration as to what evidence should be included in the 2020-2022 application should be carried out in the context of that application.[23]

Anwaatin requested that the OEB require Hydro One to report in the Custom IR application certain parameters of the battery storage system pilot project agreed to between Hydro One and Anwaatin in a prior settlement agreement.[24] Hydro One responded by stating that the pilot project is related to a distribution system investment, and it therefore has no impact on Hydro One's transmission revenue requirement.[25]

Findings

Regarding Question 1, the OEB is setting the RCI at 1.4% on a final basis, effective May 1, 2019. The OEB finds the arguments by VECC and Anwaatin about the added

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[19] Anwaatin Submission, paragraph 6 and 7. VECC Submission, paragraph 3.1.
[20] Hydro One Reply Submission, page 8.
[21] EB-2019-0082.
[22] Staff Interrogatory #2.
[23] Hydro One Reply Submission, page 9.
[24] Anwaatin Submission, page 4.
[25] Hydro One Reply Submission, page 9.

complexity of a subsequent true up persuasive. Given the OEB's findings of a May 1, 2019 effective date, discussed in more detail in Section 7 of this Decision and Order, the 2019 revenue requirement will only be in place for eight months. As noted by Hydro One, it has already filed an application for a three-year transmission revenue requirement effective January 1, 2020.[26]

In setting the revenue requirement for 2019 on a final basis, the OEB is setting a reasonable revenue requirement using an approach consistent with the OEB's Handbook for Utility Rate Applications[27], while taking into consideration the issues of regulatory efficiency, customer expectations and process fairness.

The 1.4% RCI is based on the inflation factor proposed by Hydro One.[28] The OEB finds it reasonable for the eight-month period starting May 1, 2019 to use a custom weighted two-factor input price index with a 14% labour price index weighting and an 86% non-labour price index weighting.

The OEB normally applies a productivity factor and a stretch factor to incentive rate-setting indices to incent expected productivity improvements. The OEB is not imposing an explicit productivity factor for 2019 in this case given the short duration of the term. The OEB is specifically not making a finding on the appropriateness of a productivity factor or stretch factor of zero for the 2020 to 2022 period. The OEB panel for that proceeding will make that determination.

Regarding Question 2, given that the RCI is being set on a final basis, there will be no subsequent true up for the revenue requirement, and therefore no associated variance account is required.

Regarding Question 3, Hydro One's 2020 to 2022 application includes an updated PSE study. If any further evidence is required, that will be determined during that 2020 to 2022 rate proceeding.

[26] EB-2019-0082, application filed March 21, 2019
[27] Rate Handbook, page 24
[28] As updated in Hydro One's response to LPMA interrogatory #7.

4 EXECUTIVE COMPENSATION AND BILL 2 ADJUSTMENTS

The *Hydro One Accountability Act, 2018* (HOAA)[29] added a new subsection 78(5.0.2) to the *Ontario Energy Board Act, 1998*, which provides:

> In approving or fixing just and reasonable rates for Hydro One Limited or any of its subsidiaries, the Board shall not include any amount in respect of compensation paid to the Chief Executive Officer and executives, within the meaning of the *Hydro One Accountability Act, 2018*, of Hydro One Limited.

Hydro One's interpretation of the HOAA was that it only applies to executives employed by Hydro One Limited, and not those employed by Hydro One Inc. or Hydro One Networks Inc. However, Hydro One voluntarily proposed that in addition to the Hydro One Limited executives, the cost associated with the rest of the Hydro One Executive Leadership Team (ELT) should be excluded from the revenue requirement.[30]

Hydro One stated that its proposal is consistent with the approach used in its 2018-2022 Custom IR distribution rate application.[31] In that proceeding, the OEB accepted Hydro One's interpretation of the HOAA as well as its proposal to exclude the rest of its ELT costs from the revenue requirement.

Based on that, Hydro One proposed to remove $2.2 million in executive compensation from its costs in this proceeding. This adjustment would result in a reduction of $1.04 million from the approved 2018 revenue requirement.

