



Ontario Energy Board

Commission de l'énergie de l'Ontario

Updated Filing Requirements for Transmission and Distribution Applications (including Smart Meters and IFRS)

Board Staff Presentation to
Electricity Distributors & Transmitters

June 28, 2011

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Welcome & Agenda

Session #1

Filing Requirements

For COS: 9:15 a.m. – 9:45 a.m.

For IRM: 9:45 a.m. – 10:15 a.m.

Session #2

Smart Meters

10:15 a.m. – 10:45 a.m.

Session #3

IFRS

10:45 a.m. – 11:30 a.m.



Welcome to the webinar – meet the team!



Bill Cowan
• Sr. Manager –
Special Projects



Pascale Duguay
• Manager
Electricity Rates 1
Applications



Ted Antonopoulos
• Manager -
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Carol Steski
• Advisor
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And the rest of the team!

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Session 1 – Part A: 2012 COS Filing Requirements

Chapter 2 of the Filing Requirements for
Transmission and Distribution
Applications

Introduction

- Letter dated Mar 1, 2011 established a list of 24 LDCs for 2012 COS filings
 - 7 LDCs have requested to defer rebasing
 - 5 have been granted a deferral to 2013 (the other two are pending a review)
- For LDCs with a Jan to Dec rate year – applications deadline was Apr 29, 2011
 - Hydro Ottawa and Oshawa PUC Networks have filed.
 - Two more applications expected in June
 - Applicants who have already filed will be expected to update their applications for any major Filing Requirement changes
- For LDCs with a May to Apr rate year, application deadline is Aug 26, 2011
- Completeness check
 - The interrogatory process should not be used to complete the initial pre-filed record
- Relevance of interrogatories
 - parties are asked to carefully consider the relevance of their interrogatories when testing the evidence
- Interrogatories
 - Filing of interrogatories and responses must be sorted by issue / topic



Substantive Changes to the 2012 COS Filing Requirements

1. Consolidation of key policy statements from the past year
2. Consolidation of key generic findings from decisions over the past year
3. Consolidation of certain filing information from 2000 and 2006 Rate Handbooks
4. Revisions to certain existing information requirements



1. Consolidation of key policy statements from the past year

- Early rebasing applications – April 20, 2010 letter
 - Threshold issue
- Effective date other than May 1 – April 15, 2010 letter
 - Filing information justifying transition from May 1
- Practice Direction on Confidentiality
 - Relevance
- Transition to IFRS – March 15, 2011 letter
 - Effort to file on the basis of IFRS for 2012
 - Kinectrics study available to inform the update of depreciation rates
- Special purpose charge - April 23, 2010 letter
 - deadline for filing to clear variance account is April 15, 2012
- Deadline for LRAM/SSM applications re: legacy period 2005 to 2010
 - no later than 2012 rate application filing
 - no previous policy statement on this



2. Consolidation of key generic findings from decisions over the past year

- Treatment of stranded meters
 - 2011 H1B and Kenora decisions
 - Removal of NBV from rate base
 - Recovery via rate rider
- Final prudence review of smart meters
 - 2011 IRM decisions
 - Sunset date for SMFA - April 30, 2012
 - Expectation for LDCs to file for final prudence review
- Disposition of account 1592, PILs and Tax Variances for 2006 and Subsequent Years
 - 2011 COS application decisions
 - Proceed with disposition despite ongoing PILs combined proceeding
 - No clearance of Account 1562 until further direction received



3. Consolidation of certain filing information from 2000 and 2006 Rate Handbooks

- Retail Service Charges
 - Applicant to consult with retailers if changes sought
- Wholesale Market Service Charges
 - Justification for changes proposed outside a generic proceeding
- Specific Service Charges
 - Information requirements supporting changes to existing charges or the establishment of new charges
- Bill Impact Mitigation incl. Rate Harmonization
 - Information requirements re: plan to reduce to 10% or lower
 - Note that Board policy is currently under review



4. Revisions to certain existing information requirements

- Administration
 - New requirements:
 - to identify primary contact for application
 - to propose a publication for the notice and to identify whether it is paid or not
 - to identify any transmission assets that have been or are proposed to be deemed as distribution assets
 - to identify any rates or charges included in Conditions of Service
 - to confirm segregation of non-utility business
 - Modified requirements:
 - Reconciliation of financial information in application with AFS should at a minimum include fixed assets



4. Revisions to certain existing information requirements - continued

- Rate Base and OM&A
 - Reminder that the filing of a GEA Plan is mandatory beginning in 2012
 - Reminder that political contributions are not allowed to be recovered through rates
 - Replacement of requirement to identify third party contractors and associated costs with a requirement to identify procurement practices
 - Removal of reference to depreciation rates in 2006 Rate Handbook
 - 15% WCA not an option after this year's COS applications
- Cost of Capital
 - Reminder that current parameters at time of filing application should be used as the default values
 - New section reminding not-for-profit corporations that the purpose of applying cost of capital and WCA is to build up operating and capital reserves
- Other Revenue
 - Removal of requirement to identify pricing for “non-core” activities



4. Revisions to certain existing information requirements - continued

- Rate Design
 - Inclusion of revenue reconciliation
- Deferral and Variance Accounts
 - Reminder that account 1562 should not be disposed
 - Reminder of the regulatory assets and interest claw-back policies retained in the PILs combined proceeding settlement
 - Reminder of the FAQ on the appropriate tracking of the HST deferral account



For further information ...



