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BY EMAIL

October 2, 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
Hydro One Sault Ste. Marie Limited Partnership (HOSSM)
Application for 2025 Transmission Rates
OEB File Number: EB-2024-0218**

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

Yours truly,

Original Signed By

Abla Nur
Analyst, Generation & Transmission

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

**Hydro One Sault Ste. Marie Limited Partnership (HOSSM)
Application for 2025 Transmission Rates**

EB-2024-0218

October 2, 2024

Application Summary

Hydro One Sault Ste. Marie Limited Partnership (HOSSM) is seeking approval of its annual revenue requirement to transmit electricity, as is required of licensed and rate-regulated transmitters in Ontario. HOSSM filed its application with the OEB on July 19, 2024 and is requesting that its new rates be effective January 1, 2025. 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 OEB staff submissions and a reply, if any, from Hydro One.

This document outlines OEB staff's submissions on the following topics based on its review of the evidence submitted by HOSSM:

1. Revenue Cap Incentive Rate-setting Adjustment
2. Disposition of Earnings Sharing Mechanism Account and 2025 Rates Revenue Requirement

1. Revenue Cap Incentive Rate-setting Adjustment

HOSSM is requesting OEB approval of an adjustment to its base revenue requirement, determined using the Revenue Cap Index (RCI) methodology approved in the decision and order EB-2018-0218¹.

In its decision, the OEB approved HOSSM's proposed methodology in which the base revenue requirement for the prospective rate year is adjusted by an RCI. The decision also determined that this methodology would be used to determine HOSSM's base transmission revenue requirement for the years 2019 to 2026 inclusive.

The components of the RCI adjustment formula applicable to HOSSM for the 2025 rate year include the OEB's 2025 inflation factor of 3.7% for electricity transmitters² and an OEB approved productivity factor of 0.3% for HOSSM³.

Table 1 summarizes the components and results of the RCI for 2025:

Table 1: 2025 Revenue Cap Index (RCI)

Inflation Factor (I)	3.7%
Productivity Factor (X)	0.3%
Total Revenue Cap Index (RCI=I - X)	3.4%

The 2025 base revenue requirement is calculated as shown in Table 2 below:

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 = 2023 base revenue requirement x 2024 RCI	\$47,719,612

Submission

OEB staff supports HOSSM's calculation of the base revenue requirement for 2025. The adjustment is in accordance with the RCI methodology and parameters set by the OEB in its decision and order in EB-2018-0218.

¹ [EB-2018-0218](#), Decision and Order, July 18, 2019

² OEB Letter re: [2025 Inflation Parameters](#), June 20, 2024

³ [EB-2018-0218](#), Decision and Order, July 18, 2019

2. Disposition of Earnings Sharing Mechanism Account and 2025 Rates Revenue Requirement

HOSSM is requesting OEB approval to dispose of the balance of its Earnings Sharing Mechanism (ESM) account. In its decision approving Hydro One Inc.'s acquisition of the shares of Great Lakes Power Transmission Inc. (HOSSM is the transmitter that resulted from that transaction)⁴, the OEB approved an ESM that would take effect during the last five years of the rebasing deferral period (2022 to 2026) where HOSSM's 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 (ROE) approved by the board.

In 2023, HOSSM achieved an ROE of 19.45%, 10.26% over the allowed ROE of 9.19%. In response to OEB staff interrogatories⁵, HOSSM indicated that this higher-than-expected performance was primarily attributed to favorable weather and load conditions, which resulted in increased revenue. Additionally, HOSSM noted that lower OM&A costs were achieved through savings in work programs, further contributing to the over-earning.

The key components of the ESM calculation include cost of capital parameters set by the OEB in 2016 and HOSSM's 2023 regulated net income⁶. The ESM calculation is summarized below:

Table 3: ESM Calculation

Regulated Net Income (actual)	\$15,929,409
Excess Earnings Pool	\$5,944,824 ⁷
Sharing with ratepayers	50%
Sharing with ratepayers	\$2,972,412
Tax Grossed-up Amount	\$4,044,098

HOSSM made a principal adjustment in the amount of \$851,978 during 2024. In response to staff Interrogatories⁸, Hydro One explained that this adjustment was due to updated information from HOSSM's audited financials. The initial ESM calculation was performed at the beginning of the year using financial data calculated under US GAAP. Following the preparation and audit of HOSSM's financial statements under IFRS in Q2 2024, the ESM calculation was adjusted. Hydro One identified differences in the treatment of pension, capital contributions, and amortization of fixed assets between

⁴ EB-2016-0050, Decision and Order, October 13, 2016

⁵ OEB Staff IR- 1a

⁶ Includes forecasted interest through to December 31, 2024.

⁷ Determined by multiplying mid-year rate base, common equity and over earning to allowed threshold percentage.

⁸ OEB Staff IR- 2a

IFRS and US GAAP, leading to lower net income and a reduced ESM. HOSSM states that this \$851,978 adjustment reflects this lower ESM balance under IFRS.

In response to staff interrogatories⁹, HOSSM updated the projected interest amount for the ESM balance in the continuity schedule. The updated ESM balance and revised revenue requirement is shown below:

Table 4: Updated ESM and Revenue Requirement

2025 Revenue Requirement	Total
Base Revenue Requirement	\$47,719,612
Disposition of 2023 ESM balance	-\$4,330,963
Total Rates Revenue Requirement	\$43,888,649

The disposition of the ESM account will result in a reduced revenue requirement of \$4,330,963 for a total 2025 rates revenue requirement of \$43,388,649.

HOSSM estimates that with the disposition of the ESM account balance, the proposed 2025 rates revenue requirement would result in a decrease of \$0.004 (0.003%) to the average monthly bill of a medium density residential customer consuming 750 kWh.

With regard to charge determinants, in its decision dated June 20, 2019, the OEB approved HOSSM's request to maintain charge determinants during the deferred rebasing period.¹⁰ The current charge determinants approved for the years 2019 to 2026 are shown in Table 5 below.

Table 5: Current OEB-Approved Charge Determinants

Current Approved Charge Determinants	MWs
Network	3,498.236
Line Connection	2,734.624
Transformation Connection	635.252

Submission

OEB staff has no concerns with the calculation of the ESM, the calculation of the earnings to be shared is consistent with OEB-approved ESM framework for HOSSM. OEB staff has no concerns with the principal adjustments made in 2024, as it aligns with

⁹ OEB Staff IR – 2b

¹⁰ EB-2018-0218, Decision and Order, June 20, 2019

HOSSM reporting under IFRS.

OEB staff supports HOSSM's request to dispose of the balance of its ESM account as directed in OEB decision EB-2016-0050. The ESM is designed to ensure customers share in any increased benefits from consolidation during the deferred rebasing period. The disposition of the account balance will result in a reduced revenue requirement of \$4,330,963 including forecast interest, for a total 2025 revenue requirement of \$43,388,649.

~All of which is respectfully submitted~