



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

DECISION AND ORDER

EB-2023-0127

HYDRO ONE NETWORKS INC.

**Application for electricity transmission revenue requirement
beginning January 1, 2024**

BY DELEGATION, BEFORE: **Theodore Antonopoulos**
Vice-President
Applications

September 19, 2023

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1 OVERVIEW

Through this Decision and Order, the Ontario Energy Board (OEB) approves the application filed by Hydro One Networks Inc. (Hydro One) for its 2024 annual transmission revenue requirement effective January 1, 2024, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (OEB Act).

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 application for the period 2023-2027 (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 2024 to 2027. 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 productivity factor of 0.15% will not be updated annually. Hydro One's capital factor changes each year and has been approved for each year as part of the Custom IR Decision and Order. Hydro One's inflation factor will be updated annually by the OEB.

Hydro One's application for its 2024 annual transmission revenue requirement is approved for the reasons set out below. This Decision and Order 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 2024 rates revenue requirement will be \$2,024.3 million or 8.3% higher than the rates revenue requirement of \$1,869.0 million approved for 2023.²

¹ EB-2021-0110, Decision and Order, November 29, 2022

² EB-2023-0101, 2023 Uniform Transmission Rates, Schedule A, June 1, 2023

The total bill impact for a typical medium density residential (Hydro One R1) customer consuming 750 kWh monthly will be an increase of 0.7% or approximately \$1.00 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 0.5% or \$2.21 per month.

2 THE PROCESS

Hydro One filed this application on July 17, 2023, 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 first application filed by Hydro One for an adjustment to its revenue requirement using the Custom IR methodology approved by the OEB in 2022, when the OEB determined that the approved methodology would be used to determine Hydro One's base revenue requirement for the years 2024 to 2027.

Hydro One's application was supported by pre-filed written evidence. OEB staff submitted clarification questions regarding Hydro One's evidence on August 9, 2023, and Hydro One filed its responses on August 15, 2023.

3 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 requested 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 5.4%, which is the OEB-approved industry-specific inflation rate for 2024 applications, effective January 1, 2024. The Inflation Factor is updated annually.

In the Custom IR Decision and Order, the OEB approved a productivity factor of 0.15% and a custom capital factor to be updated by the Inflation Factor for 2024.

The components of the RCI adjustment formula applicable to Hydro One are set out in Table 1. They result in a total RCI of 6.52%.

Table 1 - 2024 Custom Revenue Cap Index (RCI)

Components	Amount
Inflation Factor ³	5.40%
Productivity Factor	(0.15%)
Custom Capital Factor	1.27%
Total Revenue Cap Index (RCI)	6.52%

³ OEB Letter, 2024 Inflation Parameters, June 29, 2023

Hydro One's base revenue requirement for the 2024 rate year is then determined by applying the RCI of 6.52% to Hydro One's 2023 base revenue requirement. The result is a 2024 base revenue requirement of \$2,079.8 million, as shown in Table 2.

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

Year	Formula	Base Revenue Requirement (million)
2023	OEB-Approved Hydro One Base Revenue Requirement	\$1,952.5
2024	2023 Base Revenue Requirement x 2024 RCI = \$1,952.5 million x 1.0652	\$2,079.8

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, 2023.

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.⁴

The rates revenue requirement is the total transmission base revenue requirement, adjusted for other revenues, including external revenue, wholesale meter service revenue, export transmission service revenue and low voltage switchgear credit.⁵ Inclusion of these revenue offsets results in a rates revenue requirement of \$2,024.3 million for 2024.

⁴ EB-2021-0110, Decision and Order, November 29, 2022, Schedule A, Attachment 1, Schedule 2.2, Table 1

⁵ Exhibit A / Tab 4 / Sch.1 / p.1 / Table 1

Hydro One is not requesting approval to disburse any deferral and variance account balances nor is it proposing to adjust its past costs, in particular, removing costs associated with previously disposed deferral and variance accounts.

The resulting pool allocation of Hydro One's rates revenue requirement is shown in Table 3.

Table 3 - Hydro One's 2024 Rates Revenue Requirement by Rate Pool (million)

Transmitter	Network	Line Connection	Transformation Connection	Total
Hydro One	\$1,206.9	\$212.2	\$605.3	\$2,024.3

In accordance with the Custom IR Decision and Order, the charge determinants for 2024⁶ are shown in Table 4.

Table 4 – 2024 Charge Determinants (in MWs)

Transmitter	Network	Line Connection	Transformation Connection
Hydro One	233,393	226,543	192,711

In its Decision and Order on the 2023 UTRs Update,⁷ the OEB approved the 2023 UTR rate schedules together with a total 2023 Hydro One rates revenue requirement of \$1,869.0 million.

Hydro One's 2024 base revenue requirement of \$2,079.8 million is \$127.3 million or 6.5% higher than Hydro One's 2023 base revenue requirement of \$1,952.5 million. Hydro One's proposed 2024 rates revenue requirement of \$2,024.3 million is \$155.3 million or 8.3% higher than its approved 2023 rates revenue requirement of \$1,869.0 million.

Hydro One's 2024 rates revenue requirement represents approximately 91.1% of the revenue requirement across all transmitters, based on the approved 2023 UTRs. Hydro One estimated that its proposed 2024 rates revenue requirement will result in a 7.3% increase to average transmission rates and a 0.9% increase to average transmission customer bills, as shown in Table 5.

⁶ EB-2021-0110, Decision and Order, November 29, 2022, Schedule A, Attachment 1, Schedule 2.1, Table 1b

⁷ EB-2023-0101, 2023 Uniform Transmission Rates, Schedule A, June 1, 2023

Table 5 – Comparison of Hydro One’s 2023 and 2024 Rates Revenue Requirement, Average Bill Impacts on Transmission Connected Customers

	2023	2024
Hydro One Rates Revenue Requirement	\$1,869.0 million	\$2,024.3 million
% Change in Rates Revenue Requirement over prior year		8.3%
% Impact of load forecast change		-0.3%
Net Impact on Average Transmission Rates		7.3%
Transmission as a % of Tx-connected customer’s Total Bill		11.8%
Estimated Average Transmission Customer Bill impact		0.9%

Hydro One estimated that its proposed 2024 rates revenue requirement will result in an increase of 0.7% for a typical medium density residential customer (Hydro One R1) consuming 750 kWh monthly and an increase of 0.5% 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.

Table 6 – 2024 Typical Distribution Connected 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, 2023	\$136.13	\$424.76
RTSR Charge included in 2023 Bill	\$15.172	\$33.538
<i>Estimated 2024 Monthly RTSR</i>	\$16.169	\$35.744
2024 Change in Monthly Bill	\$0.998	\$2.206
2024 change as % of total bill	0.7%	0.5%

Hydro One has requested that its proposed revenue requirement be reflected in rates effective January 1, 2024. 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, 2024.

Findings

The OEB finds that the rates revenue requirement proposed by Hydro One to provide transmission service in 2024 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 2024 rates revenue requirement of \$2,024.3 million with an effective date of January 1, 2024. The OEB anticipates that it will establish new UTRs for 2024 in time for implementation as of January 1, 2024. As a result, no deferral account will be required to track foregone revenue.

4 IMPLEMENTATION AND ORDER

IT IS ORDERED THAT:

1. Hydro One's 2024 transmission rates revenue requirement of \$2,024.3 million is approved, with an effective date of January 1, 2024. Hydro One's resultant revenue requirement will be included in the OEB's determination of the 2024 Uniform Transmission Rates for Ontario.

DATED at Toronto, September 19, 2023

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar