



Ontario | Commission
Energy | de l'énergie
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DECISION AND ORDER

EB-2021-0185

HYDRO ONE NETWORKS INC.

**Application for electricity transmission revenue requirement
beginning January 1, 2022 and related matters**

By Delegation, Before: Nancy Marconi

[Date of issuance]



TABLE OF CONTENTS

1	OVERVIEW	1
2	THE PROCESS	3
3	DEFERRAL AND VARIANCE ACCOUNTS.....	4
4	CUSTOM REVENUE CAP INDEX ADJUSTMENT AND BILL IMPACTS	5
5	IMPLEMENTATION AND ORDER.....	10

1 OVERVIEW

Through this Decision and Order, the Ontario Energy Board (OEB) approves the application filed by Hydro One Networks Inc. (Hydro One) for 2022 annual transmission revenue requirement effective January 1, 2022, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) 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 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)¹, the OEB approved the proposed Custom Incentive Rate-setting (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.

Hydro One's application for 2022 annual transmission revenue requirement is approved for the reasons set out below. This Decision is being issued by delegated authority, without a hearing, under section 6 of the OEB Act.

As a result of the OEB's findings in this Decision and Order, Hydro One's 2022 rates revenue requirement will be \$1,883.5 million or 6.1% higher than the rates revenue requirement of \$1,775.6 million approved for 2021.²

¹ EB-2019-0082, Decision and Order, 2020-2022 Transmission Revenue Requirements, April 23, 2020

² EB-2021-0176, Decision and Order, 2020 Uniform Transmission Rates Update, June 24, 2021

The total bill impact for a typical medium density residential (Hydro One R1) customer consuming 750 kWh monthly will be an increase of 0.6% or \$0.83 per month. The total bill change for a typical General Service Energy less than 50 kW (Hydro One GSe < 50 kW) customer consuming 2,000 kWh monthly will be an increase of 0.4% or \$1.77 per month.

DRAFT

2 THE PROCESS

Hydro One filed its Custom IR application on August 26, 2021, under section 78 of the OEB Act and in accordance with [Chapter 2](#) of the OEB's *Filing Requirements for Electricity Transmission Applications*. This is the second application filed by Hydro One for an adjustment to its revenue requirement using the Custom IR methodology approved by the OEB in 2020, when the OEB determined that the approved methodology would be used to determine Hydro One's base revenue requirement for the years 2021 and 2022.

Hydro One's application was supported by pre-filed written evidence. OEB staff submitted clarification questions regarding Hydro One's evidence on September 24, 2021, and Hydro One filed its responses on October 13, 2021. During the course of the proceeding, Hydro One also responded to OEB staff questions through emails and phone calls where required.

At the time Hydro One filed its application, the OEB had not yet released the inflation factor applicable to applications for approval of revenue requirements effective January 1, 2022. Hydro One indicated in its application that it would file an update to the revenue requirement calculation for 2022 rates once that inflation factor was released. On December 6, 2021, Hydro One filed an update to the revenue requirement calculation for its 2022 rates, incorporating the inflation factor released by the OEB on November 18, 2021.

As noted above, this proceeding is being issued by delegated authority, without a hearing, under section 6 of the OEB Act.

3 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 Order³ relating to forgone revenue.

Consistent with the OEB approved 2020 Revenue Requirement and Charge Determinant Order, Hydro One is proposing to return \$5.4 million for the 2021 and 2022 regulatory tax impact from the disposition of the OPEB Cost Deferral Account as part of the disposition of Foregone Revenue Transmission Deferral Account. In the 2020 Revenue Requirement and Charge Determinant Order, the OEB noted that contrary to standard practice, Hydro One included the tax impact of approximately \$2.7 million from the disposition of the OPEB Cost Deferral Account in its regulatory tax calculation. The OEB determined that it was appropriate to reduce Hydro One's revenue requirement by the \$2.7 million. Instead of having Hydro One revise the 2020-2022 revenue requirements, the OEB ordered Hydro One to record the regulatory tax impact from the disposition of the OPEB Cost Deferral Account as an offset to the Foregone Revenue Transmission Deferral Account for each of 2020-2022 for future disposition.