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Session 1 – Part B: 2012 IRM Filing Requirements

Chapter 3 of the Filing Requirements for
Transmission and Distribution
Applications

Process – Grouping for Filings

- Distributors to be assigned in one of six groupings based on the expected level of complexity of the application:
 - September 16, 2011
 - September 30, 2011
 - October 14, 2011
 - October 28, 2011
 - November 10, 2011
 - November 25, 2011
- A Survey has been sent requesting that distributors identify expected elements of their application. Responses are due by July 5, 2011.
- For those distributors whose rate year has been aligned with their fiscal year, the application deadline will be August 15, 2011



Substantive Changes to the 2012 IRM Filing Requirements

1. Components of an IRM3 application
2. Discontinuation of the IRM2 framework
3. Price Cap Index Adjustment for January 1 effective date
4. Clarification on the Incremental Capital Module (“ICM”)
5. IRM revisions in common with CoS guidelines



1. Components of an IRM3 application

- Manager's Summary
- Contact information
- Rate Generator and supplementary work forms:
 - Shared Tax Savings Work Form
 - Revenue Cost Ratio Adjustment Work Form
 - RTSR Adjustment Work Form
 - Deferral and Variance Account Work Form
 - Incremental Capital Module Work Form
- PDF copy of current Tariff Sheet
- Supporting documentation cited within the application
- Statement as to which publication(s) the notice will be appearing (paid or unpaid, readership and circulation numbers)



2. Discontinuation of the IRM2 framework

- Allows for greater consistency amongst distributors
- IRM3 framework allows for greater flexibility: ICM, and expanded scope for Z-factor treatment
- Efficiency gains - maintenance of one set of filing modules



3. Price Cap Index Adjustment for January 1 Effective Date

- GDP-IPI:
 - Statistics Canada publishes the prior calendar year's data at the end of February
 - For those distributors whose rate year has been aligned with their fiscal year, the annual percentage change in the GDP-IPI from June 2010 - 2011 to June 2009 - 2010 will be used in the final rate application model



5. Clarification on the Incremental Capital Module (“ICM”)

- **Half-year rule – does not apply, except for an ICM request in the last year of the distributor’s IRM plan**
 - In the *Supplemental Report of the Board on 3rd Generation Incentive Regulation*, the Board determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan
 - In Guelph Hydro’s IRM3 Decision (EB-2010-0130), the Board clarified that the half-year rule would apply in the final year of the distributors IRM plan term



5. Clarification on the ICM (cont'd)

- **Eligible incremental capital amount should be calculated by taking the difference between the 2012 total non-discretionary capital expenditures and the materiality threshold.**
 - In its Decision (EB-2010-0104) the Board clarified that the eligible incremental capital amount for recovery is the difference between 2011 non-discretionary capital expenditure and the threshold value (not an eligibility test)



5. Clarification on the ICM (cont'd)

- **Revenue requirement: calculation should be based on the following parameters:**
 - A deemed capital structure of 60% debt (56% long-term and 4% short-term) and 40% equity
 - The distributor's last Board-approved cost of capital parameter
 - PILS: test year tax rates should apply



IRM revisions in common with CoS guidelines

- **Recovery of Smart Meter Cost**
 - Sunset date for Smart Meter Funding Adder – April 30, 2012
 - A distributor seeking a prudence review during the IRM plan shall file a separate application
- **Deadline for LRAM/SSM applications regarding legacy period 2005 to 2012**
 - No later than 2012 rate application filings (CoS or IRM)
 - If a distributor does not apply for the recovery of LRAM or SSM amounts in 2012, it will forgo the opportunity to recover LRAM/SSM claims for the legacy period
- **Special Purpose Charge (“SPC”) – April 23, 2010 letter**
 - Deadline for filing to clear variance account is April 15, 2012
 - Account 1521 to be included in deferral/variance account model



Specific Exclusions from IRM Applications

- Examples of specific exclusions from the IRM rate application process:
 - Prudence Review of Smart Meter Costs
 - Changes to revenue-to-cost ratios other than pursuant to a prior Board decision
 - Rate Harmonization, other than that pursuant to a prior Board decision
 - Loss Factor Changes
 - Loss Carry Forward Adjustments to PILs/taxes
 - Loss of Customer Load



Q & A



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Session 2: Smart Meters

Background

Smart Meter Funding and Cost Recovery - Regulatory History

- Generic hearing EB-2005-0529 – Board decided on smart meter funding and D/V accounting for 2006
 - Implemented in individual 2006 EDR applications
 - Variance Accounts 1555 and 1556 authorized – Board letter of June 13, 2006
- Combined smart meter hearing EB-2007-0063 examined smart meter costs for 13 named utilities in mid-2007
 - Generic Decision issued – August 8, 2007
- Subsequently, costs and funding for smart meters dealt with in individual applications
- Guideline G-2008-0002: Smart Meter Funding and Cost Recovery issued October 22, 2008 to provide Board policy and practice as to how a utility applies for:
 - Changes to SMFA
 - Seeking disposition and prudence review of actual costs for installed smart meters
- Accounting Procedure Handbook FAQs - Issued August 2008
 - Accounting guidance on the disposition of Account 1555 and 1556 balances



Background

Smart Meter Funding Adder

- **Smart Meter Funding Adder (SMFA)** introduced May 1, 2006
 - Intended to provide funding for smart meter initiative
 - Initial level of about \$0.30/month per metered customer for most utilities
 - Level has been allowed to increase to \$1.00 or some utility-specific amount
 - Initially embedded in Monthly Service Charge but shown as a separate rate adder as of 2010 rates
- 2011 IRM and certain COS decisions established a sunset date for SMFA of April 30, 2012
 - Most utilities have (nearly) completed smart meter deployment
 - Time for prudence review of historical costs
 - Smart Meters to become part of normal operating distribution assets and costs for recovery, akin to poles, wires, transformers



Recovery Mechanisms for Two “Buckets” of Costs

- **Smart Meter Disposition Rate Rider**
 - As part of a disposition/prudence review application, to dispose of the balances recorded in the variance accounts between:
 - the deferred revenue requirement amount for reviewed/approved smart meters as of the date of the latest audited financial statements; and
 - SMFA revenues and associated carrying charges amounts collected over the same time period.
- **Smart Meter Incremental Revenue Requirement Rate Rider (SMIR)**
 - When smart meter costs are approved on a final basis in a stand-alone application, the SMIR is a proxy for the incremental on-going change in base rates that would result if the amounts of approved smart meter costs were factored into rate base and revenue requirement.
 - Remains in effect until next Cost of Service rebasing
 - Not needed when disposition part of a Cost of Service application, as the costs are directly incorporated into rate base, revenue requirement, cost allocation and rate design.



Timelines

- For continued cost recovery beyond April 30, 2012, a utility will have to apply for a prudence review and disposition of the smart meter variance accounts
 - As part of cost of service application
 - Stand-alone application if under IRM
- Utilities also to document proposed accounting treatment and recovery of “stranded meter” costs
 - See also Filing Requirements
- Smart Meter Guideline G-2008-0002 is currently being updated for “end-game” smart meter deployment
 - To be issued Summer 2011
 - Will be accompanied by a model



2012 Cost of Service

- Prudence Review
 - To review/approve disposition of historical costs recorded in variance accounts
 - Audited for historical period
 - Actual/forecasted costs for bridge or test period
 - Nature of prudence review
 - Eligibility of costs for recovery (e.g., nature of costs in relation to smart meter minimum functionality requirements)
 - Level of costs in total and on a per meter basis
 - Cost levels are evaluated considering the utility's circumstances and relative to that of other utilities
 - Identify and document all costs “beyond minimum functionality”
 - Proposal for recovery of stranded meter costs
 - Net Book Value (NBV) of removed conventional meters
 - Proposal for rate rider(s) and time period for recovery
 - Smart meter costs included in revenue requirement; stranded meters removed



Stand-alone Application

- Prudence review
 - Same as for Cost of Service
- Proposal for recovery of stranded meter costs
 - Same as for Cost of Service
- SMIR will proxy incremental revenue requirement for approved smart meters until next rebasing
- Smart Meters will enter rate base at next rebasing at the NBV at start of test year



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Session 3: IFRS Implications for COS and IRM Rate Applications

Agenda

1. Background
2. Accounting areas impacted
3. To consider for a COS application
4. To consider for an IRM application
5. Where to learn more and get help



Background

- What is IFRS and when applicable?
- Board processes affected
- IFRS work of the Board



What is IFRS and When Applicable?

