

2006 EDR Test Year 3.1

Stakeholder Report

Questions ? Comments ? Please Contact:

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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 permitted to re-base in 2008?

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 Revenue 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

OM & A	Rate Base	Revenue
OEB annual dues - adjust to 2005 actual	New transformer stations with and 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 Meter
	Retirements 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 three specific circumstances:
 1. Began the 1999 RUD process with negative returns.
 2. Second 1/3 MBRR not received
 3. High customer growth to be determined (eg 2 X provincial average)
- Detailed supporting documentation and potential monitoring requirements
- Applied prospectively

Option 2 filings based on circumstance 1 or 2 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 2 filings based on circumstance 3 will require:

Weather Normalization

- Only required in circumstance 3. High customer growth
- Must include a minimum ten (10) year average of the most recent periods using appropriate modeling software

Load Forecast

- Only required in circumstance 3. High customer growth
- Must include a minimum ten (10) year historical trend line of the most recent periods using appropriate modeling software
- Other supporting evidence to substantiate the load forecast (eg municipal planning forecasts)

Option 3 - "Forward" test year with supporting documentation

This option will require the filing of a detailed managers summary, supporting documentation and evidence. Board guidelines may be developed. Beyond the scope of the Test Year workgroup.

Unresolved Issues

- Disclosure of 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.

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
- Develop recommended Templates or Guidelines for "Forward" Test Year filings

Required from the Board

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

Proposed Path

Unresolved Issues

- Further discussion in the sub group, may require argument.

Cross Over

- Conservation & Demand Management - C & DM
- PILs adjustments for Tier 1 and 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