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

Ontario Energy Board

Filing Requirements For
Electricity Distribution Rate Applications
- 2017 Edition for 2018 Rate Applications -

Chapter 3

Incentive Rate-Setting Applications

July 20, 2017

Table of Contents

Chapter 3 Filing Requirements for Incentive Rate-Setting Applications subject to the OEB's Index Adjustments

3.1 Introduction

On October 13, 2016, the OEB released its *Handbook for Utility Rate Applications* (the Handbook) to provide guidance to utilities and stakeholders on applications to the OEB for approval of rates under the renewed regulatory framework (RRF). The Handbook outlines the key principles and expectations the OEB will apply when reviewing rate applications and is applicable to all rate regulated utilities, including electricity distributors, electricity transmitters, natural gas utilities and Ontario Power Generation. The OEB expects utilities to file rate applications consistent with the Handbook unless a utility can demonstrate a strong rationale for departing from it. The Handbook describes three incentive rate-setting (IR) methods established by the RRF: Price Cap IR, Custom IR and the Annual IR Index.

These filing requirements set out the OEB's expectations for electricity distributors' annual rate adjustment applications in between cost of service (CoS) applications under Price Cap IR, or the Annual IR Index, also known as incentive rate-setting mechanism (IRM) applications. These filing requirements replace the 2016 edition of the Chapter 3 Incentive Rate-Setting Filing Requirements for Electricity Distribution Rate Applications, dated July 14, 2016.

The key elements for the three rate-setting methods were set out in the RRFE report in the following table:

Table 1: Rate-Setting Overview – Elements of the Three Methods

<table>
<tr><th colspan="2"></th><th>Price Cap IR</th><th>Custom IR</th><th>Annual IR Index</th></tr>
<tr><td colspan="5">Setting of Rates</td></tr>
<tr><td colspan="2">“Going in” Rates</td><td>Determined in single forward test-year cost of service review</td><td>Determined in multi-year application review</td><td>No cost of service review, existing rates adjusted by the Annual Adjustment Mechanism</td></tr>
<tr><td colspan="2">Form</td><td>Price Cap Index</td><td>Custom Index</td><td>Price Cap Index</td></tr>
<tr><td colspan="2">Coverage</td><td colspan="3">Comprehensive (i.e., Capital and OM&A)</td></tr>
<tr><td rowspan="2">Annual Adjustment Mechanism</td><td>Inflation</td><td>Composite Index</td><td rowspan="3">Distributor-specific rate trend for the plan term to be determined by the Board, informed by: (1) the distributor’s forecasts (revenue and costs, inflation, productivity); (2) the Board’s inflation and productivity analyses; and (3) benchmarking to assess the reasonableness of the distributor’s forecasts</td><td>Composite Index</td></tr>
<tr><td>Productivity</td><td>Peer Group X-factors comprised of: (1) Industry TFP growth potential; and (2) a stretch factor</td><td>Based on 4th Generation IR X-factors</td></tr>
<tr><td colspan="2">Role of Benchmarking</td><td>To assess reasonableness of distributor cost forecasts and to assign stretch factor</td><td>n/a</td></tr>
<tr><td colspan="2" rowspan="2">Sharing of Benefits</td><td colspan="3">Productivity factor</td></tr>
<tr><td>Stretch factor</td><td>Case-by-case</td><td>Highest 4th Generation IR stretch factor</td></tr>
<tr><td colspan="2">Term</td><td>5 years (rebasing plus 4 years).</td><td>Minimum term of 5 years.</td><td>No fixed term.</td></tr>
<tr><td colspan="2">Incremental Capital Module</td><td>On application</td><td>N/A</td><td>N/A</td></tr>
<tr><td colspan="2">Treatment of Unforeseen Events</td><td colspan="3">The Board’s policies in relation to the treatment of unforeseen events, as set out in its July 14, 2008 EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors, will continue under all three menu options.</td></tr>
<tr><td colspan="2">Deferral and Variance</td><td>Status quo</td><td>Status quo, plus as needed to track capital spending against plan</td><td>Disposition limited to Group 1
Separate application for Group 2</td></tr>
<tr><td colspan="2">Performance Reporting and Monitoring</td><td colspan="3">A regulatory review may be initiated if a distributor’s annual reports show performance outside of the ±300 basis points earnings dead band or if performance erodes to unacceptable levels.</td></tr>
</table>

3.1.1 Grouping for Filings

Distributors that are seeking rate adjustments effective January 1, 2018 under IRM will be required to file their application by August 14, 2017. The OEB has assigned distributors seeking IRM rate adjustments effective May 1, 2018 to one of three application groupings noted below based on the expected level of complexity of the application. The length of time required to review an application is commensurate with its level of complexity. Applications of greater complexity will be expected to be filed first.

The OEB conducted a survey in June 2017 to identify the expected elements of an applicant's IRM application for the assignment of IRM filing deadlines. If a distributor expects that its application will be significantly more complex than it disclosed during the survey, it should advise the OEB and is encouraged to file in an earlier grouping.

Distributors filing under the Annual IR Index method will generally be placed in the last grouping. Staggering the applications allows the OEB and other stakeholders to schedule resources to allow for adequate review of the applications. The deadlines for filing an IRM application have been determined so that, in the normal course of events, a decision and order will be issued in time for a May 1 implementation date.

The application deadlines are as follows:

- September 25, 2017
- October 16, 2017
- November 6, 2017

The assignment of distributors to these filing dates has been detailed in the cover letter accompanying these filing requirements.

3.1.2 Components of the Application Filing

Whether filing under Price Cap IR or the Annual IR Index, each application must include:

1. A manager's summary thoroughly documenting and explaining all rate adjustments requested
2. The contact information for the application - the primary contact for the application may be a person within the applicant's organization other than the primary licence contact. The OEB will communicate with this person during the course of the application. After completion of the application, the OEB will revert communication to the primary licence contact

3. A completed rate generator model[1] and supplementary workforms[2] as applicable, provided by the OEB, both in electronic (i.e. Excel) and Adobe PDF format
4. A PDF copy of the current tariff sheet
5. Supporting documentation cited within the application (e.g. excerpt of relevant past decisions and/or settlement agreements; validated reporting and record-keeping requirements (RRR) data pre-populated in the rate generator model; other RRR data referred to in the application; and, the Revenue Requirement Workform (RRWF))[3]
6. A statement as to who will be affected by the application, including identification of any specific customer(s) or customer groups that are or will be affected by a particular request or proposal
7. Confirmation of the applicant's internet address for purposes of viewing the application and related documents
8. A statement confirming the accuracy of the billing determinants for pre-populated models
9. A text-searchable Adobe PDF format for all documents

3.1.3 Applications and Electronic Models

The models issued by the OEB assist the applicant in filing a rate application and provide formatting consistency across all applications.

