

2008 Electricity Distribution Rates FAQs for LDCs under 2nd Generation Incentive Regulation Mechanism

The table below sets out answers to frequently asked questions (FAQs) for LDCs regarding the 2008 distribution rate setting process under 2nd Generation Incentive Regulation Mechanism (IRM). This FAQ does not pertain to 2008 Cost of Service rate applications and is for information purposes only.

For details regarding the content of 2008 IRM rate applications, see the Board's letter and Filing Requirements for 2008 Incentive Regulation Mechanism Distribution Rate Applications, issued September 28, 2007, and the December 20, 2006 *Report of the Board on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report") and the Board's *Filing Requirements for Transmission and Distribution Applications*, as applicable. These materials are available on the Board's website.

These FAQs will be updated periodically, as needed.

Incentive Regulation Mechanism (IRM) Methodology

1.	I am a host distributor. Does the Incentive Regulation Mechanism adjustment apply to Low Voltage ("LV") charges that I bill embedded distributors that are connected to my distribution system?
A.	Yes. Embedded distributors are treated as a "customer" of the host distributor for this purpose. Embedded distributors will not experience a windfall or shortfall as a result of this, as the same rate adjustment will also apply to the rates for their own distribution customers, and those rates include recovery of LV charges paid by the embedded distributor.
2.	Can I change my Distribution Loss Factor as part of the 2008 rate application under the Incentive Regulation Mechanism?
A.	That is not part of the incentive regulation mechanism.
3.	Why does the Incentive Regulation Mechanism not apply to Specific Service Charges?
A.	In section 4.2.5 of the Board Report, "[t]he [IRM price cap index will not be applied to specific service charges as the Board recently completed a generic review of these charges."
4.	I wish to add a new Specific Service Charge. Can I do it under the Incentive Regulation Mechanism?
A.	Additions or changes to Specific Service Charges are not possible using the IRM spreadsheet provided by the Board. A distributor would have to file supplemental material supporting any changed or additional Specific

	<p>Service Charges. You are reminded that the Board will not be able to process applications based on alternative principles or mechanisms as expeditiously as applications that are consistent with the IRM methodology documented in the Board Report.</p>
5.	<p>I wish to add a new rate class (say, because of a new Intermediate or Large Use customer). How can I do that under the Incentive Regulation Mechanism?</p>
A.	<p>Addition of a customer class is not possible using the IRM spreadsheet provided by the Board. A distributor would have to file supplemental material supporting any new customer class.</p> <p>You are reminded that the Board will not be able to process applications based on alternative principles or mechanisms as expeditiously as applications that are consistent with the IRM methodology documented in the Board Report.</p>
6.	<p>When will the final Inflation change be available? Will I have to amend my application to reflect the change?</p>
A.	<p>Statistics Canada publishes the 4th quarter and annual data for the national GDP-IPI by the end of February. When the data are released, the Board will calculate the final year-over-year change of GDP-IPI per the methodology documented in section 3.3 and in Appendix D of the Board Report. The Board intends to publish the final number and its derivation on the Board's website.</p> <p>When the final 2007 data are published by Statistics Canada around the end of February 2008, the Board will adjust the inflation index in each distributor's rate application model to ensure this final published number is used to adjust rates for all distributors. The Board will issue the adjusted model to the distributors. The distributors will be required to review the model and confirm its completeness and accuracy with the Board.</p>
7.	<p>How can I apply for a Z-factor adjustment?</p>
A.	<p>Distributors who wish to file for such a Z-factor adjustment should file a standard IRM application along with a detailed explanation of, and justification for, the proposed Z factor, in accordance with the Board Report.</p> <p>On July 31, 2007, the Board issued its Decision with Reasons approving rate adjustments to 2007 distribution rates for several distributors related to storm damage costs (EB-2007-0514 / EB-2007-0595 / EB-2007-0571 / EB-2007-0551). Those distributors who received the rate adjustment are required to enter the rate riders in the Rate Rider Adjustment sheet (Sheet 9).</p>
8.	<p>My Board-approved 2007 and 2006 distribution rates do not reflect a 9.00% return on equity ("ROE") (either because I applied for a lower ROE</p>

	or the Board approved a lower effective ROE in 2006). I wish to go to a 9.00% ROE with my 2008 distribution rates. How can I do so?
A.	In section 3.3 of the Board Report, the Board stated its view that: “[f]or 2 nd Generation IRM, the Board is satisfied that during the term of the plan changes in GDP-IPI will implicitly recognize changes in the ROE and debt rates, and that therefore no further adjustment will be required.”
9.	I filed my Cost Allocation study during the first quarter of 2007. What impact does the Cost Allocation study have on the process for setting my 2008 distribution rates under the Incentive Regulation Mechanism? If the Cost Allocation study indicates that a different set of rates based on “cost causality” should result, can I use these new rates in the 2008 IRM model?
A.	The results of the Cost Allocation study filed in early 2007 will be taken into account when a distributor prepares its cost of service “rebasings” rate application to be filed for 2008, 2009 or 2010 rates, depending on the tranche that the distributor is in.
10	Where can I find the December 20, 2006 <i>Report of the Board on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors</i> , the 2008 IRM excel Model and associated documents?
A.	Use the following link to the webpage on the Board’s website to access the Board’s Report: http://www.oeb.gov.on.ca/html/en/industryrelations/archivedinitiatives/regulatorydirection/costofcapital-2ndgenincentive.htm#201206 The Board has established a webpage (http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_2008_EDR_rateapplication.htm) that can be easily accessed from the home page of the Board’s website, with information on Board documents relating to the 2008 distribution rate applications, with background information to assist distributors and other parties. The webpage also contains a table linking documents pertaining to individual applications as they are processed. For any updates, check “What’s New” on the Board’s web site at www.oeb.gov.on.ca
11.	As an electricity distributor, I understand that my application for LRAM (Lost Revenue Adjustment Mechanism) and / or SSM (Shared Savings Mechanism) related to CDM activities maybe separate from my 2008 EDR application for May 1, 2008 distribution rates. What information is required when filing an application for LRAM and / or SSM and how would it be integrated into my 2008 rates?
A.	When applying for LRAM or SSM, a distributor should allow sufficient time to pass to ensure that the actual information on the performance of CDM programs needed to support the application is available.

