

**Ontario Energy
Board**

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



Ontario Energy Board

Filing Instructions for the 2010 Incentive Regulation Mechanism Supplemental Filing Module

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Filing Instructions for the 2010 Incentive Regulation Mechanism Supplemental Filing Module

On August 24 2008, the Ontario Energy Board (the “Board”) issued filing instructions to the 3rd Generation Incentive Rate Mechanism (IRM) model for 2010 applicants, which include a Supplemental Filing Module that allows the applicant to address specific circumstances. The Supplemental Filing module is comprised of the following case specific Tabs:

- **Price Cap Index (Tab G)**
- **Z-Factor Tax Change (Tab F)**
- **2008 Revenue-to-Cost Re-allocation (Tab B2)**
- **Revenue Cost Ratio Adjustment (Tab C)**
- **Incremental Capital Tab (Tab G)**
- **K-Factor Adjustment (Tab E)**

All applicants that will file any of these Tabs will also need to complete the following set-up Tabs:

- **Information (Tab A)**
- **Billing determinant and Rates (Tab B1)**

Which part(s) of this supplemental module apply to you?

The IRM3 Supplemental Filing Model applies to all distributors that need case specific adjustments in the various areas of the Tabs. Tab A and B1 apply to all distributors that will file the supplemental filing model. Tabs E, F and G are replicated from the 2009 IRM3 Supplementary Filing Module and will be familiar to 2009 IRM3 filers. Tab C applies to all distributors that were directed by the Board to re-balance their revenue-to-cost ratios in 2010, in other words if the re-balancing was to continue past the initial year of the Decision. In addition, distributors with 2008 COS Decisions must fill in Tab B2 before progressing to Tab C. The Incremental Capital Tab (“ICM”) is intended to provide some flexibility for non-discretionary, unanticipated capital expenditures.

Please refer to the following documents to determine whether any or all of these above mentioned Tabs apply to your application:

- *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

Set-up: Tab A and B1

Select your name from a drop-down menu on sheet A1.1. All other information will be populated automatically. Sheet A2.1 provides a table of contents.

Sheet A3.1 provides a work sheet completion guide. This guide gives an overview of the various Tabs. Populate only the required worksheets for each Tab that apply to your application. Skip to the desired worksheet by pressing the title of the worksheet.

What cells need to be populated?

- **Input cells are shaded green**
- **Cells that offer a drop-down menu are shaded yellow;**
- **Cells that result from formulae calculations are shaded blue, and do not need to be populated by the applicant.**

Opening the Supplemental Filing Module

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 spread sheet. 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?

This 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 this reason applicants may contact the market operations hotline at market.operations@oeb.gov.on.ca requesting assistance and board staff will respond back to you.

How are your current rates and tariffs constructed?

To reconstruct your current rates and charges, which will be used by the model as a starting point, input your information and re-based billing determinants in Tab B1.

Step 1:

On sheet B1.1 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
SB	→	Standby Power
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 selection matches your current tariff sheet.)

Step 3:

Enter your forecasted billing determinants based on your final 2008 or 2009 COS Decisions.

Enter your re-based tariff sheet rates based on your final 2008 or 2009 COS Decisions.

(for 2008 COS these are the rates on your tariff sheet effective May 1, 2008 or thereafter; for 2009 COS these are the rates on your tariff sheet effective May 1, 2009 or thereafter).

- Complete inputs on sheets:
 - B1.2 Removal of Adders. As this is a summary sheet you will have to combine all rate adders together. Most applicants will only have Smart Meter funding adder and Low Voltage to report. Note that this value will be the value of the adders from your COS reporting. (2008 COS will report 2008 adders; 2009 COS will report 2009 adders).
 - B1.4 Detailed re-based revenues from rates (this will be net of revenue from rate adders). The total revenue amount on this sheet is compared to the revenue generated from rates using billing determinants time's rates. Due to rounding in rates there will be a slight difference between the two results.

Note: Enter the Board approved values from your 2008 or 2009 COS application in the green input cells. For applicants that re-based in 2009 most of this information can be found on the Revenue Requirement Work Form (RRWF).

Revenue-to-Cost Adjustment Tab

Why adjust Revenue-to-cost ratios during an IRM application?

1. Adjustments to reach target range

Revenue-to-cost ratios measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. On November 28, 2007 the Board released a policy document titled *Application of Cost Allocation for Electricity Distributors* (EB-2007-0667). The document established a range of targets around revenue to cost ratios of one for each class of customers. COS Decisions in 2008 and 2009 approved individual ratios. Some decisions allowed for a phase-in for each distributor's customer classes that were outside the prescribed target range to arrive ultimately at the Board approved ratio within the range.