On February 21, 2019, the Management Board of Cabinet issued a Directive under the authority of the HOAA (the Directive).[32] The Directive provides:[33]

> This directive sets out certain compensation-related requirements for the Chief Executive Officer ("CEO"), other executives and board of directors of Hydro One Limited and its subsidiaries ("Hydro One"), which Hydro One must follow when

[29] Schedule 1 to Bill 2, the *Urgent Priorities Act, 2018.*
[30] EB-2018-0130, Exhibit A-5-1, page 2.
[31] EB-2017-0049, Evidence related to Section 78(5.0.2) of the OEB Act, filed October 26, 2018.
[32] Ministry of Energy, Northern Development and Mines News Release, March 8, 2019.
[33] Directive, February 21, 2019.

developing its board and executive compensation framework ("Compensation Framework") as set out in the *Hydro One Accountability Act, 2018*.

OEB staff and VECC submitted that Hydro One should file any further reductions in compensation costs that it considers necessary resulting from the Directive in its reply submission.[34]

Hydro One stated that as compensation for the CEO and Executive Leadership Team has already been removed from the application, the only implication of the Directive for this application is a reduction in the total amount of Board of Director costs by $0.2 million as compared to the amount reflected in the application. By allocating $0.05 million to OM&A and $0.15 million to capital, Hydro One determined that the revenue requirement impact of the Directive is a further reduction of $0.056 million after escalating the adjusted 2018 costs by the 1.4% inflation factor.[35]

Findings

The OEB finds that Hydro One's proposed approach to address the HOAA is reasonable, and consistent with the OEB's recent decision for its distribution business.[36]

Hydro One's proposal for a revenue requirement reduction resulting from the Directive was filed as part of its reply submission, and therefore OEB staff and intervenors have not had the opportunity to review and comment. Hydro One should apply its proposed reduction to the revenue requirement to be filed as part of its draft revenue requirement/charge determinant order. The OEB will consider any comments before determining the final reduction attributable to the Directive.

[34] OEB staff Submission, page 10. VECC Submission, paragraph 6.4.
[35] Hydro One Reply Submission, page 12.
[36] EB-2017-0049

5 DEFERRAL AND VARIANCE ACCOUNTS

5.1 Regulatory Accounts Requested for Disposition

In this application, Hydro One requested disposition of ten deferral and variance account balances for a net reduction to the 2019 revenue requirement of $37.6 million. The disposition balance is based on actual audited values at December 31, 2017, including forecast interest to December 31, 2018, less amounts approved for disposition in 2018. Disposition was requested to begin on January 1, 2019. The accounts for which disposition was requested are shown in Table 1 below.

Table 1. Regulatory Account Balances for Disposition ($Million)[37]

Description	Forecast Balance as at Dec. 31, 2018
Excess Export Service Revenue	(6.5)
External Secondary Land Use Revenue	(16.0)
External Station Maintenance, E&CS and Other External Revenue	(2.1)
Tax Rate Changes	0.4
Rights Payments	1.6
Pension Cost Differential	(13.0)
Long-Term Transmission Future Corridor Acquisition and Development	0.0
LDC CDM Variance Account	(0.8)
External Revenue – Partnership Transmission Projects Account	(0.0)
OEB Cost Differential Account	(1.3)
Total Regulatory Accounts	**(37.6)**

[37] Hydro One Reply Submission, page 13.

OEB staff, AMPCO, BOMA, CCC, LPMA and PWU supported the proposed disposition. AMPCO noted that the OEB may consider disposing of the balance over a shorter period if the OEB determines that a January 1, 2019 effective date is not appropriate.[38]

VECC noted that the balance in the OEB Cost Differential Account does not meet the materiality threshold.[39] Hydro One noted in its reply that in OEB's decision on Hydro One's 2018-2022 Custom IR distribution application, it was stated that the materiality thresholds are for the purposes of determining whether a new account will be established, rather than determining whether balances recorded in an existing account will be disposed.[40]

Findings

The OEB approves the disposition of the December 31, 2018 total credit balance of $37.6 million over the eight-month period from May 1, 2019 to December 31, 2019. The balances are for individual accounts previously approved by the OEB. No parties objected to clearing these balances.

5.2 Regulatory Accounts Not Being Requested for Disposition

Hydro One listed five transmission regulatory accounts not being requested for disposition as part of this application.[41] Parties made submissions on the Transmission Forgone Revenue Deferral Account and the In-Service Capital Additions Variance Account.

