



Ontario
Energy
Board

Commission
de l'énergie
de l'Ontario

Ontario

DECISION AND ORDER

EB-2024-0217

HYDRO ONE NETWORKS INC.

**Application for electricity transmission revenue requirement
beginning January 1, 2025**

BEFORE: Lynne Anderson
Chief Commissioner

October 24, 2024

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1 OVERVIEW

Through this Decision and Order, the Ontario Energy Board (OEB) approves the application filed by Hydro One Networks Inc. (Hydro One) for its 2025 annual transmission revenue requirement effective January 1, 2025, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), along with the disposition of the balance of the Excess Export Services Revenue Account as at December 31, 2023, and the change in the Export Transmission Service (ETS) rate effective January 1, 2025. This Decision is implementing findings from prior decisions of the OEB for Hydro One's Custom Incentive Rate-setting (IR) application for the period 2024-2027 (Custom IR Decision and Order)¹ and the generic proceeding on Uniform Transmission Rates-Related Issues and the Export Transmission Service Rate (ETS Decision and Order).²

The OEB sets rates for rate-regulated electricity transmitters in Ontario by setting a revenue requirement for each transmitter. These individual transmission revenue requirements are incorporated into the Uniform Transmission Rates (UTRs) that are recovered from ratepayers across the province.

Hydro One carries on the business of owning and operating electricity transmission and distribution facilities in Ontario. The company is seeking the OEB's approval for the revenue it receives to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario. Additionally, Hydro One is seeking approval to dispose of the balance of the Excess Export Services Revenue Account and approval of the 2025 Export Transmission Service rate.

In the Custom IR Decision and Order, the OEB approved the proposed Custom IR methodology for Hydro One's transmission revenue requirement and determined that this framework would be used to determine Hydro One's transmission revenue requirement for the years 2024 to 2027. The framework adjusts the transmission revenue requirement by a revenue cap index comprised of custom capital, inflation, and productivity factors. Consistent with the Custom IR Decision and Order, the productivity factor of 0.15% is fixed during the term. Hydro One's capital factor changes each year and has been approved for each year as part of the Custom IR Decision and Order. Hydro One's inflation factor is updated annually by the OEB.

¹ EB-2021-0110, Decision and Order, November 29, 2022

² EB-2021-0243, Decision and Order, November 24, 2022

In the ETS Decision and Order, the OEB directed Hydro One to dispose of the balance of the Excess Export Services Revenue Account on an annual basis, commencing when the balance for 2023 is final.

The OEB also ordered that the ETS Rate shall be adjusted annually, effective January 1, 2025, using the Revenue Cap Index (RCI) methodology for Hydro One Transmission as determined in the Custom IR Decision and Order.

Hydro One's application for approval of its 2025 annual transmission revenue requirement, disposition of the Excess Export Services Revenue Account, and the 2025 ETS rate is approved for the reasons set out below.

As a result of the OEB's findings in this Decision and Order, Hydro One's 2025 rates revenue requirement will be \$2,135.5 million or 5.5% higher than the rates revenue requirement of \$2,024.3 million approved for 2024.³

The total bill impact for a typical Hydro One Distribution medium density residential (Hydro One R1) customer consuming 750 kWh monthly will be an increase of 0.59% or approximately \$0.83 per month. The total bill change for a typical Hydro One Distribution General Service Energy less than 50 kW (Hydro One GSe < 50 kW) customer consuming 2,000 kWh monthly will be an increase of 0.42% or \$1.84 per month.

³ EB-2024-0183, 2023 Uniform Transmission Rates, Schedule A, June 27, 2024

2 THE PROCESS

Hydro One filed this 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 second application filed by Hydro One for an adjustment to its revenue requirement using the Custom IR methodology approved by the OEB in 2022, when the OEB determined that the approved methodology would be used to determine Hydro One's base revenue requirement for the years 2024 to 2027.

Hydro One's application was supported by pre-filed written evidence. Hydro One responded to interrogatories from OEB staff. Final submissions on the application were filed by OEB staff and Hydro One.

3 CUSTOM REVENUE CAP INDEX ADJUSTMENT

The OEB determines the revenue requirement for each of the province’s licensed and rate-regulated electricity transmitters, and those OEB-approved revenue requirements are used to set the UTRs that apply throughout Ontario.

Hydro One’s application requested OEB approval of an adjustment to its base revenue requirement, determined using an OEB-approved Custom IR methodology, in which the base revenue requirement for the prospective rate year is equal to the base revenue requirement in the current year, inflated by the RCI.

