

DECISION AND ORDER

EB-2020-0227

Hydro One Sault Ste. Marie Limited Partnership

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

By Delegation, Before: Theodore Antonopoulos

[Date of Issuance]

1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves the Transmission Revenue Cap incentive rate-setting mechanism application filed by Hydro One Sault Ste. Marie Limited Partnership (HOSSM) for 2021 annual transmission revenue effective January 1, 2021 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.

HOSSM 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)¹, the OEB approved a ten-year deferral period for rebasing of GLPT's (now HOSSM's)² revenue requirement. In the same decision and order, the OEB determined that HOSSM 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 HOSSM 2019 Revenue Cap incentive rate-setting mechanism application (2019 Revenue Cap IR Decision and Order)³, the OEB approved the proposed Revenue Cap IR methodology and determined that this framework would be used to determine HOSSM's transmission revenue requirement for the years 2019 to 2026 inclusive. The framework adjusts the transmission revenue requirement by a revenue cap index comprised of inflation, less a productivity factor and a stretch factor. HOSSM filed its Application on September 30, 2020 and updated it on November 30, 2020 to reflect the 2021 OEB approved inflation factor⁴. Through this Decision, the OEB approves a revenue requirement of \$41,512,836 for 2021 to be effective on January 1, 2021. The approved transmission revenue requirement reflects a year-over-year increase of 1.7% for 2021 over the 2020 approved level of \$40,818,914.

¹ EB-2016-0050

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

³ EB-2018-0218

⁴ OEB November 9, 2020 Inflation Parameters letter

As a result of the OEB's findings in this Decision and Order, the total bill for a typical medium density residential (Hydro One R1) customer consuming 750 kWh monthly and a typical General Service Energy (Hydro One GSe < 50 kW) customer consuming 2,000 kWh will each see an increase of \$0.01 per month.

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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 determining annual update applications filed under Revenue Cap IR.

HOSSM filed its application on September 30, 2020 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 second application filed with the OEB for an adjustment to HOSSM's revenue requirement using the framework approved by the OEB in 2019.

When HOSSM filed its original application in September, the OEB had not yet released the inflation factor applicable for revenue requirement applications beginning January 1, 2021. HOSSM's November 23, 2020 update proposes a 2021 base revenue requirement of \$41,512,836, incorporating the inflation factor released by the OEB on November 9, 2020. This revenue requirement was calculated using HOSSM's 2020 OEB-approved revenue requirement as the base revenue and then applying an annual adjustment factor, pursuant to the Revenue Cap Index (RCI) framework. HOSSM requests that the proposed revenue requirement be reflected in rates effective January 1, 2021.

The application was supported by pre-filed written evidence. OEB staff filed clarification questions about HOSSM's evidence on October 20, 2020; HOSSM filed its responses on November 4, 2020. During the course of the proceeding, HOSSM also responded to OEB staff questions through emails and phone calls where required.

3 REVENUE CAP IR 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 UTRs that apply throughout Ontario. HOSSM requests that the OEB approve an adjustment to its revenue requirement based on HOSSM'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, adjusted by inflation less a productivity factor and a stretch factor. The formula ensures that a utility's revenue requirement will increase at a rate that is less than inflation.

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

The RCI approved by the OEB for calculating HOSSM's 2021 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.

HOSSM proposes to use the OEB-approved inflation factor calculation in its 2021 Revenue Cap IR application. The initial version of the application adopted the inflation factor of 1.8% as a placeholder. After the OEB issued the approved 2021 inflation factor for incentive rate setting, HOSSM updated the placeholder inflation factor using the OEB-approved methodology and weightings⁵. A 2021 HOSSM transmission inflation factor of 2.0% was derived and applied to the application.

⁵ OEB November 9, 2020 Inflation Parameters letter

In HOSSM's 2019 Revenue Cap IR 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 HOSSM's 2019 Revenue Cap IR application, "to provide an incentive to HOSSM beyond the rate of inflation and balance the needs of its customers and shareholders". This stretch factor was approved for the duration of HOSSM's OEB-approved revenue cap framework until 2026.

Therefore, as shown below, the proposed revenue requirement adjustment for 2021 using current parameters would be 1.7%. The components of the Revenue Cap IR adjustment formula applicable to HOSSM are set out in Table 5.1, below.

Table 5.1: Revenue Cap IR Adjustment Formula

Components		Amount
Inflation Factor ⁶		2.00%
X-Factor	Productivity	0.00%
	Stretch	0.30%

The RCI of 1.70% was applied to the approved 2020 Revenue Requirement to determine the Revenue Requirement for the 2021 rate year as shown in Table 5.2.

