

OEB Issues Decision on Hydro One Sault Ste. Marie 2024 Transmission Revenue Requirement

DECISION

On Tuesday, October 24, 2023, the Ontario Energy Board (OEB) issued its [Decision and Order](#) on an application by Hydro One Sault Ste. Marie Limited Partnership (HOSSM), for approval of its 2024 annual transmission revenue requirement. The approved 2024 revenue requirement is \$43,016,456, which reflects the sharing of over-earnings with ratepayers in the amount of \$3,134,039 and is a decrease of about 2% compared to 2023.

This approved revenue requirement will be included in the calculation of the 2024 Uniform Transmission Rates (UTRs) that will apply to customers throughout Ontario effective January 1, 2024.

KEY FEATURES

HOSSM applied to the OEB for an annual adjustment to its revenue requirement on July 17, 2023. Using a revenue requirement of \$43,911,032 from 2023 and applying the previously approved Revenue Cap Incentive Rate-setting methodology, a calculation that takes inflation, productivity and a stretch performance factor into account, HOSSM calculated a 2024 revenue requirement of \$46,150,495.

In 2022, HOSSM achieved a Return on Equity (ROE) of 17.54%, higher than the OEB's approved ROE of 9.19%. HOSSM is subject to an Earnings Sharing Mechanism (ESM) under which any earnings in excess of 300 basis points over the OEB-approved ROE is shared with ratepayers on a 50:50 basis. According to HOSSM, the over earnings were primarily driven by lower operating, maintenance and administration costs achieved through consolidation and from increased load due to weather.

BACKGROUND

In the OEB's October 13, 2016 Decision and Order approving Hydro One Inc.'s application for leave to acquire Great Lakes Power Transmission Inc. (renamed HOSSM in January 2017)¹, the OEB approved a 10-year deferral for HOSSM's next major rates case. That major rate application, referred to as a rebasing application, would otherwise typically be made every five years; the deferral allowed HOSSM to rebase in 10 years instead of five. Despite the 10-year deferral for HOSSM's next major rate case, it may still make annual applications for mainly inflationary adjustments to its revenue requirement.

In the OEB's Decision and Order on HOSSM's 2019 revenue requirement and related matters², the OEB approved the methodology to be used by HOSSM in its annual applications for adjustments to its revenue requirement for 2019 to 2026. Using this Revenue Cap Incentive Rate-setting methodology, HOSSM's annual revenue requirement is determined based on a formula that accounts for inflation, productivity and a stretch performance factor.

In the same decision, the OEB approved the ESM that would take effect during the last five years, 2022 to 2026.

¹ EB-2016-0050

² EB-2018-0218

REGULATORY TERMS

The following is a list of some of the commonly used regulatory terms that appear in this backgrounder, along with a plain language description for each.

Return on Equity (ROE) is the return that shareholders earn on their equity investment (shares and retained earnings) in a utility.

Annually, the OEB sets the return on equity based on a formula that includes an updating of certain parameters to reflect capital market conditions. Depending on its performance, a utility could earn a higher or lower return on equity. However, the OEB may undertake a review if a utility is earning significantly more or less than the approved return on equity.

Revenue requirement is the total annual cost for a utility to provide its regulated services. It includes the cost of salaries, equipment, capital projects depreciation, taxes, interest and a return on equity. The OEB approves a utility's revenue requirement when it decides a cost-based application and uses it to set transmission rates that can be charged to ratepayers.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

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Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued October 24, 2023, which is the official OEB document.