



DECISION

EB-2016-0160

HYDRO ONE NETWORKS INC.

**2018 Transmission Revenue Requirements and
Charge Determinants**

BEFORE: Ken Quesnelle
Presiding Member

Emad Elsayed
Member

Peter C. P. Thompson, Q.C.
Member

December 20, 2017

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1. INTRODUCTION AND SUMMARY

Hydro One Networks Inc. (Hydro One) originally filed an application with the Ontario Energy Board (OEB), for its 2017 and 2018 transmission revenue requirements and charge determinants on May 31, 2016. This Decision finalizes the remaining issues related to the draft revenue requirement/charge determinant order and supporting materials (collectively the 2018 draft rate order) filed with the OEB by Hydro One on December 4, 2017.

These materials were filed by Hydro One in response to the OEB's September 28, 2017 decision and order for Hydro One's 2017 and 2018 transmission revenue requirements and charge determinants¹ and the two decisions and orders issued on November 9, 2017 and November 23, 2017, respectively (see Section 2 of this Decision for details). Several adjustments, as allowed by the OEB, were made by Hydro One to set its transmission revenue requirement on a final basis for 2018.

The transmission rates revenue requirement amounts that Hydro One originally asked the OEB to approve were \$1,487.4 million for 2017 and \$1,558.4 million for 2018. These proposed revenue requirements reflect a year-over-year increase of 0.5% for 2017 over 2016 approved levels and 4.8% for 2018 over 2017.

In its November 23, 2017 decision and order, the OEB approved a transmission rates revenue requirement of \$1,437.8 million for 2017 and \$1,497.0 million for 2018, reflecting a decrease of 3.3% for 2017 and a decrease of 3.9% for 2018, from applied-for levels.

In the most recent filing (December 4, 2017), Hydro One calculated its 2018 transmission rates revenue requirement to be \$1,510.7 million which is \$47.7 million less than the applied-for amount for 2018 or a reduction of 3.1%.

Hydro One also provided the estimated bill impacts of the 2018 change in the Uniform Transmission Rates (UTR), indicating that a typical residential customer using 750 kWh of electricity per month would experience a bill increase of 45 cents per month, or 0.2% from 2017 levels. A General Service less than 50 kW customer using 2000 kWh per month would experience a bill increase of 98 cents per month, or 0.2%, from existing 2017 levels.

¹ Revised on November 1, 2017

2. THE PROCESS

This Decision responds to the application by Hydro One for OEB approval of its transmission revenue requirements for 2017 and 2018.

The OEB issued its original decision and order for this application on September 28, 2017² and then issued further revenue requirement and charge determinant orders as follows:

- In the November 9, 2017 decision and order, the OEB approved the 2017 Wholesale Meter and Exit Fee Schedule; 2017 Low Voltage Switchgear Credit Schedule; 2017 Foregone Revenue Accounting Order; the 2017 and 2018 In-Service Capital Additions Variance Accounting Order; and the 2017 and 2018 Charge Determinants. In addition, the OEB confirmed the methodology to set Hydro One's income tax expense for recovery from ratepayers at \$51.0 million for 2017 (with the 2018 amount to be determined when 2018 revenue requirement updates were filed).
- In the November 23, 2017 decision and order, the OEB approved the final 2017 transmission revenue requirement for Hydro One (including the tax amount approved on November 9, 2017); the allocation of the approved revenue requirement to the 3 transmission rate pools and approved the excess revenue calculation of \$10.6 million which was to be credited to customers when the 2018 UTR are approved.

The OEB's original September 28, 2017 decision and order provided for Hydro One to update its cost of capital for the determination of its 2018 revenue requirement.

On December 4, 2017 Hydro One applied for approval of its updated 2018 revenue requirement accordingly and included supporting exhibits in its evidence. The changes in this filing for 2018 were:

- An update to cost of capital reflecting the most recent 2017 debt issuances, the 2018 forecast debt issuances and the OEB's cost of capital parameter 2018 updates³.
- The 2018 income tax amount of \$57.2 million was calculated according to the OEB's November 9, 2017 decision and order.

