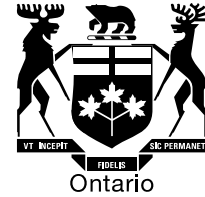


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July 12, 2005

To: All Electricity Distribution Utilities

Re: Filing Guidelines: Applications for Final Recovery of Regulatory Assets for May 1, 2006 Distribution Rate Adjustments

On December 9, 2005 the Ontario Energy Board (the “Board”) issued its Decision with Reasons on the Review and Recovery of Regulatory Assets - Phase 2 (the “Decision”) for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One. In Chapter 10 of the Decision, the Board outlined a Phase 2 process for the remaining distributors. These guidelines provide additional guidance for the remaining distributors.

The Decision can be found on the Board’s website under “Industry Relations/Rules, Codes, Guidelines and Forms/Electricity/Electricity Distributor Recovery of Regulatory Assets Phase 2, Documents - Dec. 9 – 04”.

Background

On November 25, 2003, the Government announced, in conjunction with the introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing), 2003*, that Local Electricity Distribution Companies (“LDCs”) could start recovering regulatory assets in their rates, beginning March 1, 2004, over a four year period.

On December 19, 2003 the Board received a letter from the Minister of Energy informing the Board that he would be writing to electricity distributors to grant them approval to make rate applications to the Board with regard to the rate recovery of regulatory assets. The regulatory asset accounts are:

- 1508 Other Regulatory Assets
- 1518 Retail Cost Variance Account - Retail
- 1548 Retail Cost Variance Account - STR
- 1525 Miscellaneous Deferred Debits - includes costs of rebate cheques
- 1562 Deferred Payments in Lieu of Taxes
- 1563 PILs contra account
- 1570 Qualifying Transition Costs
- 1571 Pre-Market Opening Energy Variances
- 1572 Extraordinary Event Losses

1574	Deferred Rate Impact Amounts
1580	Retail Settlement Variance Account - Wholesale Market Service Charges
1582	Retail Settlement Variance Account - One-time Wholesale Market Service
1584	Retail Settlement Variance Account - Retail Transmission Network Charges
1586	Retail Settlement Variance Account - Retail Transmission Connection Charges
1588	Retail Settlement Variance Account - Power
2425	Other Deferred Credits

On January 15, 2004, the Board issued its final filing guidelines with respect to the recovery of regulatory assets for Phase 1 (April 1, 2004 implementation). On December 20, 2004 the Board issued its 2005 distribution rate adjustment filing guidelines which included the continuation of Phase 1 with the recovery of the second interim tranche.

The Notice informing the public of both the Phase 1 and Phase 2 regulatory assets recovery processes was published on February 3, 2004. The list of intervenors for Phase 2 is attached to these guidelines.

On April 1, 2004 LDCs began recovering 25% (or more if required for rate stability) of the audited December 31, 2002 year-end balances in the regulatory asset accounts as per the January 15, 2004 filing guidelines. On April 1, 2005 LDCs began recovering 33% of the audited December 31, 2003 year-end balances (adjusted for 2004 interim recoveries) in the regulatory asset accounts as part of the 2005 electricity distribution rate adjustment process and as per the December 20, 2004 filing guidelines.

Phase 2

On May 5, 2004, the Board initiated the Phase 2 oral hearing process for the five selected distributors. The Board indicated that in addition to the specific decisions for each of the five distributors, the oral hearing would also allow it to assess what would constitute the best evidence, forum and process to determine the reasonableness of the regulatory asset amounts claimed or to be claimed for the remaining distributors.

On December 9, 2004 the Board issued its decision in the above matter. Along with approving final recovery amounts for the four applicants (EnWin was adjourned on June 30, 2004) and approving allocations of said amounts, the Board recognized that subjecting the other distributors to the same process as the four applicants will be too onerous for distributors, intervenors and the Board.

As a result, the Board determined that an effective, expedient and efficient process shall be to subject all distributors to one of two possible reviews; minimum or comprehensive.

Regardless of the review, all distributors would also provide a supplemental disclosure (described below) which would be certified either by an external auditor or self-certified by the Chief Executive Officer and/or the Chair of the Board of Directors (depending on

the amount per customer of the transition costs claimed).

Minimum Review

While the Decision indicated that a minimum review will involve an administrative process whereby the Board will generally conduct a written hearing and seek written submissions from intervenors, the Board will now accept minimum review applications in conjunction with the distributor's 2006 EDR application. The Board panel reviewing the distributor's EDR application will also assess the Regulatory Asset application under the minimum review.

The type of certification required for the supplemental disclosure is dependant on the level of transition costs that an LDC is claiming under a minimum review (see below).

The key aspect of the minimum review is that this review is for distributors that have transition costs per customer of \$60 or less and are willing to accept 90% of reported transition costs, or for distributors that have more than \$60 per customer of transition costs but are willing to accept the lesser of 90% of reported transition costs or \$60 per customer.

