

# 2006 EDR Test Year 3.1 Stakeholder Report

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# Historic or Forward Test Year

## Summary of Work to Date:

- Careful consideration of both LDC & OEB resources to prepare and review "Forward" Test Year Filings
- Rate Handbook needs to be applicable to large majority of LDCs
- Option of "Historic" or "Forward" Test Year is required
- Is simply using 2004 year end appropriate or are adjustments needed?
- If adjustments allowed are they prescribed?
- If adjustments allowed are they balanced in the total scheme of the filing?
- What about materiality and one time non-routine/unusual occurrences?
- Administratively simple - Balance the interest of the shareholder & ratepayer

## Questions of Scope

- Will the Board confirm that Local Distribution Companies will be re-basing in 2008?
- Retrospective remedy for historical LDC rate of return under-recovery

# General Consensus

- Standard methodology for determining fundamental guidelines for a 2006 Test Year needs to be clearly specified in the Electricity Distribution Rate Handbook
- The Distributor may choose from three options:
  1. **2004 (Historical) audited financial statements with prescribed adjustments defined as Tier 1 Adjustments,**
  2. **In addition to option 1 further adjustments, defined as Tier 2 adjustments may be permitted in certain defined circumstances,**
  3. **“Forward” test year with supporting documentation**
- Non-routine/Unusual defined as - Readily known, identifiable, quantifiable and verifiable occurrences which exceed the materiality threshold and are not in the control of the Distributor, this will require the completion of a schedule with application

# Option 1 - 2004 (Historical) audited financial statements with prescribed adjustments defined as Tier 1 Adjustments

## Explanation for Tier 1 Adjustments

- To "normalize" 2004 year end into a typical year of capital investments, operations & revenues
- Mandatory & mechanical (easy to implement)
- Non-routine / Unusual as defined above subject to materiality
- Adjustments may be debits or credits to 2004 year end balances
- Minimum supporting documentation required

## Calculate representative Usage for Rev Requirement

- Average usage for 2002, 2003, 2004
- Must be class specific and per customer average
- Calculate three year average kWh or kW per customer and customer average applied to 2004 year end customer counts
- Consideration for impact on per customer average resulting from reclassifications across <50 kW and >50 kW customer class

## Load Forecasts

- No 2006 load forecast permitted as a Tier 1 adjustment - pending outcome of C & DM

Tier 1 Adjustments to be  
made to 2004 base

<b>OM &amp; A</b>	<b>Rate Base</b>	<b>Revenue</b>
OEB annual dues and similar charges- adjust to 2005 actual	New transformer stations with an in-service date of 2005	
Pensions - adjust to 2005 actual	Wholesale meters adjust to 2005 actual	
Insurance - adjust to 2005 actual		
Non-routine/Unusual exceeding materiality threshold - 0.2% of total OM & A before PILs	Non-routine/Unusual exceeding materiality threshold - 0.2% of Net Fixed Assets	Non-routine/Unusual exceeding materiality threshold - 0.2% of base Distribution Revenue excluding riders for recovery of Regulatory Assets
LV / Wheeling adjustments if a "Standard Formula is used" - excludes Hydro One charges unless they are not a pass through		LV / Wheeling revenue not billed if a "Standard Formula is used" - excludes Hydro One charges unless they are not a pass through
Placeholder for C & DM and Smart Meter	Placeholder for C & DM and Smart Meters	Placeholder for C & DM and Smart Meters
	Retirement without replacement - both Rate Base & P&L (depn)	
		Gain or loss of major customer subject to materiality



**Option 2 - In addition to option 1 further adjustments, defined as Tier 2 adjustments may be permitted in certain defined circumstances**

**Defined Circumstances for Tier 2 Adjustments:**

- Limited to one or more of the following specific circumstances:
  1. Began the 1999 RUD process with negative returns
  2. Second 1/3 MBRR not received
- Detailed supporting documentation and potential monitoring requirements
- Applied prospectively

## Option 2 filings will require:

### Non-Sustainability:

- The distributor must be able to demonstrate that continuing the required levels of expenditures on capital, operations and maintenance, under the existing rate structure and revenue requirement will impede its ability to continue as a viable going concern without sacrificing system reliability
- The distributor must identify areas of under spending by US of A accounts in OM&A and rate base

## Option 3 - "Forward" test year with supporting documentation:

This option will require the filing of a detailed managers summary, extensive supporting documentation and evidence.

## Unresolved Issues:

- Disclosure of and adjustment for material events or occurrences that are expected to occur in 2006, and about which the distributor has some certainty
- The materiality limit to be defined
- Filing requirements for distributors who have restated their financial statements
- Filing requirement for reporting changes in accounting policy
- What level of prudence review will be applied to cost items for 2004 balances, as they serve as a basis for 2006 rate year
- Should an adjustment be permitted for high customer growth or shrinkage? This issue includes consideration of load forecasting and weather normalization.

## Unresolved Issues:

- If an adjustment for growth or shrinkage is available, should this adjustment be mandatory?
- Treatment of other revenues
- Treatment of costs arising from legislative changes
- If within scope, can an LDC apply for a Tier 2 adjustment to compensate for foregone return in the years 1999 to 2005
- Under what circumstances, if any, is a utility required to file a forward test year application?

## Proposed Path

## Resolved Issues

### Required from Board Staff

- Templates for Tier 1 Adjustments
- Schedule for non-routine / unusual occurrences
- Schedule to identify required documents for Tier 2 Adjustments
- Consolidated bill and rate comparison across utilities

### Required from the Board

- Confirmation of re-basing in 2008
- Re-basing requirements during times of Mergers & Acquisitions (MAADs)

## Proposed Path

### Unresolved Issues

- For adjustments for customer growth or shrinkage, evidence will be required.
- If within scope, historical under-recovery issue will require evidence.
- For other issues, further discussion in the sub group, and argument.

## Cross Over:

- Conservation & Demand Management - C & DM
- PILs adjustments for Tier 1 & Tier 2 adjustments
- Financial Parameters in assessing LDC risk factor & Working Capital
- Distribution expense overlap in filing requirements?
- Rate base as starting point for Tier 1 adjustments