² Revised on November 1, 2017

³ Issued on November 23, 2017

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- The 2017 excess revenue credit of \$10.6 million was applied to the 2018 rates revenue requirement.

Hydro One is one of five licensed electricity transmitters in Ontario that recover their revenues through Ontario's Uniform Transmission Rates (UTR). The OEB approves the revenue requirements and charge determinants for the individual transmitters and uses them to calculate the UTR. The final 2018 amounts determined in this Decision for Hydro One will be used in the determination of the 2018 UTR, along with the related amounts approved for the other four Ontario transmitters.

In its December 4, 2017 filing, Hydro One also included the calculations and supporting schedules that are used to determining the 2018 UTR. While not addressed in this Decision, the OEB will incorporate this information in the proceeding in which it will determine the 2018 UTR⁴.

⁴ EB-2017-0359

3. 2018 REVENUE REQUIREMENT

a) Cost of Capital Update

In its December 4, 2017 filing, Hydro One updated its cost of capital, reflecting the most recent 2017 debt issuances; the 2018 forecast debt issuances and the OEB's 2018 cost of capital parameter updates as issued on November 23, 2017. These updates are detailed in Exhibits 1.4. and 1.4.1, showing capital structure/return on capital and debt issuance details, respectively.

These updates have resulted in an increase in overall 2018 cost of capital by \$22.1 million over pre-update levels.

b) Tax Calculations

In its November 9, 2017 decision and order, the OEB found that the regulatory income taxes to be included in the final orders related to Hydro One's 2017 and 2018 revenue requirements were to be calculated on the basis of an allocation to ratepayers of 62% of the regulatory taxes proposed by Hydro One for recovery from them.

As a result of the changes in the revenue requirement for 2018 related to increases in the costs of capital, the amount of income tax recovery from ratepayers for 2018 has increased from pre-update levels by \$2.2 million, to \$57.2 million.

The OEB notes that these calculations were set out in detail in Exhibit 1.5 of the December 4, 2017 filing.

c) 2017 Excess Revenue Credit

In its September 28, 2017 decision and order, the OEB indicated that it would approve a deferral account to capture lost 2017 revenue as a result of the OEB's decision. In its November 9, 2017 decision and order, the OEB approved the 2017 Foregone Transmission Revenue Deferral Account, and determined that the balance of this account should be applied in the 2018 rate year. The OEB's 2017 revenue requirement decision⁵ resulted in a credit of \$10.6 million to customers and in that decision the OEB determined that this amount would be credited to customers in 2018.

Findings

The OEB finds that Hydro One has appropriately updated its 2018 revenue requirements for changes in the Cost of Capital and has appropriately reflected the OEB's decision on the 62% allocation factor pertaining to the amount of tax to be

⁵ November 23, 2017 Decision and Order

recovered from ratepayers. The OEB also finds that Hydro One has appropriately credited customers with the 2017 excess revenues of \$10.6 million.

The OEB approves the Hydro One transmission rates revenue requirement for 2018 at \$1,510.7 million. The supporting calculations for this revenue requirement are shown in Schedule A to this Decision.

4. 2018 REVENUE ALLOCATION TO THE TRANSMISSION RATE POOLS

In Exhibit 2.0 of its updated 2018 draft rate order, Hydro One provided a schedule that showed how Hydro One's revised 2018 rates revenue requirement was allocated to the three transmission rate pools for the purposes of determining the 2018 UTR, in accordance with the OEB's findings in the September 28, 2017 decision and order.

Findings

The OEB approves the allocation of \$831.5 million to the Network Pool, \$219.3 million to the Line Connection Pool and \$459.9 million to the Transformation Connection Pool for 2018, as set out in Schedule B.

5. 2018 OTHER CHARGES

Hydro One also submitted the detailed calculations of two additional charges unique to its transmission operations: The 2018 Wholesale Meter Service and Exit Fee Schedule and the 2018 Low Voltage Switchgear Credit.

