

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



VIA E-MAIL AND WEB POSTING

June 20, 2014

To: All licensed Electricity Distributors
All Registered Intervenors in Electricity Distribution Rate Applications

Re: **Board Staff Proposal for New Policy Options for the Funding of Capital Investments**
Board File Number EB-2014-0219

The [Report of the Board - Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach](#) (the "RRFE Report") represented a further and significant evolution of the approaches for rate regulation of the sector. The RRFE Report envisages that distributors will engage in longer term planning, including engaging customers on their needs and expectations, and to take into account ratepayers' ability and willingness to pay. Longer term planning, based on sound asset management practices, should enable distributors to plan, prioritize and pace capital programs accordingly. In turn, this should also provide for more predictability and stability of rates while allowing the distributors to make necessary investments.

In light of the Board's expectations, the Board plans to consider revised approaches to the funding of capital. Of consideration is whether the current rate regulatory cycle under the Price Cap Incentive Rate-setting option (Price Cap IR) results in distributors planning for more capital expenditures in the year of rebasing (or the prior year) to maximize the rate base at that point in time rather than planning based on good asset management practices. A goal would be to facilitate the optimization and pacing of expenditures throughout the term of Price Cap IR thus avoiding large increases in capital expenditures at the time of rebasing.

Board staff has developed two new mechanisms on which it will be seeking comments before bringing new policy options to the Board for consideration:

1. Eliminate the effect of the half year rule on test year capital additions for the intervening years between rebasing applications (i.e. during the subsequent IR plan) by adjusting for the incremental revenue requirement (depreciation expense plus return on capital and associated taxes/PILs) of the test year capital additions. This is proposed to be accomplished through an adjustment (to be referred to as the D_I -factor) to the price cap formula in the first IR application subsequent to the cost of service application that resulted in rebased rates. The half year rule would still apply for the test year.
2. Introduce a new funding mechanism that would enable reviews during a cost of service application for the need and prudence of any proposed incremental capital module funding requests for discrete projects that are part of a distributor's DSP, and that are planned to come into service during the IRM period. The rate adjustment would still occur in the IRM year in which the asset would come into service. The revised mechanism will be named an Advanced Capital Module ("ACM").

These proposals are also fairly technical in nature, while being designed to be practical and to leverage information already required as part of distribution rate applications. To receive input, Board staff has formed a working group. This working group includes several representatives from electricity distributors who had adopted the Price Cap IR option for 2015 rates, as well as other stakeholders well positioned to provide input on Board staff's proposals in an expeditious manner. The participants on the working group are included as Appendix B.

Appendix A to this letter contains information regarding cost awards for the consumer representatives on the working group.

If you have any questions regarding this consultation, please contact Keith Ritchie at 416-440-8124, or by e-mail at Keith.Ritchie@ontarioenergyboard.ca. The Board's toll-free number is 1-888-632-6273.

Sincerely,

Original Signed By

Kirsten Walli
Board Secretary

Atts.

cc: Working Group Members (Appendix B)

Appendix A
To Cover Letter Dated June 20, 2014
EB-2014-0219
COST AWARDS

Consultation Process for New Policy Options for the Funding of Capital Investments

Cost Award Eligibility

The Board has invited a number of stakeholders to participate in the stakeholder meeting on Capital Funding Options on June 25, 2014, including the School Energy Coalition and the Vulnerable Energy Consumers Coalition. These stakeholder representatives would generally be considered *prima facie* eligible for an award of costs under the Board's *Practice Direction on Cost Awards*. Therefore, the Board considers it appropriate in the circumstances to waive the following in relation to all of these participants: (a) the requirement to submit a request for cost award eligibility; and (b) the process for objections which would otherwise have applied in accordance with the Board's *Practice Direction on Cost Awards*.

Eligible Activities

Cost awards will be available in relation to participation on the stakeholder session on June 25, 2014, to a maximum equal to actual meeting time multiplied by 1.5 to account for preparation and reporting. Participants will also be eligible to claim costs for other eligible activities that may arise as part of this consultation process.

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process.

Appendix B
To Cover Letter Dated June 20, 2014
EB-2014-0219
WORKING GROUP MEMBERS

Chris Amos
Consultant
Waterloo North Hydro Inc.

George Armstrong
Vice-President, Corporate Services
Veridian Connectionc Inc.

Cristina Birceanu
Director of Regulatory Affairs
Guelph Hydro-Electric System Inc.

John Bonadie
Director of Revenue
Enersource Hydro Mississauga Inc.

Bill Harper
Consultant
Vulnerable Energy Consumers Coalition

Colin Macdonald
Senior Vice-President, Regulatory Affairs and Customer Service
PowerStream Inc.

Margaret Maw
Chief Financial Officer
Lakeland Power Distribution Limited

Margaret Nanninga
Vice-President Finance
Kitchener-Wilmot Hydro Inc.

Keith Ritchie
Project Advisor, Electricity Rates and Accounting
Ontario Energy Board

Jay Shepherd
Counsel
School Energy Coalition

Maurice Tucci
Director, Regulatory & Technical Policy
Electricity Distributors Association