



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

DECISION AND ORDER

EB-2023-0130

HYDRO ONE SAULT STE. MARIE LIMITED PARTNERSHIP

**Application for electricity transmission revenue requirement to be
effective January 1, 2024**

BEFORE: Lynne Anderson
Chief Commissioner

October 24, 2023

1 OVERVIEW

Through this Decision and Order, the Ontario Energy Board (OEB) approves changes to the transmission revenue requirement of Hydro One Sault Ste. Marie Limited Partnership (HOSSM), effective January 1, 2024. HOSSM's approved 2024 rates revenue requirement is \$43,016,456, which includes the disposition of its Earnings Sharing Mechanism (ESM) account. This represents a decrease of 2.04% from the rates revenue requirement of \$43,911,032 approved for 2023.

The revenue requirement for HOSSM will be combined with the revenue requirements for other transmitters in the province. The OEB will use this information to set Uniform Transmission Rates for use across the province. Distributors set retail transmission rates to pass-through the cost of this transmission service to end-use consumers.

2 CONTEXT AND PROCESS

HOSSM is an OEB-licensed and rate-regulated electricity transmitter that carries on the business of owning and operating electricity transmission facilities in the vicinity of Sault Ste. Marie, Ontario. HOSSM is seeking approval of its annual revenue requirement to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario. HOSSM is also requesting OEB approval to dispose of the balance of its ESM account.

In the OEB's October 13, 2016 Decision and Order on 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 (RCI) for the deferral period.

In the OEB's Decision and Order on HOSSM's 2019 revenue requirement and related matters³ (2019 Decision), the OEB approved the proposed Revenue Cap Incentive Rate-setting (Revenue Cap IR) methodology and determined that this framework would be used to determine HOSSM's revenue requirement for the years 2019 to 2026 inclusive. The framework adjusts HOSSM's annual revenue requirement by a revenue cap index (RCI) comprised of inflation, less a productivity factor and a stretch factor.

In the same decision, 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 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 approved return on equity.

HOSSM filed its Revenue Cap IR 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 fifth application filed by HOSSM for a rate adjustment to its revenue requirement using the Revenue Cap IR methodology approved by the OEB in the 2019 Decision.

HOSSM's application was supported by pre-filed written evidence. HOSSM responded to interrogatories from OEB staff. Final submissions on the application were filed by OEB staff and HOSSM.

¹ EB-2016-0050

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

³ EB-2018-0218

3 REVENUE CAP IR ADJUSTMENT

HOSSM’s application requested OEB approval of an adjustment to its base revenue requirement, determined using an OEB-approved Revenue Cap IR 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 an RCI.

The RCI approved by the OEB for HOSSM through the 2019 Decision includes an inflation factor (“I”) and a productivity factor (“X”), which includes a stretch factor. The RCI is expressed as:

$$\text{RCI} = I - X$$

The inflation factor is updated annually by the OEB. The OEB-approved industry-specific inflation rate for electricity transmission rate applications for the 2024 rate year is 5.4% based on inflation components from Statistics Canada.⁴

In the 2019 Decision, the OEB approved a productivity factor of 0.0% and a stretch factor of 0.3% for use between 2019 and 2026.

The components of the Revenue Cap IR adjustment formula applicable to HOSSM for the 2024 rate year are set out in Table 1. They result in a total RCI of 5.1%.

Table 1: Revenue Cap IR Adjustment Formula

Components		Value
Inflation Factor (I)		5.4%
Productivity Factor (X)	Productivity	0.0%
	Stretch	0.3%
Revenue Cap Index (RCI) = I - X		5.1%

HOSSM’s base revenue requirement for the 2024 rate year is then determined by applying the RCI of 5.1% to HOSSM’s 2023 base revenue requirement. The result is a 2024 base revenue requirement of \$46,150,495, as shown in Table 2.

⁴ OEB Letter re: [2024 Inflation Parameters](#), June 29, 2023

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

OEB staff submitted no objections to HOSSM's approach to calculating its 2024 base revenue requirement.

