

## **DECISION AND ORDER**

**EB-2019-0266**

### **Hydro One Sault Ste. Marie Limited Partnership**

**Application for electricity transmission revenue requirement beginning  
January 1, 2020 and related matters**

**By Delegation, Before: Jane Scott**

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**December 17, 2019**

# 1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves the Transmission Revenue Cap incentive rate-setting mechanism (Revenue Cap IR) application filed by Hydro One Sault Ste. Marie Limited Partnership (Hydro One SSM) for 2020 annual transmission revenue effective January 1, 2020 and related matters.

The OEB sets rates for rate-regulated electricity transmitters in Ontario by setting 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.

Hydro One SSM carries on the business of owning and operating electricity transmission facilities in the vicinity of Sault Ste. Marie Ontario. The company is seeking the OEB's approval for the revenue it receives to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario.

In the OEB's October 13, 2016 decision and order for Hydro One Inc.'s application for leave to acquire Great Lakes Power Transmission Inc. (GLPT)<sup>1</sup>, the OEB approved a ten-year deferral period for rebasing of GLPT's (now Hydro One SSM's)<sup>2</sup> revenue requirement. In the same decision and order, the OEB determined that Hydro One SSM would continue with its 2016 revenue requirement and bring forward a separate rate application, proposing a revenue cap index for the deferral period.

In the OEB's decision and order for the Hydro One SSM 2019 revenue cap Incentive Rate-setting (Revenue Cap IR) mechanism application (2019 IRM application)<sup>3</sup>, the OEB approved the proposed Revenue Cap IR or RCI framework methodology and determined that this framework would be used to determine Hydro One SSM's base transmission revenue requirement for the years 2019 to 2026 inclusive. The RCI framework adjusts the transmission revenue requirement by a revenue cap index comprised of inflation, less a productivity factor and a stretch factor.

As a result of the OEB's findings in this Decision and Order, there will be a monthly total bill increase before taxes effective January 1, 2020. The total bill impact for a typical medium density residential (Hydro One R1) customer consuming 750 kWh monthly is an increase of 0.02% or \$0.02 per month. A typical General Service Energy less than 50 kW (Hydro One GSe < 50 kW) customer consuming 2,000 kWh monthly will result in a total bill increase of 0.01% or \$0.04 per month.

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<sup>1</sup> EB-2016-0050

<sup>2</sup> GLPT's name was changed to Hydro One Sault Ste. Marie LP on January 16, 2017.

<sup>3</sup> EB-2018-0218

## 2 THE PROCESS

This Decision and Order is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB is following a streamlined process for hearing applications filed under Revenue Cap IR.

Hydro One SSM filed its application on November 8, 2019 under section 78 of the OEB Act and in accordance with [Chapter 2](#) of the OEB's *Filing Requirements for Electricity Transmission Applications*. This Revenue Cap IR application is the first application filed with the OEB for a rate adjustment to Hydro One SSM's revenue requirement using the RCI framework approved by the OEB in 2019.

Hydro One SSM is seeking OEB approval for its proposed 2020 base revenue requirement of \$40,818,914. This is calculated using Hydro One SSM's 2019 OEB-approved revenue requirement as the base revenue and then applying an annual adjustment factor, pursuant to the RCI framework. Hydro One SSM requests that the proposed revenue requirement be reflected in rates effective January 1, 2020.

The application was supported by pre-filed written evidence. During the course of the proceeding, the applicant responded to OEB staff questions through emails and phone calls where required.

## 3 ORGANIZATION OF THE DECISION

In this Decision and Order, the OEB addresses the following issues, and provides reasons for approving or denying Hydro One SSM's proposals relating to each of them:

- Deferral and Variance Accounts
- Revenue Cap Adjustment and Bill Impacts

## 4 DEFERRAL AND VARIANCE ACCOUNTS

Hydro One SSM is not requesting approval to dispose of any additional deferral and variance account balances beyond those amounts approved by the OEB in the 2019 IRM application, as no new audited year-end balances are available.

Consistent with the OEB-approved 2019 IRM application, Hydro One SSM is requesting approval for the continuation of the following deferral/variance accounts:

- Other Regulatory Asset Account 1508, with the following Sub-Accounts:
  - Infrastructure Investment
  - Green Energy Initiatives and Preliminary Planning Costs
  - Property Tax and Use and Occupation Permit Fee Variance
  - International Financial Reporting Standards (IFRS) Gains and Losses
  - OEB Cost Assessments
- Account 1595 related to previously approved regulatory asset recovery
- A sub-account within Account 1592 to capture the impacts of a 50/50 sharing of the impacts of legislated tax changes from a utility's tax rates embedded in its OEB approved base rate known at the time of application, as described in the OEB's 2008 report entitled *Supplemental Report of the Board on third Generation Incentive Regulation for Ontario's Electricity Distributors*.

## Findings

The OEB finds Hydro One SSM's request to continue the above noted deferral and variance accounts is reasonable.