Table 5.2 – Revenue Requirement by Year

Year	Formula	Revenue Requirement
2020	Approved Revenue Requirement	\$40,818,914 ⁷
2021	2020 Approved Revenue Requirement *1.017(RCI)	\$41,512,836

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 interim UTR Schedules were effective on January 1, 2020, as part of the OEB's Decision and Order issued on July 31, 2020.⁸

⁶ OEB November 9, 2020 Inflation Parameters letter

⁷ EB-2019-0266, Decision and Order, December 17, 2019

⁸ EB-2020-0180, Decision and Order, 2020 Uniform Transmission Rates, July 31, 2020

Since rates are established on a uniform basis, HOSSM'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 HOSSM in order to calculate the total transmission revenue requirement to be collected through the UTRs.

The revenue requirement for HOSSM will be allocated among the three rate pools (Network, Line Connection and Transformation Connection) as part of the OEB's 2021 UTR process. An illustrative example using the OEB-approved percentage allocation for Hydro One Networks Transmission's 2020 revenue requirement is shown in Table 5.3 below.

Table 5.3 - HOSSM's 2021 Rate Revenue Requirement by Rate Pool

Transmitter	Network	Line Connection	Transformation Connection	Total
HOSSM	\$24,896,599	\$4,753,148	\$11,863,089	\$41,512,836

In accordance with the OEB's decision in HOSSM'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)

Transmitter	Network	Line Connection	Transformation Connection
HOSSM	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 Hydro One Network's Transmission Rate Application⁹ has been adopted in this application to determine the impact of proposed changes to transmission rates on an average customer's bill.

The 2020 revenue requirement for HOSSM represents about 2.4% of the total revenue requirement for all transmitters, based on the approved 2020 UTR calculations. This percentage has been applied to HOSSM's proposed changes in revenue requirement to calculate the net impact on average transmission rates for 2021.

⁹ EB-2019-0082 Draft Rate Order, May 28, 2020, Exhibit 2.8, Table 2

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.

Table 5.5 Typical Customer Monthly Bill Impact

	Typical (HONI R1) Residential Customer 750 kWh	Typical General Service Energy less than 50 kW (HONI GSe <50kW) Customer 2,000 kWh
Total Bill as of Jul 1, 2020 ¹	\$126.53	\$386.88
RTSR included in 2020 R1 Customer's Bill (based on 2019 Final UTR)	\$12.27	\$25.87
Estimated 2020 Monthly RTSR ²	\$12.29	\$25.91
2020 increase in Monthly Bill	\$0.02	\$0.05
2020 increase as a % of total bill	0.02%	0.01%
Estimated 2021 Monthly RTSR ²	\$12.29	\$25.92
2021 increase in Monthly Bill	\$0.01	\$0.01
2021 increase as a % of total bill	0.00%	0.00%

¹Total bill including HST, based on time-of-use commodity prices effective June 1, 2020 and 2020 distribution rates approved per Distribution Rate Order EB-2019-0043 (includes impacts of all components of the Fair Hydro Plan).

²The impact on RTSR is assumed to be the net impact on average transmission rates, as per Table 6, adjusted for HOSSM's revenue disbursement allocator per 2020 UTR Order, Schedule A (EB-2020-0180).

HOSSM has requested that the proposed revenue requirement be reflected in rates effective January 1, 2021. However, if the requested rate order cannot be made effective by that time, HOSSM requests an interim order making its current transmission revenue requirement and charges effective on an interim basis as of January 1, 2021, and continuing the Transmission Foregone Revenue Deferral Account to recover any differences between the interim rates and the final rates effective January 1, 2021.

In the 2020 UTR Decision and Order¹⁰ the OEB determined that approved interim 2020 Ontario UTRs would remain in place for the remainder of 2020. The resulting 2020 foregone revenue and accrued interest has been submitted for disposition as part of the 2021 UTR rate-setting process.¹¹

¹⁰ EB-2020-0180, July 31, 2020

¹¹ EB-2020-0251

Findings

The OEB finds that the revenue requirement for HOSSM's transmission service in 2021 is in accordance with parameters set by the OEB, and that the corresponding bill impacts are reasonable. The OEB approves a 2021 rates revenue requirement of \$41,512,836 with an effective date of January 1, 2021. The OEB anticipates that it will establish new UTRs for 2021 in time for implementation as of January 1, 2021. As a result, no deferral account will be required to track forgone revenue.

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4 IMPLEMENTATION AND ORDER

IT IS ORDERED THAT:

1. The 2021 HOSSM rates revenue requirement of \$41,512,836 is approved as updated on November 30, 2020 with an effective date of January 1, 2021. HOSSM's resultant revenue requirement will be included in the OEB's determination of the 2021 Uniform Transmission Rates for Ontario.

DATED at Toronto, [Date of Issuance]

ONTARIO ENERGY BOARD

Christine E. Long
Registrar

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