Forgone Revenue Deferral Account

The Forgone Revenue Deferral Account was established in Hydro One's 2017 and 2018 transmission rate application[42] to record differences in revenue recovered through interim and approved 2017 rates. Hydro One indicated that it booked and will be booking in the account the difference between approved revenues and the revenues it

[38] AMPCO Submission, page 3.
[39] VECC Submission, paragraph 5.2.
[40] Hydro One Reply Submission, page 14.
[41] Exhibit A, Tab 6, Schedule 1, page 12, Table 3.
[42] EB-2016-0160

would have received based on its position in its Review Motion[43] relating to tax savings in that proceeding.

Hydro One did not request disposition of this account. However, OEB staff submitted that the Forgone Revenue Deferral Account was not the appropriate mechanism to capture potential impacts from the Review Motion decision because the account is unrelated to the Review Motion. OEB staff also submitted that Hydro One should remove the balance pertaining to the Review Motion as the Review Motion decision[44] upheld the original decision, and no adjustment was required. OEB staff further submitted that there should be a $0 balance after the removal, and the account should therefore be discontinued. OEB staff also stated that Hydro One could request a variance account in the future, should it be required as a result of the outcome of Hydro One's appeal of the matter to the Ontario's Divisional Court.

Hydro One replied that it recorded amounts pertaining to the Review Motion in the Forgone Revenue Deferral Account because, if successful, the Review Motion would give rise to further differences between revenues recovered through 2017 interim rates and the final rates that would reflect a successful Review Motion. Although the Review Motion was denied, Hydro One still proposed to maintain the account in its current form to facilitate any future recoveries, as it planned to file an appeal on OEB's Review Motion decision to the Ontario Divisional Court. The OEB has received a copy of Hydro One's Notice of Appeal to the Divisional Court, dated April 5, 2019, in this regard.

In-Service Capital Additions Variance Account

The OEB approved the continuance of the In-Service Capital Additions Variance Account in Hydro One's decision for 2017 and 2018 transmission rates[45]. The account was to record the 2017 and 2018 revenue requirement impact from actual 2016 in-service capital additions being less than $911.7 million, as well as actual 2017 and 2018 in-service additions being less than those embedded in the 2017 and 2018 rate base. The account had a zero balance as at December 31, 2017 and actual 2018 in-service additions were not yet available. Hydro One did not request the disposition of the account balance but proposed that the account continue and be brought forth for disposition in its next rebasing application.

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[43] EB-2017-0336
[44] EB-2018-0269, Decision and Order, March 7, 2019
[45] Ibid note 29

AMPCO submitted that this account should continue for 2019. BOMA submitted that the December 31, 2018 in-service additions should be available to ensure that there is clarity around additional assets put into service in 2019, which would be an important consideration in establishing the baseline for Hydro One's 2020-2022 Custom IR proposal. In its reply submission, Hydro One indicated that these submissions reflect several misunderstandings and should be rejected. Hydro One is proposing to continue this account in 2019, but no new transactions would be recorded other than interest.

SEC submitted that the account should be extended to 2019, not to record 2019 variances but to ensure that the impact in 2019 from any variance in 2017 and 2018 is captured and returned to ratepayers. In Hydro One's reply submission, it stated that the purpose of the account is to record differences between actual and forecast in-service additions in the context of a two year cost of service application. The current application is an incentive based framework, where costs are decoupled from rates and rates are adjusted by the RCI parameters. Hydro One argued that SEC is effectively proposing to adjust the RCI by a factor other than the Inflation Factor and the Productivity Factor.

Findings

Forgone Revenue Deferral Account

The OEB agrees with OEB staff that the balance in this account should be zero and the account should be discontinued.

The purpose of this account was to record differences between the interim and approved 2017 revenue requirement. The account should not be used for any other purpose. It was not appropriate for Hydro One to record potential impacts from the Review Motion in this account. Furthermore, the OEB issued its decision on the Review Motion, upholding the original decision.

