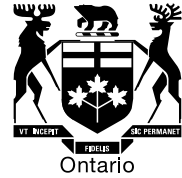


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BY E-MAIL

May 23, 2019

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

Dear Ms. Walli:

**Re: Hydro One Networks Inc. (Hydro One)
2019 Transmission Revenue Requirement Application
OEB File Number EB-2018-0130
OEB Staff Submission on Draft Rate Order**

Please find attached OEB staff's submission on the draft rate order filed by Hydro One Networks Inc.

Yours truly,

Original Signed By

Shuo Zhang

Project Advisor, Major Applications

Encl.

**2019 TRANSMISSION REVENUE REQUIREMENT
APPLICATION**

HYDRO ONE NETWORKS INC.

EB-2018-0130

**OEB STAFF SUBMISSION ON DRAFT RATE
ORDER**

MAY 23, 2019

INTRODUCTION

Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) on October 26, 2018 seeking approval of its 2019 transmission revenue requirement to be used to determine the 2019 Uniform Transmission Rates (UTRs).

On May 9, 2019, Hydro One filed a draft rate order (DRO) pursuant to the Decision and Order (Decision) dated April 25, 2019.

OEB staff finds it necessary to make submissions on the following four items and has no other concerns with the DRO beyond those set out below.

1. Bill 2¹ Adjustments
2. Disposition of Regulatory Account Balance
3. UTRs Calculation
4. Accounting Order for the Post-Employment Benefit (OPEB) Cost Deferral Account

1. Bill 2 Adjustments

Background

The Decision had identified the Bill 2-related reduction to Hydro One's revenue requirement as \$1.095 million. In its DRO, Hydro One stated that it had corrected the Bill 2 adjustment amount to \$1.02 million consistent with evidence provided during the proceeding. The \$1.02 million is determined as \$962,852 related to the executive leadership team (ELT) compensation cost, together with a further amount of \$55,400 reflecting the Directive of the Management Board of Cabinet² issued on February 21, 2019.³

Discussion and Submission

¹ The *Urgent Priorities Act, 2018*.

² Ministry of Energy, Northern Development and Mines News Release, March 8, 2019

³ DRO, Implementation of Decision, Page 3 of 7.

OEB staff notes that in its responses to interrogatories, Hydro One updated the ELT compensation cost to include one ELT member which was excluded in error in its original submission. Hydro One calculated the revised revenue requirement impact as \$1.04 million.⁴ OEB staff submits that the Bill 2 adjustment amount should be \$1.04 million plus \$55,400, which corresponds to the \$1.095 million as shown in Table 2 in the Decision. OEB staff notes that this revision will not have any impact on the proposed UTRs, but OEB staff submits that the correct revenue requirement value should be used.

2. Disposition of Regulatory Account Balances

Background

The OEB approved the disposition of a total credit balance of \$37.6 million over the eight-month period from May 1, 2019 to December 31, 2019, which is consistent with the effective date for the OEB-approved revenue requirement.⁵

In the DRO, Hydro One stated that it has already refunded one third of the \$47.8 million (\$15.9 million) credit balance in regulatory accounts included in the interim 2019 revenue requirement. Therefore, Hydro One claimed that it will need to refund \$21.7 million (\$37.6 million - \$15.9 million) from May 1, 2019 through December 31, 2019 to ensure that the total regulatory account balance refunded to transmission customers in 2019 is \$37.6 million.

UTRs are calculated based on a twelve-month recovery period, therefore Hydro One derived an annualized balance of \$32.2 million, which results in the necessary refund of \$21.7 million over the May – December 2019 period.

Discussion and Submission

OEB staff agrees that it is necessary to annualize the regulatory account balance to ensure that the total regulatory account balance refunded to transmission customers in 2019 is \$37.6 million.

⁴ Exhibit I, Tab 7, Schedule 3. SEC Interrogatory #3.

⁵ EB-2018-0130, Decision and Order, April 25, 2019. Page 11.

3. UTRs Calculation

Background

In the DRO, Hydro One calculated the UTRs as follows⁶:

	Monthly Rate (\$ per kW)
Network Service Rate (PTS-N):	3.83
\$ Per kW of Network Billing Demand	
Line Connection Service Rate (PTS-L):	0.96
\$ Per kW of Line Connection Billing Demand	
Transformation Connection Service Rate (PTS-T):	2.30
\$ Per kW of Transmission Connection Billing Demand	

Hydro One determined the proposed UTRs based on the following steps:

- Step 1: Calculate the UTRs using the revenue requirement of \$1,557.8 million that includes an annualized regulatory accounts credit balance of \$32.2 million.⁷
- Step 2: Calculate the forgone revenue for May and June 2019 as the difference between revenues Hydro One collects under the 2019 interim UTRs and the revenues Hydro One would collect under UTRs determined in step 1. The forgone revenue is calculated as \$5.6 million.⁸
- Step 3: Derive the annualized forgone revenue as \$11.1 million because Hydro One will recover that amount over the remaining six months of 2019.⁹
- Step 4: Calculate the proposed UTRs using the revenue requirement of \$1,568.9 million that includes the annualized forgone revenue of \$11.1 million determined in step 3.¹⁰

Discussion and Submission

OEB staff submits that the revenue requirement including the annualized forgone revenue and the calculation of UTRs are appropriate.

⁶ DRO, Exhibit 7.1. Page 5 of 6.

⁷ DRO, Exhibit 4.0. Page 1 of 1.

⁸ DRO, Exhibit 5.0.

⁹ DRO, Implementation of Decision, page 6 of 7.

¹⁰ DRO, Exhibit 7.0. Page 1 of 1.

4. Accounting Order for the Post-Employment Benefit (OPEB) Cost Deferral Account

OEB staff submits that the wording in the OPEB accounting order should be consistent with that of the OPEB accounting order for Hydro One distribution.¹¹

All of which is respectfully submitted

¹¹ EB-2017-0049