



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

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# **DECISION AND ORDER**

**EB-2020-0202**

## **HYDRO ONE NETWORKS INC.**

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

**By Delegation, Before: Theodore Antonopoulos**

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**December 17, 2020**

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## 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 Networks Inc. (Hydro One) 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.

Hydro One carries on the business of owning and operating electricity transmission and distribution facilities in 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 Decision and Order for Hydro One's Custom Incentive Rate-setting framework application (Custom IR Decision and Order)<sup>1</sup>, the OEB approved the proposed Custom IR methodology for Hydro One's transmission revenue requirement and determined that this framework would be used to determine Hydro One's transmission revenue requirement for the years 2021 and 2022. The framework adjusts the transmission revenue requirement by a revenue cap index comprised of custom capital, inflation and productivity factors. Consistent with the Custom IR Decision and Order, the capital and productivity factors for 2021 and 2022 will not be updated annually. Therefore, only Hydro One's inflation factor is updated annually, based on the approved two-factor inflation formula.

Hydro One filed its Application on September 4, 2020 and updated it on November 23, 2020 to reflect the 2021 OEB approved inflation factor<sup>2</sup>. Through this Decision, the OEB approves a rates revenue requirement of \$1,659.9 million for 2021 to be effective on January 1, 2021. The approved transmission rates revenue requirement reflects a year-over-year increase of 4.7% for 2021 over the 2020 approved level of \$1,585.8 million.

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, 2021. The total bill impact for a typical Hydro One medium density residential (R1) customer consuming 750 kWh monthly is

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<sup>1</sup> EB-2019-0082

<sup>2</sup> OEB November 9, 2020 Inflation Parameters letter

an increase of \$0.59 per month or 0.5% and a typical Hydro One General Service Energy less than 50 kW (GSe < 50 kW) customer consuming 2,000 kWh monthly is an increase of \$1.24 per month or 0.3%.

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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 Custom IR.

Hydro One filed its application on September 4, 2020<sup>3</sup> under section 78 of the OEB Act and in accordance with [Chapter 2](#) of the OEB's *Filing Requirements for Electricity Transmission Applications*. This Custom IR application is the first application filed with the OEB for an adjustment to Hydro One's revenue requirement using the Revenue Cap Index (RCI) framework approved by the OEB in 2020.

When Hydro One filed its original application in September, the OEB had not yet released the inflation factor applicable for revenue requirement applications beginning January 1, 2021. Hydro One's November 23, 2020 update proposes a 2021 base revenue requirement of \$1,704.3 million, incorporating the inflation factor released by the OEB on November 9, 2020. This is calculated using Hydro One's 2020 OEB-approved revenue requirement as the base revenue and then applying an annual adjustment factor, pursuant to the Custom IR framework. Hydro One 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 Hydro One's evidence on October 7, 2020; Hydro One filed its responses on October 19, 2020. During the course of the proceeding, Hydro One also responded to OEB staff questions through emails and phone calls where required.

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<sup>3</sup> Updated on November 23, 2020 to reflect the latest inflation factor based on the OEB's November 9, 2020 Inflation Parameters letter

### **3 ORGANIZATION OF THE DECISION**

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

- Deferral and Variance Accounts
- Custom IR Adjustment and Bill Impacts

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## 4 DEFERRAL AND VARIANCE ACCOUNTS

Hydro One is not requesting approval to dispose of any additional deferral and variance account balances beyond those amounts approved by the OEB in the 2020 Revenue Requirement and Charge Determinant Order<sup>4</sup>.

Consistent with the OEB approved 2020 Revenue Requirement and Charge Determinant Order, Hydro One is requesting approval for the continuation of the following deferral account:

Other Regulatory Asset Account 1508, with the following Sub-Account:

- Foregone Transmission Revenue Deferral Account

### Findings

The OEB finds Hydro One's request to continue the above noted deferral account is reasonable.

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<sup>4</sup> EB-2019-0082, Revenue Requirement and Charge Determinant Order, July 16, 2020

## 5 CUSTOM 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 the UTRs that apply throughout Ontario. Hydro One's application requests that the OEB approve an adjustment to its base revenue requirement based on Hydro One's OEB-approved Custom 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 an RCI 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 revenue requirement will increase at a rate that is less than inflation.

In Hydro One's 2020 Custom IR application, the OEB accepted Hydro One's proposed Custom IR framework methodology for determining its revenue requirement in the years 2020 to 2022 inclusive. Per the OEB's decision and order, Hydro One is expected to continue to use this OEB-approved Custom IR framework by filing mechanistic annual revenue cap adjustment applications.

The RCI approved by the OEB for calculating Hydro One's 2021 revenue requirement includes an industry-specific inflation factor, a productivity factor and a custom capital factor. The RCI is expressed as:

$$RCI = I - X + C$$

Where: "I" is the inflation factor, based on Hydro One's custom weighted two-factor input price index; "X" is the productivity factor, which includes a stretch factor; and "C" is the custom capital factor.

The initial version of the application adopted the inflation factor of 1.8% as a placeholder<sup>5</sup>. After the OEB issued the approved 2021 inflation factor of 2.0% for incentive rate setting, Hydro One updated its application using the 2021 inflation factor<sup>6</sup>.

In Hydro One's 2020 Custom IR application, the OEB approved a productivity factor of 0.30% and a custom capital factor of 2.88%. Consistent with the Custom IR Decision and Order, the productivity and custom capital factors will not be updated for 2021. Only the 2021 inflation factor will be updated.

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<sup>5</sup> EB-2019-0082, Hydro One Draft Rate Order, May 28, 2020, p 10, Table 2.

<sup>6</sup> OEB November 9, 2020 Inflation Parameters letter

The proposed revenue requirement adjustment for 2021 using current parameters will be 4.58%, as shown below. The components of the RCI adjustment formula applicable to Hydro One are set out in Table 5.1.

