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BY EMAIL

October 2, 2024

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 Networks Inc.
Application for 2025 Transmission Rates
OEB File Number: EB-2024-0217**

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

Yours truly,

Original Signed By

Muhammad Yunus
Advisor, Generation & Transmission

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

Application for 2025 Transmission Rates

EB-2024-0217

October 2, 2024

Application Summary

Hydro One Networks Inc. (Hydro One) is seeking approval of its annual revenue requirement to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario. Hydro One filed its application with the OEB on July 19, 2024 and is requesting that its new revenue requirement be effective January 1, 2025. In Procedural Order No. 1, the OEB confirmed that it received no requests for intervenor status in this proceeding and set deadlines for written interrogatories from OEB staff and responses from Hydro One; and for OEB staff submissions and a reply, if any, from Hydro One.

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

1. Revenue Cap Incentive Rate-setting Adjustment
2. Disposition of the Excess Export Services Revenue Account
3. Approval of the 2025 Export Transmission Service rate
4. Other Adjustments and 2025 Rates Revenue Requirement

1. Revenue Cap Incentive Rate-setting Adjustment

Hydro One is requesting OEB approval of an adjustment to its base revenue requirement, determined using the Custom Incentive Rate-setting (IR) methodology approved by the OEB in its decision and order in EB-2021-0110.¹

In the EB-2021-0110 decision, the OEB approved Hydro One's proposed Custom 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 adjusted by the Revenue Cap Index (RCI). The OEB also ordered that this methodology be used to determine Hydro One's base transmission revenue requirement for the years 2024 to 2027 inclusive.

The components of the Custom RCI adjustment formula applicable to Hydro One for the 2025 rate year include the OEB's 2025 inflation factor of 3.7% for electricity transmitters², an OEB-approved productivity factor of 0.15% for Hydro One, and a custom capital factor of 1.01%.³

Table 1 below shows the calculation of the 2025 Custom Capital Factor.

Table 1: 2025 Custom Capital Factor Calculation⁴

	Calculation	2024	2025
Total Capital Related Revenue Requirement (including working capital adjustment and productivity adjustment)	A	1,623.2	1,701.8
OM&A	B	456.5	472.7 ^[1]
Total Revenue Requirement	$D = A + B$	2,079.8	2,174.5 ^[2]
Increase in Capital Related Revenue Requirement	$E = A_{2025} - A_{2024}$	104.5	78.6
Increase in Capital Related Revenue Requirement relative to Previous Year's Total Revenue Requirement	$F = E / D_{2024}$	5.35%	3.78%
Less Capital Related Revenue Requirement in I-X	$G = \frac{A_{2024}}{D_{2024}} \times (I - X)$	4.08%	2.77% ^[3]
Capital Factor (C)	$C = F - G$	1.27%	1.01%

[1] 2025 OM&A = 2024 OM&A * [1+(I-X)]

[2] 2025 Total Revenue Requirement as per Table 4

[3] The percent increase equals Previous Year's Capital Related Revenue Requirement multiplied by I-X; and divided by Previous Year's Total Revenue Requirement, as follows:

$$G = \frac{\$1,623.2M}{\$2,079.8M} \times (3.70\% - 0.15\%)$$

¹ [EB-2021-0110](#), Decision and Order, November 29, 2022

² OEB Letter re: [2024 Inflation Parameters](#), June 20, 2024

³ [EB-2021-0110](#), Decision and Order, November 29, 2022

⁴ EB-2024-0217, Exhibit A, Tab 4, Schedule 1, pg. 4

Table 2 below summarizes the components and results of the Custom RCI for 2025:

Table 2: 2025 Custom Revenue Cap Index (RCI)

Components	Factor
Inflation Factor (I)	3.70%
Productivity Factor (X)	0.15%
Custom Capital Factor (C)	1.01%
Total Revenue Cap Index (RCI = I – X + C)	4.56%

The 2025 base revenue requirement is calculated as shown in Table 3.

Table 3: 2025 Base Revenue Requirement (\$M)

Year	Formula	Base Revenue Requirement
2024	OEB-approved Hydro One 2024 base revenue requirement	\$2,079.8
2025	2025 base revenue requirement = 2024 base revenue requirement x 2025 RCI	\$2,174.5

Submission

OEB staff supports Hydro One's calculation of the base revenue requirement for 2025. The adjustment is in accordance with the Custom IR methodology and parameters approved by the OEB in its decision and order in EB-2021-0110.

2. Disposition of Excess Export Services Revenue Account Balance

Hydro One is requesting OEB approval to dispose of the balance of its Excess Export Services Revenue Account (Account 2405). In the OEB's Decision and Order in the generic proceeding on Uniform Transmission Rates-Related Issues and the Export Transmission Service Rate (EB-2021-0243⁵), the OEB directed Hydro One to dispose of the balance on an annual basis, commencing when the balance for 2023 is final.

A change in the ETS rate and any differences between the forecast volumes and actual volumes are the primary drivers that contribute to the variances recorded in the account. In 2021 and 2022, there was no change in the ETS rate, therefore, the variance was due to the difference between the actual and forecast ETS volumes. In 2023, the ETS rate changed from \$1.85/MWh to \$1.78/MWh which resulted in a variance of \$1,185,795, with the remaining variance of \$6,019,536 due to the difference between the actual and forecast ETS volumes. Table 4 shows the variances between forecast and actual ETS revenue for 2021-2023.

