



Ontario Energy Board

LDC Screening Methodology to Establish a Rebasing Schedule for Electricity LDCs

A Report of the Board
March 12, 2007



Ontario Energy Board

1.0 Introduction and Background

In February, 2006, the Chair of the Ontario Energy Board announced that the Board was establishing a multi-year electricity distribution rate-setting plan for the years 2007 to 2010. In this plan, the rates of all distributors will be set by a formula for 2007 – referred to as the second generation Incentive Regulatory Mechanism (2GIRM). The second part of that plan, the details of which are available on the Board's website at www.oeb.gov.on.ca, involves the development of an incentive regulation mechanism (referred to as the 3rd generation incentive rate mechanism or "3GIRM") and its application to electricity distributors over time. The plan contemplates that distributors will be divided into three groups or tranches of approximately 30 distributors each for purposes of the application of the 3GIRM. The rates of distributors in the first group would be rebased for the 2008 rate year and 3GIRM applied in succeeding years; the rates of distributors in the second group would be rebased for the 2009 rate year and 3GIRM applied in succeeding years; and the rates of distributors in the third group would be rebased for the 2010 rate year and 3GIRM applied in succeeding years. In all cases, rebasing will be put in place using a full cost of service proceeding.

In order to implement this approach, the Board must determine a basis on which distributors will be divided into the three groups for rebasing and 3GIRM purposes. This report outlines the criteria for determining which distributors will be selected for rebasing in each of the three tranches.

On December 19, 2006 Board staff issued a discussion paper on this topic that proposed the criteria for determining which distributors will be selected for rebasing in each of the three tranches. Comments were received by January 8, 2007 and considered by the Board in preparing this report. The Board concluded that a change was required to provide distributors the opportunity to self-nominate for 2009 or 2010, as well as 2008. This change has been incorporated. In addition the time lines have been adjusted to reflect current circumstances.

2.0 Purposes of this Report

The purposes of this report of the Board are:

1. To describe the criteria to be considered in determining which electricity distributors to engage in proceedings before the Board for rebasing to establish rates for each of the years 2008, 2009 and 2010.
2. To inform electricity distributors and other interested parties of the next steps and timelines for filing cost of service applications for 2008 rates by the group of approximately 30 distributors to be selected.



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3.0 Criteria to be Considered in Determining Year of Rebasing

The Board will use information on each of the criteria listed below, as applicable, and the relative weighting of the criteria will be determined at the discretion of the Board in making its decision regarding the year in which each distributor will be rebased. The criteria are grouped under the three headings below.

3.1 *Financial Attributes*

Information on financial attributes will be used. It will come from such sources as the information filed by LDCs through the Board's Reporting and Record-Keeping Requirements (RRR), the information provided through the 2006 EDR application process and/or the information made available through other projects in the Board's Multi-year Rate Setting Plan (e.g. Cost Allocation Review).

- Liquidity – By means of standard financial indicators in order to consider an LDC's solvency and ability to meet short to mid-term obligations as they come due.
- Earnings – By means of comparing an LDC's actual financial and regulatory returns with approved levels.
- Cost Levels – A consideration of an LDC's cost levels to identify those with high costs in relation to other distributors including any payments to/from affiliates that are cost-based.

3.2 *Special Situations*

Information on the following matters will be used as applicable.

- Prior Board Directions/Decisions/Orders – An identification of issues provided in the prior proceedings of the Board, e.g., certain distributors were required in their 2006 EDR decisions to report additional information to the Board.
- Not rebased in 2006 – An identification of the few distributors whose rates were not reviewed in 2006 for consideration in the first group to be rebased in 2008.
- Rate Harmonization – An identification of LDCs with an evident need of rate harmonization in order to ensure the simplification of rate schedules and the fair treatment of customers of the LDC.

3.3 *Self-Nomination*

This criterion gives LDCs an opportunity to provide information directly to the Board concerning exceptional circumstances that they consider may not otherwise come to the Board's attention that could significantly affect the Board's decision about the year for rebasing the LDC. By this means an LDC may inform the Board of its justification for rebasing for a particular year. Examples of potential justification through a self-



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nomination could include expected major differences between the year to be rebased and the forward test year that add urgency to the need for review, such as a worsening financial condition that may not be evident from historical data filed with the Board.

Any expression of interest through a self-nomination should be done in the form of a letter stating the year of rebasing preferred and the distributor's justification for self-nomination. Distributors should consider self-nomination for 2009 or 2010, as well as 2008. The letter should be provided to the Board Secretary by the date set out in Section 4.0 below.

4.0 Implementation Approach

The Board will begin by selecting approximately 30 distributors that will be placed into the first tranche (i.e., those who will be rebased for establishing rates for the 2008 rate year) using the criteria set out in Section 3.0. When an additional year of information becomes available, the Board will allocate the remaining distributors to the second and third tranches in late 2007 or early 2008.

The following table sets out the next steps along with a target timeline for determining the group of approximately 30 LDCs to be rebased for purposes of 2008 rates:

Dates	Rebasing Schedule Event
February 23, 2007	Date for release of finalized criteria and confirmation of last date for receipt by the Board Secretary of self-nomination requests
March 21, 2007	Last date for receipt by the Board Secretary of self-nomination requests from distributors wishing to be considered for inclusion in the group of approximately 30 distributors to be rebased for purposes of 2008 rates.
April 2, 2007	Publication by the Board of the list of LDCs proposed to be rebased for purposes of 2008 rates.
April 16, 2007	Last date for receipt by the Board of any requests for reconsideration of the Board's proposal as to which distributors should be rebased for purposes of 2008 rates.
April 30, 2007	Date of publication of final list of those distributors to be rebased for purposes of 2008 rates.
August 15, 2007	Filing of cost of service applications for 2008 rates by selected group of approximately 30 distributors for 2008 rates.