2. Corrections to remove transformer ownership revenues and costs

The Board found, in recent 2009 COS Decisions, that the starting points for adjusting revenue-to-cost ratios needed to be corrected due to a misallocation of the transformer ownership allowance in the 2006 EDR cost allocation model. Some 2009 IRM Decisions found that the ratios being approved would be affected by the same misallocation, and that any differences in the calculation of the ratios in the 2009 rate model and the 2008 COS Decision should be further corrected in the 2010 rate model to correct the starting points for revenue-to-cost ratios.

To address this issue, the 2010 IRM model removes the cost of the transformer ownership allowance from the original cost allocation model as well as the revenues associated with the transformer ownership allowance. The corrected ratios are then calculated based on the revised distribution revenue net of transformer ownership allowance. These new starting points will then be used to adjust revenue-to-cost ratios to move applicable classes into the target range set by the Board.

If you completed a 2009 IRM adjustment you will be required to complete 3 additional sheets (not shown to 2009 COS filers). Please ensure that Tab B2 is completed prior to completing Tab C. The starting points for 2008 COS and 2009 COS filers will be populated differently; ratios for 2008 COS will be shown as a carry forward from sheet B2.3 and 2009 COS filers will enter the decision ratio's in input cells as found in their 2009 Decisions.

For 2008 COS filers Sheet C1.1 will be populated with corrected ratios that allow you to make a new revenue-to-cost ratio proposal based on these corrected starting points. For applicants that rebased in 2009, sheet C1.1 will provide space to input the 2009 Decision as well as the adjustments proposed in that decision. The remainder of Tab C applies to all applicants that rebased either in 2008 or 2009.

What does this process achieve?

This process calculates hypothetical distribution rates for the rebasing year that would have yielded revenue to cost ratios equal to those approved in the rebasing Decision had the transformer ownership allowance been removed before any adjustment was made.

Note: These hypothetical rates can then be inputted into the standard IRM model in place of the actual 2009 distribution rates. When the uniform factor is applied in the standard IRM model, the resulting rates will yield the appropriate distribution revenue (in the adjusted proportions as directed in the cost-of service Decision).

Follow these Steps to file a Supplemental Module!

Applicants that re-based in 2009

- Complete the following input sheets:
 - B1.1 Re-based Bill Determinants & Rates
 - B1.2 Removal of Rate Adders
 - B1.3 Re-Based Revenue from Rates

- B1.4 Re-Based Revenue Requirement
- C1.1 Revenue-to-Cost Ratio Adjustment
- C1.2 Revenue Offset Allocation
- C1.3 Transformer Ownership Allowance
- C1.5 Proposed Revenue-to-Cost Ratio Adjustment require data entries.

Please note once again that prior to adjusting revenue-to-cost ratios based on the latest COS Decision, all applicants that re-based in 2008 need to complete an additional step that corrects the 2008 starting points.

Applicants that re-based in 2008

Some 2009 IRM Decisions noted that the revenue-to-cost ratios needed to be corrected through the 2010 IRM process in order to address the issue related to the exclusion of the transformer ownership allowance. Refer to your 2009 IRM Decision as well as your 2008 COS Decision to determine whether a revenue-to-cost ratio correction applies in your case.

- Complete the following input sheets:
 - B2.1 2009 Base Distribution Rates
 - B2.2 Cost Allocation Information
 - B2.3 New Starting Point
- B2.1 input data is based on the 2006 EDR final model as well as the cost allocation information filing.
- For B2.2, Use your **final** cost allocation run from the information filing for total revenue (sheet 01 – row 20) and revenue requirement (sheet 01 – row 35).

Note: For columns F, G, and I: If references differ from the status quo, please check whether the correct run of the cost allocation model was used.

- Enter the transformer ownership allowance found in the EDR final model (sheet 6-3) as well as the transformer ownership allowance allocators found in the information filing (sheet E2). To check what allocator to use (i.e. LTNCP1, LTNCP4, or LTNCP12) refer to sheet E4, Line transformer (cell F57), to find the reference code for the transformer ownership allowance. On sheet B2.2 cell I21 please identify which allocator you used from the drop down box. LTNCP4 is shown by default.
- On sheet 2.3, Column D will show the starting point ratios as per the 2008 COS Decision. Continue by plotting the required ratio inputs as ordered by

- the Decision prior to the correction (Columns F through J). If ratios past 2010 are undetermined for certain classes please enter TBD in the applicable cells.
- Column L shows the corrected new starting point as calculated on sheet B2.2, while columns N through R formulaically convert the ratio adjustment. These new ratios are the ratios approved by the Board in the 2008 COS Decision, but then adjusted by the same percentages as between the old and new starting points.

