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BY E-MAIL AND WEB POSTING

July 20, 2018

To: All Rate-Regulated Licensed Electricity Distributors

Re: Accounting Guidance on Wireline Pole Attachment Charges

On March 22, 2018, the Ontario Energy Board (OEB) issued the *Report on Wireline Pole Attachment Charges* updating the OEB's approach to wireline pole attachments. In the report, the OEB advised that accounting guidance would be issued concerning the establishment of the variance account that will be required in connection with the implementation of the new pole attachment charge. This letter serves to provide that guidance.

Background

As explained in the report, the OEB has set a new province-wide wireline pole attachment charge of $43.63 per pole per year effective January 1, 2019. The new charge will apply to all local distribution companies (LDCs) that have not received OEB approval for a distributor-specific pole attachment charge. As a transitional measure, to help mitigate the impact of the increase from the current charge of $22.35 to the new charge of $43.63, LDCs without a distributor-specific charge will charge a province-wide pole attachment charge of $28.09 per pole per year effective from September 1, 2018 until December 31, 2018. The pole attachment charge will be adjusted annually based on the OEB's inflation factor commencing on January 1, 2020.

Because the increase in the pole attachment charge will result in LDCs earning revenue above what is reflected in their current distribution rates, the excess incremental revenue will need to be recorded in a new variance account related to pole attachment charges, with the accumulated balance ultimately being refunded to ratepayers in the LDC's next cost-based rate application.

While the OEB expects that this new account will be disposed at the time of a cost-based application, for LDCs that will be in the midst of an extended deferral period or are operating under other circumstances that prevent the filing of a timely cost-based application, the OEB will consider requests for disposition in an incentive rate-setting application. The OEB will also consider requests for disposition in an incentive rate-setting application if amounts that have accumulated in this account are assessed to be significant by the LDC. In these instances, amounts must be recorded in the new account until the LDC files a cost-based rate application and is able to reset its base rates in consideration of the updated charges. This approach may also be considered for any final residual amounts subsequent to the cost-based rate application.

Accounting Guidance

LDCs without a distributor-specific pole attachment charge are to record the excess incremental revenues received from carriers for the new pole attachment charge in a new variance account, Account 1508 – Sub Account – Pole Attachment Revenue Variance.

From September 1, 2018 to December 31, 2018, the amount to record to this newly established variance account shall be based on the excess revenue collected/recorded on a monthly basis as a result of the difference between revenue charged to carriers at the new rate of $28.09 and the existing rate of $22.35 per pole attachment per year.[1]

From January 1, 2019 to December 31, 2019 the amount to record to this newly established variance account shall be based on the excess revenue collected/recorded on a monthly basis as a result of the difference between the new rate of $43.63 and the existing rate of $22.35 per pole attachment per year.[2]

Thereafter, beginning January 1, 2020, the revenues to record each month to this variance account will be based on the excess revenue collected/recorded on a monthly basis on the difference between the inflation-adjusted rate per pole attachment per year, as determined by the OEB, and the prior rate of $22.35 per pole.[3]

In addition, carrying charges will apply to the balance in this account at the OEB-prescribed interest rates, and recorded in a new variance account, Account 1508 – Sub Account – Pole Attachment Revenue Variance Carrying Charges.

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[1] The monthly amount that a distributor collects/records in the variance account shall be calculated based on 1/12th of the excess incremental revenue amount of the annual pole attachment charge multiplied by the relevant number of poles per month.
[2] Ibid.
[3] Ibid.

Once an LDC has had the new pole attachment charge incorporated in a cost-based rate application, the variance account will no longer be required and must be closed after disposition of the last of the amounts that have been tracked.

At the time when the Pole Attachment Revenue Variance account balances are disposed, the LDC will allocate costs to customer classes based on test year forecast distribution revenue data in a cost of service application, or based on the most recent historical actual distribution revenue data in an IRM application. Moreover, the billing determinants used to calculate the rate riders would be number of customers for the Residential Class, and consumption or demand volumes as applicable for other customer classes.

Any questions relating to this letter should be directed to the OEB's Industry Relations Enquiries at industryrelations@oeb.ca.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary