



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

DECISION AND ORDER

EB-2016-0160

HYDRO ONE NETWORKS INC.

**2017 and 2018 Transmission Revenue Requirements and
Charge Determinants**

BEFORE: Ken Quesnelle
Presiding Member

Emad Elsayed
Member

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

November 23, 2017

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1. INTRODUCTION AND SUMMARY

This Decision and Order finalizes the remaining issues related to the draft revenue requirement/charge determinant order and draft uniform transmission rates (UTR) order and supporting materials (collectively the draft rate order) filed with the Ontario Energy Board (OEB) by Hydro One Networks Inc. (Hydro One) on October 10, 2017. These materials were filed in response to the OEB's September 28, 2017 EB-2016-0160 Decision and Order for Hydro One's 2017 and 2018 transmission revenue requirements and charge determinants (Decision).

OEB staff and intervenors filed comments on the Hydro One materials on October 1, 2017 and Hydro One filed its reply submission on October 18, 2017.

On November 9, 2017, the OEB issued a Decision and Order (the DRO Decision) which included findings on:

- the Canadian Niagara Power Inc. Transmission 2017 Revenue Requirement and Deferral Account request
- Hydro One's 2017 and 2018 Capital Spending and In-Service Additions forecasts
- regulatory income taxes recoverable from ratepayers
- the foregone transmission revenue deferral account
- 2017 and 2018 Charge Determinants
- 2017 Other Charges
- approval of two Accounting Orders.

The OEB's finding in the DRO Decision on the regulatory income taxes recoverable from ratepayers resulted in a change to the 2017 rates revenue requirement and the related allocation of that revenue requirement to the three transmission rate pools. In addition, the DRO Decision mandated an implementation date of November 1, 2017, necessitating an update to the Foregone Transmission Revenue Deferral Account.

On November 16, 2017, Hydro One submitted an updated transmission draft rate order reflecting the OEB's DRO Decision. Hydro One also included an update of the 2017 UTR calculation to be used in the EB-2017-0280 UTR order.

The updated draft rate order also provided the estimated bill impacts of the 2017 change in the UTR, indicating that a typical residential customer using 750 kWh of electricity per month would experience a bill decrease of 7 cents per month. A General Service less 50 kW customer using 2000 kWh per month would experience a bill decrease of 16 cents per month.

2. THE PROCESS

The OEB's November 9, 2017 DRO Decision, required Hydro One to file a revised 2017 draft revenue requirement and UTR order to reflect further reductions in regulatory income taxes recoverable in 2017 and 2018.

The OEB indicated that these materials should include an updated Implementation of Decision section, and updated supporting materials with any explanation of specific items, as necessary. In particular, Hydro One was to revise its lost revenue calculation to reflect a change in the implementation date of the 2017 UTR from October 1, 2017 to November 1, 2017. Hydro One filed the required material on November 16, 2017.

The total amount to be recovered by Hydro One Transmission in 2017 is derived from the OEB's EB-2016-0160 September 28, 2017 Decision and a number of issues that were finalized in the DRO Decision. The findings in this Decision and Order finalize the transmission revenue requirement amounts and the allocation of those amounts to the three transmission rate pools for 2017.

Hydro One also included in its updated draft rate order materials the 2018 revenue requirement, estimated to be \$1,599.4 million. This amount will be adjusted in the near future when the OEB issues its 2018 Cost of Capital parameters and Hydro One applies these parameters to calculate the final 2018 revenue requirement. These costs will be included in the determination of the 2018 UTR to be issued in late December 2017 or early January 2018.

Hydro One's updated draft rate order seeks approval for:

- a total 2017 revenue requirement of \$1,539.6 million, of which \$1,437.5 million is the revenue requirement to be recovered in transmission rates
- the allocation of these revenues to the three transmission rate pools
- the 2017 forgone revenue requirement amount to be recovered when the 2018 UTR are approved.

Hydro One is one of five licensed electricity transmitters in Ontario that recover their revenues through Ontario's UTR. The OEB approves the revenue requirements and charge determinants for the individual transmitters and uses them to calculate the UTR. The final 2017 amounts determined in this Decision and Order for Hydro One will be used in the determination of the 2017 UTR, along with the related amounts approved for the other four Ontario transmitters.

The DRO Decision determined that the 2017 UTR will be effective January 1, 2017 but implemented November 1, 2017. The 2017 UTR rate order will be issued under OEB file number EB-2017-0280.

3. REVENUE REQUIREMENT ADJUSTED FOR REGULATORY INCOME TAXES RECOVERABLE FROM RATEPAYERS

In its DRO Decision, 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 \$51.0 million and \$55.0 million respectively.

In its updated draft rate order, Hydro One included these amounts for regulatory income taxes in the determination of the 2017 and 2018 revenue requirements. This results in a 2017 total revenue requirement of \$1,539.6 million for 2017 and \$1,570.9 million for 2018. The resulting rate revenue requirement for the purposes of setting the UTR is \$1,437.5 million for 2017 and \$1,497.0 million for 2018.

Findings

The OEB approves the revenue requirement amounts for 2017 and 2018 and notes that the 2018 amount will be adjusted for cost of capital to derive a final revenue requirement for 2018. These amounts are set out in Appendix A, Exhibit 1.0.

4. 2017 REVENUE ALLOCATION TO THE TRANSMISSION RATE POOLS

In Exhibit 3.0 of its updated draft rate order Hydro One provided a schedule that showed how Hydro One's revised 2017 rates revenue requirement was allocated to the three transmission rate pools for the purposes of determining the 2017 UTR.

Findings

The OEB approves the allocation of \$814.0 million to the Network Pool, \$204.9 million to the Line Connection Pool and \$418.5 million to the Transformation Connection Pool for 2017, as set out in Appendix A, Exhibit 2.0.

5. 2017 FOREGONE REVENUE CALCULATION

In its DRO Decision, the OEB amended its earlier decision regarding the implementation dates of the UTR. The implementation date was changed from October 1, 2017 to November 1, 2017.

Accordingly, in its updated draft rate order, Hydro One amended its 2017 foregone revenue amount in Exhibit 9.0 to account for one additional month of foregone revenue. As the net effect of the OEB decision is a reduction in rates, the “foregone revenue” amount is actually excess revenue that will be credited to customers.

Findings

The OEB approves the excess revenue calculation in the amount of -\$10.6 million which will be credited to customers when the 2018 UTR are approved.

DATED at Toronto November 23, 2017

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Appendix A

Hydro One Networks Inc.

Transmission

EB-2016-0160

Decision and Order

November 23, 2017

2017 and 2018 Revenue Requirements

Exhibit 1.0

**2017 and 2018 Revenue Requirement Summary
[Updated November 16, 2017 DRO Exhibit 1.0]**

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

Updated: 2017-11-16
EB-2016-0160
EB-2017-0280
DRO Exhibit 1.0
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Revenue Requirement Summary

(\$ millions)	Supporting Reference	Hearing Update 2017	Hearing Update 2018	OEB Decision 2017	OEB Decision 2018	OEB Approved 2017	OEB Approved 2018
				Note 1	Note 1		
OM&A	Exhibit 1.1	412.7	409.3	(15.0)	(15.0)	397.7	394.3
Depreciation	Exhibit 1.2	435.7	470.7	(1.3)	(2.1)	434.4	468.6
Return on Debt	Exhibit 1.4	287.8	296.4	(0.9)	(6.5)	287.0	289.9
Return on Equity	Exhibit 1.4	370.7	394.2	(1.1)	(2.7)	369.6	391.5
Income Tax (Note 2)	Exhibit 1.5	81.9	89.6	(30.9)	(34.5)	51.0	55.1
Base Revenue Requirement		1,588.8	1,660.3	(49.2)	(60.9)	1,539.6	1,599.4
Deduct: External Revenue	Exhibit 1.6	(28.2)	(28.5)	-	-	(28.2)	(28.5)
Subtotal		1,560.6	1,631.8	(49.2)	(60.9)	1,511.4	1,570.9
Deduct: Export Tx Service Revenue	Exhibit 1.7	(39.2)	(40.1)	-	-	(39.2)	(40.1)
Deduct: Other Cost Charges	Exhibit 1.8	(47.8)	(47.8)	-	-	(47.8)	(47.8)
Add: Low Voltage Switch Gear		13.8	14.5	(0.4)	(0.6)	13.4	13.9
Rates Revenue Requirement		1,487.4	1,558.4	(49.6)	(61.4)	1,437.8	1,497.0

Note 1: As per EB-2016-0160 Decision and Order on September 28, 2017.

Note 2: OEB approved Income Tax based on 62% allocation factor, 2018 calculated number is \$55.1 million.

Note 3: 2017 total does not include \$300,000 in MSP revenue as shown in Exhibit 2.0.

Hydro One Networks Inc.

Transmission

EB-2016-0160

Decision and Order

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2017 and 2018 Revenue Requirements

Exhibit 2.0

**2017 Revenue Requirement by Rate Pool
[Updated November 16, 2017 DRO Exhibit 3.0]**

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

Updated: 2017-11-16
EB-2016-0160
EB-2017-0280
DRO Exhibit 3.0
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2017 Revenue Requirement by Rate Pool

	Supporting Exhibit	2017 Rate Pool Revenue Requirement (\$ Million)			
		Network (Note 3)	Line Connection	Transformation Connection	Uniform Transmission Rates Revenue Requirement
OM&A	1.1	196.1	39.6	98.4	334.1
Other Taxes (Grants-in-Lieu)	Note 1	37.6	9.4	16.6	63.6
Depreciation of Fixed Assets	1.2	217.9	52.8	110.6	381.3
Capitalized Depreciation	Note 2	(7.1)	(1.8)	(3.2)	(12.1)
Asset Removal Costs	Note 2	31.4	8.0	14.0	53.4
Other Amortization	Note 2	7.0	1.7	3.1	11.8
Return on Debt	1.4	169.8	42.4	74.8	287.0
Return on Equity	1.4	218.7	54.5	96.3	369.5
Income Tax	1.5	30.2	7.5	13.3	51.0
Base Revenue Requirement		901.5	214.2	423.9	1539.6
Less External Revenues	1.6	(16.5)	(3.9)	(7.8)	(28.2)
Total Revenue Requirement		885.0	210.2	416.1	1511.4
Less MSP Revenue	Note 3			(0.3)	(0.3)
Less Export Revenues	1.7	(39.2)			(39.2)
Less Regulatory Asset Credit	1.8	(31.8)	(5.4)	(10.6)	(47.8)
Plus LVSG Credit	8.0			13.4	13.4
Total Rates Revenue Requirement*	Note 3	814.0	204.9	418.5	1437.5

Note 1: Included in OEB Approved 2017 OMA total in Exhibit 1.1.

Note 2: Included in OEB Approved 2017 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.