Findings

The OEB finds Hydro One's deferral and variance account proposal is consistent with the prior direction of the OEB.

³ EB-2019-0082, Revenue Requirement and Charge Determinant Order, July 16, 2020

4 CUSTOM REVENUE CAP INDEX 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 OEB approval of an adjustment to its base revenue requirement, determined using an OEB-approved Custom IR methodology, in which the base revenue requirement for the prospective rate year is equal to the base revenue requirement in the current year, inflated by the Revenue Cap Index (RCI).

The RCI approved by the OEB for Hydro One through its Custom IR Decision and Order includes an inflation factor ("I"), a productivity factor ("X"), which includes a stretch factor, and custom capital factor ("C"). The RCI is expressed as:

$$RCI = I - X + C$$

The Inflation Factor is 2.5%, which is the OEB-approved industry-specific inflation rate for 2022 applications, effective January 1, 2022. The Inflation Factor is updated annually.

In the Custom IR Decision and Order, the OEB approved a productivity factor of 0.30% and a custom capital factor of 2.70% for 2022.

The components of the RCI adjustment formula applicable to Hydro One are set out in Table 1. They result in a total RCI of 4.90%.

Table 1: 2022 Custom Revenue Cap Index (RCI)

Components	Amount
Inflation Factor ⁴	2.50%
Productivity	(0.30%)
Capital	2.70%
Total Revenue Cap Index (RCI)	4.90%

⁴ EB-2021-0212, Decision and Order, November 18, 2022

Hydro One's base revenue requirement for the 2022 rate year is then determined by applying the RCI of 4.90% to Hydro One's 2021 base revenue requirement and adding the Regulatory Income Tax Adjustment for 2022 of \$28.4 million.⁵ The result is a 2022 base revenue requirement of \$1,816.2 million, as shown in Table 2.

Table 2: Hydro One's Base Revenue Requirement by Year

Year	Formula	Base Revenue Requirement (million)
2021	OEB-Approved Hydro One Base Revenue Requirement	\$1,704.3
2022	2021 Base Revenue Requirement x 2022 RCI = \$1704.3 million x 1.049	\$1,787.8
	2022 Regulatory Income Tax Adjustment ⁶	\$28.4
	2022 Total Base Revenue Requirement	\$1,816.2

Transmission rates have been established on a uniform basis for all transmitters in Ontario since April 30, 2002. The current UTR Schedules were effective on July 1, 2021.⁷

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 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 Transmission.⁸ The rates revenue requirement is

⁵ Regulatory Income Tax adjustment of \$28.4 million from EB-2020-0194 Decision and Order, April 8, 2021, pp. 20-21

⁶ Regulatory Income Tax adjustment of \$28.4 million from EB-2020-0194 Decision and Order, April 8, 2021, pp. 20-21

⁷ EB-2021-0176, Decision and Order, 2020 Uniform Transmission Rates Update, June 24, 2021

⁸ EB-2018-0130 Decision, April 25, 2019, p. 19: Response to OEB-Staff Interrogatory #3

the total transmission base revenue requirement, adjusted for other revenues, including misallocated future tax savings, forgone revenue, external revenue, wholesale meter service revenue, export transmission service revenue, low voltage switchgear credit and deferral and variance account dispositions.⁹ Inclusion of these revenue offsets results in a rates revenue requirement of \$1,883.5 million for 2022. The resulting pool allocation of Hydro One's rates revenue requirement is shown in Table 3.

Table 3 - Hydro One's 2022 Rates Revenue Requirement by Rate Pool (million)

Transmitter	Network	Line Connection	Transformation Connection	Total
Hydro One	\$1,150.1	\$198.5	\$534.8	\$1,883.5

In accordance with the Custom IR Decision and Order, the charge determinants for 2022¹⁰ are shown in Table 4.

Table 4 – Charge Determinants (in MWs)

Transmitter	Network	Line Connection	Transformation Connection
Hydro One	234,736	228,350	194,599

In its Decision and Order on the 2021 UTRs Update¹¹, the OEB approved the 2021 UTR rate schedules together with a total 2021 Hydro One rates revenue requirement of \$1,775.6 million.