Findings

The OEB approves Hydro One's 2018 Wholesale Meter Service and Exit Fee Schedule and the 2018 Low Voltage Switchgear Credit as submitted. These schedules are attached as Schedules C and D, respectively.

DATED at Toronto December 20, 2017

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli

Board Secretary

Schedule A

Hydro One Networks Inc.

Transmission

EB-2016-0160

Decision

2018 Revenue Requirement Summary

[December 4, 2017 Hydro One DRO Exhibit 1.0]

December 20, 2017

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2016-0160

Filed: 2017-12-04
EB-2016-0160
EB-2017-0359
DRO Exhibit 1.0
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Revenue Requirement Summary

<i>(\$ millions)</i>	Supporting Reference	OEB Approved 2018	CoC Update 2018	OEB Revised 2018
OM&A	Exhibit 1.1	394.3	-	394.3
Depreciation	Exhibit 1.2	468.6	-	468.6
Return on Debt	Exhibit 1.4	289.9	12.3	302.3
Return on Equity	Exhibit 1.4	391.5	9.8	401.3
Income Tax (Note 1)	Exhibit 1.5	55.1	2.2	57.2
Base Revenue Requirement		1,599.4	24.3	1,623.8
Deduct: External Revenue	Exhibit 1.6	(28.5)	-	(28.5)
Subtotal		1,570.9	24.3	1,595.3
Deduct: Export Tx Service Revenue	Exhibit 1.7	(40.1)	-	(40.1)
Deduct: Other Cost Charges	Exhibit 1.8	(47.8)	-	(47.8)
Deduct: MSP Revenue		(0.3)	-	(0.3)
Add: 2017 Foregone Revenue		(10.6)	-	(10.6)
Add: Low Voltage Switch Gear		13.9	0.2	14.1
Rates Revenue Requirement (Note 2)		1,486.2	24.6	1,510.7

Note 1: OEB approved Income Tax based on 62% allocation factor.

Note 2: Rates Revenue Requirement includes MSP Revenue and 2017 Foregone Revenue

Schedule B

Hydro One Networks Inc.

Transmission

EB-2016-0160

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2018 Revenue Requirements by Rate Pool

[December 4, 2017 Hydro One DRO Exhibit 2.0]

December 20, 2017

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2016-0160

Filed: 2017-12-04
EB-2016-0160
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DRO Exhibit 2.0
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2018 Revenue Requirement by Rate Pool

	Supporting Exhibit	2018 Rate Pool Revenue Requirement (\$ Million)			
		Network (Note 3)	Line Connection	Transformation Connection	Uniform Transmission Rates Revenue Requirement
OM&A	1.1	194.1	39.7	96.2	330.0
Other Taxes (Grants-in-Lieu)	Note 1	38.0	9.5	16.9	64.3
Depreciation of Fixed Assets	1.2	229.5	55.8	116.7	402.0
Capitalized Depreciation	Note 2	(7.5)	(1.9)	(3.4)	(12.8)
Asset Removal Costs	Note 2	40.6	10.3	18.3	69.2
Other Amortization	Note 2	6.0	1.5	2.7	10.1
Return on Debt	1.4	178.5	44.5	79.3	302.3
Return on Equity	1.4	237.0	59.1	105.2	401.3
Income Tax	1.5	33.8	8.4	15.0	57.2
Base Revenue Requirement		950.0	226.9	446.9	1623.8
Less External Revenues	1.6	(16.7)	(4.0)	(7.8)	(28.5)
Total Revenue Requirement		933.3	222.9	439.0	1595.3
Less MSP Revenue	Note 3			(0.3)	(0.3)
Less Export Revenues	1.7	(40.1)			(40.1)
Less Regulatory Asset Credit	1.8	(31.8)	(5.4)	(10.6)	(47.8)
Plus LVSG Credit	6.0			14.1	14.1
Plus 2017 Foregone Revenue	Note 4	(30.0)	1.7	17.7	(10.6)
Total Rates Revenue Requirement	Note 3	831.5	219.3	459.9	1510.7

Note 1: Included in OEB Approved 2018 OMA total in Exhibit 1.1.