In-Service Capital Additions Variance Account

The OEB finds that the In-Service Capital Additions Variance Account will remain open, but will not be used to record any variances for 2019 in-service capital additions. The OEB approved capital additions for 2017 and 2018. The purpose of the account was to record differences between these approved capital additions and actual capital additions for these same years. Capital additions have not been approved for 2019, so the calculation of a variance for 2019 is not appropriate. The mechanism for clearing the account will be determined when the account is reviewed for disposition. Hydro One is expected to file for disposition of this account as part of its 2020 to 2022 rate proceeding, once the 2018 results are available.

5.3 Continuance of Other Existing Accounts

Hydro One requested approval for a modification to the Accounting Order for the Other Post-Employment Benefit (OPEB) Cost Deferral Account.[46] This account was approved to capture the financial impacts associated with the issuance of Accounting Standards Update 2017-07. Hydro One proposed to continue tracking the balance in this account until the next rebasing application.[47] A revised accounting order was submitted by Hydro One as part of its interrogatory responses to reflect that the calculation and treatment of interest will be made in conjunction with the decision on the disposition of this account.[48]

Hydro One also clarified that it is not requesting continuation of the OEB Cost Assessment Variance Account since it will not be tracking any variance for 2019.

No parties objected to these requests.

Findings

The OEB approves the continuation of the Other Post-Employment Benefit Cost Deferral Account. The calculation and treatment of interest will be determined at the time that the account is disposed.

The OEB approves the discontinuation of the OEB Cost Assessment Variance Account. The account was established in 2016 to record differences resulting from changes made by the OEB to its cost assessment model. Hydro One has rebased its costs since this change was made, therefore, it is appropriate to close this account.

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[46] EB-2017-0338, Decision and Order, May 10, 2018.
[47] Hydro One Reply Submission, page 13.
[48] Exhibit I, Tab 1, Schedule 11.

5.4 New Regulatory Accounts Requested for Approval

Hydro One sought approval for a new Revenue Cap Index Parameters Differential Account to track the difference between the revenue requirement at the preliminary RCI parameters and the revenue requirement at the RCI parameters approved for Hydro One SSM. Hydro One submitted that the proposed account has met the three eligibility criteria (causation, materiality and prudence) established in Chapter 2 of the OEB's *Filing Requirements for Electricity Transmission Applications*.[49] A draft accounting order was filed as part of the application.[50]

Hydro One also proposed to expand the scope of this variance account to capture any differences in Bill 2 adjustments arising from Hydro One's Custom IR distribution rate application.[51] OEB staff submitted that since the distribution rate decision was issued on March 7, 2019, it is unnecessary to expand the scope of this variance account to capture any differences in Bill 2 adjustments.[52]

Findings

The OEB does not approve this account. In Section 3 of this Decision and Order, the OEB approved the RCI on a final basis. This account is therefore not required. The OEB finds it unnecessary to expand the scope of this account to include Bill 2 adjustments.

[49] Exhibit A, Tab 6, Schedule 1, page 23.
[50] Exhibit A, Tab 6, Schedule 1, Attachment 1.
[51] Exhibit A, Tab 3, Schedule 1, page 4.
[52] OEB staff Submission, pp. 6-7.

6 COST ALLOCATION AND RATE DESIGN

6.1 Revenue Offsets

Hydro One proposed to keep revenue offsets, consisting of the external revenue, wholesale meter service (WMS) revenue, and export transmission service (ETS) revenue, at the 2018 approved values. The rationale is that the largest component of revenue offsets, ETS revenue, has a variance account to track any differences between actual and forecast export revenues. Furthermore, Hydro One noted that the ETS rate has never changed in lockstep with UTRs. With respect to the low voltage switchgear (LVSG) credit, Hydro One argued that LVSG is dependent on the revenue requirement assigned to the transformation connection pool and has adjusted the amount by the RCI.[53]

BOMA, CCC, and SEC argued that the RCI should apply to all components of revenue offsets.[54] LPMA submitted that the RCI adjustment should apply to the ETS revenue.[55] OEB staff submitted that while it is unlikely to have any material impact on UTRs, it would be more appropriate if Hydro One applied the RCI after adjusting for revenue offsets (base revenue requirement) to be consistent with the OEB's established rate-setting methodology for electricity distributors.[56]

In its reply, Hydro One reiterated that unlike distribution rates, significant portions of transmission revenue offsets are not impacted by inflation, and as such, applying the RCI to revenue offsets would not be appropriate.[57]