## 5 REVENUE CAP ADJUSTMENT AND BILL IMPACTS

The OEB determines the revenue requirement for each of the province's licensed and rate regulated electricity transmitters, and those OEB-approved revenue requirements are used to set uniform transmission rates that apply throughout Ontario. This Hydro One SSM application requests that the OEB approve an adjustment to its base revenue requirement based on Hydro One SSM's OEB-approved Revenue Cap IR approach. As detailed in Chapter 2 of the *Filing Requirements for Electricity Transmitter Applications*, a transmitter may propose an incentive mechanism for adjusting the revenue requirement on an annual basis. The methodology utilized is a Revenue Cap IR in which the revenue requirement for the Test Year +1 is equal to the revenue requirement in the Test Year, inflated by the RCI set out below. The formula ensures that a utility's rates will increase at a rate that is less than inflation.

In Hydro One SSM's 2019 IRM application, the OEB accepted Hydro One SSM's proposed Revenue Cap IR framework methodology for determining rates in the years 2019 to 2026 inclusive. Per the OEB's decision and order, Hydro One SSM is expected to continue to use this OEB-approved Revenue Cap IR framework throughout the OEB-approved Hydro One SSM rate rebasing deferral period by filing annual revenue cap adjustment applications.

The RCI approved by the OEB for calculating Hydro One SSM's 2020 revenue requirement includes an industry-specific inflation factor and a productivity factor. The RCI is expressed as:

$$RCI = I - X$$

Where: "I" is the Inflation Factor, based on Hydro One Networks Inc.'s (Hydro One Networks) custom weighted two-factor input price index; and "X" is the Productivity Factor, which includes a Stretch Factor.

Hydro One SSM proposes to use the RCI Inflation Factor ("I") calculation approved by the OEB in its 2019 IRM application. Using the OEB-approved methodology and weightings an Inflation Factor of 1.8% was derived.

In Hydro One SSM's 2019 IRM application, the OEB approved a productivity factor of 0.0%, stating that this was, "a factor indicative of the change in the productivity expected for the transmission sector as a whole."

The OEB approved a stretch factor of 0.3% in Hydro One SSM's 2019 IRM application, "to provide an incentive to Hydro One SSM beyond the rate of inflation and balance the needs of its customers and shareholders". This stretch factor was approved for the duration of Hydro One SSM's OEB-approved revenue cap framework until 2026.

Therefore, as shown below, the proposed revenue requirement for 2020 using current parameters would be 1.5%. The components of the Revenue Cap IR adjustment formula applicable to Hydro One SSM are set out in Table 5.1, below.

**Table 5.1: Revenue Cap IR Adjustment Formula**

Components		Amount
Inflation Factor <sup>4</sup>		1.80%
X-Factor	Productivity	0.00%
	Stretch	0.30%

The RCI of 1.50% was applied to the approved 2019 Revenue Requirement to determine the Revenue Requirement for the 2020 rate year as shown in Table 5.2.

<sup>4</sup> For the 2020 Inflation Factor, the methodology from EB-2018-0218 was applied to OEB's annual percent change for the GDP-IPI and Average Weekly Earnings, issued October 31, 2019.

**Table 5.2 - Revenue Requirement by Year**

Year	Formula	Revenue Requirement
2019	Approved Base Revenue Requirement	\$40,215,679 <sup>5</sup>
2020	2019 Approved Base Revenue Requirement *1.015(RCI)	\$40,818,914

Hydro One SSM has not identified to date any specific events or circumstances that meet the Z-factor criteria for 2020. Hydro One SSM has not identified any specific capital projects that would qualify for Incremental Capital Module (ICM) treatment for 2020.

Transmission rates have been established on a uniform basis for all transmitters in Ontario since April 30, 2002, pursuant to the OEB's Decision in RP-2001-0034/ RP-2001-0035/RP-2001-0036/RP-1999-0044. The current UTR Schedules were effective on July 1, 2019, as part of the OEB's decision and rate order<sup>6</sup> issued on July 25, 2019.

Since rates are established on a uniform basis, Hydro One SSM's requested revenue requirement is a contributor to the total revenue requirement to be collected from the provincial UTRs. The revenue requirement for all the other transmitters in the province approved to participate in the UTRs is added to that of Hydro One SSM in order to calculate the total transmission revenue requirement to be collected via the UTRs.

The rates revenue requirement for Hydro One SSM is allocated among the three rate pools (Network, Line Connection and Transformation Connection) using the percentage allocation for Hydro One Networks Transmission. The resulting pool allocation of Hydro One SSM's rates revenue requirement is shown in Table 5.3, below.

**Table 5.3 - Hydro One SSM's 2020 Rate Revenue Requirement by Rate Pool**

Transmitter	Network	Line Connection	Transformation Connection	Total
Hydro One SSM	\$23,205,504	\$5,798,734	\$11,814,676	\$40,818,914

<sup>5</sup> The approved Base Revenue Requirement of \$40.2 M was adjusted by a \$2.2 M credit for deferral variance account and foregone revenue to a Net Revenue Requirement of \$38.0 M in EB-2018-0218 OEB Decision and Rate Order, issued July 18, 2019

<sup>6</sup> EB-2019-0164

In accordance with the OEB's decision in Hydro One SSM's 2019 IRM application, the charge determinants shown in Table 5.4 below are to remain in place for the deferred rebasing period (i.e. until 2026).

