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**BY EMAIL**

October 28, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission on the Settlement Proposal  
Niagara Reinforcement Limited Partnership (NRLP)  
2025-2029 Electricity Transmission Rates  
OEB File Number: EB-2024-0117**

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In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the Settlement Proposal dated October 21, 2024, filed by NRLP in the above referenced proceeding.

Yours truly,

Muhammad Yunus  
Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2024-0117



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission on Settlement Proposal**

**Niagara Reinforcement Limited Partnership (NRLP)**

**2025-2029 Electricity Transmission Rates**

**EB-2024-0117**

**October 28, 2024**

## Background

Hydro One Networks Inc. (HONI) on behalf of Niagara Reinforcement Limited Partnership (NRLP), filed an application with the Ontario Energy Board (OEB) on May 23, 2024, for approval of its 2025-2029 electricity transmission rates, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (Act). An amended application was filed on July 31, 2024, to reflect a correction to the depreciation expense and subsequent changes to the components of the revenue requirement requested for approval in this Application. NRLP is requesting orders approving the following:

- Set revenue requirement using a forecast of operations, maintenance, and administration (OM&A) and capital (including tax) costs for each of the five years commencing January 1, 2025, and ending December 31, 2029, with a total rates revenue requirement of \$44.47 million.
- As a result of NRLP's proposed approach, no annual updates to set the revenue requirements for 2026-2029 will be required. Except a one-time update to the cost of long-term debt to reflect the actual market rate achieved on the long-term debt it will issue in 2025.
- Inclusion of NRLP's approved rates revenue requirement in the OEB's determination of the 2025-2029 Network pool of the Uniform Transmission Rates (UTRs).
- The continuation of NRLP's current regulatory accounts.
- Disposition of the Earnings Sharing Mechanism (ESM) account balance of \$0.58 million as part of its revenue requirement over a one-year period commencing January 1, 2025.

In its application, NRLP estimated its 2025 change in revenue requirement will result in an average impact on transmission rates of -0.007% and a total bill impact of less than 0.01% (less than 1 cent per month) for a typical HONI Residential (R1) customer consuming 750 kW per month.

## Status of Issues

A settlement conference was held on September 24<sup>th</sup>, 2024. The following approved intervenors participated in the settlement conference: Association of Major Power Consumers in Ontario (AMPCO), Consumers Council of Canada (CCC), and School

Energy Coalition (SEC) (collectively, the Parties). OEB staff attended the settlement conference; however, it is not a party to the settlement proposal.

NRLP filed a settlement proposal on October 21, 2024 (Settlement Proposal). The Settlement Proposal reflects a comprehensive settlement on all issues included on the OEB approved issues list between all intervenors and NRLP.

The Settlement Proposal, if approved, would result in a decrease of \$0.2 million to NRLP's 2025-2029 proposed rates revenue requirement from \$44.47 million to \$44.27 million and immaterial change on bill impact from the original assessment in the filed Application.

## Submission

Per the OEB's *Practice Direction on Settlement Conferences*, OEB staff is required to file a submission commenting on two aspects of the Settlement Proposal: whether the settlement represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale is adequate to support the settlement.

OEB staff submits that the Settlement Proposal is in the public interest and that the accompanying explanation and rationale are adequate to support the Settlement Proposal.

OEB staff notes that NRLP's Application for 2025-2029 rates is one of the three multi-year rate applications for single-asset transmitters currently being adjudicated by the OEB. The other two single-asset transmitters are B2M Limited Partnership (B2M LP) and Chatham x Lakeshore Limited Partnership (CLLP). B2M LP filed a settlement proposal with the OEB on October 21, 2024<sup>1</sup> which OEB staff submits has similar features as the Settlement Proposal filed by NRLP. CLLP is expected to file a settlement proposal with the OEB by November 18, 2024.<sup>2</sup>

OEB staff's submission provides reasons for OEB staff's position by commenting on the Settlement Proposal's most material aspects, rather than examining each issue on the approved issues list individually.

### Revenue Requirement Framework

The Application proposed to set revenue requirement using a forecast of OM&A and capital (including tax) costs for each of the five years in 2025-2029. The Parties agree that the revenue requirement framework will be modified to include a Stretch Factor of 0.15% starting in 2026, which will apply cumulatively from 2027 through to 2029 to the

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<sup>1</sup> [EB-2024-0116, Settlement Proposal](#)

<sup>2</sup> [EB-2024-0216](#)

revised OM&A expenditures (3% reduction each year). The 0.15% Stretch Factor is the same as HONI's Transmission Stretch Factor approved in its 2023-2027 Custom IR Application.<sup>3</sup>

OEB staff submits that NRLP's revenue requirement framework aligns with performance-based regulation principles as well as being tailored to NRLP's specific circumstances:

- The modified rate-setting method is customized to include a Stretch Factor which reduces OM&A each year in 2026-2029. This method aligns with the objectives outlined in the OEB's Handbook for Utility Rate Applications<sup>4</sup> (the Handbook) objectives which expect utilities to demonstrate ongoing continuous improvement in their productivity and cost performance.
- Although NRLP's modified rate-setting method is based on cost forecast, it also includes incentives such as ESM, off-ramps, Z-Factor mechanism, and performance metrics reporting. The overall approach aligns with the performance-based regulation principles outlined in OEB's Renewed Regulatory Framework for Electricity<sup>5</sup> (RRFE).
- NRLP is a single-asset transmitter that has one capital project estimated at \$0.15 million that will be in-service during the 2025-2029 period, and a declining rate base. Hence, a more typical revenue cap index framework with annual inflationary increases would not be appropriate because it does not account for the unique characteristics of NRLP's limited asset base and minimal need for capital investment. This modified rate-setting method also provides greater cost transparency to ratepayers than a revenue cap index framework.
- A Stretch Factor of 0.15% which is the same percentage as HONI's Transmission Stretch Factor is appropriate, given NRLP's operations and management services are provided by HONI via a Service Level Agreement.

As a result, OEB staff has no concerns on the revenue requirement method agreed by the Parties.

### Performance and Reporting

The Application proposed to continue to monitor and report on all the performance measures approved by the OEB in the settlement agreement for the last NRLP re-basing

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<sup>3</sup> [EB-2021-0110, Settlement Proposal](#), pg. 13 of 117

<sup>4</sup> [OEB's Handbook for Utility Rate Applications](#)

<sup>5</sup> [Renewed Regulatory Framework for Electricity](#)

application.<sup>6</sup> The Parties agree that NRLP will file evidence at its next five-year rebasing application on how it has enhanced cost performance. Additionally, NRLP will publish performance scorecards (based on the proposed performance measures in the Application) on its website, annually, at the same time as required for the publishing of HONI's scorecard.<sup>7</sup> The scorecard will also include information on the achieved return on equity (ROE) measure.

OEB staff submits that publishing of scorecards (including the ROE measure) on the website as well as providing evidence on cost performance enhancement will improve NRLP's performance transparency to the public. The practice reinforces the value-for-money objective in the Handbook, and OEB staff supports it.

### OM&A

The Application proposed a total OM&A of \$6.15 million in 2025-2029. The Parties agree to reduce the OM&A by 3% each year in 2025-2029 and further reduce the OM&A by a Stretch Factor beginning in 2026 as discussed earlier. The Settlement Proposal agreed to by the Parties results in an overall OM&A reduction of \$0.2 million in 2025-2029.

OEB staff submits that the revised OM&A of \$5.95 million is reasonable. Rate affordability must be balanced with the financial needs of the utility, OEB staff has no concerns on the OM&A level agreed by the Parties:

- The OM&A agreed to by the Parties supports the various NRLP's programs and projects for a safe and reliable electricity network.
- The Stretch Factor limits the growth trend on OM&A, which promotes greater cost discipline and benefit to ratepayers through NRLP's continuous improvement.

### Cost of Capital

As part of the Settlement Proposal, the Parties acknowledge the OEB's ongoing Generic Proceeding on Cost of Capital and Other Matters<sup>8</sup> (the Generic Cost of Capital Proceeding). Notwithstanding the Generic Cost of Capital Proceeding, the Parties agree that:

- For cost of capital parameters: (i) the 2025 to 2029 cost of common equity and short-term debt rate will be based on the OEB's 2025 cost of capital parameters to be published in the fourth quarter of 2024; (ii) the 2025 long-term debt rate

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<sup>6</sup> [EB-2018-0275](#)

<sup>7</sup> [EB-2021-0110, Settlement Proposal](#), Appendix A

<sup>8</sup> [EB-2024-0063](#)

will be based on actual debt issuances maturing in 2025, 2030 and 2050 and a forecast debt issue for the refinancing of the 2025 maturity using the Government of Canada bond yield forecast from the September 2024 Consensus Forecast; and (iii) the 2026 to 2029 long-term debt rate will be based on actual debt issuances. There will be no further updates to cost of capital parameters throughout the term, except one application in 2025 to update the cost of long-term debt based on actual issuances in 2025.

- For the deemed capital structure: the deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base. The 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt.
- Nothing in this Settlement shall preclude any Party from taking any position and/or making submissions in the Generic Cost of Capital proceeding.

OEB staff notes that the Settlement Proposal's approach to cost of capital differs from settlements in other re-basing cases, in which parties have agreed to incorporate the outcomes of the Generic Cost of Capital Proceeding. However, in the current case, OEB staff does not oppose the Parties' proposal in this regard in the context of a complete settlement.

~All of which is respectfully submitted~