Hydro One's 2022 base revenue requirement of \$1,816.2 million¹² is \$111.9 million or 6.6% higher than Hydro One's 2021 base revenue requirement of \$1,704.3 million. Hydro One's proposed 2022 rates revenue requirement of \$1,883.5 million is \$107.9 million or 6.1% higher than its approved 2021 rates revenue requirement of \$1,775.6 million.

⁹ Exhibit A / Tab 4 / Sch.1 / p.1 / Table 1

¹⁰ EB-2019-0082, Draft Rate Order, May 28, 2020, Exhibit 2.1

¹¹ EB-2021-0176, Decision and Rate Order, 2021 Uniform Transmission Rates, June 24, 2021

¹² Includes a \$28.4 million transmission regulatory income tax adjustment from EB-2020-0194 Decision and Order, April 8, 2021, pp. 20-21

Hydro One's 2022 rates revenue requirement represents approximately 94.5%¹³ of the revenue requirement across all transmitters, based on the approved 2021 UTRs. Hydro One estimates that its proposed 2022 rates revenue requirement will result in a 5.8% increase to average transmission rates and a 0.4% increase to average transmission customer bills, as shown in Table 5.

Table 5 – Comparison of Hydro One's 2021 and 2022 Rates Revenue Requirement, Average Bill Impacts on Transmission Connected Customers

	2021	2022
Hydro One Rates Revenue Requirement	\$1,775.6 million	\$1,883.5 million
% Change in Rates Revenue Requirement over prior year		6.1%
% Impact of load forecast change		0.1%
Net Impact on Average Transmission Rates		5.8%
Transmission as a % of Tx-connected customer's Total Bill		7.6%
Estimated Average Transmission Customer Bill impact		0.4%

Hydro One estimates that its proposed 2022 rates revenue requirement will result in an increase of 0.6% for a typical medium density residential customer (Hydro One R1) consuming 750 kWh monthly and an increase of 0.4% for a typical General Service Energy less than 50 kW customer (Hydro One GSe < 50 kW) consuming 2,000 kWh monthly, as shown in Table 6 below.

¹³ Exhibit A / Tab 4 / Schedule 1 / p. 11

Table 6 – Typical Customer Monthly Bill Impact

	Typical Medium Density (HONI R1) Residential Customer Consuming 750 kWh per month	Typical General Service Energy less than 50 kW (HONI Gse <50kW) Customer Consuming 2,000 kWh per month
Total Bill as of Jul 1, 2021	\$127.23	\$400.10
RTSR included in 2021 Bill (based on 2020 Interim UTR)	\$12.51	\$26.52
<i>Estimated 2021 Monthly RTSR</i>	\$14.36	\$30.44
<i>Estimated 2022 Monthly RTSR</i>	\$15.19	\$32.21
2022 Change in Monthly Bill	\$0.83	\$1.77
<i>2022 change as % of total bill</i>	0.6%	0.4%

Hydro One has requested that its proposed revenue requirement be reflected in rates effective January 1, 2022. If implementation cannot occur by then, Hydro One has requested an interim order making its current transmission revenue requirement and charges effective on an interim basis as of January 1, 2022, and the continuation of the Transmission Foregone Revenue Deferral Account to recover any differences between the interim rates and the final rates effective January 1, 2022.

Findings

The OEB finds that the rates revenue requirement proposed by Hydro One to provide transmission service in 2022 is in accordance with the methodology and parameters set by the OEB in the Custom IR Decision and Order, and that the corresponding bill impacts are reasonable. The OEB approves a 2022 rates revenue requirement of \$1,883.5 million with an effective date of January 1, 2022. The OEB anticipates that it will establish new UTRs for 2022 in time for implementation as of January 1, 2022. As a result, no deferral account will be required to track forgone revenue.

5 IMPLEMENTATION AND ORDER

IT IS ORDERED THAT:

1. The 2022 Hydro One rates revenue requirement of \$1,883.5 million is approved, with an effective date of January 1, 2022. Hydro One's resultant revenue requirement will be included in the OEB's determination of the 2022 Uniform Transmission Rates for Ontario.

DATED at Toronto **December 16, 2021**

ONTARIO ENERGY BOARD

Christine E. Long
Registrar