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

DECISION AND ORDER

EB-2024-0218

HYDRO ONE SAULT STE. MARIE LIMITED PARTNERSHIP

Application for electricity transmission revenue requirement to be effective January 1, 2025

BEFORE: Allison Duff
Presiding Commissioner

October 24, 2024

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, 2025. HOSSM's approved 2025 rates revenue requirement is $43,388,649, which includes the disposition of its Earnings Sharing Mechanism account. This represents an increase of 0.86% from the 2024 rates revenue requirement of $43,016,456 approved by the OEB.

The revenue requirement for HOSSM will be combined with the revenue requirements for other electricity transmitters in the province. The OEB will use this information to set Uniform Transmission Rates for use across the province. Electricity 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 Earning Sharing Mechanism (ESM) account.

The OEB approved Hydro One Inc.'s application for leave to acquire Great Lakes Power Transmission Inc. (GLPT) on October 13, 2016[1], and 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 2019, the OEB approved HOSSM's 2019 revenue requirement and related matters[3] (2019 Decision), including the proposed Revenue Cap Incentive Rate-setting (Revenue Cap IR) methodology. The OEB determined that this methodology would be used to determine HOSSM's revenue requirement for the years 2019 to 2026 inclusive.

In the 2019 Decision, the OEB also 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 would be assessed each year and HOSSM's revenue requirement would be adjusted for annual earnings that exceed 300 basis points above the OEB's approved return on equity.

HOSSM filed its Revenue Cap IR application on July 19, 2024 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 sixth 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:

$$RCI = I - X$$

The inflation factor is updated annually by the OEB. The OEB-approved industry-specific inflation rate for electricity transmission rate applications for the 2025 rate year is 3.7% 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 2025 rate year are set out in Table 1. They result in a total RCI of 3.4%.

Table 1: Revenue Cap IR Adjustment Formula

Components		Value
Inflation Factor (I)		3.7%
Productivity Factor (X)	Productivity	0.0%
	Stretch	0.3%
Revenue Cap Index (RCI) = I – X		**3.4%**

HOSSM's base revenue requirement for the 2025 rate year is then determined by applying the RCI of 3.4% to HOSSM's 2024 base revenue requirement. The result is a 2025 base revenue requirement of $47,719,612, as shown in Table 2.

[4] OEB Letter re: 2025 Inflation Parameters, June 20, 2024

Table 2: 2025 Base Revenue Requirement

Year	Formula	Base Revenue Requirement
2024	OEB-approved HOSSM 2024 base revenue requirement	$46,150,495
2025	2025 base revenue requirement = 2024 base revenue requirement x 2025 RCI	$47,719,612

OEB staff submitted no objections to HOSSM's approach to calculating its 2025 base revenue requirement.

Findings

The OEB approves the 2025 base revenue requirement of $47,719,612. The OEB concludes that the calculation is in accordance with the methodology and input parameters previously approved for HOSSM.

4 EARNINGS SHARING MECHANISM ACCOUNT AND 2025 RATES REVENUE REQUIREMENT

HOSSM is requesting OEB approval to dispose of the 2023 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 2023, 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 2023 regulated net income.

Table 3: ESM Calculation

Components	Amount
Regulated Net Income (actual)	$15,929,409
Achieved ROE	19.45%
Allowed ROE	9.19%
Excess Earnings Pool	$5,944,824[5]
Sharing with ratepayers	50%
Sharing with ratepayers	$2,972,412
Tax Grossed-Up Amount	$4,044,098
Grossed-Up Amount with Interest	**$4,330,963**

The disposition of this ESM account balance will result in a total 2025 rates revenue requirement of $43,388,649.

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

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. Once the revenue requirement by rate pool has been established, rates are determined by applying the provincial charge determinants[6] for each pool to the total revenue for each pool. An estimate of HOSSM's 2025 rates revenue requirement by rate pool using the proportionate share of Hydro One Transmission's approved 2024 rates revenue requirement is shown in Table 4 below

OEB staff had no concerns with the calculation of the ESM amount and supported HOSSM's request for disposition. OEB staff had no concerns with the calculation of the updated revenue requirement for 2025.

Findings

The OEB approves the disposition of the ESM account, resulting in the effective refund of $4,330,963 to transmission customers. Incorporating this ESM refund, the OEB also approves the revised 2025 revenue requirement of $43,388,649.

Once the revenue requirement by rate pool has been established, rates are determined by applying the provincial charge determinants for each pool to the total revenue for each pool. Although this allocation will be finalized as part of the UTR process, the OEB has estimated HOSSM's 2025 rates revenue requirement by rate pool, as shown in Table 4:

Table 4: 2025 Estimated Revenue Requirement by Transmission Rate Pool ($)[7]

Network	Line Connection	Transformation Connection	Total
25,859,634	4,555,808	12,973,206	43,388,649

The OEB anticipates that final UTRs will be implemented by January 1, 2025. Whether preliminary or final UTRs are implemented effective January 1, 2025, these UTRs will include HOSSM's approved 2025 rates revenue requirement.

[7] Table 4 includes updated estimates based on the revised interest calculation provided by HOSSM in response to Staff 2b.

5 IMPLEMENTATION AND ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The 2025 rates revenue requirement of $43,388,649 for Hydro One Sault Ste. Marie Limited Partnership is approved, with an effective date of January 1, 2025. Hydro One Sault Ste. Marie Limited Partnership's 2025 revenue requirement will be included in the OEB's determination of the 2025 Uniform Transmission Rates for Ontario.

DATED at Toronto, October 24, 2024

ONTARIO ENERGY BOARD

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