

## 2007 Electricity Distribution Rates FAQs for LDCs

The table below sets out answers to frequently asked questions (FAQs) for LDCs regarding the 2007 distribution rate setting process. The table is provided for information purposes only. For details regarding the content of distribution rate applications, see Appendix D of the December 20, 2006 *Report of the Board on the Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* or the Board's *Filing Requirements for Transmission and Distribution Applications*, as applicable. For detailed filing instructions, see the Board's letter dated January 18, 2007. These materials, as well as the 2007 IRM Excel Model, are available on the Board's website.

These FAQs will be updated periodically and as needed.

### ***Incentive Regulation Mechanism (IRM) Methodology***

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| 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.<br><br>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 2007 rate application under the Incentive Regulation Mechanism?   |
| A. | No.   |
| 3. | Why does the Incentive Regulation Mechanism not apply to Specific Service Charges?  |
| A. | The Incentive Regulation Mechanism does not apply to Specific Service Charges as the Board recently completed a generic review of these charges for all distributors as part of 2006 distribution rate applications.  |
| 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 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 December 20, 2006 Board Report. |

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| 5. | 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?   |
| 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. In all likelihood, this would be in the nature of a cost of service application due to the need to allocate costs between the new customer class and existing customer classes.</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 December 20, 2006 Board Report</p>  |
| 5. | When will the final Inflation change be available? Will I as a distributor have to amend my application to reflect the change?   |
| A. | <p>Statistics Canada publishes the 4<sup>th</sup> 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 December 20, 2006 Board Report. The Board intends to publish the final number and its derivation on the Board's website.</p> <p>The distributor will not have to amend its application when the Board publishes the final GDP-IPI percent change. Board staff will make the necessary modifications to the distributor's IRM model. Final rates approved by the Board will reflect the final GDP-IPI percent change.</p> |
| 6. | How can I apply for a Z-factor adjustment?   |
| A. | 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 December 20, 2006 Board Report. In the event that the proposed Z-factor is approved by the Board and adjustments are required to the distributor's IRM model, these will be input by Board staff.   |
| 7. | My Board-approved 2006 distribution rates do not reflect a 9.00% return on equity ("ROE") (either because I applied for a lower ROE or the Board approved a lower effective ROE). I wish to go to a 9.00% ROE with my 2007 distribution rates. How can I do so?  |
| A. | You cannot apply under the Incentive Regulation Mechanism for an ROE that is different from the one included in your 2006 rates. You would have to file a cost of service application, fully supported, to request a different ROE.  |
| 8. | I am supposed to file my Cost Allocation study during the first quarter of 2007. What impact does the Cost Allocation study have on the process for  |

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|     | setting my 2007 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 2007 IRM model?   |
| A.  | The Cost Allocation study will not have an impact on the setting of rates for 2007. The results of the Cost Allocation study 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.   |
| 9.  | The Board is considering an application by Hydro One Networks Inc. for new transmission rates. As transmission rates are a pass-through to final customers by a distributor, will my 2007 Incentive Regulation Mechanism application and final rate schedule be affected by the Hydro One Networks transmission rate application?   |
| A.  | It is not expected that a decision on Hydro One Networks Inc.’s transmission rate application or associated new transmission rates will be available by May 1, 2007. As such, it is not anticipated that there will be changes to Retail Transmission Rates for May 1, 2007 implementation resulting from this application. When new Retail Transmission Rates are determined, the Board will determine and provide instructions on how changes to Retail Transmission Rates will be implemented.   |
| 10  | Where can I find the December 20, 2006 <i>Report of the Board on the Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors</i> , the 2007 IRM excel Model and associated documents?   |
| A.  | Use the following link to the webpage on the Board’s website where these materials can be found:<br><a href="http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_costofcapital-2ndgenincentive.htm#201206">http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_costofcapital-2ndgenincentive.htm#201206</a><br><br>For any updates, check “What’s New” on the Board’s web site at <a href="http://www.oeb.gov.on.ca">www.oeb.gov.on.ca</a><br><br>The Board will also establish a webpage that can be easily accessed from the home page of the Board’s website, with information on Board documents relating to the 2007 rate application process generally and for documents pertaining to individual applications as they are processed. |
| 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 2007 EDR application for May 1, 2007 distribution rates. What information is required when filing an application for LRAM and / or SSM and how would it be integrated into my 2007 rates?   |
| A.  | When applying for LRAM or SSM, a distributor should ensure that sufficient  |

time has passed to ensure that the actual information on the performance of CDM programs needed to support the application is available.

