

Rebasing Issues

Presentation to the Informal OEB Consultation
on 2006 Rebasing Issues

July 2004





Foundation Issues

Issue Management

- Stated issues are valid but must be prioritized
- Not all issues can be examined in 2006
- Filing requirements and hearings themselves must be kept manageable for the OEB, utilities, and intervenors
- Standard filing requirements should be limited to the highest priority issues
- Utilities should have the option to bring forward utility-specific issues, since utilities have the burden of proof
- Materiality standards should be guiding



Foundation Issues

Comparators and Cohorts

- Toronto Hydro recognizes the need for a screening mechanism to deal with the mass of applications
- Comparators within valid cohorts could be used as a screening device to identify further info requirements
- Valid cohorts may not exist for all utilities
- Comparators and cohorts should not be used directly for determining allowed costs and rates
 - Data integrity and comparability have not been demonstrated
 - Even after data has been validated, there has been no analysis of underlying conditions giving rise to differences in (validated) data



Foundation Issues

Subsequent Regulatory System

- Many of the listed issues turn on what form of regulation will follow rebasing – PBR, Cost of Service, or some combination of approaches
- Utilities need to know what form of regulation will ensue for business and regulatory planning
- The OEB should accept submissions from stakeholders on this issue and provide indications prior to the beginning of the formal part of these proceedings



Foundation Issues

Choice of Test Year

- Both PBR and Cost of Service can be conducted with either an historical or forecast test year
- The essential difference is the number of forecast items
- Different risks and benefits apply to each approach
- The practical issue concerns filing requirements and regulatory burden
- A reasonable compromise for most utilities might be the 'Adjusted Historical Year' where routine items are extrapolated and adjustments are made for a few specified items



Foundation Issues

Issues Deferred from this Discussion

- Toronto Hydro assumes that discussions of DSM issues (including smart metering) and pre-2006 PILs will occur in another forum
- Special metering initiatives flow from provincial conservation objectives and should be discussed in that context
- Pre-2006 PILs is important and technically complex and warrants a special forum



Suggested Additions to Issues List

Utility Capital Contributions to Transmitters

- Recognition in Rate Base of Capital Contributions
- Appropriate Accounting Treatment

Establishment of Standby Facility Rates

- Standby Facilities (Backup) Rates should be established (and/or harmonized for amalgamated utilities) to provide for distributed generation
- This should be included in 2006 rates or before

Treatment of Ancillary Utility Revenues

- Establishment of a sharing mechanism to provide incentives for utilities to maximize non-distribution revenues from utility plant and services
- Similar to the gas DSM Shared Savings Mechanism



Suggested Revisions to Listed Issues

2006 ROE – Issue 6

- Should a sharing mechanism applying to deficient or excess returns outside of a deadband be implemented?

'No-Cost' Capital – Issue 19

- Clarification needed (possible low priority issue)

Time of Use Rates – Issue 31

- Clarification that time of use concepts apply to energy rates



Suggested Revisions to Listed Issues

Fixed/Variable Rate Components – Issue 32

- Should there be a partial movement towards a uniform fixed charge *or fixed charge determination methodology* for each rate class across Ontario in 2006?

2006 Rate Mitigation – Issue 33

- Should changes in commodity and other upstream costs be permitted to influence the determination of allowed changes in distribution rates?
- Co-ordination of rebasing and cost allocation rate impacts



Lower Priority Issues

- Toronto Hydro does not dispute the validity of the listed issues in general
- But, for manageability, some issues have to be treated as lower priorities
- 'Low priority' ranking may not apply for all utilities, so utilities should have the option to bring some of these forward if necessary and material
- Core filing requirements should identify those issues which (as nearly as possible) are significant for all utilities all of the time



Lower Priority Issues

- **Depreciation** – Issue 9
 - **Capitalizing Expenses** – Issue 16
 - **'No-Cost' Capital** – Issue 19 (pending clarification)
 - **Rate Setting Treatment of Capital Gains** – Issue 20
 - **Site Restoration and Removal Costs** – Issue 23
 - **Advertising et al** – Issue 28
 - **Specific Service charges**
- Some of these issues should be open for review in later years



Concluding Remarks

- Foundation issues (form of subsequent regulation, test year) need to be resolved
- Comparators and cohorts used as screening devices
- Issue management is vital for the process to be viable for all parties concerned
- Focused and well defined filing requirements should be an end product of this process