Note 2: Included in OEB Approved 2018 Depreciation total in Exhibit 1.2.

Note 3: MSP revenue as per Exhibit H1, Tab 3, Schedule 1, Table 1, and assignment to Transformation Connection rate pool as per EB-2016-0160 Decision and Order, pg. 70.

Note 4: 2017 Foregone Revenue as per OEB Decision EB-2016-0160, issued on November 23, 2017, and allocation to Rate Pools as per 2017 Draft Rate Order, EB-2016-0160 Exhibit 9.0.

Schedule C

Hydro One Networks Inc.

Transmission

EB-2016-0160

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2018 Wholesale Meter Service and Exit Fee Schedule

[December 4, 2017 Hydro One DRO Exhibit 5.0]

December 20, 2017

**HYDRO ONE NETWORKS INC.
WHOLESALE METER SERVICE
AND EXIT FEE SCHEDULE**

HYDRO ONE NETWORKS - WHOLESALE METER SERVICE

APPLICABILITY:

This fee schedule is applicable to the *metered market participants** that are transmission customers of Hydro One Networks (“Networks”) and to *metered market participants* that are customers of a Local Distribution Company (“LDC”) that is connected to the transmission system owned by Networks.

* The terms and acronyms that are italicized in this schedule have the meanings ascribed thereto in Chapter 11 of the Market Rules for the Ontario Electricity Market.

a) Fee for Wholesale Meter Service

The *metered market participant* in respect of a *load facility* (including customers of an LDC) shall be required to pay an annual fee of \$7,900 for each *meter point* that is under the transitional arrangement for a *metering installation* in accordance with Section 3.2 of Chapter 6 of the Market Rules for the Ontario Electricity Market.

This Wholesale Meter Service annual fee shall remain in place until all the remaining meter points exit the transitional arrangement.

b) Fee for Exit from Transitional Arrangement

The *metered market participant* in respect of a *load facility* (including customers of an LDC) or a *generation facility* may exit from the transitional arrangement for a *metering installation* upon payment of a one-time exit fee of \$ 5,200 per *meter point*.

EFFECTIVE DATE: January 1, 2017	BOARD ORDER: EB-2017-0280	REPLACING BOARD ORDER: EB-2015-0313 January 14, 2016	Page 2 of 2 Wholesale Meter Service & Exit Fee Schedule for Hydro One Networks Inc.
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Schedule D

Hydro One Networks Inc.

Transmission

EB-2016-0160

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2018 Low Voltage Switchgear Credit

[December 4, 2017 Hydro One DRO Exhibit 6.0]

December 20, 2017

Hydro One Networks Inc.
Implementation of Decision with Reasons on EB-2016-0160

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Low Voltage Switchgear (LVSG) Credit
Effective January 1, 2018

Charge Determinant (MW)	Transformation Pool Revenue Requirement Before LVSG Credit (\$M)	Rate Before LVSG Credit (\$/kw/month)	Total Annual 2018 NCP Demand for Toronto Hydro and Hydro Ottawa (MW)	LVS Proportion (%)	Final Annual LVSG Credit (\$M)
<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>
(A)	(B)	(C) = (B)/(A)	(D)	(E)	(F) = (C)x(D)x(E)
202,510	428.1	2.11	35,178	19.0%	14.1

Note 1: Per Exhibit 4.0

Note 2: Equals Total Revenue Requirement for Transformation Connection Pool less Non-Rate Revenues and 2017 Foregone Revenue allocated to Transformation Connection Pool, as per information in Exhibit 2.0.

Note 3: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, Table 6; Sum of Toronto Hydro and Hydro Ottawa total annual 2018 NCP Demand, 27,171 MW and 8,007 MW, respectively.

Note 4: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, page 7

Note 5: Per EB-2016-0160, Exhibit G1, Tab 3, Schedule 1, Table 6; Sum of Toronto Hydro and Hydro Ottawa total annual 2018 LVSG credit, \$10,913,609 and \$3,216,284 , respectively.