	<p>As prescribed in the Board's RP-2004-0203 Decision of December 2004, and outlined in the subsequent 2006 EDR Report of the Board, a distributor will be expected to calculate the energy savings by customer class and to value those energy savings using the Board-approved variable distribution charge appropriate to the class. The resulting amount will be entered into a deferral account and may be claimed in a subsequent rate year as compensation for lost revenue.</p> <p>Chapter 6 of the <i>Board's Filing Requirements for Transmission and Distribution Applications</i> (http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf) provides further guidance on filing requirements for LRAM and SSM applications.</p>
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2008 IRM Model

1.	I want to harmonize rates across different service areas. Can I do this and still use the 2008 IRM model?
A.	Yes. However, you are reminded that the Board will not be able to process applications based on alternative principles or mechanisms as expeditiously as applications that are consistent with the IRM methodology documented in the Board Report
2.	Why do I have to re-input the 2007 tariff of rates and charges schedule? Do I have to input it in its entirety even though most of the numbers do not change?
A.	<p>Beginning in 2006, the Board issued a complete approved tariff of rates and charges for each distributor. The Board intends that for any change in rates a new and complete tariff of rates and charges will be prepared, so that it is easy to identify the complete approved tariff of rates and charges in effect for a distributor at any point in time.</p> <p>The 2008 IRM spreadsheet model requires the distributor to input the 2007 tariff of rates and charges schedule in its entirety so that the spreadsheet can generate the complete tariff of rates and charges schedule proposed by the distributor for 2008 (Sheet 10).</p>
3.	What is the purpose of the K-factor?
A.	As documented in sections 2.3.3 and 4.1 of the Board Report, distributors will need to transition, for rate-making purposes only, from their current size-related deemed capital structure to a common deemed capital structure of 60% debt and 40% equity. This transition starts in 2008, and can occur in 1, 2 or 3 years, depending on the size of a distributor's rate base. As noted in the Board Report, this transition applies whether the distributor is filing a Cost of Service application or an IRM application. The K-factor accomplishes the 2008 capital-structure transition for distributors

	filing IRM applications.
4.	Does the K-factor reflect changes in interest and debt rates and the Return on Equity (“ROE”)?
A.	No. As noted on page 30 of the Board Report, normal changes in debt rate and ROE levels are assumed to be implicitly reflected in the GDP-IPI change, along with changes in the prices of labour, capital equipment and material. The K-factor reflects solely the change in the deemed capital structure (the amount of debt and equity financing of the corporation’s capital), which would not be reflected in a macro-economic price index like GDP-IPI.

2008 IRM Process

1.	When are distributors due to file their 2008 IRM distribution rate applications?
A.	As indicated in the Board letter of September 28, 2007, the target date for distributors to file 2008 IRM applications is November 1, 2007.
2.	I made an error in entering data in my application. Can I amend the application?
A.	Yes. The amended application should be filed with the Board Secretary and served on all registered intervenors. If the amendment is material, publication of a revised Notice of Application may be required. Amendments to an application that are made late in the process or that require publication of a revised Notice of Application could result in a delay in completion of the processing of the application.
3.	When can I expect the Board to issue a decision on my rate application?
A.	There is a change in the Decision and Rate Order process beginning in 2008. The decision of the Board will be issued first, and the distributor will then have to subsequently file its proposed Tariff of Rates and Charges to the Board for approval. Intervenors will also have an opportunity to comment on the proposed draft tariff sheets. The Board will then approve the final Tariff of Rates and Charges.
4.	Who publishes the Notice of Application?
A.	As was the case for 2006 and 2007 distribution rate applications, it is the responsibility of the distributor to publish the Notice of Application in accordance with the Letter of Direction issued by the Board to the distributor.

Electronic Regulatory Filing Process

1.	Will we be getting an EB number in advance of filing our application?
A.	No. An EB number will be assigned when your application is submitted.
2.	Will we be using the OEB's e-filing standard process?
A.	Yes. If you have any questions, please refer to the <u>RESS e-filing Submissions – A Quick Guide</u> found under the “e-filing services” button on the OEB's home page.
3.	Will I need a user id in order to submit our application?
A.	Yes. If you do not have one and will be directly submitting documents through the OEB portal, please complete the application form found on the e-filing services page on the OEB's web site. The form has to be sent by your organization's key regulatory contact. Please request a user id well in advance of submitting documents.
4.	Do I have to use the file naming conventions for documents that I send into the OEB?
A.	Yes. The file naming conventions are important for searching and retrieving documents. The naming conventions are found in the <u>RESS Document Preparation – A Quick Guide</u> on page 6 “How to Name Electronic Files”. For example, an application from Barrie Hydro would be named Barrie_APPL_20071120
5.	How should I file our completed IRM model?
A.	It should be filed in the combined PDF file with the application through the OEB portal www.errr.oeb.gov.on.ca . Also, please separately e-mail a live Excell file to Boardsec@oeb.gov.on.ca .

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