Findings

The OEB approves a 2024 base revenue requirement of \$46,150,495. The OEB finds that HOSSM's calculations are consistent with its approved rate-setting framework established by the OEB in the 2019 Decision.

4 EARNINGS SHARING MECHANISM ACCOUNT AND 2024 RATES REVENUE REQUIREMENT

HOSSM is requesting OEB approval to dispose of the 2022 balance of its ESM account. In the EB-2016-0050 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.

In 2022, HOSSM achieved a Return on Equity (ROE) in excess of the allowed ROE. 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.

Table 3: ESM Calculation

Components	Amount
Regulated Net Income (actual)	\$14,381,035
Achieved ROE	17.54%
Allowed ROE	9.19%
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 balance will reduce the base revenue requirement by \$3,134,039⁶ for a total 2024 rates revenue requirement of \$43,016,456.

HOSSM's revenue requirement is allocated among the three rate pools (Network, Line Connection and Transformation Connection) as part of the OEB's UTR process. The

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

⁶ Includes forecast interest to December 31, 2023.

revenue requirement allocated to each rate pool for transmitters other than Hydro One Networks Inc. (Hydro One Transmission) is based on the proportions established by Hydro One Transmission's cost allocation process.

Once the revenue requirement by rate pool has been established, rates are determined by applying the provincial charge determinants⁷ for each pool to the total revenue for each pool. Table 4 estimated HOSSM's 2024 rates revenue requirement by transmission rate pool using the proportionate share of Hydro One Transmission's approved 2023 revenue requirement across the UTR rate pools.

Table 4: 2024 Revenue Requirement by Transmission Rate Pool (\$)

Network	Line Connection	Transformation Connection	Total
25,627,027	4,513,429	12,875,999	43,016,456

In accordance with the 2019 Decision, the charge determinants for HOSSM, shown in Table 5 below, are to remain in place during the deferred rebasing period (i.e., to the end of 2026).

Table 5: Charge Determinants (MWs)

Network	Line Connection	Transformation Connection
3,498.236	2,734.624	635.252

OEB staff supported HOSSM's request to dispose of the balance of its ESM account, noting that an ESM was directed in the decision for the EB-2016-0050 proceeding.

Findings

The OEB approves a total rates revenue requirement of \$43,016,456 for 2024, to be effective on January 1, 2024. This is comprised of base revenue requirement of \$46,150,495 less earnings sharing returned to customers of \$3,134,039. The OEB finds that HOSSM's calculations are in accordance with the methodology set by the OEB in the 2019 Decision.

⁷ The provincial charge determinants are the sum of all charge determinants, by rate pool, approved by the OEB for each of the transmitters participating in the UTR.

HOSSM achieved an ROE of 17.54% in 2022. In its reply submission, HOSSM confirmed that this was primarily driven by lower operating, maintenance and administration costs achieved through consolidation and from increased load due to weather. Under the rate setting framework, 50% of the earnings 300 basis points above the approved ROE of 9.19% are returned to customers.

Net adjustments of \$133,977 were made by HOSSM to the regulated net income for prior year activity, related to the property tax and tax rule change variance accounts. The OEB accepts these adjustments. The OEB finds that the calculation of the earnings to be shared is consistent with the OEB-approved ESM framework for HOSSM.

The OEB has no concerns with HOSSM's use of the charge determinants previously approved by the OEB. The OEB will set the Uniform Transmission Rates in a separate proceeding in which HOSSM's revenue requirement will be allocated to the transmission rate pools.

5 IMPLEMENTATION AND ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The 2024 rates revenue requirement of \$43,016,456 for Hydro One Sault Ste. Marie Limited Partnership is approved, with an effective date of January 1, 2024. Hydro One Sault Ste. Marie Limited Partnership's 2024 revenue requirement will be included in the OEB's determination of the 2024 Uniform Transmission Rates for Ontario.

DATED at Toronto, October 24, 2023

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar