

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



July 17, 2013

VIA E-MAIL AND WEB POSTING

To: Licensed Electricity Distributors
Licensed Electricity Transmitters

Re: Update to Chapters 1, 2 and 3 of the Filing Requirements for Electricity Distribution Rate Applications

Attached is an update of Chapter 1, Chapter 2 and Chapter 3 of the Board's *Filing Requirements for Electricity Distribution Rate Applications* (the "Filing Requirements"). The Filing Requirements have been amended to reflect changes resulting from two important initiatives undertaken by the Board: The Renewed Regulatory Framework for Electricity ("RRFE") and the review of the Board's applications and hearing process.

With the release of the RRFE Report, the Board is adopting an outcomes-based approach to regulation. On this basis, a number of changes have been made to the Filing Requirements to focus on results rather than activities, to incorporate the planning activities previously issued in Chapter 5 of the Filing Requirements and to reflect customer engagement activities.

Achievement of the desired outcomes is facilitated in large part by robust and effective corporate governance. The Board sees effective corporate governance as an important indicator of the likely success of a distributor's plans. The Board will shortly be initiating a policy consultation related to corporate governance. The purpose of the consultation will be to facilitate a broad discussion about corporate governance in the Ontario electricity distribution sector, to define standards of good governance, and to identify how best to achieve those standards. To support this initiative the Board has amended the Filing Requirements to require the production of evidence describing the corporate governance practices of distributors. This will provide information as to the governance practices which currently exist.

Last year, the Board also initiated a review of its applications and hearing process with a goal of continuously improving the effectiveness and efficiency of the Board's process.

This review informed a number of changes to the Filing Requirements related to making the Board's expectations clear, incorporating an executive summary, and reinforcing the need to focus on material issues by eliminating a number of previous requirements and providing guidance on the use of materiality thresholds.

On November 14, 2006, the Board issued the first version of the filing requirements for electricity transmission and distribution applications. This document was a compendium of several application types including transmission and distribution rates (both cost of service and incentive regulation), leave to construct, conservation and eventually, service area amendments. The Board has decided to change its approach by creating separate compendia for each application type. Today's update is in regard to electricity distribution rates, which contain an overview (Chapter 1) that is applicable only to Chapter 2 (Cost of Service), Chapter 3 (4th Generation Incentive Rate-setting and Annual Incentive Rate-setting Index) and Chapter 5 (Consolidated Distribution System Plan).

Transmitters should note that this updated edition of the Filing Requirements is only applicable to distributors. Transmitters contemplating filing a 2014 cost of service rate application should use the June 28, 2012 edition of the Filing Requirements. The Board will provide separate transmission filing requirements for 2015 and beyond in due course as part of the development of a new compendium for transmission related applications. It is expected that a number of the chapters will be renumbered at that time.

The IRM Rate Generator and associated modules, and the cost of service appendices incorporated in the Filing Requirements will be available in Excel versions on the Board's website, as are the Revenue Requirement Work Form, the tax model based on the Board's methodology, the Retail Transmission Service Rate model, the Smart Meter model, the Cost Allocation model, the Deferral and Variance Account Continuity Schedule and others.

While the Board may issue electronic filing models or spreadsheets for use in rate applications, the applicant bears the responsibility to ensure the accuracy and appropriateness of any models and spreadsheets that it uses in supporting its application. The applicant is responsible for advising the Board of any concerns it may have regarding calculations flowing from the models as well as any changes that the applicant may have made to the models to address its own circumstances. All models and spreadsheets can be found on the Board's [2014 EDR webpage](#).

Chapter 1

Chapter 1 of the Filing Requirements contains a brief overview of the contents of each subsequent chapter and provides information on generic application matters that are relevant to all of the chapters of the Filing Requirements, such as the Board's expectations for the completeness and accuracy of applications and the relevance of interrogatories. The Board has also revised the discussion of confidentiality requirements and reminds applicants considering the need for confidential filing of material that they are expected to review and follow the Board's *Practice Direction on Confidential Filings*.

Chapter 2

Chapter 2 contains new requirements related to an executive summary, customer engagement, planning, a revised approach to operating costs and, as discussed previously, the requirement to file details on corporate governance.

The Filing Requirements provide information on the interrelationship between the requirements outlined in Chapter 2 and those contained in the new Chapter 5 *Consolidated Distribution System Plan Filing Requirements* which was issued by the Board on March 28, 2013. While the distribution system plan required to be filed in Chapter 5 is to be included as part of the rate base exhibit of a distributor's cost of service filing, the Chapter 2 requirements in this area still also apply.

The review of OM&A costs will be moving towards an output / program-focused review in place of the previous approach which focused significant attention on discrete elements of the inputs to the OM&A costs. The Board is replacing the account by account review of OM&A costs with a review on an OM&A program basis, and has streamlined the informational requirements in the area of employee compensation. However, the Filing Requirements reflect the Board's recognition that a transition period to achieve the full adoption of such an approach is necessary.

Both Chapters 2 and 3 provide updates and guidance as to the treatment of costs for 'eligible investments' needed to accommodate the connection of renewable energy generation.

The Board reminds distributors that cost of service applications for 2014 rates to be effective May 1, 2014 are expected to be received no later than October 1, 2013. In the event that a distributor intends on seeking an effective date after May 1, the Board

expects that distributors will submit their applications in a timely manner giving due consideration to the Board's standard timelines for reviewing applications.

Chapter 3

Chapter 3 outlines the filing requirements for distributors filing under the 4th Generation Incentive Rate-setting plan ("4th Generation") as well as distributors selecting the Annual Incentive Rate-setting Index plan ("Annual IR Index"). As part of the supplemental report on the RRFE the Board will establish the final inflation factor, productivity factor and stretch factor to apply to distributors for the 2014 rate year. The Rate Generator will initially include rate-setting parameters from the 2013 rate year as a placeholder. Board staff will update the Rate Generator once the supplemental report on the RRFE is issued.

To preserve the integrity of the 4th Generation process or Annual IR Index, distributors should note that custom approaches to rate-setting should be addressed through selecting the Custom IR option rather than customizing a 4th Generation or Annual IR Index application.

RTSR Guideline

The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their retail transmission service rates ("RTSRs"). Beginning with 2014 rates, the Board will no longer update the Guideline unless significant changes are made to the methodology in calculating the RTSRs. Accordingly, no updates are required for 2014. As in previous years, in order to assist electricity distributors in the calculation of the distributor's specific RTSRs, the Board has posted an updated RTSR filing module on the Board's website. The methodology to calculate the new RTSRs will apply to both IR and cost of service rate applications.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Encl.