For 2018 IRM applications, the OEB has once again taken steps to streamline the process further by pre-populating additional data in its models with distributor-specific RRR data, and incorporated more automation with respect to the calculation of Global Adjustment (GA) and Capacity Based Recovery (CBR) charges and rate riders. The 2018 rate generator model will be populated with a distributor's most recent tariff of rates and charges, load and customer data and Group 1 balances as reported through RRR. Distributors will be required to confirm the accuracy of the data. Remaining inputs will be marked with green input cells.

The OEB will provide passwords to distributors filing a 2018 IRM application to access their distributor-specific rate generator model through the OEB's website. Any distributor that did not receive an individual password, but wishes to file an IR application for the 2018 rate year, must notify the OEB as soon as possible.

The rate generator model will update base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It will also calculate rate riders for the disposition of deferral and variance account balances.

[1] The Rate Generator is a Microsoft Excel workbook that calculates a distributor's proposed tariff of rates and charges in a Price Cap IR or Annual IR Index Application.
[2] Includes the GA Analysis Workform and Revenue Cost Ratio Adjustment Workform and the Incremental Capital Module/Advanced Capital Module (ICM) (ACM) Workform, as applicable.
[3] The Revenue Requirement Workform was filed as part of the draft rate order in the last cost of service application.

The rate generator model continues to include a bill impact calculation by rate class, in which commodity rates based on time-of-use and regulatory charges are held constant. These will be based on the regulated price plan (RPP) prices at the time the rate generator model was published. A typical residential customer has now been defined as consuming 750 kWh as per *Report of the Board – Defining Ontario's Typical Residential Customer*.

Additional models are required when applications involve certain additional requests.

A distributor seeking a revenue-to-cost ratio adjustment due to a previous OEB decision must continue to file the OEB's revenue-to-cost ratio adjustment workform in addition to the rate generator model.

For an incremental or pre-approved advanced capital module (ICM/ACM) cost recovery and associated rate rider(s), a distributor must file the Capital Module Applicable to ACM and ICM.

The models and workforms issued by the OEB are provided to assist the applicant in filing a rate application, and to provide consistent formatting for all distributors for greater efficiency of the review process. An applicant is responsible for the completeness and accuracy of its application. The applicant bears the responsibility to ensure the accuracy and appropriateness of all inputs and outputs from the models that it uses in supporting its application. The use of an OEB model does not guarantee that the OEB will approve the results. The OEB expects that the models and workforms be used by all distributors. If an applicant makes any changes to OEB models or workforms to address its own circumstances, it must highlight and provide justification for such changes.

3.2 Elements of the Price Cap IR and the Annual IR Index Plan

3.2.1 Annual Adjustment Mechanism

The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains.[4] The components in the formula are also approved by the OEB annually. The formula is an *inflation minus X-factor* rate adjustment.

Inflation Factor

In its *Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* the OEB adopted a 2-factor industry-specific price index methodology. The inflation factor is based on two

[4] *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors (December 4, 2013)*

weighted price indicators (labour and non-labour) which provide an input price that reflects Ontario's electricity industry.

X-Factor

The X-factor has two parts: a productivity factor and a stretch factor. The OEB has determined that the appropriate value for the productivity factor (industry total factor productivity) for the Price Cap IR and Annual IR Index is zero. For the stretch factor, distributors will be assigned into one of five groups ranging from 0.0% to 0.6%. The most efficient distributor, based on the cost evaluation ranking, would be assigned the lowest stretch factor of 0.0%. All Annual IR Index applicants will be assigned a stretch factor of 0.6%.

Distributors shall use the 2017 rate-setting parameters as a placeholder until the stretch factor assignment and inflation factor for 2018 are issued by the OEB. OEB staff will update each distributor's rate generator model with the 2018 price cap parameters once they are available. Distributors will have an opportunity to comment on the accuracy of OEB staff's update as part of the application process.

3.2.1.1 Application of the Annual Adjustment Mechanism

The annual adjustment mechanism will apply to distribution rates (fixed and variable charges) uniformly across customer rate classes.

The annual adjustment mechanism will not be applied to the following components of delivery rates:

- Rate Adders
- Rate Riders
- Low Voltage Service Charges
- Retail Transmission Service Rates
- Wholesale Market Service Rate
- Rural and Remote Rate Protection Benefit and Charge
- Standard Supply Service – Administrative Charge
- Capacity Based Recovery
- MicroFIT Service Charge
- Specific Service Charges
- Transformation and Primary Metering Allowances[5]
- Smart Metering Entity Charge

[5] And any other allowances the OEB may determine.

3.2.2 Revenue-to-Cost Ratio Adjustments

OEB decisions regarding cost of service rate applications may sometimes prescribe a phase-in period to adjust the revenue-to-cost ratios. The OEB's revenue-to-cost ratio adjustment workform and rate generator model include schedules for a distributor to adjust the revenue-to-cost ratio if previously approved by the OEB. The model will adjust base distribution rates before the application of the price cap adjustment.

3.2.3 Rate Design for Residential Electricity Customers

On April 2, 2015, the OEB released its *Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2014-0210)*, which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers. The transition began in 2016 and in most cases will be implemented over a period of four years.

The OEB issued decisions affecting 2016 and 2017 rates for Price Cap IR and Annual Index IR applicants consistent with this policy. In this third year of transition, the distributor must follow the approach set out in Tab 16. Rev2Cost_GDPIPI of the rate generator model.

Distributors are expected to propose a fully fixed rate design for new charges applicable to the residential class provided that those charges are specifically related to the distribution of electricity.[6] Pass-through costs (e.g. transmission rates, LV charges, and Group 1 DVAs) and LRAMVA amounts are to continue to be recovered as variable charges because they predominantly relate to energy charges. Previously approved Distribution-specific charges or rate riders on a distributor's tariff should remain unchanged until they expire.

Residential Rate Design– Exceptions and Mitigation

In order to support the initial transition to fully fixed distribution rates, the OEB designed two tests to determine when mitigation should be proposed – a threshold test for the change in the fixed charge, and an overall bill impact test. The OEB is requiring distributors once again to calculate and report on the rate impacts of the change in 2018 so that mitigation strategies may be employed to smooth the transition for the customers most impacted, such as those that consume less electricity.