**Table 5.4 – Charge Determinants (in MWs)**

<b>Transmitter</b>	<b>Network</b>	<b>Line Connection</b>	<b>Transformation Connection</b>
<b>Hydro One SSM</b>	3,498.236	2,734.624	635.252

The impact of transmission rates on a customer's total bill varies between transmission-connected and distribution-connected customers. The approach proposed in HONI's Transmission Rate Application<sup>7</sup> has been adopted in this application to determine the impact of proposed changes to transmission rates on an average customer's bill.

The 2019 revenue requirement for Hydro One SSM represents about 2.3% of the total revenue requirement for all transmitters, based on the approved 2019 UTR calculations. This percentage has been applied to Hydro One SSM's proposed changes in revenue requirement to calculate the net impact on average transmission rates for 2020.

The total bill impacts for a typical medium density residential (Hydro One R1) customer consuming 750 kWh monthly and a typical General Service Energy less than 50 kW (Hydro One GSe < 50 kW) customer consuming 2,000 kWh monthly are determined based on the forecast increase in the customers' Retail Transmission Service Rates (RTSR), as detailed in Table 5.5 below.

<sup>7</sup> EB-2019-0082

**Table 5.5 Typical Customer Monthly Bill Impacts**

	<b>Typical Medium Density (HONI R1) Residential Customer 750 kWh</b>	<b>Typical General Service Energy less than 50 kW (HONI GSe &lt; 50kW) Customer 2,000 kWh</b>
Total Bill as of May 1, 2018 <sup>1</sup>	\$124.30	\$389.14
RTSR included in Customer's Bill (based on 2019 UTR)	\$11.94	\$25.21
<i>Estimated 2020 Monthly RTSR<sup>2</sup></i>	\$11.96	\$25.25
<b>2020 increase in Monthly Bill</b>	<b>\$0.02</b>	<b>\$0.04</b>
<i>2020 increase as a % of total bill</i>	<i>0.02%</i>	<i>0.01%</i>

<sup>1</sup>Total bill including HST, based on time-of-use commodity prices and distribution rates effective May 1, 2018 (implemented July 1, 2019) approved per Distribution Rate Order EB-2017-0049 (includes impacts of all applicable components of the Fair Hydro Plan).

<sup>2</sup>The impact on RTSR is assumed to be the net impact on average transmission rates.

Hydro One SSM has requested that the proposed revenue requirement be reflected in rates effective January 1, 2020. However, if implementation occurs after January 1, 2020 Hydro One SSM has requested that the existing transmission rates be made interim to permit the implementation of the proposed revenue requirement effective January 1, 2020.

In the event that a final OEB decision for Hydro One SSM's 2020 revenue requirement is not received prior to January 1, 2020, Hydro One SSM has requested either:

- a) Approval to track any foregone revenue in a regulatory variance account for disposition in future Hydro One SSM rates application; or
- b) OEB direction to calculate the difference in rates between the effective date and the implementation date and include that amount in the final 2020 OEB – Approved UTRs consistent with the treatment and direction given in Hydro One SSM's 2019 IRM application

The OEB will issue the final 2020 UTR decision following the conclusion of the current Hydro One Networks Transmission rates application<sup>8</sup>, which will not be issued prior to January 1, 2020. The OEB intends to issue interim 2020 UTRs effective January 1, 2020, which will incorporate Hydro One SSM's 2020 revenue requirement.

<sup>8</sup> EB-2019-0082



## Findings

The OEB finds that the revenue requirement for Hydro One SSM to provide transmission service in 2020 is in accordance with parameters set by the OEB, and that the corresponding bill impacts are reasonable. The OEB approves a 2020 revenue requirement with an effective date of January 1, 2020.

## 6 IMPLEMENTATION AND ORDER

### THE ONTARIO ENERGY BOARD ORDERS THAT

1. Hydro One is granted approval to continue the following deferral/variance accounts:
  - Account 1508 - Other Regulatory Asset and specified sub-accounts;
  - Account 1595 – Related to previously approved regulatory asset recovery;
  - Account 1592- Sub-account in the rebasing deferral period to capture the impacts of a 50/50 sharing of legislated tax changes from a utility's tax rates embedded in its OEB approved rate base known at the time of application.
2. The 2020 revenue requirement is approved as filed, with an effective date of January 1, 2020. Hydro One SSM's resultant revenue requirement will be included in the OEB's determination of the 2020 Interim Uniform Transmission Rates for Ontario.

**DATED** at Toronto, December 17, 2019

**ONTARIO ENERGY BOARD**

*Original signed by*

Christine E. Long  
Registrar and Board Secretary