The RCI approved by the OEB for Hydro One through its Custom IR Decision and Order includes an inflation factor (“I”), a productivity factor (“X”), which includes a stretch factor, and custom capital factor (“C”). The RCI is expressed as:

$$RCI = I - X + C$$

The Inflation Factor is 3.7%, which is the OEB-approved industry-specific inflation rate for 2025 applications, effective January 1, 2025. The Inflation Factor is updated annually.⁴

In the Custom IR Decision and Order, the OEB approved a productivity factor of 0.15% and a custom capital factor to be updated by the Inflation Factor for 2025.⁵

The components of the RCI adjustment formula applicable to Hydro One are set out in Table 1. They result in a total RCI of 4.56%.

Table 1 - 2024 Custom Revenue Cap Index (RCI)

Components	Amount
Inflation Factor	3.70%
Productivity Factor	(0.15%)
Custom Capital Factor	1.01%
Total Revenue Cap Index (RCI)	4.56%

⁴ OEB Letter, 2025 Inflation Parameters, June 20, 2024

⁵ EB-2021-0110, Decision and Order, November 29, 2022

Hydro One's base revenue requirement for the 2025 rate year is then determined by applying the RCI of 4.56% to Hydro One's 2024 base revenue requirement. The result is a 2025 base revenue requirement of \$2,174.5 million, as shown in Table 2. This 2025 requirement is \$94.7 million or 4.6% higher than Hydro One's 2024 base revenue requirement of \$2,079.8 million. This will subsequently be adjusted for other revenues to set the rates revenue requirement in Section 6 of this Decision.

Table 2 - Hydro One's Base Revenue Requirement by Year

Year	Formula	Base Revenue Requirement (million)
2024	OEB-Approved 2024 Hydro One Base Revenue Requirement	\$2,079.8
2025	2023 Base Revenue Requirement x 2024 RCI = \$2,079.8 million x 1.0456	\$2,174.5

Findings

The OEB concludes that the base revenue requirement proposed by Hydro One to provide transmission service in 2025 is in accordance with the methodology and parameters set by the OEB in the Custom IR Decision and Order. The OEB approves the base revenue requirement of \$2,174.5 million.

4 DISPOSITION OF THE EXCESS EXPORT SERVICES REVENUE ACCOUNT

Hydro One is seeking approval from the OEB to clear the balance of its Excess Export Services Revenue Account as at December 31, 2023, which totals \$15,748,232.24.⁶ As part of the ETS Decision and Order, the OEB has ordered that this balance be disposed of annually, starting with the final 2023 balance.⁷ This account is part of the Network rate pool. The total for disposition in the account is calculated by adding the total interest on the balances for the years in question to the remaining principal balance in the account.

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.

Findings

The OEB concludes that the balance of the Excess Export Services Revenue Account for disposition was calculated in accordance with the methodology and parameters set by the OEB in the ETS Decision and Order. The OEB approves the disposition of \$15,748,232.24 from the account.

⁶ Interrogatory Responses Staff-2a, Exhibit I, Tab 1, Schedule 2, Attachment 1, pg. 1

⁷ EB-2021-0243, Decision and Order, November 24, 2022

5 APPROVAL OF THE 2025 EXPORT TRANSMISSION SERVICE RATE

The use of the RCI factor to escalate the ETS rate was determined in the ETS Decision and Order. The decision in that proceeding stated the following:

The OEB is setting the ETS rate on a two-year basis for a period of stability, given contracts that may be in place in the electricity market. Effective January 1, 2025, the ETS rate will escalate annually based on the RCI for Hydro One's transmission business.⁸

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

Findings

The OEB concludes that the ETS rate was calculated in accordance with the methodology and parameters set by the OEB in the ETS Decision and Order. The OEB approves the ETS rate of \$1.86/MWh effective January 1, 2025.

⁸ EB-2021-0243, Decision and Order, November 24, 2022

6 2025 RATES REVENUE REQUIREMENT AND OTHER ADJUSTMENTS

The base revenue requirement for Hydro One is allocated among the three rate pools (Network, Line Connection and Transformation Connection) using the OEB-approved percentage allocation for Hydro One Transmission.⁹

The rates revenue requirement is the total transmission base revenue requirement, adjusted for other revenues, including external revenue, wholesale meter service revenue, ETS revenue, low voltage switchgear credit, and disposition of deferral and variance accounts.¹⁰ Inclusion of these revenue offsets results in a rates revenue requirement of \$2,135.5 million for 2025 as shown in Table 3.

