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BY EMAIL

July 8, 2019

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

Dear Ms. Walli:

**Re: Hydro One Sault Ste. Marie LP
2019 Electricity Transmission Rate Application
OEB Staff Submission on the Draft Revenue Requirement and Charge
Determinant Order
OEB File No. EB-2018-0218**

Please find attached OEB staff's submission on the draft Revenue Requirement and Charge Determinant Order filed by Hydro One Sault Ste. Marie LP (Hydro One SSM). Hydro One SSM and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Fiona O'Connell
Project Advisor, Major Applications

Encl.

2019 ELECTRICITY TRANSMISSION RATES

HYDRO ONE SAULT STE. MARIE LP

EB-2018-0218

**OEB STAFF SUBMISSION ON THE DRAFT
REVENUE REQUIREMENT AND CHARGE
DETERMINANT ORDER**

July 8, 2019

INTRODUCTION

Hydro One Sault Ste. Marie LP (Hydro One SSM) filed an application with the Ontario Energy Board (OEB) on July 26, 2018 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), and under the OEB's *Filing Requirements for Electricity Transmission Applications*. Hydro One SSM is seeking approval for changes to its electricity transmission revenue requirement to be effective January 1, 2019 and related matters.

The OEB sets rates for rate-regulated electricity transmitters in Ontario by establishing a revenue requirement for each transmitter. These individual transmission revenue requirements are incorporated into the Uniform Transmission Rates (UTRs) that are recovered uniformly from ratepayers across the province. Typically, once it makes a determination on the application, the OEB will direct the transmitter to prepare a draft Revenue Requirement and Charge Determinant Order reflecting the OEB's findings on the application, for review by the OEB. OEB staff and intervenors will be permitted to comment on the draft, which will then be subject to review by the OEB.

On July 2, 2019, Hydro One SSM filed a draft Revenue Requirement and Charge Determinant Order pursuant to the OEB's Decision and Order issued on June 20, 2019. The OEB determined an effective date of February 1, 2019 for the approved 2019 revenue requirement.

OEB staff has no concerns with the draft Revenue Requirement and Charge Determinant Order. However, to provide further clarity OEB staff has made submissions on the following two items, as set out below.

1. Disposition of Deferral and Variance Accounts
2. Determination of the 2019 Hydro One SSM Revenue Requirement to be included in the UTRs

1. Disposition of Deferral and Variance Accounts

Background

In its Decision and Order, the OEB approved the disposition of a total deferral and variance accounts (DVA) credit balance of \$1.2 million. However, the OEB directed Hydro One SSM to update this balance to reflect audited DVA balances for 2018.¹

In its draft Revenue Requirement and Charge Determinant Order, Hydro One SSM indicated that audited DVA balances for 2018 were a credit of \$1.3 million.²

UTRs are calculated based on a 12-month recovery period, therefore Hydro One SSM derived an annualized credit balance of \$1.4 million,³ which would result in the necessary refund over the February 1, 2019 to December 31, 2019 period.

Submission

OEB staff submits that the annualized DVA credit balance of \$1.4 million is appropriate. OEB staff also notes that Hydro One SSM has annualized its DVA balance following the same approach used in the 2019 Hydro One Networks Inc. Transmission proceeding.⁴ OEB staff takes no issue with the calculation.

2. Determination of the 2019 Hydro One SSM Revenue Requirement to be included in the 2019 UTRs

Background

In the draft Revenue Requirement and Charge Determinant Order, Hydro One SSM provided supporting calculations for its 2019 revenue requirement of \$38.0 million to be included in the 2019 UTRs, broken down by rate pools, as follows:⁵

¹ Decision and Order, June 20, 2019 page 1

² Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 1.0 and Exhibit 1.1

³ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Implementation of Decision, page 3, Table 1

⁴ EB-2018-0130 May 9, 2019 and May 29, 2019 draft orders

⁵ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 7.0

	Network	Line Connection	Transformation Connection	Total
2019 Revenue Requirement by Rate Pools	\$ 21,608,304	\$5,399,616	\$11,001,490	\$38,009,410

Hydro One SSM determined the 2019 revenue requirement of \$38.0 million based on the following steps:

1. Step 1: Calculate the 2019 revenue requirement of \$40.2 million⁶ by applying the 2019 OEB-approved inputs into the revenue cap formula of 1.10%⁷ to the existing base revenue requirement of \$39.8 million that was approved for 2016.⁸
2. Step 2: Calculate the UTRs using the revenue requirement of \$38.8 million⁹ that includes an annualized DVA credit balance of \$1.4 million.¹⁰
3. Step 3: Calculate the foregone revenue for February 1, 2019 through June 30, 2019 as the difference between revenues Hydro One SSM collects under the 2019 interim UTRs and the revenues Hydro One SSM would collect under UTRs determined in Step 2. The foregone revenue is calculated as a credit balance of \$0.4 million.¹¹
4. Step 4: Derive the annualized foregone revenue as a credit balance of \$0.8 million¹² because Hydro One SSM will recover that amount over the remaining six months of 2019.
5. Step 5: Calculate the revenue requirement to be included in the 2019 UTRs of \$38.0 million¹³ which includes the annualized DVA credit balance of \$1.4 million determined in Step 2 and the annualized foregone revenue of a credit balance of \$0.8 million determined in Step 4.

⁶ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 1.0

⁷ Decision and Order, June 20, 2019 page 1

⁸ A 2016 \$39.8 million base revenue requirement was approved in the EB-2015-0337 January 14, 2016 Decision and Order. The OEB denied Hydro One SSM's application to increase its 2017 revenue requirement in the EB-2016-0356 September 28, 2017 Decision and Order. Hydro One SSM did not file an application for a 2018 revenue requirement.

⁹ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 2.0

¹⁰ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Implementation of Decision, page 3, Table 1

¹¹ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 5.0

¹² Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Implementation of Decision, page 4, Table 2

¹³ Draft Revenue Requirement and Charge Determinant Order, July 2, 2019, Exhibit 6.0

Submission

OEB staff submits that the 2019 revenue requirement of \$38.0 million to be included in the 2019 UTRs is appropriate. OEB staff also notes that Hydro One SSM has calculated its revenue requirement, including the annualized DVAs and foregone revenues, following the same approach used in the 2019 Hydro One Networks Inc. Transmission proceeding.¹⁴ OEB staff takes no issue with the calculations.

All of which is respectfully submitted

¹⁴ EB-2018-0130 May 9, 2019 and May 29, 2019 draft orders