In 2018, a distributor is expected to apply to extend its OEB-approved transition period if necessary, to continue to comply with the policy. For 2018, the monthly service charge would have to rise more than $4 per year in order to affect the length of the transition to fixed rates. It is expected that in most cases, only an additional transition year would be required to make the changes within the $4 impact threshold identified in the policy. A distributor shall propose an alternative or additional strategy in the event that an

[6] Examples of distribution-specific charges include: Shared Tax Savings, Z-Factors, ACM and ICM rate riders.

additional transition year is insufficient. Consistent with OEB policy regarding mitigation, a distributor may propose as part of its application that no extension is necessary; such a position must be substantiated with reasons.

While the rate design is revenue neutral across the residential class, the impact on individual customers will vary with consumption. The OEB requires distributors to calculate the combined impact of the fixed rate increase and any other changes in the cost of distribution service for those residential RPP customers who are at the 10th percentile of overall consumption.[7] That is, 10% of a distributor's residential customers consume at or less than this level of consumption on a monthly basis. Sorting or segmentation of residential class data by consumption level will be required. Distributors must provide a description of the method they used to derive the 10th consumption percentile. The description should include a discussion regarding the nature of the data that was used (e.g. was the source data for all residential customers or a representative sample of residential customers).

If the total bill impact of the elements proposed in this application is 10% or greater for RPP customers consuming at the 10th percentile, a distributor must file a plan to mitigate the impact for the whole residential class or indicate why such a plan is not required. The distributor will have the ability to propose the approach to mitigation, including, but not limited to, the option to extend the transition to fixed rates over a longer period. A detailed rationale must be provided.

It is the OEB's expectation that for mitigation as a result of the transition to fixed rates, distributors will propose strategies that target only the residential class, to avoid any material cross-subsidy between classes.

Beyond the issue of residential rate design specifically addressed in this section, distributors are reminded that they must file a mitigation plan if total bill increases for any customer class exceed 10%.

3.2.4 Electricity Distribution Retail Transmission Service Rates

In preparing its application, the distributor should refer to the OEB's *Guideline G-2008-0001: Electricity Distribution Retail Transmission Service Rates (RTSR), Revision 4.0, issued June 28, 2012.*[8]

The OEB's rate generator model will assist in calculating the distributor's class-specific RTSRs. The rate generator model will reflect the most recent uniform transmission rates (UTRs) approved by the OEB.[9] Once any January 1, 2018 UTR adjustments have been determined, OEB staff will adjust each distributor's 2018 RTSR section of the rate generator to incorporate these changes where applicable. The rate generator model will

[7] To a minimum of 50 kWh per month.
[8] Originally issued October 22, 2008.
[9] Decision and Rate Order, EB-2015-0311, January 14, 2016

also reflect the most recent sub-transmission rates approved by the OEB.[10] Likewise, OEB staff will update these rates as they become available.

3.2.5 Review and Disposition of Group 1 Deferral and Variance Account Balances

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (EDDVAR) provides that under the Price Cap IR or the Annual IR Index, the distributor's Group 1 audited account balances will be reviewed, and disposed if the pre-set disposition threshold of $0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed. Consistent with a letter from the OEB on July 25, 2014, distributors may elect to dispose of Group 1 account balances below the threshold. Distributors should assess the practicality of disposing what may be small balances for one or more classes; for further guidance on considerations relevant to rate riders, see Appendix B.

In their application, distributors must include Group 1 balances as of December 31, 2016 to determine if the threshold has been exceeded. The continuity schedule, found on Tab 3 of the rate generator model, must be completed as part of the application.

Group 1 consists of the following Uniform System of Accounts (USoA):

- 1550 Low Voltage Account;
- 1580 RSVA Wholesale Market Service Charge Account;
    - 1580 Variance WMS, Sub-Account CBR Class A
    - 1580 Variance WMS, Sub-Account CBR Class B
- 1584 RSVA Retail Transmission Network Charges Account;
- 1586 RSVA Retail Transmission Connection Charge Account;
- 1588 RSVA Power Account;
- 1589 RSVA Global Adjustment Account; and
- 1595 Disposition and Recovery/Refund of Regulatory Balances Account.

Distributors must provide an explanation if the account balances on *Tab 3. Continuity Schedule* differ from the account balances in the trial balance reported through the RRR and the audited financial statements and which have been reflected in the prepopulated rate generator model.

[10] Hydro One Networks Inc. Decision and Rate Order, EB-2016-0081, December 21, 2016, other distributors sub-transmission rates are approved in their decision and order

The OEB expects that no adjustments will be made to any deferral and variance account balances previously approved by the OEB on a final basis. Distributors must make a statement in their application as to whether or not any such adjustments were made. If adjustments have taken place, a distributor must provide explanations in its application for the nature and amounts of the adjustments and include supporting documentation under a section titled “Adjustments to Deferral and Variance Accounts.”

If the RRR balances do not agree to the year end balances in the continuity schedule, a distributor must reconcile and explain the differences.

The rate generator model will calculate the deferral and variance account (DVA) disposition threshold using the last full year of actual load data as reported through the RRR. The default billing determinants used in the calculation of the Group 1 DVA rate riders will also be based on recent load data. The use of recent actuals should reduce residual variances by reflecting changes in customer class composition. A distributor may propose an alternative method with supporting rationale. In that case, revisions to the rate generator model may be required.

All GA rate riders will be calculated on an energy basis (kWh) – (see further discussion at section 3.2.5.2).

EDDVAR states that the default disposition period to clear the Group 1 account balances by means of a rate rider should be one year. However, a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

3.2.5.1 Wholesale Market Participants

A wholesale market participant (WMP) refers to any entity that participates directly in any of the Independent Electricity System Operator (IESO) administered markets. These participants settle commodity and market-related charges with the IESO even if they are embedded in a distributor’s distribution system. As a consequence, a distributor must not allocate any balances to these customers from Account 1580 RSVA - Wholesale Market Services Charge, Account 1580 Variance WMS, Sub-Account CBR Class B, Account 1588 RSVA - Power, and Account 1589 RSVA - Global Adjustment to a WMP.

A distributor must also ensure that rate riders are appropriately calculated for the following remaining charges that are still settled with a distributor. These include Account 1584 RSVA – Retail Transmission Network Charge, Account 1586 RSVA – Retail Transmission Connection Charge and Account 1595 – Disposition/Refund of Regulatory Balances.

3.2.5.2 Global Adjustment

Class B and A Customers
Most customers pay the GA charge based on the amount of electricity they consume in a month (kWh). These customers are referred to as Class B. Customers who participate in the Industrial Conservation Initiative (ICI), referred to as Class A, pay GA based on their percentage contribution to the top five peak Ontario demand hours (i.e. peak demand factor) over a year-long period.[11] Distributors that settle GA costs with Class A customers on the basis of actual GA prices, shall allocate no GA variance balance to these customers for the period that customers were designated Class A.