Applicants should file their applications on the due date for their 2006 EDR application.

Comprehensive Review

A comprehensive review will involve a similar process to that undertaken by the four applicants in the first part of Phase 2, which may require an oral hearing involving at a minimum, the intervenors of record in the Phase 2 proceeding.

Distributors that choose a comprehensive review should also submit an application in conjunction with their 2006 EDR application. Distributors will be required to serve the intervenors of record in the Phase 2 oral hearing, with this application, including the comprehensive regulatory asset review application.

Applicants should file their applications on the due date for their 2006 EDR application and the Notice of Application will include a specific reference to the comprehensive Regulatory Asset review request.

As noted in the Decision, the distributor shall pay any Board-assessed intervenor costs awarded under a comprehensive review and the supplemental disclosure shall be certified by the distributor's external auditor.

Under a comprehensive review, applicants should include detailed submissions and supporting evidence for their claimed transition costs. Submissions on the transition cost categories should include details on a per initiative basis consistent with the January 15, 2003 transition cost reporting guidelines. The Board will expect rigorous evidence in support of costs claimed in excess of \$60 per customer including any external audits on transition cost spending.

Supplemental Disclosure

As noted above, a supplemental disclosure will be required from each distributor (regardless which category of review that applies), and shall include the following:

- a) a statement by the distributor's Chief Executive Officer or external auditor (as applicable) certifying that the information filed in the regulatory assets claim is consistent with the Board's accounting requirements and procedures in the Accounting Procedures Handbook, as modified by the Board's findings in the Decision and that the filing provided is consistent with the requirements of the Board's transition cost filing guidelines issued January 15, 2003, and the regulatory asset filing guidelines issued September 15, 2003
- b) a statement as to which approach (billed or accrual) has been used for the RSVA accounts and Account 1571 and whether this approach has been used consistently over time and among accounts for the applicable period (see s.2.0.23 of the Decision)
- c) a statement as to the interest rate used to record interest and whether this interest rate is consistent with or deviates from that stipulated in the Distribution Rate Handbook (DRH) for the distributor (see s.2.0.29 of the Decision)
- d) a statement confirming whether the variance between Board-approved and actual line losses are reflected in the RSVA power (Account 1588) for the applicable period (see s.2.0.27 of the Decision)
- e) a statement confirming whether the method used to calculate the balances for Account 1571 conforms to the methodology recommended in the Board's Decision (see s.3.0.24 of the Decision)
- f) a statement confirming whether costs in Account 1525 relate solely to the costs associated with the issuance of rebate cheques and not other costs (with the

- exception of Hydro One's environmental costs allocated to each embedded distributor), and that such cheques were issued on or before December 31, 2002 (see s. 5.0.15)
- g) a reconciliation of the amounts claimed to the amounts previously filed with the Board (January 2004 and January 2005 filings for Phase 1 of this proceeding) setting out the differences and causes
 - h) a statement confirming whether customer education costs in Account 1570 do not exceed \$10 per customer (see s.7.0.58 of the Decision), based on 2004 data
 - i) a statement confirming whether transition costs claimed do not include Electronic Business Transaction (EBT) costs or costs for settlement services as found in the Board's Decision (see s.7.0.56 and 7.0.57 of the Decision)
 - j) a statement confirming whether all cost categories in the transition cost account 1570 meet the materiality criterion as outlined in the filing guidelines issued January 15, 2003 (see section 7.0.18 of the Decision)
 - k) a statement confirming whether all regulatory assets claimed are allocated to the rate classes based on the findings in the Board's Decision (see s.2.0.35, 3.0.27, 4.0.16, 5.0.19, 5.0.25, 7.0.67 and 9.0.8 of the Decision)
 - l) any supplementary information, if applicable, on the use of an internal or external audit of transition cost amounts or on the distributor's adherence to tendering guidelines.

Qualification for a Minimum Review

To qualify for a minimum review, a supplemental disclosure must be provided and the distributor must be willing to accept or undertake the following:

- a) a calculation showing the total December 31, 2004 reported transition costs (including interest) divided by the 2004 customer numbers
- b) a calculation showing 90% of the total December 31, 2004 reported transition costs (including interest) divided by the 2004 customer numbers
- c) 90% of its December 31, 2004 reported transition costs (including interest) or \$60 per customer (based on 2004 data), whichever is less
- d) the total reported (i.e. claimed) amount must be consistent with the calculations and statements included in the supplemental disclosure such as customer education costs not exceeding \$10 per customer, no Electronic Business Transaction (EBT) costs, and meeting materiality thresholds.
- e) the supplemental disclosure must be verified by the distributor's external auditor if the claimed amount is equal to or less than \$60 but more than \$30 per customer
- f) the supplemental disclosure may be certified by the Chief Executive Officer if the claimed amount is less than \$30 per customer

If the distributor reports an amount higher than \$30 per customer but wishes to claim only \$30 per customer OR is at or under the \$30 per customer threshold once it has adjusted its qualifying transition costs to 90% of the total (including interest), there is no requirement that the supplemental disclosure be certified by the distributor's external auditor.