**Table 5.1: 2021 Custom Revenue Cap Index (RCI)**

Components	Amount
Inflation Factor <sup>7</sup>	2.00%
Productivity	0.30%
Capital	2.88%
Total	4.58%

The RCI of 4.58% 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: Base Revenue Requirement by Year**

Year	Formula	Revenue Requirement
2020	Approved Base Revenue Requirement	\$1,629.6 million <sup>8</sup>
2021	2020 Approved Base Revenue Requirement <sup>9</sup> *1.0458(RCI)	\$1,704.3 million

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 January 1, 2020, as part of the OEB's Decision and Order issued on July 31, 2020.<sup>10</sup>

Since rates are established on a uniform basis, Hydro One'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

<sup>7</sup> OEB November 9, 2020 Inflation Parameters letter

<sup>8</sup> EB-2019-0082, Draft Rate Order, May 28, 2020, Exhibit 1.0

<sup>9</sup> Hydro One E-Mail, November 24, 2020, Confirming 2020 base revenue requirement is \$1,629,641,334

<sup>10</sup> EB-2020-0180, Decision and Order, 2020 Uniform Transmission Rates, July 31, 2020



approved to participate in the UTRs is added to that of Hydro One in order to calculate the total transmission revenue requirement to be collected through the UTRs.

The base revenue requirement for Hydro One is allocated among the three rate pools (Network, Line Connection and Transformation Connection) using the OEB-approved percentage allocation for Hydro One Networks Transmission<sup>11</sup>. The rates revenue requirement is the total transmission base revenue requirement adjusted for other revenues, including external revenue, wholesale meter service revenue, regulatory assets, export transmission service revenue and funding for the low voltage switchgear credit.<sup>12</sup> Inclusion of these revenue offsets results in a rates revenue requirement of \$1,659.9 million for 2021. The resulting pool allocation of Hydro One's rates revenue requirement is shown in Table 5.3 below.

**Table 5.3: Hydro One's 2021 Rates Revenue Requirement by Rate Pool**

<b>Transmitter</b>	<b>Network</b>	<b>Line Connection</b>	<b>Transformation Connection</b>	<b>Total</b>
<b>Hydro One</b>	\$996.1 million	\$189.9 million	\$473.9 million	\$1,659.9 million <sup>13</sup>

In accordance with the OEB's decision in Hydro One's 2020-2022 Custom IR application, the charge determinants for 2021<sup>14</sup> are shown in Table 5.4.

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

<b>Transmitter</b>	<b>Network</b>	<b>Line Connection</b>	<b>Transformation Connection</b>
<b>Hydro One</b>	234,887	228,497	194,724

<sup>11</sup> EB-2018-0130 Decision, April 25, 2019, p. 19: Response to OEB-Staff Interrogatory #3

<sup>12</sup> Hydro One Application, September 4, 2020, Ex. A, Tab 4, Sch.1, Att. 2, Table 2

<sup>13</sup> The 2021 Base Revenue Requirement of \$1,704.3 M was adjusted by a \$44.4 M credit for external revenue, wholesale meter service, export revenue, low voltage switchgear credit, and deferral and variance account dispositions for a Net Revenue Requirement of \$1,659.9 million.

<sup>14</sup> EB-2019-0082 Draft Rate Order, May 28, 2020, Exhibit 2.1

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's 2020-2022 Custom IR Application<sup>15</sup> 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 Hydro One represents about 94.1% of the total revenue requirement for all transmitters, based on the approved 2020 UTR calculations. This percentage has been applied to Hydro One's proposed changes in revenue requirement to calculate the net impact on average transmission rates for 2021.

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**

	<b>Typical R1 Residential Customer 750 kWh</b>	<b>Typical General Service less than 50 kW (GSe&lt;50kW) Customer 2,000 kWh</b>
Total Bill as of Jul 1, 2020 <sup>1</sup>	\$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 <sup>2</sup>	\$12.95	\$27.31
2020 increase in Monthly Bill	\$0.69	\$1.45
2020 increase as a % of total bill	0.5%	0.4%
Estimated 2021 Monthly RTSR <sup>2</sup>	\$13.54	\$28.56
2021 increase in Monthly Bill	\$0.59	\$1.24
2021 increase as a % of total bill	0.5%	0.3%

<sup>1</sup> Total 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).

<sup>2</sup> The impact on RTSR is assumed to be the net impact on average transmission rates, as per Table 5 in Exhibit A, Tab 4, Schedule 1, adjusted for Hydro One's revenue disbursement allocator per 2020 UTR Order, Schedule A (EB-2020-0180).

<sup>15</sup> EB-2019-0082 Draft Rate Order, May 28, 2020, Exhibit 2.8, Table 2

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Hydro One 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, Hydro One 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 Order<sup>16</sup> 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.<sup>17</sup>

### **Findings**

The OEB finds that the proposed rates revenue requirement for Hydro One'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 \$1,659.9 million 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.

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<sup>16</sup> EB-2020-0180, July 31, 2020

<sup>17</sup> EB-2020-0251

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## 6 ORDER

### IT IS ORDERED THAT:

1. The 2021 Hydro One rates revenue requirement of \$1,659.9 million is approved as updated on November 23, 2020 with an effective date of January 1, 2021. Hydro One's resultant revenue requirement will be included in the OEB's determination of the 2021 Uniform Transmission Rates for Ontario.
2. Hydro One is granted approval to continue the following variance account:
  - Account 1508 – Other Regulatory Asset sub-account – Foregone Transmission Revenue Deferral Account

**DATED** at Toronto December 17, 2020

### ONTARIO ENERGY BOARD

*Original Signed By*

Christine E. Long  
Registrar