For non-RPP Class B customers, the GA variance account (Account 1589) captures the difference between the amounts billed (or estimated to be billed) by the distributor and the actual amount paid by the distributor to the IESO (or host distributor) for those customers.

When clearing balances from the GA variance account, distributors must establish a separate rate rider included in the delivery component of the bill that would apply prospectively to non-RPP Class B customers. Effective in 2017, the billing determinant and all the rate riders for the GA were calculated on an energy basis (kWhs) regardless of the billing determinant used for distribution rates for the particular class.

The rate generator model for 2018 will contain a new *Tab 6. Class A Consumption Data* that will be generated for applicants to input consumption data pertaining to Class A and transition customers, if distributors had Class A customers at any point during the period when the Account 1589 balance accumulated. *Tab 6.1a GA Allocation* has also been revised. This tab will allocate the GA balance to transition customers for the period in which these customers were Class B customers and contributed to the GA balance (i.e. former Class B customers who contributed to the GA balance but are now Class A customers and former Class A customers who are now Class B customers contributing to the GA balance). All transition customers will only be responsible for the amount as allocated to them in *Tab 6.1a GA Allocation*, and they will not be charged/refunded the GA rate rider that applies to all non-RPP Class B customers. The model calculates specific amounts for each transition customer based on the consumption of each customer during the period they were Class B customers. Distributors are generally expected to settle the amount through 12 equal adjustments to bills. Customers should be charged in a consistent manner for the entire disposition period until the sunset date, regardless of whether customers transition between Class A and Class B during the disposition period.

[11] As of July 1, 2015, per O.Reg 429/04, an eligible customer with a maximum hourly demand over three megawatts, but less than five megawatts, can elect to become a Class A for an applicable adjustment period of one year. Effective January 1, 2017, the ICI expanded to include all electricity users with an average monthly peak demand over 1 MW. In April 2017, the ICI further reduced the ICI threshold to 500 kW to make targeted manufacturing and industrial sectors, including greenhouses eligible to opt-in to the ICI.

GA Analysis Workform
Starting for 2018 rate applications, all distributors must complete the GA Analysis Workform. The new workform will help the OEB assess if the annual balance in Account 1589 is reasonable. The workform compares the General Ledger principal balance to an expected principal balance based on monthly GA volumes, revenues and costs.

A discrepancy between the actual and expected balance may be explained and quantified by a number of factors, such as an outstanding IESO settlement true-up payment. The explanatory items should reduce the discrepancy and provide distributor-specific information to the OEB. Any remaining, unexplained discrepancy will be assessed for materiality and could prompt further analysis before disposition is approved. Unexplained discrepancies should be calculated separately for each calendar year and any unexplained discrepancy for each year greater than +/- 1% of total annual IESO GA charges will be considered material.

The GA Analysis Workform is available on the OEB's web site and is to be filed in live Microsoft Excel format.

Description of Settlement Process
A distributor must support their GA claims with a description of their settlement process with the IESO or host distributor. This description is only required to be submitted if an aspect of the description has changed since previously filed or has not been previously filed in an application. It must specify the GA prices it uses to bill (and record unbilled entries) to its various customer classes (i.e.1st estimate, 2nd estimate or actual), and explain its process for providing consumption estimates to the IESO as part of Its RPP settlement process, and describe the RPP settlement process used to true up estimated amounts to actual amounts. The description should detail the distributor's method for estimating RPP and non-RPP consumption, as well as its treatment of embedded generation or any embedded distribution customers. Distributors are reminded that they are expected to use accrual accounting.

If a distributor uses the actual GA price to bill non-RPP Class B customers for an entire rate class, it must make a proposal to exclude these customer classes from the allocation of the balance of account 1589 RSVA GA and the calculation of the resulting rate riders. These rate classes are not to be charged/refunded the GA rate rider as they did not contribute to the accumulation of the balance of account 1589 RSVA GA.

3.2.5.3 Commodity Accounts 1588 and 1589

RPP Settlement True-*Ups*
Effective May 23, 2017, per the OEB's letter titled Guidance on Disposition of Accounts 1588 and 1589, applicants must reflect RPP Settlement true-up claims pertaining to the period that is being requested for disposition in the RSVA Power (Account 1588) and RSVA GA (Account 1589) variance accounts. In doing so, distributors are to follow the guidance provided in the above noted letter.

Certification of Evidence
Given issues that have arisen with commodity accounts 1588 RSVA Power and 1589 RSVA GA balances, the OEB now requires a certification by the Chief Executive Officer (CEO), or Chief Financial Officer (CFO), or equivalent. The application must include a certification that the distributor has robust processes and internal controls in place for the preparation, review, verification and oversight of the account balances being disposed, consistent with the certification requirements in Chapter 1 of the filing requirements.

3.2.5.4 Capacity Based Recovery (CBR)

Distributors should follow accounting guidance on the disposition of CBR variances. Embedded distributors who are not charged the CBR and therefore, have not recorded a balance in Account 1580, Sub-Account CBR Class B must indicate that this is the case for them. In *Tab 3. Continuity Schedule* of the rate generator model, applicants must indicate whether they have any Class A customers during the period where the Account 1580 CBR Class B Sub-Account balance accumulated. If yes, a separate rate rider will be calculated in the rate generator model in the new *Tab 6.2 CBR B*. If not, the rate generator model will transfer the Sub-Account balance to Account 1580 WMS control account and include the CBR amounts as part of the general purpose Group 1 Deferral and Variance account rate riders. Account 1580 Sub-Account CBR Class A is not to be disposed through rates proceedings but rather follow the OEB's accounting guidance.

Similar to the guidance provided in section 3.2.5.2 for GA transition customers, a new *Tab 6.2a CBR B_Allocation* has been added to the rate generator for the 2018 rate year. This tab is generated when applicants indicate that a Class B customer switched into Class A or vice versa during the period in which the CBR Class B Sub-Account balance accumulated. This tab allocates the portion of Account 1580 Sub-Account CBR Class B to customers who transitioned between Class A and Class B based on customer specific consumption levels.

3.2.6 LRAM Variance Account (LRAMVA)

The lost revenue adjustment mechanism variance account (LRAMVA) is a retrospective adjustment designed to account for differences between forecast revenue loss attributable to CDM activity embedded in rates and actual revenue loss due to the impacts of CDM programs. The OEB established Account 1568 as the LRAMVA to capture the difference between the OEB-approved CDM forecast and actual results at the customer rate class level.

On April 26, 2012, the OEB issued new CDM Guidelines (the 2012 CDM Guidelines). The 2012 CDM Guidelines provide details on the LRAMVA for the 2011 to 2014 period. Accounting guidelines on the LRAMVA can be found in Appendix B of the 2012 CDM Guidelines. Distributors should refer to the 2012 CDM Guidelines for further details.

