

Ontario Energy
Board

Commission de l'Énergie
de l'Ontario



EB-2005-0494

Minimum Filing Requirements for Natural Gas Distribution Cost of Service Applications

November 30, 2005

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Introduction

The Ontario Energy Board's report from the Natural Gas Forum outlines proposals for change to the regulatory framework for the natural gas sector and lays the groundwork for improved efficiency and effectiveness. As part of the findings of the report, the Board committed to review the gas utility filing guidelines for the rate hearing process. These minimum filing requirements are to be used for filing a cost of service application for 2007 rates. The rates developed will form the basis for incentive rates to be applied in 2008 and beyond. Utilities are advised that if any significant element of these minimum filing requirements is not included in the filing, the application will be deemed incomplete and will not be processed until completed.

As part of 2007 Cost of Service filing, the Board urges utilities to minimize the issues that require a policy review and where possible to minimize proposals to alter previously approved methodologies.

Secondly, the applicant must include a detailed variance analysis between the Test Year and Bridge Year and the last Board Approved Year. The variance analysis should also be made between the test year and the last year for which actual costs are available. This analysis must explain the reasons for the variance, the drivers of the variance and the contribution of each towards the total year over year variance.

Thirdly, the Board's minimum filing requirements have been designed in a manner to try to isolate the delivery related sufficiency/deficiency separate and apart from the commodity related sufficiency/deficiency. In keeping with that, utilities should provide revenue sufficiency or deficiency calculations net of gas commodity price changes captured in the QRAM.

Finally, the Board remains cognizant of the large number of interrogatories (IRs) that the existing has process generated. The requirement of a large number of IRs suggests failure of the parties to have a common understanding of the information needs. The Board advises applicants to consider those commonly asked questions and include the information that is the subject of those questions in their initial filings.

Key Planning Parameters

The key planning parameters listed below form the basis of how the detailed requirements provided in this document should be interpreted. They are:

- Weather Normalized Data
- Compliance with Uniform System of Accounts
- GARP (Generally Accepted Regulatory Principles)
- Metric Units (also heat content conversion factors)
- Average of monthly averages valuation method for items in rate base and capital base
- Total Capitalization equates to Total Rate Base

- At a minimum there must be three years of data. The three years are defined as:
 - Test Year = Forecast (Rate) Year
 - Bridge Year = Current Year (Where applicable use Board Approved values)
 - Historical Year = Previous Year (Board Approved and actual values)
- Multi-year data showing the Historical Actual, Historical Board Approved, Bridge Year and Test Year data must be presented on the same sheet for the summary/main schedules
- All calculation of revenue sufficiency/deficiency should be done based on proposed methodology, and the resultant impacts of the methodology change must also be provided
- Written Direct Evidence should be included before the data schedules
- The Board's minimum filing requirements have been designed in a manner to try to isolate the delivery related sufficiency/deficiency separate and apart from the commodity related sufficiency/deficiency. In keeping with that, utilities should provide revenue sufficiency or deficiency calculations net of gas commodity price changes captured in the QRAM.
- When filing, the commodity cost will be that available from the most recent Board approved QRAM, at the time of filing.
- Weather Normalization Methodology
- Revenue Deficiency/Sufficiency Calculations should exclude the cost of gas and commodity revenue.
- With respect to the claimed revenue sufficiency/deficiency, the applicant should provide a summary of the drivers of the test year sufficiency/deficiency, along with how much each driver contributes to it. Further, references to the data contained in the detailed schedules and tables should be provided so that parties can map the summary cost driver information to the evidence supporting it.
- If all revenue sufficiency/deficiency calculations are based on proposed methodology and if a summary of the drivers of the sufficiency/deficiency is provided as suggested above, then the impacts of the change in methodology should be provided on the overall sufficiency/deficiency and on the individual cost drivers contributing to it
- Applicant must file paper copies and electronic data and stakeholders having the option to choose either or both.
- A complete filing includes all documentation detailed in the Minimum Filing Requirement document.

Exhibit 1. Administrative Documents

The administrative documents indicated in this section provide the background and summary to the case as filed. There are three sections 1) Administration, 2) an overview of the filing and 3) the background financial information. The detailed requirements for each section are shown below.

Utilities should treat this as an administrative exhibit and exclude all other information from it, which deals with Volume & Revenue Forecast, Gas Supply evidence, Cost of Capital Summary, Rate Base Evidence and the O&M budget. These topics should be addressed in the relevant exhibits.

1. Administration

- Index
- Application
- List of specific approvals requested
- Draft issues list
- Procedural Orders/motions/correspondence
- Accounting Orders
- List of non-compliance with Uniform System of Accounts and reference to Accounting Orders
- Map of System or provide link to webpage
- List of Affiliate Transactions in Historic Year, Bridge Year and planned or anticipated during Test Year including shared services, subsidiaries and related party transactions – should include dollar amounts of transaction and basis on which amounts are determined
- Utility Organizational charts – down to manager level
- Corporate Organization Chart - include information to show the extent to which parent company is represented on utility company board and these reporting relationships between utility management and parent company officials.
- Planned changes in corporate or operational structure
- Status of Board Directives from previous Board Decisions and/or Orders
- Policies and Regulations of Company with respect to gas services and schedules of service charges
- Where there are changes in the Policies and Regulations of the Company with respect to Gas Services and Schedules of Service Charges, a list of the specific changes (from the last approved) should be provided.
- Corresponding C.V.'s with List of Witnesses

2. Overview

- Summary of Application (nature of request and typical customer impact by customer class)

- Budget Directives (Capital & Operating)
 - Budget Process
 - Flow charts of approval process
 - Correspondence regarding Budget levels – goals, strategies and guidelines
 - Economic assumptions used
- Changes in Methodology (Accounting, normalization etc.)
- Schedule of overall revenue sufficiency/deficiency (Weather Normalized)
- Numerical schedules showing causes of deficiency/sufficiency

3. Finance

- Financial Statements – Most recent financial statements
 - Utility
 - Parent Company
- Financial Statements – Utility Performance Statements for Bridge and Test Year
- Financial statements should be provided for the historical years (in the case of where more than 1 historical year is filed)
- Financial statements should be provided as soon as they are available. If the statements are not available at the time of filing the Utility should provide these as part of the update. Filing of annual report (actual) and Management's Discussion and Analysis (MD&A) satisfies the requirement to identify and describe the subsidiaries of the utility and the parent company - Unless company management believes that these documents do not provide the necessary information sought by the Board, then the Utility should identify the subsidiaries. If a reference to location on SEDAR or EDGAR is provided, then provide the URL (Web-page address) and one hard copy of each referenced document.
- To address the concern with the potentially significant variance between the Annual Reports/Audited Financial Reports and the utility's regulatory filings. The utilities file a reconciliation of the financial results in the Annual Reports/Audited Financial Reports with the regulatory financial results filed.
- All Subsidiaries of the applicant are to be identified (name, nature of business and capitalization of the subsidiary)
- Annual Reports or Audited Financial Statements (Historical) & Interim Reports (Bridge) for both the Utility and the Parent Company
- Parent Companies latest K-10 filing. (A k-10 report is an annual report required by the United States Securities and Exchange Commission each year. It is a comprehensive summary of a company's performance. Typically the K-10 contains much more detail than the annual report. It includes information such as company history, organizational structure, equity, holdings, earnings per share, subsidiaries, etc.)
- Rating Agency Report – Reports from DBRS and S&P.
- Prospectuses, information circulars etc. for planned and recent shares issues

Exhibit 2. Rate Base

This exhibit includes information on Rate Base, Capital Budgets, System Expansion, Transportation facilities and Storage Facilities. Items used in the computations or derived must include beginning and closing balances of the rate base, working capital, accumulated depreciation, and accumulated deferred income taxes, accumulated deferred income taxes, changes in working capital, accrued deferred earnings, and annual amortization of accrued deferred earnings. The information presented here should cover three areas: 1) List of Gross Assets, 2) Accumulated Depreciation, and 3) Allowance for Working Capital.

