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BY EMAIL

August 28, 2025

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mr. Murray:

**Re: Ontario Energy Board (OEB) Staff Submission
Hydro One Networks Inc.
Application for 2026 Transmission Revenue Requirement
OEB File Number: EB-2025-0159**

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

Yours truly,

Original Signed By

Tina Zhu
Senior Advisor, Generation & Transmission

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Hydro One Networks Inc.

Application for 2026 Transmission Revenue Requirement

EB-2025-0159

August 28, 2025

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 June 12, 2025 and is requesting that its new revenue requirement be effective January 1, 2026. 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 a OEB staff submission and a reply, if any, from Hydro One.

This document outlines OEB staff's submission 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 Balance
3. Disposition of the Earnings Sharing Mechanism (ESM) Deferral Account Balance
4. Approval of the 2026 Export Transmission Service (ETS) rate
5. Other Adjustments and 2026 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 for Hydro One's 2023 to 2027 rates.¹

In that 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 2026 rate year include the OEB's 2026 inflation factor of 3.5% for electricity transmitters², an OEB-approved productivity factor of 0.15% for Hydro One, and a custom capital factor of 1.61%.³

Table 1 below shows the calculation of the 2026 Custom Capital Factor.

Table 1: 2026 Custom Capital Factor Calculation⁴

| | Calculation | 2025 | 2026 |
|---|--|--------------|------------------------|
| Total Capital Related Revenue Requirement (including working capital adjustment and productivity adjustment) | <i>A</i> | 1,701.8 | 1,793.9 |
| OM&A | <i>B</i> | 472.7 | 488.6 ^[1] |
| Total Revenue Requirement | <i>D = A + B</i> | 2,174.5 | 2,282.5 ^[2] |
| Increase in Capital Related Revenue Requirement | <i>E = A₂₀₂₆ - A₂₀₂₅</i> | 78.6 | 92.1 |
| Increase in Capital Related Revenue Requirement relative to Previous Year's Total Revenue Requirement | <i>F = E / D₂₀₂₅</i> | 3.78% | 4.24% |
| Less Capital Related Revenue Requirement in I-X | <i>G = $\frac{A_{2025}}{D_{2025}} \times (I - X)$</i> | 2.77% | 2.62% ^[3] |
| Capital Factor (C) | <i>C = F - G</i> | 1.01% | 1.61% |

[1] 2026 OM&A = 2025 OM&A * [1+(I-X)]

[2] 2026 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:

$$G = \frac{\$1,701.8M}{\$2,174.5M} \times (3.50\% - 0.15\%)$$

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

² OEB Letter re: [2025 Inflation Parameters](#), June 11, 2025

³ [EB-2021-0110](#)

⁴ [EB-2025-0159](#), Exhibit A, Tab 4, Schedule 1, pg. 3

Table 2 below summarizes the components and results of the Custom RCI for 2026:

Table 2: 2026 Custom RCI

| Components | Factor |
|------------------------------------|--------------|
| Inflation Factor (I) | 3.50% |
| Productivity Factor (X) | 0.15% |
| Custom Capital Factor (C) | 1.61% |
| Total RCI (RCI = I – X + C) | 4.96% |

The 2026 base revenue requirement is calculated as shown in Table 3.

Table 3: 2026 Base Revenue Requirement (\$M)

| Year | Formula | Base Revenue Requirement |
|------|--|--------------------------|
| 2025 | OEB-approved Hydro One 2025 base revenue requirement | \$2,174.5 |
| 2026 | 2026 base revenue requirement = 2025 base revenue requirement x 2026 RCI | \$2,282.5 |

Submission

OEB staff supports Hydro One's calculation of the base revenue requirement for 2026. The adjustment is in accordance with the Custom IR methodology and parameters approved by the OEB in its decision and order for Hydro One's 2023 to 2027 rates.

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 Rate⁵, the OEB directed Hydro One to dispose of the balance on an annual basis, commencing when the balance for 2023 is final. Hydro One last disposed of this account as at December 31, 2023 on a final basis in Hydro One's 2025 transmission revenue requirement annual update application.⁶

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 this application, the balance requested for disposition includes interest forecast through December 31, 2025, to reflect carrying charges anticipated through to the proposed effective date. Hydro One has calculated that this will result in a forecast debit balance of \$2,252,437 as at December 31, 2025.

Submission

OEB staff supports Hydro One's request to dispose of the balance of the Excess Export Services Revenue Account. The disposition of the account balance will result in an increase in revenue requirement of \$2,252,437.