On May 19, 2016, the OEB issued the *Report of the OEB: Updated Policy for the Lost*

Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs (the LRAMVA Report). The OEB updated its policy on how peak demand savings from energy efficiency and demand response programs should be treated for LRAMVA purposes. The OEB expects that distributors refer to the LRAMVA Report and follow the new policy.

In July 2016, the OEB developed a generic LRAMVA workform to provide distributors with a consistent approach to calculate LRAMVA. The LRAMVA workform consolidates information that LDCs have received from the IESO.

In December 2016, the OEB indicated in various decisions[12] that changes to an approved LRAMVA amount were not permitted. This policy affects the treatment of verified savings adjustments that can be claimed by distributors. If an LRAMVA amount was approved, the persistence of the savings adjustment(s) can only be claimed on a go-forward basis.[13] LDCs cannot seek recovery of LRAMVA amounts related to savings adjustments for a year in which the corresponding LRAMVA amount has been approved by the OEB. For example, if an LDC has received approval of its 2014 LRAMVA balance, excluding 2014 savings adjustments, the LDC must forego any LRAMVA amounts related to the 2014 savings adjustments as the 2014 LRAMVA balance was approved by the OEB on a final basis.

3.2.6.1 Disposition of the LRAMVA

At a minimum, distributors must apply for the clearance of its energy and/or demand related LRAMVA balances attributable to energy efficiency programs in a CoS application. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their IRM rate applications, if the balance is deemed significant by the applicant.

The distributor shall compare the OEB-approved LRAMVA threshold to actual CDM results at a rate class level. The variances calculated from this comparison shall be recorded in separate Sub-Accounts for the applicable customer rate classes. Distributors must continue to track the variances between the OEB-approved LRAMVA threshold and actual CDM results in the LRAMVA for the 2015-2020 period.[14]

In reference to the LRAMVA Report, DR3 savings should generally not be included in the LRAM savings unless supported by empirical evidence to be reviewed in a CoS application. Any requests for approval of lost revenues related to peak demand savings from demand response programs can only be part of a rebasing application due to the complexity and unique nature of the calculation of lost revenues from peak demand savings. As such, no request for approval of lost revenues related to peak demand

[12] *EB-2016-0075 (Guelph Hydro 2017 IRM) and EB-2016-0080 (Hydro One Brampton 2017 IRM)*
[13] *See EB-2016-0214 for an example (North Bay Hydro 2017 IRM)*
[14] *Conservation and Demand Management Requirement Guidelines for Electricity Distributors, December 19, 2014 (EB-2014-0278)*

savings from demand response programs will be evaluated in an IRM rate application. Those distributors who are planning to seek recovery of lost revenue associated with DR3 and have recorded amounts to the end of December 31, 2014 in Account 1568 may transfer the accumulated amounts to Sub-Account 1568-0001 LRAMVA Demand Response, or forego recovery, in accordance with the OEB's updated accounting guidance issued on July 18, 2017. However, if a distributor has already received OEB approval for disposition of Account 1568 as of December 31, 2014 on a final basis, no amounts are to be recorded in Account 1568 Sub-Account 1568 LRAMVA Demand Response. This Sub-Account is only available to distributors for transferring amounts from Account 1568 LRAMVA with respect to savings for period from 2011-2014, and only if they have not already received OEB approval for disposition of Account 1568 on a final basis, for amounts recorded for 2011-2014.

The following information should be provided in the application:

- A statement identifying the year(s) of new lost revenues and prior year savings persistence claimed in the LRAMVA disposition.
- A statement confirming that LRAMVA was based on verified savings results that are supported by the LDC's Final CDM Annual Report and Persistence Savings Report issued by the IESO. Both reports must be filed in excel format. A statement indicating that the distributor has relied on the most recent input assumptions available at the time of program evaluation.
- A summary table showing the principle and carrying charges amounts by rate class and the resultant rate riders for each rate class. A statement providing the period of rate recovery. Rationale must be provided for disposing the balance in the LRAMVA, if one or more rate classes do not generate significant rate riders.
- Details for the forecast CDM savings included in the LRAMVA calculation including reference to the OEB's approval, or an explanation if there are no forecast CDM savings.
- Provide rationale confirming how the rate class allocations for actual CDM savings were determined by customer class and program each year. Documentation (e.g., tables supporting the rate class allocations) should be filed in Tab 3-a of the LRAMVA workform.
- A statement confirming whether additional documentation or data was provided in support of projects that were not included in the LDC's Final CDM Annual Report (i.e., street lighting projects). This data can be added to the workform in Tab 8 as applicable.
- For OEB-approved programs approved before 2014, the submission of a third party report, in accordance with the IESO's EM&V Protocols as set out in Section 6.1 of the CDM Code, that provides a review and verification of the distributor's lost revenue calculations, including:
    - Confirmation of the use of correct input assumptions and lost revenue calculations
    - Verified participation amounts
    - The net and gross impacts of each program (kW and kWh) and by each customer class, separated by year

- Verification of any carrying charges requested

An application to dispose of the balance in an LRAMVA may only be filed as part of an Annual IR Index application if the OEB's decision for the distributor's last cost of service (or settlement agreement approved by the OEB) has a clear description of class-specific CDM adjustments made to the load forecast to be used in the calculation of the LRAMVA balance. Any LRAMVA applications determined by the OEB to be more complicated than appropriate for an Annual IR Index application will be bifurcated and heard separately from the Annual IR Index application.

3.2.7 Tax Changes

OEB policy, as described in the OEB's 2008 report entitled Supplemental Report of the *Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the Supplemental Report), prescribes a 50/50 sharing of impacts of legislated tax changes from distributors' tax rates embedded in its OEB approved base rate known at the time of application. These amounts will be refunded to or recovered from customers over a 12-month period. If applicable, applicants must complete sheets 8 and 9 of the rate generator model. The rate generator model will calculate an applicable rate rider using the appropriate customer class data underlying the OEB approved rates. A rate rider to four decimal places must be generated for all applicable customer classes in order to dispose of the amounts. If one or more customer classes does not generate a rate rider to the fourth decimal place, the entire 50/50 sharing amount will be transferred to Account 1595 for disposition at a future date.

3.2.8 Z-factor Claims

Price Cap IR applicants have the ability to include in their application a request to recover costs associated with unforeseen events that are outside the control of a distributor's ability to manage. The cost to a distributor must be material and its causation clear. Costs are to be recorded in Account 1572, Extraordinary Events Costs. To recover these amounts, a distributor must follow the guidelines discussed in section 2.6 of the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* – July 14, 2008. The materiality thresholds, described in the OEB's Policy Manual, must be met on an individual event basis in order for the distributor to apply for recovery of the relevant costs.