To assist distributors, four examples of minimum review qualification are outlined below:

	Account 1570 \$	Customers	\$/customer	90% of \$/customer	Award \$
Utility "A"	1,000,000	23,000	43.48	39.13	900,000
Utility "B"	1,000,000	16,000	62.50	56.25	900,000
Utility "C"	500,000	16,000	31.25	28.13	450,000
Utility "D"	1,000,000	14,000	71.43	64.29	840,000

Utility "A" reports transition costs which are less than the \$60 per customer threshold, and will qualify for minimum review if it is willing to accept 90% of its reported transition costs. Therefore, the utility would potentially be awarded 90% of the reported costs (\$900,000 in the example).

Utility "B" reports transition costs per customer of \$62.50. Although this places it above the threshold, the utility would qualify for minimum review if it accepts 90% of its reported transition costs. This would place the transition cost claim at \$56.25 per customer. The potential award in this case would be \$900,000.

Utility "C" is clearly under the \$60 per customer threshold and would therefore qualify for a minimum review, if willing to accept 90% of its reported transition costs. There would be no requirement for the supplemental disclosure to be certified by an external auditor. A certification by the CEO would be acceptable since the transition cost amount would fall from \$31.25 to \$28.13 per customer once it accepted 90% of its reported costs.

Utility "D" is well above the \$60 per customer threshold. However, it would qualify for minimum review if it accepts the lesser of 90% of its reported transition costs or \$60 per customer. In this case, the utility would be required to accept \$60 per customer or \$840,000 since 90% of its reported transition cost total is still above the threshold at \$64.29 per customer.

Minimum or Comprehensive Review: May 1, 2006 Implementation

All applicants shall implement their final rate riders on May 1, 2006 for a period of two years.

Since several of Hydro One's regulatory asset accounts include allocations of costs to distributors embedded within Hydro One's distribution system, their associated impacts should be reflected in the revised filings by the affected distributors. The Board approved these amounts for Hydro One in its January 10, 2005 Order in accordance with s.9.0.11 of the Decision. These amounts shall be added to the corresponding regulatory asset accounts of each of the embedded distributors for disposition. In the specific case of the low voltage related amounts, the Board has determined that the appropriate account for the distributors to capture these costs is the retail transmission connection account - 1586, RSVA cn (see s.9.0.8 of the Decision).

In regard to Hydro One's environmental costs recorded in account 1525, applicants should allocate their respective amounts to their customer classes on the basis of 2004 distribution revenue shares as per the Board's direction for Hydro One in s.5.0.25 of the Decision.

In its application for final recovery, a distributor shall reflect the Board's guidance in the Decision and shall include the following:

- a) balances for each regulatory asset account (interest shown separately) as of December 31, 2004
- b) a utility's gross transition costs (including carrying charges) should reflect the Jan. 15, 2003 transition cost guidelines, APH220, APH410 and APH480 AND the Board's latest definition for what qualifies transition costs for recovery - as per the Dec. 9 Decision regarding items disallowed (i.e. EBT and settlement costs and customer education costs exceeding \$10 per customer should already have been removed before reducing the gross transition costs by 10% in the case of a minimum review)
- c) write off of amounts not approved
- d) projected interest for each account to April 30, 2006 to arrive at a gross balance for disposition
- e) impacts arising from the Board's order for Hydro One
- f) allocation of each account balance to rate classes as per the Board's decision
- g) subtraction of the actual and estimated amounts recovered from any interim rate adjustments for the period April 1, 2004 to April 30, 2006, by rate class
- h) subtraction, if applicable, of the actual interim transition cost amounts recovered for the period from March 1, 2002 to March 31, 2004, by rate class
- i) net total amounts to be recovered over the next 2 years, by rate class
- j) net total amount per rate class, divided by 2 and divided by 2004 energy use

(kWh) or demand (kW) as appropriate for each class to determine the potential rate rider for each class.

Reporting and Record-Keeping Requirements (RRR)

The regulatory asset evidence submitted by the LDC will be compared to the electronic RRR filings previously made to the Board (Requirement 2.1.1 due January 2005 and 2.1.7 due April 2005) and previous interim recovery applications in 2004 and 2005. Any discrepancies between the rate recovery filing and the RRR filing will require justification.

Previously Denied Amounts

Any amounts previously denied by the Board in another proceeding should not be included in the account balances in this application.