OEB staff notes that, as stated in its interrogatory responses, Hydro One will adjust the 2025 interest rates to be in line with the OEB's prescribed interest rate for Q4 once it becomes available⁷. While the rate may not be published in time for inclusion in Hydro One's reply submission, OEB staff expects Hydro One to make the necessary adjustments and file the updated information as soon as it is able to do so.

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

⁶ [EB-2024-0217](#)

⁷ [EB-2025-0159](#), Interrogatory Responses, Exhibit I, Tab 1, Schedule 2, pg. 1 of 2

3. Disposition of the ESM Deferral Account Balance

Hydro One's (transmission) ESM deferral account records 50% of earnings that exceed the regulatory return on equity (ROE) by more than 100 basis points in any year of its rate term. The calculation of the actual ROE uses the OEB-approved mid-year rate base for that period. The ROE calculation is normalized for items such as entries that are recorded in the year which relate to prior years to normalize the in-year net income. Pursuant to the OEB's decision and order for Hydro One's Custom IR Application for 2023 to 2027 rates⁸, Hydro One is requesting disposition of the (transmission) ESM balances for 2021-2024 in this application.

The ESM balance includes interest forecast through to December 31, 2025 to reflect carrying charges anticipated through to the proposed effective date. This will result in a forecast credit balance of (\$69,708,635) as at December 31, 2025.

Submission

OEB staff supports Hydro One's request to dispose of the balance of the ESM Deferral Account as directed in the decision and order for Hydro One's 2023 to 2027 rates. The disposition of the account balance will result in a decrease in revenue requirement of \$69,708,635.

OEB staff notes that, as stated in its interrogatory responses, Hydro One will adjust the 2025 interest rates to align with the OEB's prescribed interest rate for Q4 once it becomes available⁹. While the rate may not be published in time for inclusion in Hydro One's reply submission, OEB staff expects Hydro One to make the necessary adjustments and file the updated information as soon as it is able to do so.

⁸ [EB-2021-0110](#)

⁹ [EB-2025-0159](#), Interrogatory Responses, Exhibit I, Tab 1, Schedule 2, pg. 1 of 2

4. Approval of the 2026 ETS rate

In the OEB's decision and order in the generic proceeding on Uniform Transmission Rates-Related Issues and the ETS Rate¹⁰, the OEB ordered that the ETS Rate shall be adjusted annually, effective January 1, 2025, using the RCI methodology for Hydro One determined in the decision and order for Hydro One's 2023 to 2027 rates¹¹.

Using the RCI factor of 4.96% and the 2025 rate of \$1.86/MWh, the updated 2026 ETS rate is \$1.95/MWh.

Submission

OEB staff supports Hydro One's calculation of the updated 2026 ETS rate. The adjustments are in accordance with the RCI methodology determined in the decision and order for Hydro One's 2023 to 2027 rates.

¹⁰ [EB-2021-0243](#)

¹¹ [EB-2021-0110](#)

5. Other Adjustments and 2026 Revenue Requirement

The 2026 revenue requirement calculation submitted by Hydro One is shown below in Table 4.

Table 4: 2026 Revenue Requirement (\$M)

| | 2026 |
|---|----------------|
| Base Revenue Requirement | 2,282.5 |
| Deduct: External Revenue | (36.9) |
| Deduct: ETS Revenue | (37.2) |
| Add: Low Voltage Switchgear (LVSG) Credit | 20.0 |
| Deduct: Disposition of Deferral and Variance Accounts | (67.5) |
| 2026 Revenue Requirement | 2,160.9 |

Details regarding the Base Revenue Requirement amount of \$2,282.5M and the Disposition of Deferral and Variance Accounts amount of (\$67.5M) are noted in sections 1, 2 and 3 of this document, respectively.

Adjustments for External Revenue of (\$36.9M) and the LVSG Credit of \$20.0M are based on the amounts approved in Hydro One's 2023 to 2027 rates application¹².

Approval of Hydro One's 2026 revenue requirement results in an increase in the total bill of 0.13% or \$0.19 per month for a typical Hydro One Distribution medium density residential (R1) customer consuming 750 kWh monthly and an increase in total bill of 0.09% or \$0.42 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 2026 are shown in Table 5.

Table 5: Current OEB-Approved Charge Determinants

| Current Approved Charge Determinants | MW |
|--------------------------------------|---------|
| Network | 229,485 |
| Line Connection | 222,779 |
| Transformation Connection | 189,509 |

Submission

OEB staff supports Hydro One's calculation of the 2026 revenue requirement of \$2,160.9M.

The adjustments related to External Revenue, ETS Revenue and LVSG Credit are in accordance with the methodology determined in the decision and order for Hydro One's

¹² [EB-2021-0110](#)

2023 to 2027 rates.

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

~All of which is respectfully submitted~