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Ontario

BY E-MAIL

April 12, 2012

To: All Licensed Electricity Distributors
All Licensed Electricity Transmitters
All Other Interested Parties

Re: Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications – Allowance for Working Capital

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This letter provides an update to the options established in the June 22, 2011 cost of service Filing Requirements for the calculation of the allowance for working capital for the 2013 rate year.

Background

Chapter 2 of the Filing Requirements for Transmission and Distribution Applications issued on June 22, 2011 (for the 2012 rate year), provides for two approaches that an applicant may take for the calculation of its allowance for working capital: (1) the 15% allowance approach; or (2) the filing of a lead/lag study.

Section 2.5.1.4 of the Filing Requirements notes the following:

> *Cost of Service Applications for the 2013 Rate Year*
>
> The Board informs distributors that 2012 will be the final year for which the 15% Allowance Approach will be allowed as a default value. The Board is reviewing the possibility of requiring distributors to file lead/lag studies for the purpose of establishing the working capital allowance for the 2013 rate year.

Working Capital Allowance ("WCA") for the 2013 Rate Year

The Board has reviewed the approaches to the calculation of WCA and will not require distributors to file lead/lag studies for 2013 rates, unless they are required to do so as a result of a previous Board decision. However, the Board has reviewed the results of lead/lag studies filed by distributors in cost of service applications and in each of those cases both the applied-for WCA and the final Board-approved WCA have been lower

than 15%. The Board has determined that it is not appropriate for a default value for WCA to be set at a higher level than those resulting from lead/lag studies.
Based on the results of WCA studies filed with the Board in the past few years, the Board has determined that the default value going forward will be 13% of the sum of cost of power and controllable expenses. This default value will be applicable to 2013 rate applications and beyond. Distributors still have the option of completing and filing a lead/lag study as part of a cost of service rate application for determination by the Board.

The Board therefore revises section 2.5.1.4 of the Filing Requirements, specifically the 15% Allowance Approach to establish a 13% Allowance Approach as the new default value. The following revised excerpt of section 2.5.1.4 is effective immediately for 2013 cost of service applications:

> The Applicant may take one of two approaches for the calculation of its allowance for working capital: (1) the 13% allowance approach; or (2) the filing of a lead/lag study.
>
> The only exception to the above requirement is if the applicant has been previously directed by the Board to undertake a lead/lag study on which its current working capital allowance is based. Under such circumstances, the applicant must either continue to use the results of that study, or in the event it wishes to propose a revision to its allowance, the applicant must file an updated study in support of its proposal. In the absence of such circumstances the two approaches are:
>
> *13% Allowance Approach*
>
> The 13% Allowance Approach is calculated to be 13% of the sum of Cost of Power and controllable expenses (i.e., Operations, Maintenance, Billing and Collecting, Community Relations, Administration and General).
>
> The commodity price estimate used to calculate the Cost of Power should be determined in a way that bases the split between RPP and non-RPP customers on actual data. The calculation should also reflect the most recent Uniform Transmission Rates approved by the Board (EB-2011-0268), issued on December 20, 2011 and effective January 1, 2012. In the event that new Uniform Transmission Rates are approved during the course of a proceeding, the Cost of Power should be updated to reflect the new rates. The RPP Price that should be used should be the most current RPP Price issued by the Board and should apply to the entire test period forecast.

Lead/Lag Study

A lead/lag study analysis for two time periods; namely:

- The time between the date customers receive service and the date that the customers' payments are available to the distributor (the lag); and
- The time between the date when the distributor receives goods and services from its suppliers and vendors and the date that it pays for them (the lead).

Leads and lags are measured in days and are generally dollar-weighted. The dollar-weighted net lag (i.e. lag minus lead) days is then divided by 365 (366 in a leap year) and then multiplied by the annual test year cash expenses to determine the amount of working capital required for operations. This amount is included in the distributor's rate base determination.

For questions related to this amendment please contact the Board's market operations hotline at 416-440-7604, or by e-mail at Market.Operations@ontarioenergyboard.ca The Board's toll-free number is 1-888-632-6273.

Sincerely,

Original Signed By

Kirsten Walli
Board Secretary