3.2.8.1 Z-factor Filing Guidelines

A distributor must submit evidence that the costs incurred meet the three eligibility criteria. A distributor must also:

- Notify the OEB promptly by letter to the Board Secretary of all Z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim.

- Apply to the OEB for any cost recovery of amounts recorded in the OEB-approved deferral account claimed under Z-factor treatment. This will allow the OEB and any affected distributor the flexibility to address extraordinary events in a timely manner. Subsequently, the OEB may review and prospectively adjust the amounts for which Z-factor treatment is claimed.

- Provide a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations.

- Demonstrate that the costs are incremental to those already being recovered in rates as part of ongoing business exposure risk.

3.2.8.2 Z-factor Accounting Treatment

The distributor will record eligible Z-factor cost amounts in Account 1572, Extraordinary Event Costs, of the OEB's USoA contained in the Accounting Procedures Handbook (APH) for electricity distributors. Monthly carrying charges shall be recorded in Account 1572. Carrying charges are calculated using simple interest applied to the monthly opening balances in the account and recorded in a separate Sub-Account of this account. The rate of interest shall be the rate prescribed by the OEB for deferral and variance accounts for the respective quarterly period published on the OEB's web site.

3.2.8.3 Recovery of Z-Factor Costs

As part of its claim, a distributor must outline the manner in which it intends to allocate the incremental revenue requirement to the various customer rate classes, the rationale for the selected approach and a discussion of the merits of alternative allocation methods. Recovery will be through a rate rider.[15] The request must specify whether the rate rider(s) will apply on a fixed or variable basis or a combination thereof, and the length of the disposition period and a rationale for this proposal. As discussed at section 3.2.3, any new rate riders that apply to residential classes must only be applied on a fixed basis. A detailed calculation of the incremental revenue requirement and resulting rate rider(s) must be provided.

3.3 Elements Specific only to the Price Cap IR Plan

3.3.1 Advanced Capital Module

On September 18, 2014, the OEB issued the *Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (*EB-2014-0219) (ACM Report). The Advanced Capital Module (ACM) reflects an evolution of the Incremental Capital Module (ICM) adopted by the OEB in 2008. The ACM approach

[15] See Appendix B

seeks to increase regulatory efficiency during the Price Cap IR term and provides a distributor with the opportunity to smooth out its capital program over the five year period between cost of service applications.

A distributor must make any ACM requests as part of a cost of service application. At that time, the need for and prudence of any such requests will be determined. Cost recovery (i.e. rate riders) for qualifying ACM projects will be determined in the subsequent Price Cap IR application for the year in which the capital investment will come into service.

While an ACM request must be made in a cost of service application, a Price Cap IR application is the vehicle in which an applicant may calculate the rate rider to recover the amounts approved in a cost of service application. A distributor seeking cost recovery through a Price Cap IR application should carefully review the ACM Report before making such a request.

A distributor approved for an ACM in its most recent cost of service application must file its most recent calculation of its regulated return (RRR 2.1.5.6) at the time of the applicable Price Cap IR application in which funding for the project, and recovery through rate riders, would commence. If the regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates, the funding for any incremental capital project will not be allowed. Therefore, any approvals provided for an ACM in a cost of service application will be subject to the distributor passing the means test in order to receive its funding during the IR term. The same means test shall also apply going forward for new projects proposed as ICMs during the Price Cap IR term.

A distributor meeting this requirement must provide for the relevant project or projects updated cost projections, confirmation that the project or projects are on schedule to be completed as planned and an updated ACM/ICM module in Excel format. If the proposed cost recovery differs significantly from the pre-approved amount, the distributor must provide a detailed explanation. Any changes in the scope or timing of the project must be clearly explained and justified.

If the updated cost projections are 30% greater than the pre-approved amount, the distributor must treat the project as a new ICM project and re-file the business case and other relevant material in the applicable IR year.

As part of the distributor's subsequent rebasing application, the OEB will carry out a prudence review of the actual costs to determine the amounts to be incorporated in rate base. At that time, the OEB will also make a determination regarding the treatment of differences between forecast and actual spending during the remainder of the IRM plan term (i.e. if any true-up is required).

On January 22, 2016, the OEB issued the *Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report*. This report made changes to the materiality threshold on which ACM and ICM proposals are assessed, but otherwise does not alter the requirements for ACM and ICM proposals by an applicant. The Supplemental Report also reaffirms the applicability of the half-year rule for determining the return of and return on capital in the first year that assets enter service.

An associated and updated Capital Funding Module to reflect the changes to the materiality threshold was also issued along with the Supplemental Report, and is available on the OEB's website. A distributor filing for ACM/ICM rate riders must use the current model.

3.3.2 Incremental Capital Module

The ICM remains available to electricity distributors opting for Price Cap IR. The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold defined below. The ICM is available for discretionary and non-discretionary projects. The ICM is also available for capital projects that were not included in the distributor's last filed Distribution System Plan. Even for approved ACM projects, an ICM is available if an updated ACM budget exceeds the approved ACM budget by 30%. Distributors with multiple capital projects should consider the Custom IR option to address capital needs in the context of their Distribution System Plan, rather than submit multiple ICM applications or ICM applications that consistently use up a substantial amount of the eligible available capital amount.

The ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor's rates.

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the ACM Report.

Criteria	Description
Materiality	A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total

	capital budget.
Need	The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

3.3.2.1 ICM Filing Requirements

The OEB requires that a distributor requesting relief for incremental capital during the IRM plan term include comprehensive evidence to support the need, which should include the following:

- An analysis demonstrating that the materiality threshold test has been met and that the amounts will have a significant influence on the operation of the distributor
- Justification that the amounts to be incurred will be prudent. This means that the distributor's decision to incur the amounts represents the most cost-effective option (but not necessarily the least initial cost) for ratepayers
- Justification that amounts being sought are directly related to the cause, which must be clearly outside of the base upon which current rates were derived
- Evidence that the incremental revenue requested will not be recovered through other means (e.g., it is not, in full or in part, included in base rates or being funded by the expansion of service to include new customers and other load growth)
- Details by project for the proposed capital spending plan for the expected in-service year
- A description of the proposed capital projects and expected in-service dates
- Calculation of the revenue requirement (i.e. the cost of capital, depreciation, and PILs) associated with each proposed incremental capital project

- Calculation of each incremental project's revenue requirements that will be offset by revenue generated through other means (e.g. customer contributions in aid of construction)

- A description of the actions the distributor would take in the event that the OEB does not approve the application

- Calculation of a rate rider to recover the incremental revenue from each applicable customer class. The distributor must identify and provide a rationale for its proposed rider design, whether variable, fixed or a combination of fixed and variable riders. As discussed at section 3.2.3, any new rate rider for the residential class must be applied on a fixed basis

3.3.2.2 ACM/ICM Materiality Threshold

The ACM/ICM materiality threshold is discussed in section 4.5 of the supplemental report.