IFRS = International Financial Reporting Standards

- Canada adopted IFRS Jan 1, 2011
- Rate-regulated entities have option to delay to Jan 1, 2012 (most choosing 2012)
- Restatement of prior year CGAAP financial info into IFRS (2011) causes discontinuity in book values
- 2011 becomes “pivot year” reported and audited in both CGAAP and IFRS
- IFRS applies to most Ontario utilities except a very few
 - that qualify and choose to adopt US-GAAP, or
 - that qualify and choose to adopt private company CICA standards



What is IFRS and When Applicable? (Cont'd)

- OEB accepts GAAP as a starting point for financial information – sets supplementary *regulatory accounting* requirements (e.g. deferral and variance accounts)
- Recognition of regulatory deferral and variance accounts in general purpose financial statements still uncertain
 - US-GAAP buys time, an option for a few reporting issuers/subs of reporting issuers, with permission from securities regulator



Board Processes Affected

1. OEB Accounting Policy

- Key policy decisions made
- Update to detailed references to follow
 - Uniform Systems (Chart) of Accounts (Electricity and Gas)
 - Accounting Procedures Handbook (Electricity)

2. Periodic Reporting Requirements (RRR)

- Key policy decisions made
- Update to detailed RRR to reflect policy decisions to follow (Electricity and Gas)

3. Rate Applications Guidelines

- Electricity Filing Requirements updated
 - Cost of Service
 - Incentive Regulatory Mechanism (IRM)



IFRS work of the Board

- Board Report July 2009 – policy, plus
 - Clarifying statement re overheads in CAPEX
 - Decision re delay until January 1, 2012
 - Letter encouraging use of IFRS for 2012 COS applications
 - Addendum re IRM environment (June 2011)
- Sponsored depreciation study – Kinectrics, issued July 2010



Accounting Impact Areas

Mostly in PP&E

- Overhead self-constructed assets
- Useful lives for PP&E (Kinectrics Report)
- Componentization
- Asset retirement obligations
- Disclosure of opening balances
- Capital contributions

Also in

- Pension and employee future benefit cost
- Comparative year balances (2011)
- Other? – utility specific

Reference: Board Report, July 2009



To Consider for a COS Application

- Base application on IFRS if possible (Board letter March 15, 2011)
- Determine asset remaining service lives and prepare depreciation evidence (Board Report pgs 20-22, later slide)
- Prepare material on IFRS change impacts (Board Report pgs 29-32, Amendment Nov 8, 2010)
- Determine values in IFRS Admin Transition Cost deferral account (Board Report pgs 26-27)
- Determine values in PP&E Deferral Account (Addendum pgs 9-14), i.e., comparative year balances



To Consider for a COS Application (Cont'd)

- Prepare recommendation re recovery period for IFRS deferred balances – consider matching to IRM period
- Include un-amortized capital contributions in rate-base (Board Report pg 18)
- Estimate costs in new areas (Board Report pgs 19-20: asset early retirements, asset retirement obligations, etc)
- If one of the few transitioning to a GAAP alternative other than IFRS (e.g., US-GAAP), ensure requirements met and prepare reconciliations from CGAAP to alternative GAAP (Addendum pgs 19-20)



Depreciation Responsibility

Before IFRS:

- Most electricity distributors used legacy useful lives from at least 30 years ago to allocate depreciation expense to time periods – most use 25 years
- Current studies say 40+ years is realistic

On Adopting IFRS:

- IFRS says “You cannot depend on the regulator to set service lives; determine your own and check annually”
 - Undertake own utility depreciation study, or
 - Use Board sponsored depreciation study to facilitate
- Board sponsored study provides “Typical Useful Life” and factors affecting each utility’s choice (Kinectrics Report, July 2010)



To Consider for an IRM Application

- If in IRM and not yet rebased using MIFRS, determine if application will include
 - Z-factors, capital module, earnings outside deadband, i.e., items depending on financial statement infoand prepare in CGAAP with reconciliation to MIFRS (Addendum pgs 6-8)



To Consider for an IRM Application (Cont'd)

- Accumulate necessary info for rebasing year application
 - Continue determining values in IFRS Admin Transition Cost deferral account (Board Report pgs 26-27)
 - Determine values in PP&E Deferral Account (Addendum pgs 9-14), e.g.
 - Comparative year balances
 - Capitalized cost differences (overheads)
 - Depreciation expense differences
 - Asset retirement obligation differences
 - Premature retirement of assets cost differences



Where to learn more and get help

Board Website – Industry, “Transition to IFRS”

- OEB Report of July 2009, EB-2008-0408
 - Consultation proceedings
 - Planning meetings, EB-2008-0104
 - Sample before and after financial statements
 - Illustrative reconciliation of before and after to regulatory requirements of a Cost of Service application
 - Overhead Capitalization letter – Feb 2010
 - Optional delay to 2012, amendment – Nov 2010
 - MIFRS for 2012 rates, amendment – Mar 2011
 - Addendum re IRM – Jun 2011
- Depreciation Study, EB-2010-0178 – Jul 2010



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