For each of these areas there will be some common statements required summarizing the rate base. The schedules for rate base should include Historic Board approved, Historic Actual, and Bridge and Test years. Additional required statements for 1 and 2 include:

Continuity Statements (Year-end - To include Interest during Construction & All overheads)

- Historical Actual to Bridge
- Bridge to Test Year

Variance Analysis

A written explanation is required for rate base related information when there is a variance greater than or equal to 10% or \$500,000.

- Historical Board Approved v/s Historical Actual
- Historical Actual v/s Bridge
- Bridge v/s Test Year

1. Gross Assets – Property Plant and Equipment

(Summary and Continuity statements must be provided)

- Breakdown by function (underground storage plant, distribution plant, general plant, other plant) for required statements and analysis
- Detailed breakdown by major plant account for each functionalized plant item for Historical Actual. Bridge and Test Year, For Test year each plant item should be accumulated by a written description.
- Customer Additions and System Expansion with PI values
- Average of Monthly Averages as has been provided should continue.

Capital Budget- Historic Year, Bridge Year & Test Year

- Capital Budget by project
 - Projects over \$500,000 listing related attachments, volumes and capital costs. Provide a detailed breakdown of starting dates and in-service dates; and for
 - Other Capital Expenditures by function (Reconcile above components to Total Capital Budget)
 - A written explanation of variances should be presented where the variance is greater than or equal to 10% or \$500,000
 - Applicant's capitalization policy and any changes to that policy should be presented as part of the capital budget evidence.

2. Accumulated Depreciation

Summary and Continuity statements must be provided for Historic, Bridge and Test years. Continuity statements should be reconcilable to calculated depreciation costs.

- Accumulated depreciation to gross assets

3. Allowance for Working Capital

Historic, Bridge Year & Test Year (except as otherwise noted) on a single schedule

- A. Inventory gas
 - Calculation of average of monthly averages (\$ and volume figures)
 - Dollar Values and Volumes of Gas in Storage by month
- B. Supplies and Materials
 - Calculation of average of monthly averages (\$)
- C. Prepaid Expenses
 - Calculation of average of monthly averages (\$)
- D. Miscellaneous Accounts Receivable
 - Calculation of average of monthly averages (\$)
- E. Working Cash Allowance (Test Year)
 - Particulars of calculation
- F. Security Deposits
 - Calculation of average of monthly averages (\$)

G. Other Items of Working Capital (itemized individually)

- Calculation of average of monthly averages (\$) if applicable

Exhibit 3. Operating Revenue

The volume and revenue forecast, the weather forecast methodology and the topics of storage & transportation and other sales activities are included here. Utilities must provide in detail the description of the methodology and the assumptions used. The information presented here should include (estimates must be presented excluding commodity revenues): 1) Throughput Revenue, 2) Transactional Services / Storage & Transportation, and 3) Other Revenue

1. Throughput Revenues

- Explanation of demand forecast and weather forecasting methodology
- Explanation of Weather Normalization methodology and how the normalization is done.
- All historical data should be weather normalized to the weather normal that was used for that particular year
- All historical data related to average use should be normalized to both the current test year weather normal and to the normal approved (or last approved) by the Board for the specific year.
- All weather data used to determine the weather forecasts should be presented in MS Excel spreadsheet format.
- Schedule of throughput details showing volumes, revenues, unit revenues and customer count by rate class. (Including T-Service, storage & load balancing) for:
 - Historical Actual
 - Historical Board Approved
 - Historical Actual – normalized
 - Bridge Year
 - Bridge – normalized
 - Test Year

