

November 29, 2022

The OEB issues decision on the first combined transmission and distribution rates application filed by Hydro One

With a combined proposed revenue requirement of approximately \$20 billion and a proposed investment plan of about \$13 billion over the 2023-2027 rate period, this is the largest and most complicated rate case to come before the OEB.

DECISION

Today the Ontario Energy Board (OEB) issued its Decision and Order on an application filed by Hydro One Networks Inc. (Hydro One) on August 5, 2021 seeking approval for changes to the rates that Hydro One charges for electricity transmission and distribution over a five-year period, beginning January 1, 2023 and for each subsequent year through to December 31, 2027.

The application was the subject of extensive settlement negotiations among Hydro One and representatives of a wide variety of customer classes and other interest groups. Those negotiations resulted in a comprehensive settlement on all issues set out in the approved Issues List, and significant reductions in capital spending and operating, maintenance and administration (OM&A) costs over the five-year period relative to what Hydro One requested in its application. The OEB considered and approved the settlement proposal filed in late October 2022 and updated in mid-November 2022, and provided specific comments on certain aspects:

- Reductions in Hydro One's proposed capital expenditures and OM&A costs are reasonable
- The estimated bill impacts for both transmission and distribution customers, resulting from the settlement proposal, are reasonable
- The proposed January 1, 2023 implementation and effective date of the rates arising from the settlement proposal is appropriate

The OEB concluded that the settlement proposal represents an acceptable outcome in terms of the public interest.

This proceeding related to both transmission and distribution. The new transmission revenue requirement will affect Ontario electricity consumers across the province because it will be incorporated into updated transmission rates, which are paid by electricity distributors and large customers connected directly to the transmission system, and distributors then pass this cost on to their customers. The new OEB-approved distribution rates will affect Hydro One's distribution customers.

As a result of the settlement approved on the transmission portion of the application, it is estimated that for a typical Hydro One residential customer with a monthly consumption of 750 kWh, the total bill impact averaged over the 2023-2027 period will be an increase of \$0.69 per month or 0.5%.

As a result of the settlement approved on the distribution portion of the application, it is estimated that for a typical residential distribution customer of Hydro One with a monthly consumption of 750 kWh, the total bill impact averaged over the 2023-2027 period will be an increase of \$2.43 per month or 1.5%.

KEY FEATURES OF THE APPROVED SETTLEMENT PROPOSAL

Key features of the settlement proposal, compared to what was requested by Hydro One in its application, included:

- A reduction of \$762.3 million (10%) in the proposed 2023-2027 transmission capital program with a corresponding reduction of \$669.3 million (9%) in the proposed in-service capital additions
- A reduction of \$680.8 million (12%) in the proposed 2023-2027 distribution capital program with a corresponding reduction of \$665.1 million (12%) in the proposed in-service capital additions
- A reduction of \$16.5 million (3.7%) in the proposed 2023 transmission OM&A
- A reduction of \$18.1 million (2.9%) in the proposed 2023 distribution OM&A

These changes will significantly reduce the amounts to be collected from customers in the 2023 to 2027 period, as demonstrated below.¹

- A \$250.0 million reduction in the proposed transmission revenue requirement over the 2023-2027 period (\$17.4 million in 2023)
- A \$232.7 million reduction in the proposed distribution revenue requirement over the 2023-2027 period (\$14.5 million in 2023)

These reductions will benefit electricity consumers across Ontario with regard to the pricing of transmission service, and Hydro One distribution customers with regard to the pricing of distribution service and should not compromise the safety and reliability of Hydro One's transmission and distribution systems.

Other features of the settlement proposal include:

- A commitment by Hydro One to include, in future operational and capital investment plans, a discussion of how the proposed spending will directly support the achievement of Hydro One's climate change policy
- Increases in the productivity factors and supplemental stretch factors for both the distribution and transmission business segments which will provide Hydro One with additional incentives to achieve greater efficiencies during the 2023 to 2027 period
- Undertaking certain measures to seek economic participation or equity investment opportunities from First Nations
- Undertaking certain measures to continue examining cost-effective transmission and distribution line losses

¹ These numbers do not include the 2023 cost of capital and inflation updates.

The OEB noted that the settlement conference was attended by parties with diverse interests. This proceeding included 24 approved intervenors. Representatives of 18 of those intervenors participated in the settlement conference. OEB staff supported the settlement proposal that was placed before the OEB for approval.

The OEB acknowledged the effort involved by the parties to participate in this entire proceeding, including the settlement conference, considering the number of participants, the complexity of the issues, and the challenging logistics of a “virtual” proceeding.

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 the decision; those may be found in the Decision and Order issued today, which is the official OEB document.