Table 4: Excess Export Services Revenue Account Calculation

Component	2021	2022	2023
OEB Approved Forecast ETS Revenue (A) ⁶	\$35,931,217	\$36,332,553	\$37,358,400
Actual ETS Revenue (B)	\$32,042,630	\$33,068,579	\$30,153,069
Variance (A-B)	\$ 3,888,587	\$ 3,263,974	\$ 7,205,331

The total for disposition in the account (\$15,748,232.24) is calculated by adding the total interest on the balances for the years in question to the remaining principal balance in the account as at December 31, 2023 as shown in Table 5.

⁵ [EB-2021-0243](#), Decision and Order, November 24, 2022

⁶ OEB approved forecast 2021 and 2022 ETS revenues as per EB-2019-0082, Decision and Order, Section 3.8.2 Other Revenue, dated April 23, 2020./ OEB approved forecast 2023 ETS revenue as per EB-2021-0110, Decision and Order, Schedule A, Attachment 1, Schedule 1.7, dated November 29, 2022.

Table 5: Excess Export Services Revenue Account Continuity Schedule

	2020	2021	2022	2023	2024
Opening Principal Amount		\$4,037,258	\$6,313,220	\$8,083,871	\$14,357,891
Transactions	\$4,037,258	\$3,888,587	\$3,263,974	\$7,205,331	
Board Approved Disposition	\$0	(\$1,612,625)	(\$1,493,322)	(\$931,311)	
Closing Principal Balance	\$4,037,258	\$6,313,220	\$8,083,871	\$14,357,891	
Opening Interest Amount		\$210,363	\$237,914	\$236,191	\$651,628
Interest Adjustments	\$210,363	\$27,551	\$117,580	\$534,478	\$738,713
Board Approved Disposition	\$0	\$0	(\$119,303)	(\$119,041)	\$0
Closing Interest Balance	\$210,363	\$237,914	\$236,191	\$651,628	\$1,390,341
Total for Disposition					\$15,748,232

Submission

OEB staff supports Hydro One's request to dispose of the balance of the Excess Export Services Revenue Account as directed in the EB-2021-0243 decision and order. The disposition of the account balance will result in an increased revenue requirement of \$15,748,232 for a total 2025 rates revenue requirement of \$2135.6M (as shown in section 1).

OEB staff notes that, as stated in its interrogatory responses, Hydro One has adjusted the 2024 interest rates to be in line with the OEB's prescribed interest rates for Q3 and Q4.⁷

⁷ [EB-2024-0217](#), Interrogatory Responses, Exhibit I, Tab 1, Schedule 2, pg. 1

3. Approval of the 2025 Export Transmission Service rate

In the OEB's Decision and Order on Uniform Transmission Rates-Related Issues and the ETS Rate in EB-2021-0243, the OEB ordered that the ETS Rate shall be adjusted annually, effective January 1, 2025, using the RCI methodology for Hydro One Transmission as determined in the EB-2021-0110 proceeding.

Using the RCI factor of 4.56% and the 2024 rate of \$1.78/MWh, the updated 2025 ETS rate is \$1.86/MWh.

Submission

OEB staff supports Hydro One's calculation of the updated 2025 ETS rate. The adjustments are in accordance with the methodology determined in EB-2021-0110.

4. Other Adjustments and 2025 Rates Revenue Requirement

The 2025 rates revenue requirement calculation submitted by Hydro One is shown below in Table 6.

Table 6: 2025 Rates Revenue Requirement (\$M)

	2025
Total Base Revenue Requirement	2,174.5
Deduct: External Revenue	(37.1)
Deduct: Wholesale Meter Service (WMS) Revenue	(0.0)
Deduct: Export Transmission Service (ETS) Revenue	(37.3)
Add: Low Voltage Switchgear (LVSG) Credit	19.6
Add: Disposition of Deferral and Variance Accounts	15.8
2025 Rates Revenue Requirement	2,135.6

Details regarding the Total Base Revenue Requirement amount (\$2,174.5M) and the Disposition of Deferral and Variance Accounts amount (\$15.8M) are noted in sections 1 and 2 of this document, respectively.

Adjustments for External Revenue (\$37.1M), WMS Revenue (\$0M), and the LVSG Credit (\$19.6M) are based on the amounts approved in Hydro One's rebasing application in EB-2021-0110.

Approval of Hydro One Transmission's 2025 rates revenue requirement results in an increase in the total bill of 0.59% or \$0.83 per month for a typical Hydro One Distribution medium density residential (R1) customer consuming 750 kWh monthly and an increase in total bill of 0.42% or \$1.84 per month for a typical Hydro One Distribution General Service Energy less than 50 kW (GS<50kW) customer consuming 2,000 kWh monthly.

The current charge determinants approved for 2025 are shown in Table 7.

Table 7: Current OEB-Approved Charge Determinants

Current Approved Charge Determinants	MWs
Network	230,449
Line Connection	223,708
Transformation Connection	190,299

Submission

OEB staff supports Hydro One's calculation of the 2025 rates revenue requirement of \$2,135.6M.

The adjustments related to External Revenue, WMS Revenue, ETS Revenue and LVSG Credit are in accordance with the methodology determined in EB-2021-0110.

OEB Staff will work with Hydro One to provide the appropriate information following the OEB's decision on this annual update application for the purposes of calculating the UTRs.

~All of which is respectfully submitted~