The OEB determined that the following formula is to be used by a distributor to calculate the materiality threshold:

$$Threshold\,Value\,(\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times \left(g + PCI \times (1+g)\right)\right]\right) \times \left((1+g) \times (1+PCI)\right)^{n-1} + X\%$$

where n is the number of years since the cost of service rebasing. Many of the parameters remain unchanged from the original formula except for the following:

- the growth factor g is annualized
- the dead band X has been reduced to 10%
- the stretch factor used in the PCI will be the factor assigned to the middle cohort (currently 0.3%) for all distributors

3.3.2.3 Eligible Incremental Capital Amount

In the ACM report, the OEB mentioned that the eligible incremental capital amount sought for recovery should be capital in excess of the ACM/ICM materiality threshold. This threshold level of capital expenditures is the amount that a distributor should be able to manage with its current rates, growth in demand and normal volatility in business conditions. Accordingly, the materiality threshold value, as calculated using the formula discussed in section 4 of the ACM report, marks the base from which to calculate the maximum amount eligible for recovery. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital amount by taking the difference between the forecasted 2018 total capital expenditures and the ACM/ICM materiality threshold.

3.3.2.4 Application of the Half-Year Rule

The OEB's general guidance on the application of the half-year rule was originally provided in the supplemental report. In this report the OEB determined that the half-year rule should not apply so as not to build a deficiency for the subsequent years of the IRM plan term. This approach is unchanged in the new ACM/ICM policy. However, the OEB's approach in decisions has been to apply the half-year rule in cases in which the ICM request coincides with the final year of a distributor's IRM plan term.[16]

3.3.2.5 ACM/ICM Accounting Treatment

The distributor will record eligible ICM amounts in Account 1508 – Other Regulatory Asset, Sub-Account Incremental Capital Expenditures, subject to the assets being used and useful. For incremental capital assets under construction, the normal construction work in progress (CWIP) accounting treatment will apply until these assets go into service and are eligible to be recorded in the 1508 Sub-Accounts listed below.

Distributors shall record actual amounts in the following Sub-Accounts of Account 1508 – Other Regulatory Assets:

- Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures
- Account 1508 – Other Regulatory Assets, Sub-Account Depreciation Expense
- Account 1508 – Other Regulatory Assets, Sub-Account Accumulated Depreciation
- Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures Rate Rider Revenues

The distributor shall also record monthly carrying charges in the following Sub-Accounts. Carrying charge amounts are calculated by applying simple interest to the monthly opening balances:

- Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures, Carrying charges
- Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures Rate Rider Revenues, Carrying Charges

The applicable rate of interest for deferral and variance accounts for the respective quarterly period is prescribed by the OEB and published on the OEB's web site.

All Sub-Accounts should be used for both approved ACM and ICM projects. If the OEB approves the true-up of any variances for ACM/ICM projects at the next cost of service application, the recalculated revenue requirement relating to the actual ACM/ICM capital

[16] EB-2010-0130, Guelph Hydro Electric Systems Inc., Decision and Order, p. 15

expenditures should be compared to the rate rider revenues collected in the same period, plus the carrying charges in the respective Sub-Accounts. These variances would then be refunded to, or collected from, customers through rate riders.

3.3.2.6 Rate Generator and Supplemental Filing Module for ACM/ICM

The filing module for ACM/ICM will assist the distributor in calculating the distributor's threshold. The distributor will then tabulate the value of its eligible investments and compare this to the threshold result to determine the amount that would be eligible for recovery. Once all tabs are completed and listed in the filing module for ACM/ICM, the tabulated revenue requirement will be converted into class-specific rate riders. The rate riders will need to be added to Tab 18. Additional Rates of the rate generator model in order for them to be displayed on the Tariff of Rates and Charges.

3.3.3 Treatment of Costs for 'eligible investments'

On March 28, 2013, the OEB issued *Filing Requirements for Electricity Transmission and Distribution Applications – Chapter 5: Consolidated Distribution System Plan Filing Requirements* (Chapter 5). As noted in section 5.0.5, Chapter 5 supersedes the *Filing Requirements: Distribution System Plans - Filing under Deemed Conditions of Licence*.

As indicated in the cover letter to Chapter 5 dated March 28, 2013, distributors who have yet to file under Chapter 5 will continue to be able to record renewable energy generation costs and smart grid development costs in the deferral accounts that were established for that purpose. However, no new deferral accounts for these types of expenditures will be established. Distributors under Price Cap IR who have yet to file a cost of service application containing a consolidated capital plan pursuant to Chapter 5 will continue to be able to request advance funding through a funding adder for renewable generation connection costs and smart grid development costs. Where a distributor seeks a funding adder, sufficient information must be provided to allow the OEB to assess the need for the mechanism and the nature and quantum of the costs to be collected from ratepayers and the basis for calculating the funding adder. The costs recovered through the funding adder will be subject to a prudence review in the first cost of service application following the implementation of the funding adder. Distributors should refer to Section 2.0.9 of the revised Chapter 2 Filing Requirements for further information on materiality levels for requests of provincial funding for renewable generation connections.

Distributors proposing to file an Annual IR Index application must make a Chapter 5 filing within five years of the date of the most recent OEB decision approving their rates in a cost of service proceeding and are required to do so at five year intervals thereafter while using the Annual IR Index method.

3.3.4 Conservation and Demand Management Costs for Distributors

CDM activity is funded either through IESO Contracted Province Wide CDM Programs, or through an OEB-approved CDM program.

3.3.5 Off-ramps

For each of the OEB's three rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. The OEB monitors results filed by distributors as part of their reporting and record-keeping requirements and determines if a regulatory review is warranted. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor whose earnings are in excess of the deadband nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so. The applicant should anticipate that the level of earnings will be raised as an issue in the application.

A distributor may choose to file only for disposition of Group 1 deferral and variance account balances in accordance with OEB policies, without applying for adjustments to its base rates.