Variance Analysis

- Historical Board Approved v/s Historical Actual- normalized
- Historical Actual- normalized v/s Bridge – normalized
- Bridge – normalized v/s Test Year
- For general service residential, commercial and industrial customers, normalized average consumption historic actual and forecasted, per customer for past 10 years and forecasted average consumption for the Test Year.
- Explanation of large volume (contract) customer throughput forecast for Test Year and comparison of 5-Years of forecast v/s actual normalized, to evaluate accuracy of previous forecast. If Contract customer demand is not weather sensitive, then there is no need to provide this information.
- Explanation of net change in general service and contract customers per rate class from last Board Approved and actual for Historical and Bridge years
- Customer Additions forecast for the test year

- All economic assumptions and their sources used in the preparation of the throughput revenues should be included in this section. (e.g. Housing Outlook & Forecasts, relative energy prices and other variables used in forecasting volumes).

2. Transactional Service/Storage and Transportation

- Present only 5-Years of actual data
- Gross Margin for 5-Years of actual data. The applicant should also present Board approved forecasts for these revenues and margin. (This information is required to assess the accuracy of any such forecasts as compared to actual results).

3. Other Revenues

- Details and breakout of Other Revenues & a description of each of the revenue sources should be provided.
- Comparison of Actual revenues to Board Approved for Historical and Bridge years
- Detailed calculation of Rate of return on non-core delivery activities – For example NGV

Exhibit 4. Operating Costs

The operating cost exhibit must include information that summarizes the total cost of service as proposed including 1) Operating & Maintenance and Other Costs, 2) Taxes, (including Income and Large Corporation Tax) 3) Status of Non-Gas Supply Deferral Accounts and Variance Accounts, and 4) Demand Side Management

1. Operating, Maintenance and Other Costs

The required statements for each of the components of this section include trend data for Operating costs (Board Approved v/s. Actual) by major item, excluding gas costs.

A. Operating & Maintenance

(Include Administration & General, Sales promotion & Customer Accounting)
Written Direct Evidence to give further details of the budgets

Required Statements for O & M:

Historical Actual

Historical Board Approved

Bridge Year

Test Year

- o Breakdown of each on a departmental basis
- o Breakdown of total Full Time Employees (FTE); total Part-Time Employees, Total Salaries & Wages, Salaries & Wages and Benefits charged to O&M
 - By employee type (i.e. management, analyst, non-unionized, and unionized)
 - Total compensation by group and average level per group
 - Incentive program
 - Status of pension funding and all assumptions used in the analysis
 (Employee benefit programs, including pensions, and costs charged to O&M should be detailed for the historical, bridge and test Years)

Variance Analysis:

Historical Board Approved v/s Historical Actual

Historical Actual v/s Bridge Year

Bridge Year v/s Test Year

A written explanation is required for operating cost related information when there is a variance greater than or equal to 5% or \$100,000.

B. Depreciation/Amortization/Depletion

- Depreciation Study – Only if depreciation rates are to change
- Details of provision for Depreciation, Amortization and Depletion by asset group for

Test Year and comparative data for Historic and Board Approved Bridge Year, including asset amount and rate of depreciation

C. Ontario Capital Taxes

(Actual costs versus forecast costs should be provided)

- Detailed Breakdown

D. Corporate Cost Allocation

- Detailed description of the assumptions underlying the allocation of these services
- Document the overall methodology and policy

E. Cost of Gas (Historical, Bridge and Test Years)

- Status of contracts, forecasts, cost of upstream and transportation costs
- Lost and Unaccounted for Gas
 - Forecast v/s Actual for 5 years
 - Methodology for Test Year Forecast
- Gas supply/demand balance sheet

2. Income Tax , Large Corporation Tax and Ontario Capital Taxes

- Detailed calculation (provincial and federal) including derivation of interest and CCA adjustments – Information of taxes should be provided for Historic, Bridge Year and Test Years.
- All reconciling items should have supporting schedules and calculations.

