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

BY EMAIL

November 25, 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 on the Settlement Proposal
Chatham x Lakeshore Limited Partnership (CLLP)
2025-2029 Electricity Transmission Rates
OEB File Number: EB-2024-0216

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the Settlement Proposal dated November 18, 2024, filed by CLLP in the above referenced proceeding.

Yours truly,

Abla Nur Digitally signed by Abla Nur
Date: 2024.11.25 16:35:37 -05'00'

Abla Nur
Analyst, Generation & Transmission

Encl.

cc: All parties in EB-2024-0216

ONTARIO ENERGY BOARD

OEB Staff Submission
on Settlement Proposal

Chatham x Lakeshore Limited Partnership (CLLP)

2025-2029 Electricity Transmission Rates

EB-2024-0216

November 25, 2024

Background

Hydro One Networks Inc. (HONI), on behalf of Chatham x Lakeshore Limited Partnership (CLLP), filed an application with the Ontario Energy Board (OEB) on July 12, 2024, for approval of its 2025-2029 electricity transmission rates, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (Act). CLLP is a new transmitter and this is its first application for approval of a transmission revenue requirement for inclusion in the Uniform Transmission Rates (UTRs). In its Application, CLLP requested an order approving the following:

- The setting of CLLP's 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 $85 million (for the 2025-2029 term), which includes $1.8 million for the disposition of the CxL Transmission Line Revenue Requirement Deferral Account (CLLPDA), based on an in-service date of December 2024.

- The filing of 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 CLLP's approved rates revenue requirement in the OEB's determination of the 2025-2029 Network pool of the UTRs.

- Accounting orders effective January 1, 2025 establishing the following:

    i. *Forgone Revenue Deferral Account:* This account would record any differences between the existing revenue requirement recovered under the existing UTRs and the actual OEB-approved revenue requirement.

    ii. *Earnings Sharing Mechanism (ESM) Deferral Account:* This account would record any overearnings realized during any year of the five-year term of the 2025-2029 revenue requirement that is above 100 basis points of the deemed return on equity.

    iii. *Tax Rate and Rule Changes Variance Account:* This account would record the revenue requirement impact of any legislative or regulatory changes to tax rates or rules during the 2025 to 2029 term.

In its Application, CLLP estimated that the inclusion of its 2025 rates revenue requirement in the UTR in 2025 will result in a net impact on average transmission rates of 0.834% and a total bill impact of 0.09% (13 cents per month) for a typical HONI Residential (R1) customer consuming 750 kW per month.

Status of Issues

A settlement conference was held on October 11th, 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) (with CLLP, collectively referred to as the Parties). OEB staff attended the settlement conference but is not a party to the settlement proposal.

CLLP filed a settlement proposal on November 18, 2024 (Settlement Proposal). The Settlement Proposal reflects a comprehensive settlement among the Parties on all issues included on the OEB-approved issues list.

The Settlement Proposal, if approved, would result in a net impact on average transmission rates of 0.83% for the year 2025 and a total bill impact of 0.09% ($0.13 per month) for a typical residential customer consuming 750 kW per month and similarly, a total bill impact of 0.06% ($.028 per month) for a typical general service customer consuming 2000 kW per month.

Submission

Pursuant to 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 are 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 CLLP's Application is one of the three multi-year revenue requirement applications for single-asset transmitters currently being adjudicated by the OEB. The other two single-asset transmitters are Niagara Reinforcement Limited Partnership (NRLP) and B2M Limited Partnership (B2M LP). Decisions and Orders approving the settlement proposals in those proceedings were issued on November 21, 2024.

The NRLP and B2M LP settlement proposals filed with the OEB on October 21, 2024[1], and October 28, 2024[2], respectively, have similar features to the Settlement Proposal filed by CLLP.[3]

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

In the Application, CLLP proposed to set the 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 2029 to the 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[4].

OEB staff submits that CLLP's revenue requirement framework aligns with performance-based regulation principles while being tailored to CLLP'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 in the OEB's *Handbook for Utility Rate Applications*[5] (the Handbook), in which utilities are expected to demonstrate ongoing continuous improvement in their productivity and cost performance.