3.4 Specific Exclusions from Price Cap IR or Annual IR Index Applications

The IRM application process is intended to be mechanistic in nature. For this reason, the OEB has determined that the IRM process is not the appropriate way for a distributor to seek relief on issues which are specific to only one or a few distributors, more complicated relative to issues typical of an IRM application, or potentially contentious. The following are examples of specific exclusions from the IRM rate application process:

- Rate Harmonization, other than that pursuant to a prior OEB decision
- Disposition of the balance of Account 1555 – Smart Meter Capital Costs, Sub-Account Stranded Meter Net book Value
- Changes to revenue-to-cost ratios, other than pursuant to a prior OEB decision

- Loss Factor Changes
- Establishing or changing Specific Service Charges
- Loss Carry Forward Adjustments to PILs/taxes
- Disposition of Group 2 Deferral and Variance Accounts
- Loss of Customer Load

These items are to be addressed in the distributor's next cost of service application. The exclusions above also apply to the Annual IR Index plan. In addition, distributors seeking adjustments that are inconsistent with OEB policy should consider whether one of the other rate-setting options is more appropriate. As indicated in the Handbook, distributors filing under the Annual IR Index plan must file a separate, stand-alone application for the review and disposition of Group 2 Deferral and Variance Accounts.

Appendix A: Application of Recoveries in Account 1595

When final approval for disposition of deferral and variance account balances is received from the OEB, the final approved amounts of principal and interest carrying charges is transferred to Account 1595.

The cumulative principal balance transferred to Account 1595 is drawn down by the rate rider recoveries first, before the interest balance transferred to Account 1595 is drawn down. Interest carrying charges are applied to the principal balance net of recoveries.

The following approach is used for the application of recoveries (via rate riders) to the transferred amounts under two scenarios:

Scenario 1: Rate Rider ceases with Principal amount remaining.

If the rate rider ends before the principal is fully drawn down, the principal balance is held static and interest carrying charges are applied to the remaining principal balance. The approved rate rider flowing from the next application to dispose of deferral and variance accounts should include the remaining principal and interest carrying charges.

Scenario 2: Rate Rider ceases with no Principal amount remaining but with Interest Carrying Charges remaining.

The approved rate rider flowing from the next application to dispose of deferral and variance account balances should include the cumulative interest carrying charge amounts.

Applicants are expected to only request disposition of residual balances for vintage Account 1595 Sub-Accounts once. Distributors are expected to seek disposition of the audited account balance a year after a rate rider's sunset date has expired. No further transactions are expected to flow through the account . Any vintage Account 1595 Sub-Account is to be disposed only once, on a final basis. No further dispositions of these accounts are expected thereafter unless justified by the distributor. Distributors should follow the accounting guidance in the Accounting Procedures Handbook, FAQ October 2009 #4-6 and FAQ July 2012 #3, upon disposition of the an Account 1595 Sub-Account.

Appendix B: Rate Adder versus Rate Rider

Rate Adder

A rate adder (or funding adder) is a tool designed to provide advance funding on an interim basis to distributors for certain investments or expenses as prescribed by the OEB and to mitigate or smooth the anticipated rate impact when recovery of these costs are approved by the OEB. Approval of a rate adder does not constitute regulatory approval of any costs actually incurred. The prudence of incurring such costs is examined, and the costs may be approved in whole or in part, at the time at which the distributor brings the matter forward for regulatory review.

Rate adders are identified and listed separately on a distributor's tariff of rates and charges and may have a termination date.

Rate Rider

A rate rider differs from a rate adder in that it is designed to recover or refund OEB-approved amounts following a review of the proposed costs to determine that it is reasonable for the distributor to incur and recover them. Rate riders are identified and listed separately on a distributor's tariff of rates and charges, with an explicit termination date.

Treatment of Negligible Rate Adders and Rate Riders

Rate adders and rate riders normally apply to one or more select rate classes on a fixed basis, a volumetric basis or a combination of both. A rate adder or rate rider is usually determined by dividing the OEB-approved allocated amounts by the OEB-approved forecast or historical energy use or demand.

Occasionally, the calculated rate adders or rate riders for one or more rate classes may be negligible. In the event where the calculation of any rate adder or rate rider results in a volumetric rate rider that rounds to zero at five significant digits (i.e., the fourth decimal place) per kWh or per kW, the entire OEB-approved amount for recovery or refund will typically be recorded in a USoA account to be determined by the OEB for disposition in a future rate setting. Distributors may propose alternatives to this approach in the event that there is a significant discrepancy in the size of the riders among classes (e.g., if a rider is of a non-negligible size for one or more classes, but negligible or insignificant for another class).

Appendix C: Key References

The documents listed in Appendix C are key to understanding these Filing Requirements. Incentive Rate-Setting applications filed by distributors must be consistent with the key references listed.

- *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach - October 18, 2012*
- *Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors - corrected December 4, 2013*
- *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities - December 11, 2009*
- *Guidelines for Electricity Distributors' Conservation and Demand Management - April 26, 2012 (2012 CDM Guidelines)*
- *Guidelines for Electricity Distributors' Conservation and Demand Management - December 19, 2014 (2014 CDM Guidelines)*
- *Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module - September 18, 2014*
- *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - July 14, 2008*
- *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - September 17, 2008*
- *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - January 28, 2009*
- *Guideline (G-2008-0001) on Retail Transmission Service Rates - October 22, 2008 (Revision 3.0 June 22,2011 and any subsequent updates)*
- *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery - Final Disposition, December 15, 2011*
- *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) - July 31, 2009*
- *Chapter 5 - Filing Requirements for Electricity Transmission and Distribution Applications: Consolidated Distribution System Plan Filing Requirements - March 28, 2013*
- *Report of the Board on Transition to International Financial Reporting Standards (EB-2008-0408) - July 28, 2009*
- *Addendum to Report of the Board EB-2008-0408 - Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment - June 13, 2011*
- *Report of the Board - Performance Measurement for Electricity Distributors: A Scorecard Approach - March 5, 2014*
- *Board Policy (EB-2012-0410) - A New Distribution Rate Design for Residential Electricity Customers - April 2, 2015*

- *Report of the Ontario Energy Board - Defining Ontario's Typical Electricity Customer – April 14, 2016*
- *Report of the Ontario Energy Board - New Policy Options for the Funding of Capital Investments: Supplemental Report – January 22, 2016*
- *Report of the Ontario Energy Board - Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs – May 19, 2016*

Additions for 2017:

- *Guidelines for Electricity Distributors' Conservation and Demand Management - December 19, 2014 (2014 CDM Guidelines) – Updated August 11, 2016*
- *Handbook for Utility Rate Applications – October 13, 2016*
- *Report of the Ontario Energy Board - Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*
- *Guidance on Wholesale Market Service Accounting for Capacity Based Demand Response (CBDR) and new IESO Charge Type 9920 – March 29, 2016*
- *Guidance on the Disposition of Accounts 1588 and 1589 – May 23, 2017*
- *Updated Guidance on LRAM Variance Account 1568 – New Sub-Account 1568-0001 LRAMVA Demand Response – July 18, 2017*