3. Demand Side Management

- DSM plan – if required
- Evaluation reports (Evaluation reports required are in relation to the clearance of SSM and LRAM deferral and variance accounts)
- Audit reports applicable to the clearance of SSM and LRAM deferral and variance accounts also be filed.
- Shared Savings Mechanism and Lost Revenue Adjustment Mechanism

Exhibit 5. Deferral and Variance Accounts

1. Status of Gas Supply and Non-Gas Supply Related Deferral and Variance Accounts

- List and provide a brief description of all outstanding Deferral and Variance accounts
- List and brief description of new proposed accounts for the Test Year
- Balance and detailed method of recovery of existing accounts proposed to be cleared as part of the main rates case including bill impacts and rate design implications.

Exhibit 6. Cost of Capital and Rate of Return

If the applicant is proposing any changes to its Board Approved capital structure then the utility should provide a detailed filing supporting that change.

1. Capital Structure – Amounts & Ratios

The elements of the capital structure required are shown below and must be detailed with the required schedules of 1) Historical Year Board Approved, 2) Historical Year Actual, 3) Bridge Year, and 4) Test Year:

- Long-Term Debt
- Short-Term/Unfunded Debt (to equate total capitalization with rate base)
- Preference Shares
- Common equity

Justification for proposed capital structure is required. Explanation of changes including:

- Non-scheduled retirement of debt or preference shares and buy back of common shares
- Long-Term Debt, preference shares and common shares offering

2. Component Costs

Historic Year, Bridge Year & Test Year

- Calculation of cost of each item from Test Year
- Justification of forecast costs by item including key economic assumptions
- Profit or loss on redemption of debt and or preference shares
- Consensus Forecasts – Utilities must provide the latest interest rate forecast based on a selection of forecasters that are common to the utilities, e.g., the major banks and the Bank of Canada.

3. Calculation of Return on Equity – Per Board Draft Guidelines -1997

- Refer Board Draft Guidelines on calculating Return of Equity

Exhibit 7. Revenue Sufficiency/Deficiency

This exhibit should include the following:

- Determination of Net Utility Income
- Statement of Rate Base
- Actual utility return on rate base
- Indicated Rate of Return
- Requested Rate of Return
- Deficiency or Sufficiency in Revenue
- Gross Deficiency or Sufficiency in Revenues

Exhibit 8. Cost Allocation

A cost of service application must include a description for the test year of the proposed cost allocation methodology, schedules showing the step by step cost allocation methodology, revenue to cost ratio, a comparison of previous Board Approved ratios and proposed Test Year ratios and schedules that clearly show the allocation of revenue sufficiency/deficiency. With each proposed cost allocation change, the utility is required to set out, the financial impact of the change.

1. Cost Allocation Study

- Proposed Method
 - A. Functionalization
 - rate base
 - cost
 - B. Classification
 - rate base
 - cost
 - C. Allocation
 - rate base
 - cost
 - D. Summary of current methodology, changes, rationale, and resulting impact for A, B and C and an explanation of the factors employed in A, B and C

Exhibit 9. Rate Design

The Rate Design Exhibit, in addition to the existing schedules must show the revenue deficiency recovery, a summary of proposed changes to rates, proposed volume and revenue recovery, changes to the rate handbook and detailed annual bill impacts.

1. Existing Rate Schedules

2. Proposed Rate Schedules

- Proposed Rate and Revenue Adjustments
- Detailed calculations of revenue per rate class under current rates and proposed rates by customer class.
- Detailed reconciliation of rate class revenue and other revenue to total revenue requirement (i.e. breakout volumes, rates and revenues by rate blocks, seasons, zones etc.)
- Calculation of differences between revenue allocated cost under current rates and proposed rates by customer class
- Explanation and application of non-cost factors to rate design
- Revenue/Cost Ratios for Historic Year, Bridge Year and Test Year
- Impact of changes on representative samples of end-users, i.e. volume, % rate change, revenue.
- Explanation of proposed changes to terms and conditions of service and rationale behind those changes.