- Although CLLP's modified rate-setting method is based on a 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.*[6]

- CLLP is a single-asset transmitter with no planned capital expenditures in 2025-2029 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 CLLP's limited asset base and

[1] EB-2024-0117, Settlement Proposal
[2] EB-2024-0116, Settlement Proposal
[3] EB-2024-0216
[4] EB-2021-0110, Settlement Proposal, page 13 of 117
[5] OEB's Handbook for Utility Rate Applications
[6] Renewed Regulatory Framework for Electricity

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 as HONI's Transmission Stretch Factor, is appropriate, given CLLP's operations and management services are provided by HONI via a Service Level Agreement.

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

CxL Transmission Line Revenue Requirement Variance Account (CLLPVA)

As part of the Settlement Proposal, the Parties agreed that CLLP will establish a CLLPVA to record the difference between the revenue requirement associated with actual rate base and approved rate base for 2025. In the event the CLLP assets are in-serviced after December 2024, the CLLPVA shall record the 2024 revenue requirement less any removal costs ($1.3M) as a refund to ratepayers. The balance in the CLLPVA will be disposed of at the one-time update application in 2025.

OEB staff submits that the establishment of the CLLPVA is reasonable as it provides a mechanism to track variances to the revenue requirement associated with the actual project costs, while offering additional protection to ratepayers by addressing the uncertainty surrounding the in-service timing of the transmission line.

Overhead Capitalization Methodology

The Parties agreed that the refined methodology for overhead capitalization for Early Contractor Involvement Engineering Procurement and Construction Delivery (ECI-EPC) projects is appropriate. The methodology involves a blended overhead capitalization rate that reflects the lower level of reliance on HONI's corporate support functions for ECI-EPC projects compared to standard delivery models.

Under this methodology, a blended overhead rate of 2.0% (rounded) is applied to ECI-EPC projects, based on the recommendation from the Atrium report.[7] OEB staff notes that the overhead capitalization rates under HONI's standard delivery models range from 8.0% to 9.0%.[8] CLLP has indicated that if the ECI-EPC rate were not implemented and the standard overhead rate were utilized, the project costs would be $4.6M greater.[9]

[7] Exhibit C, Tab 2, Schedule 1, Page 4 of 6
[8] EB-2021-0110, Exhibit C, Tab 8, Schedule 2, Page 5 of 12
[9] Exhibit I, Tab 1, Schedule 4, Page 3 of 4.

OEB staff submits that the refined overhead capitalization methodology is appropriate as it ensures that costs are allocated in a way that better reflects the actual use of HONI's corporate support functions under the ECI-EPC delivery model.

Performance and Reporting

The Parties agreed that CLLP will publish its performance scorecards (based on the proposed performance measures in the Application) on its website annually, at the same time as required for publishing of HONI's Transmission scorecard[10]. 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 CLLP'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 $5.76 million for the 2025-2029 term. The Parties agreed to reduce the annual 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 results in an overall OM&A reduction of $0.19 million for the 2025-2029 term.

OEB staff submits that the revised total OM&A of $5.56 million is reasonable. Rate affordability must be balanced with the financial needs of the utility, OEB staff has no concerns about the OM&A level agreed by the Parties:

- OEB staff submits that the OM&A agreed to by the Parties should provide the funds necessary for CLLP to operate and maintain its assets in accordance with good utility practice and reliability standards.

- OEB staff submits that the Stretch Factor limits the growth trend on OM&A, which promotes greater cost discipline and benefit to ratepayers through CLLP's continuous improvement.

Cost of Capital

The Parties acknowledged the OEB's ongoing Generic Proceeding on Cost of Capital and Other Matters[11] (the Generic Cost of Capital Proceeding). Notwithstanding that

[10] EB-2021-0110, Settlement Proposal, Appendix A
[11] EB-2024-0063

proceeding, the Parties agreed to the following regarding cost of capital for the 2025 to 2029 rate term:

(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 will be based on a note using the OEB's deemed long-term debt rate for 2024 and forecast debt issuances, representing refinancing with actual debt issuances, using the Government of Canada bond yield forecast from the September 2024 Consensus Forecast.

(iii) The 2026 to 2029 long-term debt rate will reflect actual debt issuances, allowing these issuances to be reflected in the 2026 revenue requirement and through to the end of the rate term.

The Parties further agreed that there would be no updates to cost of capital parameters throughout the term, except for one application in 2025 to update the 2026 to 2029 long-term debt rate for actual issuances in 2025. This will update and set the revenue requirements, effective on January 1 each year for the remaining term from 2026 through to 2029.

CLLP's 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. The Parties also agreed that nothing in the Settlement should 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~