Accounts 1562 and 1563 (Payments in Lieu of Taxes)

Due to utility specific variability in the calculation of PILs and the fact that stakeholders did not have an opportunity to comment on the quantum and appropriate allocation methodology of the PILs amounts in the Phase 2 oral proceeding, the Board will not be considering amounts in the PILs variance accounts for final disposition at this time. In the meantime, the Board has continued to allow recovery of PILs during the first two interim recovery periods. The Board intends to address this issue at a later time through consultations with industry stakeholders.

Therefore, LDCs should not include amounts from accounts 1562 and 1563 in their applications for Phase 2 Review and Recovery of Regulatory Assets.

Miscellaneous Amounts recorded in Accounts 1508, 1525, 1572, 1574 and 2425

If an applicant has included amounts in one of the above accounts whose allocation to the classes has not been reviewed by the Board in the Phase 2 oral hearing, the applicant is expected to file evidence in support of both the quantum and the proposed allocation methodology to the customer classes. Each item must include separate evidence on a case by case basis, even if the applicant qualifies for the minimum review. This also applies to account 1525 for costs that do not relate to rebate cheques and Hydro One's environmental charges as per the guideline under the Supplemental Disclosure section of this document.

Hydro One charges to embedded distributors - January 1, 2004 to April 30, 2006

The December 9, 2004 Decision on the Review and Recovery of Regulatory Assets – Phase 2 (s.2.0.36 and s.9.0.8) and the Board's January 10, 2005 Order, approved Hydro One's charges to its embedded distributors based on Hydro One's approved December 31, 2003 RSVA balances. Embedded distributors have been directed to include these amounts (plus interest) in their phase 2 filings.

The 2006 Distribution Rate Handbook ("DRH") allows Hydro One to apply to recover LV costs from its embedded distributors beginning May 1, 2006. The DRH also provides embedded distributors with a mechanism to pass through the new LV charges to their customers beginning May 1, 2006.

However, LV charges and retail service variance account balances allocated to embedded distributors for the period January 1, 2004 to April 30, 2006 have not been considered to date. Therefore, the Board has included a placeholder in the regulatory assets worksheet for these amounts. Embedded distributors should only enter the appropriate data once they have received a communication from the Board regarding their respective amounts. If a distributor has not received its allocated Hydro One amounts from the Board by the time it is required to file its 2006 EDR application, the distributor should submit the worksheet without the relevant data. The Board Staff analyst assigned to each application will then enter the appropriate Hydro One charges (once they become available) and will communicate the results, along with the revised worksheet, to the distributor.

There is no provision for carrying charges associated with these amounts as Hydro One, pending approval from the Board, will not begin to charge distributors their allocated amounts before May 1, 2006.

Recovery on Variable Rate

The Board has determined that the regulatory assets approved for recovery beginning on May 1, 2006 for the remaining utilities will be recovered through the variable rate only. The variable rate will be adjusted using the 2004 year end total kWhs and kW by class, as submitted by the LDC.

Definition of Customer Numbers

The Decision uses customer numbers to determine the threshold for minimum and comprehensive review, the threshold for CEO sign off versus external auditor sign off, customer education costs (allowed at no more than \$10/customer) and for the allocation of transition costs and RCVA costs to classes. Therefore, customer counts used by all applicants should be consistent.

Customer numbers, for the purposes of thresholds for review/sign-off and for the customer education component, are defined as year-end 2004 total customers in the conventional classes only (Residential, General Service, Intermediate and Large User).

For transition cost and RCVA cost allocation purposes, numbers for street lights, sentinel lights and un-metered scattered loads are defined by customer numbers (not connections).

Application of Rate Riders on 2006 Base Rates

The first year of final Phase 2 recovery (for the four applicants) or the second year of interim recovery (for the remaining LDCs) was added to 2005 Base Rates.

In 2006, it is the Board's intention to allow the approved amounts for the remaining LDCs to be recovered beginning on May 1, 2006 via the application of the approved class specific rate riders applied to new re-based 2006 electricity distribution rates. The 2006 distribution rate adjustment filing guidelines were issued on May 11, 2005 in the form of the 2006 EDR Handbook. The Handbook is available on the Board's website at Industry Relations/OEB key initiatives/2006 electricity distribution rates/2006 final DRH.

Regulatory Assets Recovery Worksheet

In order to assist the remaining LDCs in their applications for final recovery of regulatory assets, the Board will issue the Regulatory Assets Recovery Worksheet, Version 2.0. The worksheet includes several pages to assist LDCs in determining their interim recoveries. The final outputs of the worksheet (Sheet 2) are the rate riders which are to be entered into the 2006 EDR rate determination model.

The worksheet will be made available for download from the Board's website along with the appropriate instructions.

Application Deadline

The deadline for applications regarding final recovery will be the same deadline as the distributor's 2006 rate filing. Distributors must indicate in their 2006 EDR Manager's Summary whether a minimum or comprehensive review is requested.