As ratios might change considerably due to the above mentioned corrections, an alternative proposal for a step by step progression towards the ratio target range from the revised starting points should be made in the following Tab C on Sheet C1.1.

C1.1 – Revenue-to-Cost Ratio Adjustment/Decision

An applicant’s latest COS decision discusses the affected rate classes. As mentioned above, applicants that rebased in 2008 have to adjust their revenue-to-cost ratios after they have made a correction to the original starting points. Applicants that rebased in 2009 will only file Tab C.

Three options are available through a drop-down menu: No Change, Change, and Rebalance. If there is any class in the “Change” group, there will be at least one class in the “Rebalance” group.

No Change	A class where the revenue-to-cost ratio is not being changed after the initial rebasing year.
Change	A class where the revenue-to-cost ratio is being changed to a specified ratio (as per the latest Board decision), different from the initial rebasing year.
Rebalance	A class where the revenue-to-cost ratio is being changed to an unspecified value as a result of changes to the previous class(es)

Please proceed as follows:

- Applicants that rebased in 2008:
 - Ensure that Tab B2 is completed.
 - The corrected starting point ratio will be populated automatically in column E.
 - In column D of this sheet, choose the appropriate type of adjustment for each rate class (see options below)

- Enter your newly proposed ratios after selecting “change” from the drop-down menu. Green input cells will appear in column H through J.
- Choose the rebalance option for class whose ratios were not determined by the Decision, but will change as a result of changes to other classes. (Column H through J will show a “tbd”. Ratios for these classes will be determined on sheet C1.5)

Note: Applicants that re-based in 2008 will have to take post-correction ratios into consideration and propose ratio adjustments to bring their ratios into the Board approved target range. This might require you to choose the “Change” option for classes that were not ordered to change in the Decision, but require a change due to the revenue-to-cost re-allocation.

- Applicants that rebased in 2009:
 - Choose the appropriate type of adjustment for each rate class in column D (see options below).
 - For reference input ratios for 2008 in column E as well as 2009 as per Decision in column F.
 - For “Change” classes input new ratios for each transition year as per Decision.
 - For “Rebalance” classes a “TBD” value will appear. The new ratio will be calculated on sheet C1.5

Save entries by clicking on the “Update Group” button.

C1.2 – Revenue Offset Allocation

The allocation of revenue offsets by rate class remains unchanged from 2006.

Enter the revenue offsets amounts for each class as recorded in your 2006 Board approved EDR model. The approved 2009 revenue offsets, as indicated on sheet B1.4, will then be allocated proportionately, and credits it to the respective classes.

Note: The credit for revenue offset is included as revenue in the revenue to cost ratio.

C1.3 – Proportional Calculation for Classes with customers receiving the Transformer Ownership Allowance

For any class that has customers receiving the transformer Ownership Allowance, there are two volumetric rates in effect, in most cases \$0.60 per kW. The uniform IRM adjustment should be applied to an average of these two rates, rather than to only one of them. A weighted average volumetric distribution rate is calculated to reflect the transformer ownership allowance by using the following formula:

$$\text{Weighted average volumetric distribution rate} = \frac{((\text{Volumetric Distribution Rate} * (\text{Total Demand/kW} - \text{Transformer Allowance/kW}) + (\text{Volumetric Distribution Rate} - \text{Transformer Allowance Rate}) * \text{Transformer Allowance/kW})}{\text{Total Demand}}$$

Use the drop-down menu in column D to select whether or not a transformer ownership allowance is included in the rate of a specific rate class. Click on the “Update Transformer Allowance” button. Based on the selection in column D, input cells will be revealed in columns F and G. Enter the volumetric transformer ownership allowance in column F as well as the rate for the transformer ownership allowance in column G.

C1.4 – Revenue-to-Cost Ratio Revenue

No inputs required.

C1.5 – Proposed Revenue-to-Cost Ratio Adjustment

Rate classes that were selected to be “rebalanced” in sheet C1.1 do not have a specified target ratio, and up to this point have been indicated as “TBD”. In general, the ratio for such a class is already within the Board’s policy range, but they get a new ratio as the result of adjustments to other classes.

On sheet C1.5, the distributor has to rebalance these remaining rate class(es) until the ‘out of balance’ field (cell H49) equals zero. Green input cells indicate which rate classes are affected.