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.

Lost revenue will be calculated using the variable distribution rate (kW or kWh) for each affected class and would not include any Regulatory Asset Recovery rate riders, as these funds have their own independent true-up process in place. In addition, lost revenues are only accruable until new rates (new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time.

Information required when filing the application for LRAM should include:

- kW or kWh impacts (both gross and net of free riders) of each program and for each class;
- A calculation of the impact of the CDM program on distribution revenues in each class;
- Verification of the participation levels;
- Where savings information is not provided in the TRC Guide, the distributor must comply with the requirements set out in the TRC Guide respecting custom projects; and
- Duration of the program in years or months.

All information filed for the LRAM proposal should correspond to program information used in the calculation of the cost/benefit analysis.

For the purpose of making an SSM claim, all of the information requirements listed above are required. SSM applies only to customer focused initiatives that reduce the demand for electricity and/or reduce the amount of energy used and only where the costs of the initiatives are expensed.

The distributor must calculate the net benefits of a program using the TRC test. Under the SSM regime, a distributor may recover 5% of the net benefits created by the approved CDM portfolio, through a rate rider.

These instructions respecting SSM replace those that were posted to the Board's website on April 28, 2005.

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|  | <p>If the LRAM and / or SSM are approved after the May 1, 2007 rates are set, the following two scenarios could occur:</p> <ul style="list-style-type: none"> <li>• the funds would be placed in a deferral account until the next rate application; or</li> </ul> <p>the existing rate is adjusted as soon as possible to collect the approved amount in whatever remains of the 2007 rate year.</p> |
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**2007 IRM Model**

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| 1. | I want to harmonize rates across different service areas. Can I do this and still use the 2007 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 December 20, 2006 Board Report  |
| 2. | Why do I have to re-input the 2006 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 last year, 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 2007 IRM spreadsheet model requires the distributor to input the 2006 tariff of rates and charges schedule in its entirety so that the spreadsheet can generate the complete tariff of rates and charges schedule approved for the distributor for 2007 (Sheet 10).</p>                     |
| 3. | With respect to calculating the adjustment for the removal of the Large Corporation Tax (LCT), instructions on sheet 7 reference that the Service Revenue Requirement on sheet 5-5, cell F22 of the distributor's 2006 EDR model should be used, while the instructions also reference the Base Revenue Requirement. What should be used?  |
| A. | <p>The correct reference is to the Base Revenue Requirement on Sheet 5-5, cell F27 of the distributor's 2006 EDR spreadsheet. To this should be added the Transformer Allowance Credit shown on sheet Trfmr Ownership (Input).</p> <p>For all information that is to be taken from the 2006 EDR spreadsheet for inclusion in the 2007 IRM spreadsheet, the distributor should use the final models that correspond to your current Board-approved tariff of rates and charges schedule for 2006. These would include any adjustments that the Board made as a result of its decision.</p> <p>If you do not have the model that needs to be used, or are unsure about</p> |

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|  | which one to use, please contact the Market Operations hotline at <a href="mailto:market.operations@oeb.gov.on.ca">market.operations@oeb.gov.on.ca</a> . |
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**2007 EDR Process**

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| 1. | When are distributors due to file their 2007 distribution rate applications?   |
| A. | As indicated in the Board's letters of December 20, 2006 and January 18, 2007, the target date for distributors to file their rate applications for 2007 distribution rates is January 26, 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.<br><br>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. | The Board intends to issue many of the decisions for 2007 distribution rate adjustments in parallel with any announcement that may be required if the commodity prices under the Regulated Price Plan change. This would occur around mid-April to allow distributors time to enter changes into their systems for implementation on May 1, 2007. Based on the Board's experience with applications of this nature, the Board expects that it will be able to render decisions or orders on applications submitted on time and compliant with the IRM methodology documented in the Board Report on or about April 12, 2007.<br><br>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 December 20, 2006 Board Report.<br><br>In addition, delays in filing or in publication of the Notice of Application, as well as material amendments to or errors or omissions in an application, may result in processing delays with the result that the May 1, 2007 implementation date cannot be achieved. In these cases, the Board may consider issuing interim decisions and rate orders. |
| 4. | Who publishes the Notice of Application?   |
| A. | As was the case for 2006 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.

It is also the responsibility of the distributor to arrange for publication on a timely basis. Delays in publication could result in delays in processing the application, and could affect the date of issuance of the decision.

The distributor must file an Affidavit attesting to publication of the Notice of Application in accordance with the Letter of Direction. The Board will not proceed with the application without this on the record.