

**Ontario Energy
Board**

**Commission de l'énergie
de l'Ontario**



Ontario Energy Board

Filing Instructions for the 2010 3rd Generation Incentive Regulation Mechanism (IRM3)

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Filing Instructions for the 2010 3rd Generation Incentive Regulation Mechanism (IRM)

Who has to file an IRM application?

For distributors that have not filed a cost-of-service (“COS”) application since 2006, these distributors must file a 2nd generation IRM (“IRM2”) application if they wish to proceed with a rate adjustment. Distributors that have completed a COS application for the annual rate adjustment effective May 1, 2008 or 2009 are eligible to file a 3rd generation IRM (“IRM3”) application for 2010. A total of 17 distributors have been identified to file an IRM2 application and 44 distributors for an IRM3 application. Distributors that are seeking a rate adjustment but are not filing an IRM application will need to file a COS application.

Why file an IRM application?

The IRM process, also referred to as Performance Based Rate Regulation, is an alternative to traditional cost of service rate setting. Incentive rate regulation is intended to provide distributors with the opportunity to increase returns to shareholders through the implementation of efficiency initiatives, as well as affect cost savings that will benefit rate payers. Both 2nd and 3rd generation incentive rate mechanisms provide a formulaic approach to adjust rates.

The following filing instructions are to assist applicants through the 3rd generation IRM application.

Which cells need to be populated?

- **Input cells are shaded green**
- **Cells that offer a drop-down menu are shaded yellow;**
- **Cells containing formulae calculations are shaded blue;**

What reference documents do you need in order to complete your IRM application?

Filing information required for this IRM application can be found in the following documents:

- 2009 IRM model and decision (if you re-based in 2008)

- COS decision
- Current Tariff Sheet
- Chapter 3 of the *Filing Requirements for Transmission and Distribution Applications*
- *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued July 14, 2008
- *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued September 17, 2008
- 2010 IRM3 Supplemental Filing Model

Treatment of Rate Adders

The Board has determined that rate adders shall be identified and listed separately in distribution monthly rates and charges. For more information see *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications*, released on July 22, 2009. Hence, the smart meter funding adder and the low voltage volumetric rate currently embedded in rates need to be identified and will be removed prior to base rate adjustments.

Opening the Rate Generator

Please be aware that this model makes extensive use of Excel macros to generate results. If your macro security is not set properly, the macros will not run and the model will not produce the desired results.

For Excel 2003 users select menu item "Tools" > "Macro" > "Security" and tab "Security Level". Click on the "Medium" radio button.

Please note that when you open the Rate Generator a "Security Alert" pop up menu should open. Click on the button "Enable Macros".

For Excel 2007 users select the "Office Button">"Excel Options">"Trust Center">"Trust Center Settings">"Macro Settings" and select the "Disable All Macros with Notification" radio button.

Please note that when you open the Rate Generator a ribbon appears above the spreadsheet. It will say "Security Warning – Some Active Content Has Been Disabled" and you can select "Options" > "Macro" > and click the "Enable This Content" radio button.

What if I can't find an input sheet or line item in the model?

The rate generator model has been designed to be a very flexible tool for rate applications. The model that we make available has been generically formatted for most utilities for the common adjustments. Some utilities have additional requirements not shown in the generic model. For additional assistance applicants may contact the market operations hotline at market.operations@oeb.gov.on.ca and Board staff will respond in less than five business days.

Follow these Steps to file an IRM2 application!

Data input or data selections from a drop-down menu are required on the sheets listed below. All other sheets contain summaries for your information and do not require any further action.

A1.1 LDC Information

Use the drop-down menu (Cell D20) to select the applicant's name. Please input the contact information of the person responsible for the application (Cells D43, D45, D47, D49). All other information will be added automatically.

A2.1 Table of Content

A table of contents provides an overview of the model and the purpose of each sheet. You can go to the desired sheet by clicking the sheet name in column C.

B1.1 Current and Applied for Rate Classes General

Step 1:

Select the rate group in column C from the drop-down menu. Please use the following legend to ensure all applicable rate groups have been selected for your service area.

RES	→	Residential
GSLT50	→	General Service less than 50 kW
GSGT50	→	General Service greater than 50 kW
LU	→	Large User
USL	→	Unmetered Scattered Load
Sen	→	Sentinel Lighting
SL	→	Street Lighting
EMB	→	Embedded Distributor

Step 2:

Choose the applicable rate class as it appears on your current tariff sheet from the drop-down menu in column D.

Note: The fixed metrics for each selected rate class will appear automatically for all rate classes except for Unmetered Scattered Load (USL). For this class only, use the drop-down menu to select whether rates apply on a “per connection” or “per customer” basis. (The default is set to “per connection”. Please ensure that your choice matches your current tariff sheet.)

C1.1 Current Low Voltage Volumetric Rate

Enter your current smart meter funding adder in the green input cell labeled “Uniform Service Charge Amount”.

The current smart meter funding adder can be found in your 2009 IRM or COS decision.

C 2.4 Tax Change Rate Rider (if applicable)

Enter the Sunset Date and the current Service Charge Rate Rider for Tax Change from your current tariff sheet in the appropriate green input fields.

C3.1 Current Low Voltage Volumetric Rate

For purpose of transparency, the Board’s practice recently has been to identify rate adders separately. For most distributors the current low voltage volumetric rate (LV) adder will be embedded in the distribution volumetric rate.

Step 1:

The model will default to identify the adder as embedded; “No – Embedded in Vol Rate”. Using the drop-down menu in cell D22, select “Tariff Sheet Disclosure”.

Step 2:

Using the drop-down menu in cell D28, select “2008 COS” or “2009 COS” as your most recent rate rebasing process.

Step 3:

In column F, enter the re-based LV charges for each rate class. The charges can be found your 2008 or 2009 COS decision.

Step 4:

Press the update button in the upper right hand corner.

For 2008 re-based applicants the 2008 Price Cap Index Applied will be applied automatically.

C4.1 Current Rates and Charges General

This sheet captures your current monthly service rates and charges. All other tariff sheet items are input at the end of the rate generator.

Input current rates and charges for all applicable rate classes based on your current tariff sheet.

If a rate class has more than one distribution volumetric rate or retail transmission rate please indicate the type of charge in the yellow drop-down menu (column C) and enter the applicable charge in the green input cell (column F). If there are no extraordinary charges leave these fields blank. They will not appear on the final tariff sheet.

Press the “Current Tariff” button at the top right-hand corner to re-create a current tariff sheet.

Note: the applicant may wish to input tariff detail to the following sheets in order to replicate the complete current tariff sheet in its entirety.

- N3.1 Curr&Appl For Loss Factor*
- P1.1 Curr&Appl For Allowances*
- P2.1 Curr&Appl For Spc Srv Chg*

D1.2 Revenue to Cost Ratio Adjustment

If you were ordered to adjust revenue-to-cost ratios in a 2009 COS Decision, complete the 2009 Revenue-to-Cost Ratio Adjustment module in the Supplemental Filing Module. After this step has been completed, please transfer the adjusted values per class from sheet C1.9 of the supplemental model into the green input cells on sheet D1.2. If you re-based in 2008, some additional steps are necessary to correct the original starting point ratios. Complete the 2008 Revenue-to-Cost Ratio Adjustment module as well as the 2009 Revenue-to-Cost Ratio Adjustment module and transfer the values to the rate generator.

D2.2 K-factor Adjustment

2010 is the final adjustment year for the three year capital structure transition to a deemed 60% Debt and 40% Equity (see *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors*, issued December 20, 2006). The K-factor adjustment for 2010 will affect only small distributors with a 2006 rate base of \$100 million or less.

Complete the K-factor worksheet (E1.2) in the supplemental model and transfer the values into cells D26, G25 and G26. The K-factor will be calculated automatically.

F1.2 Price Cap Adjustment

Transfer your price cap index as a percent into cell D26, G25 and G26 from sheet G1.1 of the supplemental model. Enter the same value in all three cells.

J1.1 Applied for Smart Meter Funding Adder

In cell D28, enter the smart meter funding adder you wish to apply for.

J2.1 Tax Change Rate Rider

Transfer the distribution volumetric rate rider values calculated on sheet F1.3 in the supplemental model into the appropriate green input cells.

L1.1 and L2.1 Applied for TX Network and Connection General

Consult *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications*, issued July 22, 2009, page 13 for the new rates.

In cell D22, enter the percent increase/decrease related to the retail transmission and connection service rates.

Note: Since the Transformation Connection Service Rate has decreased, a reduction of 2.2% applies. Please enter this percentage as a negative number!

N1.1 Applied for Monthly Rates and Charges General

This schedule will generate a new tariff sheet as per your application. As previously discussed, the smart meter funding adder and the low voltage volumetric rate adder are now listed separately.

To view your applied for tariff schedule in a new workbook, click on the “Applied for Tariff” button located at the top right-hand corner of the worksheet. To compare both applied for and current tariff sheets, click on the button labeled “Current and Applied for Tariff”.

Note: the applicant may wish to input tariff detail to the following sheets in order to replicate the complete tariff sheet in its entirety.

- N3.1 Curr&Appl For Loss Factor*
- P1.1 Curr&Appl For Allowances*
- P2.1 Curr&Appl For Spc Srv Chg*

N3.1 Current and Applied for Loss Factor

In cells D22 through D25, enter the Loss Factor as it appears on your current tariff sheet.

P1.1 Current and Applied for Allowances

In cells E22 and E23, enter the Transformer Ownership Allowance and the Primary Metering Allowance for transformer losses as found on the current tariff sheet.

P2.1 Current and Applied for Specific Service Charges

Select the applicable specific service charges from the drop-down menus in column C and enter the associated charges in column E as found on the current tariff sheet.

All other schedules provide summaries, overviews and bill impact calculation.
No further inputs are required.