Findings

The OEB accepts Hydro One's proposal to adjust the low voltage switchgear (LVSG) credit, but not the export transmission service (ETS) rate. The OEB finds that it is reasonable that the LVSG credit adjust with inflation by the same amount as Hydro One's revenue requirement. The ETS rate was determined through extensive

[53] Hydro One Reply Submission, pp. 16-18.
[54] BOMA Submission, page 5. CCC Submission, page 2. SEC Submission, page 3.
[55] LPMA Submission, pp. 3-4.
[56] OEB Staff Submission, page 14.
[57] Hydro One Reply Submission, page 17.

examination in a cost of service application, and it will not be changed in this IRM proceeding. The ETS revenue will therefore not be adjusted.

The OEB agrees with OEB staff that the RCI adjustment should apply to the base transmission revenue requirement, consistent with how IRM adjustments are applied for electricity distributors. This base revenue requirement (total revenue requirement less revenue offsets) should be adjusted to include the revenue for the LVSG credit before the RCI adjustment is applied. The OEB has revised Hydro One's Table 1 - Derivation of 2019 Rates Revenue Requirement[58] to reflect the findings in this Decision and Order, as shown below.

Table 2 – Determination of 2019 Revenue Requirement ($Million)

	2018	Adjustments	2019
Total Approved Revenue Requirement	$1,623.8		
Bill 2 Adjustment	-$1.095		
Total Revenue Requirement including Bill 2 Adjustment	$1,622.7		$1,622.7
Deduct: External Revenue	-$28.5	Same as approved 2018 amount	-$28.5
Deduct: WMS Revenue	-$0.28	Same as approved 2018 amount	-$0.28
Deduct: Export Tx Service Revenue	-$40.05	Same as approved 2018 amount	-$40.05
Base Revenue Requirement	$1,553.8	1.4%	$1,575.6
Deduct: Regulatory Assets Credit	-$47.8	As per Exhibit A-6-1	-$37.6
Add: Forgone Revenue	-$10.6	Not applicable	$0
Add: LVSG Credit	$14.1	1.4%	$14.3
Revenue Requirement to be collected from 2019 UTRs	**$1,509.5**[59]		**$1,552.3**

[58] Exhibit A, Tab 7, Schedule 1, page 2 of 8.

[59] The $1,509.5 million is the OEB-approved 2018 revenue requirement of $1,510.7 million from Hydro One's Table 1, Exhibit A-7-1 less the impact of the HOAA.

6.2 Charge Determinants

Hydro One proposes to maintain charge determinants approved in the November 23, 2017 decision and order in respect of Hydro One's 2018 revenue requirement[60] for 2019. OEB staff and LPMA submitted that an update to the load forecast is not required under a revenue cap application and submitted that the proposed charge determinants as listed in Table 3 below should be approved.[61]

Table 3 – Charge Determinants[62]

Current Approved Charge Determinants	MW
Network	244,924.157
Line Connection	236,948.242
Transformation Connection	202,510.123

Findings

The OEB finds it appropriate to maintain the charge determinants approved in the last cost of service proceeding[63]. This approach is appropriate for an IRM application in which neither costs nor volumes are updated.

6.3 Revenue Requirement by Rate Pool

In its response to an OEB staff interrogatory, Hydro One revised the revenue requirement allocation by rate pool to be consistent with the approved rate order from Hydro One's 2017-2018 transmission revenue requirement application.[64] OEB staff, AMPCO, LPMA and VECC supported the revised cost allocation.[65]

[60] EB-2016-0160 Decision, 2018 Transmission Revenue Requirement and Charge Determinants
[61] OEB staff Submission, pp. 14-15. LPMA Submission, page 4.
[62] Exhibit A, Tab 3, Schedule 1, page 8 of 12
[63] EB-2016-0160
[64] Staff Interrogatory #3.
[65] OEB staff Submission, page 15. AMPCO Submission, page 3. LPMA Submission, page 6. VECC Submission, paragraph 2.12.

Findings

The OEB approves the revenue requirement allocation by rate pool as revised by Hydro One. No party opposed Hydro One's approach.