The distributor has the following three options to rebalance using the buttons at the top of the sheet:

1. **Iterate selected cell to zero.** This button iterates one selected rate class to achieve a zero balance. If more than one rate class requires an adjustment, the additional rate classes need be inputted manually. (Must be on the selected input cell to operate)
2. **Iterate all equal percentage change.** This button iterates all rate classes in green input cells based on an equal percentage.
3. **Iterate all proportional change.** This option iterates all affected rate classes in proportion to their adjusted revenue. (Service Revenue Requirement net of Transformer Allowance)

Use the “Refresh and Start Over” button to reset the page in order to test the various scenarios. Column H provides the total adjusted service revenue requirement net of transformer allowance per rate class. Column J highlights the variance revenue depending on the scenario. The distributor should consider these values when choosing a method.

In order to finalize and save your rebalanced revenue-to-cost ratios, select “yes” from the drop-down menu in cell H51.

Sheets C1.6 – C1.9

No inputs required. Columns M through O on sheet C1.9 display the adjustment to rates based on the newly proposed revenue-to-cost ratios.

Enter the adjusted base service charges values on sheet C1.0 into the rate generator; sheet D1.2 Revenue Cost Ratio Adj.

Incremental Capital Tab

Who should file the incremental capital Tab?

The incremental capital Tab (“ICM”) is intended to provide regulatory flexibility in order to accommodate **non-discretionary** and/or **unusual** and/or **unanticipated** events that may occur during an extended IRM term. Please ensure that any applied for capital investments under the ICM fulfills at least one of these criteria. Furthermore, for incremental capital expenditures to be considered for recovery prior to re-basing, amounts must satisfy the eligibility criteria of **Materiality, Need and Prudence**¹. Refer to Chapter 3 of the Filing Guidelines issued July 22, 2009, the July 14, 2008 *Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors* and the Supplemental Board Report issued September 17, 2008 to determine whether you qualify for ICM treatment. If you decide to file an ICM, ensure that the supporting evidence follows the minimum requirements described in the Filing Requirements².

- Complete the following input sheets:
 - B1.1 Re-based Bill Determinants & Rates
 - B1.2 Removal of Rate Adders
 - B1.3 Re-Based Revenue from Rates
 - B1.4 Re-Based Revenue Requirement
 - D1.1 Load Actual – Most Recent Year
 - G2.1 Threshold Test
 - G3.1 Summary of Incremental Capital Projects
 - G4.1 Incremental Capital Adjustment required data inputs.

Note: Give a brief description of the IC project including capital expenditures, amortization and capital cost allowance on sheet G4.1. A further, more detailed explanation needs to be provided in the manager’s summary (see filing guidelines).

¹ Report of the Board: on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors, July 14, 2008p. 33

² Filing Requirements for Transmission and Distribution Applications, Chapter 3, July 22, 2009 p16-18

- The Board has provided an Incremental Capital Project Workform to be completed for each proposed project. The workform calculates the capital expenditure, amortization and capital cost allowance for each project. Note that this model does not apply the half-year rule to both amortization or CCA, as per the Board direction for Incremental capital (*Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued September 17, 2008)
- Transfer information from the following sheets to the rate generator:
 - G1.1 Threshold Parameters (to Sheet F1.2 Price Cap Adjustments)
 - G4.2 Incremental Capital Rate Rider Option A (fixed/variable) (to Sheet J 1.2 Incremental Capital Fund Adder)
 - G4.3 Incremental Capital Rate Rider Option B (variable) (to Sheet J1.2 Incremental Capital Fund Adder)

Note: Choose one of the two options for calculating the IC Rate Rider.

Price Cap Index

- Transfer the values of the formulaically calculated price cap index onto Sheet F1.2 of the rate generator.

Note this value will change when the final GDP-IPI value is published by the Board. In addition the stretch factor (which is currently set at Tier II or 0.4%) may change when the Board has completed the distributor benchmarking exercise and released the 2010 stretch factor results. Board staff will adjust the models accordingly.

Z-Factor Tax Changes

- Complete the following input sheet:
 - F1.1 Z-Factor Tax Changes

The 2010 model does not include a provision for input of tax credits. Applicants may be required to iterate results to achieve the correct value. Please advise the Board of any adjustments in your manager's summary.

- Transfer information from the following sheet to the rate generator:
 - F1.3 Calculated Tax Change Rate Rider to Sheet J2.1 Tax Change Rate Rider

Chapter 3 of the filing requirements identified that the tax change will be applied on a volumetric basis.

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 following input sheets:
 - B1.4 Re-Based Revenue Requirement
- Transfer the K-factor calculated on Sheet E1.2 to Sheet D2.2 K-factor Adjustment of the rate generator.