

Alternative Capital Treatment under Indexed IRM

OEB Working Group

3GIRM

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Options Discussed

- Indexing Formula
- Future Test Years

Concern with Indexing Formula

- The TFP can be adjusted for capital investments that are linked to outputs in a predictable manner, e.g. growth in customers, growth in volume, asset aging etc
- TFP cannot be adjusted for capital investments that are not linked to outputs, e.g. Smart Meters, Distributed Generation
- Given that these are realities for LDCs in Ontario what can we do to accommodate this type of capital investment under the umbrella of an indexing model

Proposed Alternative

- Allow indexing formula to deal with OM&A and output related capital investment
- Non-output related capital investment would be treated outside the indexing formula

Proposed Alternative Details

- $P_1 = P_0 * (1 + I - X)$
- RR_0 is the approved Revenue Requirement at rebasing

$$RR_0 = OM\&A_0 + D_0 + R_0 + T_0$$

D_0 = Depreciation

R_0 = Returns

T_0 = Taxes

- RB_0 is the approved rate base at rebasing

Options for Treatment of Incremental Capital Expenditures

- Use approved CAPEX from re-basing year
- Use actual CAPEX from previous year
- Use forecast CAPEX

Calculation to Include Incremental CAPEX in Price Cap Adjustment

- $RB_1 = RB_0 + CAPEX - D_0$
- $D_1 = RB_1 * \text{Depreciation Rate}$
- $R_1 = WACC * RB_1$
- $T_1 = \text{Tax Rate} * \text{Return on Equity}$
- $\Delta D = D_1 - D_0$
- $\Delta R = R_1 - R_0$
- $\Delta T = T_1 - T_0$
- $\Delta RR_{CI} = \Delta D + \Delta R + \Delta T$

- $P_1^{\wedge} = P_1 * (1 + \Delta RR_{CI}/RR_0)$