7 EFFECTIVE DATE

Hydro One filed its application on October 26, 2018 seeking approval for an effective date of January 1, 2019. PWU supported the proposed effective date while OEB staff and a number of intervenors argued that the proposal is not reasonable given that Hydro One filed its application two months before the proposed effective date. OEB staff, AMPCO, CCC, LPMA and SEC argued that although the application is mechanistic in nature, it still requires more than two months to adjudicate. CCC and SEC also stated that the organizational changes experienced by Hydro One, which were cited by Hydro One as one of the reasons for the late filing, were within control of the company and its shareholder and should not have an impact on ratepayers.[66]

OEB staff submitted that an effective date of March 1, 2019 would be appropriate. SEC supported an effective date of no earlier than mid-March, 2019. AMPCO and BOMA suggested that the effective date should correspond to the date of the rate order. VECC submitted that May 1, 2019 would be appropriate and LPMA argued for June 1, 2019.

In its reply submission, Hydro One reiterated the reasons to support its proposal: the application is mechanistic in nature with less processing time required; the form and timing of the application is outside of its management's control due to the organizational change; and Hydro One filed its application as soon as reasonably possible after receiving management's approval.[67]

Findings

The OEB approves an effective date of May 1, 2019. Hydro One filed its application on October 26, 2019. It was not reasonable to expect that the OEB would process its application in two months. The OEB reviews dozens of IRM applications each year from electricity distributors. For these distributors, applications for January 1 rates are expected to be filed by August of the year before, and earlier if any complexities are expected. The OEB expects electricity distribution IRM applications for May 1 rates to be filed in tranches from late September to early November.[68] There is no reason for

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[66] OEB staff Submission, page 15. AMPCO Submission, page 3. CCC Submission, page 3. LPMA Submission, page 6. SEC Submission, page 4.
[67] Hydro One Reply Submission, page 20.
[68] For 2019 electricity distribution rates, the OEB established filing deadlines from September 24, 2018 to November 5, 2018 for rates effective May 1, 2019.

Hydro One to have expected that an IRM transmission application could be processed in a shorter timeline than an IRM distribution application. The OEB also finds that the timing of the application was in the control of Hydro One and its shareholder.

8 IMPLEMENTATION

Hydro One is directed to submit a draft revenue requirement/charge determinant order that is consistent with all findings in this Decision and Order. Hydro One is also directed to file a draft UTRs rate order which will be used to determine the 2019 uniform transmission rates in conjunction with the OEB's approval of the revenue requirement and the load forecasts of the other transmitters in Ontario.

The OEB expects Hydro One to file the 2019 supporting information that it commonly files in its transmission rate orders, including:

- A revenue requirement summary with supporting detail, bill impacts, revenue requirement by rate pool, summary of charge determinants, 2019 uniform transmission rates and revenue disbursement factors
- The wholesale meter service and exit fee schedule
- The low voltage switch gear credit calculation
- Deferral and variance account information as appropriate

The OEB acknowledges that some information on these schedules, such as the approved 2019 revenue requirements of the other transmitters, has not yet been approved by the OEB. However, Hydro One is directed to use the most up-to-date information currently available to populate the schedules.

9 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One shall file the draft revenue requirement/charge determinant order and the draft uniform transmission rates order and supporting schedules (including a draft accounting order for the OPEB Cost Deferral Account) no later than May 9, 2019.

2. Intervenors, OEB staff and other Ontario transmitters may submit comments on Hydro One's draft revenue requirement/charge determinant order and the draft uniform transmission rates order and supporting schedules no later than May 23, 2019.

3. Hydro One shall file with the OEB, and forward to intervenors, responses to any comments on its draft revenue requirement/charge determinant order and the draft uniform transmission rates order and supporting schedules no later than May 30, 2019.

4. Intervenors shall submit their cost claims no later than May 30, 2019.

5. Hydro One shall file with the OEB and forward to intervenors any objections to the claimed costs June 6, 2019.

6. Intervenors shall file with the OEB and forward to Hydro One any responses to any objections for cost claims no later than June 13, 2019.

7. Hydro One shall pay the OEB’s costs incidental to this proceeding upon receipt of the OEB’s invoice.

DATED at Toronto **April 25, 2019**

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary