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BY EMAIL

October 4, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Hydro One Sault Ste. Marie Limited Partnership
Application for 2024 Transmission Rates
OEB File Number: EB-2023-0130**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Musab Qureshi
Manager, Generation & Transmission

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Sault Ste. Marie Limited Partnership

Application for 2024 Transmission Rates

EB-2023-0130

October 4, 2023

Application Summary

Hydro One Sault Ste. Marie Limited Partnership (HOSSM) is seeking approval of its annual revenue requirement to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario. HOSSM filed its application with the OEB on July 17, 2023 and is seeking its new rates be effective January 1, 2024.

This document outlines OEB staff's submissions on the following topics based on its review of the evidence submitted by HOSSM:

1. Revenue Cap Incentive Rate-setting Adjustment
2. Disposition of Earnings Sharing Mechanism Account and 2024 Rates Revenue Requirement

1. Revenue Cap Incentive Rate-setting Adjustment

HOSSM is requesting OEB approval of an adjustment to its base revenue requirement, determined using the Revenue Cap Index (RCI) methodology approved by the OEB in its decision and order in EB-2018-0218.¹

In the EB-2018-0218 decision, the OEB approved HOSSM's proposed RCI methodology in which the base revenue requirement for the prospective rate year is equal to the base revenue requirement in the year preceding the prospective rate year inflated by the RCI. The OEB also ordered that this methodology be used to determine HOSSM's base transmission revenue requirement for the years 2019 to 2026 inclusive.

The components of the RCI adjustment formula applicable to HOSSM for the 2024 rate year include the OEB's 2024 inflation factor of 5.4% for electricity transmitters² and an OEB-approved productivity factor of 0.3% for HOSSM.³

Table 1 summarizes the components and results of the RCI for 2024:

Table 1: 2024 Revenue Cap Index (RCI)

Components	Factor
Inflation Factor (I)	5.4%
Productivity Factor (X)	0.3%
Total Revenue Cap Index (RCI = I - X)	5.1%

The 2024 base revenue requirement is calculated as shown in Table 2 below:

Table 2: 2024 Base Revenue Requirement

Year	Formula	Base Revenue Requirement
2023	OEB-approved HOSSM 2023 base revenue requirement	\$43,911,032
2024	2024 base revenue requirement = 2023 base revenue requirement x 2024 RCI	\$46,150,495

Submission

OEB staff supports HOSSM's calculation of the base revenue requirement for 2024. The adjustment is in accordance with the RCI methodology and parameters set by the OEB in its decision and order EB-2018-0218.

¹ [EB-2018-0218](#), Decision and Order, July 18, 2019

² OEB Letter re: [2024 Inflation Parameters](#), June 29, 2023

³ [EB-2018-0218](#), Decision and Order, July 18, 2019

2. Disposition of Earnings Sharing Mechanism Account and 2024 Rates Revenue Requirement

HOSSM is requesting OEB approval to dispose of the balance of its Earnings Sharing Mechanism (ESM) account. In the EB-2016-0050⁴ proceeding, the OEB approved an ESM that would take effect during the last five years of the rebasing deferral period (2022 to 2026). Under the approved ESM, earnings will be assessed each year and HOSSM's rates revenue requirement will be adjusted so that prior year excess earnings are shared with ratepayers on a 50:50 basis for all earnings that exceed 300 basis points above the return on equity approved by the board.

The key components of the ESM calculation include cost of capital parameters set by the OEB in 2016 and HOSSM's 2022 regulated net income. The ESM calculation is summarized below:

Table 3: ESM Calculation

Components	Amount
Regulated Net Income (actual)	\$14,381,035
Excess Earnings Pool	\$4,388,491 ⁵
Sharing with ratepayers	50%
Sharing with ratepayers	\$2,194,246
Tax Grossed-Up Amount	\$2,985,368

The disposition of the ESM account will result in a reduced revenue requirement of \$3,134,039⁶ for a total 2024 rates revenue requirement of \$43,016,456.

HOSSM estimates that with the disposition of the ESM account balance, the proposed 2024 rates revenue requirement would result in an increase of \$0.005 (0.0033%) to the average monthly bill of a medium density residential customer⁷ consuming 750 kWh.

With regards to charge determinants, in its decision dated June 20, 2019, the OEB approved HOSSM's request to maintain charge determinants during the deferred rebasing period.⁸ The current charge determinants approved for the years 2019 to 2026 are shown in Table 4 below.

⁴ [EB-2016-0050](#), Decision and Order, October 13, 2016

⁵ Determined by multiplying mid-year rate base, common equity and over earning to allowed threshold percentage.

⁶ Includes forecasted interest through to December 31, 2023.

⁷ Hydro One R1 customer

⁸ [EB-2018-0218](#), Decision and Order, June 20, 2019

Table 4: Current OEB-Approved Charge Determinants

Current Approved Charge Determinants	MWs
Network	3,498.236
Line Connection	2,734.624
Transformation Connection	635.252

Submission

OEB staff supports HOSSM's request to dispose of the balance of its ESM account as directed in the EB-2016-0050 decision and order. It is OEB staff's understanding that the ESM account balance is a result of cost savings due to its recent consolidation. The ESM is designed to ensure customers share in any increased benefits from consolidation during the deferred rebasing period, in accordance with the OEB Handbook to Electricity Distributor and Transmitter Consolidations. OEB staff requests HOSSM to confirm the reasons for the ESM balance in its reply submission.

OEB staff notes that HOSSM has adjusted the 2022 regulated net income to normalize for amounts that relate to prior years. HOSSM explained in its interrogatory responses that these amounts are related to the property tax variance account and the tax rules changes variance account.⁹ OEB staff has no concerns with HOSSM's approach in adjusting these amounts for the purpose of the ESM calculation.

In regards to bill impacts, OEB staff notes that there is a small increase in the average monthly bill despite the 2024 rates revenue requirement being lower than the 2023 rates revenue requirement. This is due to the fact that Hydro One Distribution's current (2023) retail transmission service rates are based on the Uniform Transmission Rates effective April 1, 2022.^{10 11}

OEB staff has no concerns with the charge determinants noted by HOSSM.

~All of which is respectfully submitted~

⁹ Interrogatory Responses dated September 22, 2023. In HOSSM's property tax variance account, \$151,763 was removed from the amounts recorded in the account for 2022 as it relates to prior years. In HOSSM's tax rules changes variance account, a \$17,786 reduction was added back to the amounts recorded in the 2022 account as it relates to prior years.

¹⁰ As per the Decision and Rate Order, [EB-2022-0084](#), 2022 UTR Update, April 7, 2022.

¹¹ For reference, HOSSM's approved 2022 revenue requirement was \$42,426,118 which is lower than the proposed 2024 revenue requirement of \$43,016,456.