Table 3 - Hydro One's 2025 Total Rates Revenue Requirement (million)

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

The resulting pool allocation of Hydro One's rates revenue requirement is shown in Table 4.

Table 4 - Hydro One's 2025 Rates Revenue Requirement by Rate Pool (million)

Transmitter	Network	Line Connection	Transformation Connection	Total
Hydro One	\$1,280.1	\$222.0	\$633.5	\$2,135.6

⁹ EB-2021-0110, Decision and Order, November 29, 2022, Schedule A, Attachment 1, Schedule 2.2, Table 1

¹⁰ Exhibit A, Tab 4, Schedule 1, pg.1, Table 1

In accordance with the Custom IR Decision and Order, the charge determinants for 2025¹¹ are shown in Table 5.

Table 5 – 2025 Charge Determinants (in MWs)

Transmitter	Network	Line Connection	Transformation Connection
Hydro One	230,449	223,708	190,299

Hydro One's proposed 2025 rates revenue requirement of \$2,135.5 million is \$111.2 million or 5.5% higher than its approved 2024 rates revenue requirement of \$2,024.3 million.

Hydro One's 2025 rates revenue requirement represents approximately 91.5% of the revenue requirement across all transmitters, based on the preliminary 2024 UTRs. Hydro One estimated that its proposed 2025 rates revenue requirement will result in a 6.2% increase to average transmission rates and a 0.8% increase to average transmission customer bills, as shown in Table 6.

Table 6 – Comparison of Hydro One's 2024 and 2025 Rates Revenue Requirement, Average Bill Impacts on Transmission Connected Customers

	2023	2024
Hydro One Rates Revenue Requirement	\$2,024.3 million	\$2,135.5 million
% Change in Rates Revenue Requirement over prior year		5.5%
% Impact of load forecast change		1.3%
Net Impact on Average Transmission Rates		6.2%
Transmission as a % of Tx-connected customer's Total Bill		12.2%
Estimated Average Transmission Customer Bill impact		0.8%

Hydro One estimated that its proposed 2025 rates revenue requirement will result in an

¹¹ EB-2021-0110, Decision and Order, November 29, 2022, Schedule A, Attachment 1, Schedule 2.1, Table 1b

increase of 0.59% for a typical Hydro One Distribution medium density residential customer (Hydro One R1) consuming 750 kWh monthly and an increase of 0.42% for a typical Hydro One Distribution General Service Energy less than 50 kW customer (Hydro One GSe < 50 kW) consuming 2,000 kWh monthly, as shown in Table 7 below.

Table 7 – 2024 Typical Distribution Connected Customer Monthly Bill Impact

	Typical Medium Density (HONI R1) Residential Customer Consuming 750 kWh per month	Typical General Service Energy less than 50 kW (HONI Gse <50kW) Customer Consuming 2,000 kWh per month
Total Bill as of January 1, 2024	\$141.10	\$441.58
RTSR Charge included in 2024 Bill	\$16.544	\$36.606
<i>Estimated 2025 Total RTSR</i>	\$17.375	\$38.447
2025 Change in Monthly Bill	\$0.831	\$1.841
2025 change as % of total bill	0.589%	0.417%

Findings

The OEB concludes that the 2025 rates revenue requirement has been calculated appropriately as the base revenue requirement offset by other revenues. The OEB approves a 2025 rates revenue requirement of \$2,135.6 million with an effective date of January 1, 2025.

7 IMPLEMENTATION

Hydro One requested that its revenue requirement be reflected in the UTR rates effective January 1, 2025. If implementation cannot occur by then, Hydro One requested an interim order making its current transmission revenue requirement and charges effective on an interim basis as of January 1, 2025.

The OEB anticipates that it will establish new preliminary UTRs or final UTRs in time for implementation as of January 1, 2025. Whether preliminary or final, these UTRs will include Hydro One's 2025 rates revenue requirement. As a result, no deferral account will be required to track foregone revenue. The approval of final UTRs at a later date, if necessary, should have no impact on Hydro One.

8 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One's 2025 transmission rates revenue requirement of \$2,135.6 million is approved, with an effective date of January 1, 2025. Hydro One's resultant revenue requirement will be included in the OEB's determination of the 2025 Uniform Transmission Rates for Ontario.
2. Hydro One's disposition of the \$15,748,232.24 balance of the Excess Export Services Revenue Account is approved.
3. The change of the ETS rate to \$1.86/MWh is approved with an effective date of January 1, 2025.

DATED at Toronto, October 24, 2024

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar