February 9, 2016

To: Regulated Entities subject to the OEB’s Cost Assessment

Re: Revisions to the Ontario Energy Board Cost Assessment Model

Please be advised that the Ontario Energy Board (OEB) has revised its Cost Assessment Model (CAM), the methodology used to apportion its costs under section 26 of the Ontario Energy Board Act, 1998 (Act). The persons or classes of persons that are liable to pay the OEB’s costs under section 26(1) of the Act are set out in Ontario Regulation 16/08.

The consulting firm MNP LLP was engaged to undertake a review of the CAM, to ensure alignment with the OEB’s current mandate and best practices. The model was last reviewed in its entirety in 2006.

Material changes include:

1. Updating the OEB’s direct cost allocations (staff time and Market Surveillance Panel cost) to align with the OEB’s mandate.

2. Updating of electricity distribution and gas distribution intra-class allocations from a revenue based allocation to a customer number based allocation, resulting in increased stability and predictability.

The OEB has adopted all of MNP’s recommendations effective April 1, 2016. A summary report of MNP’s recommendations is posted on the OEB’s website.

These changes to the CAM may result in material shifts in the allocation of costs.

It is worth noting that as outlined in the OEB’s letter dated January 4, 2016, the OEB’s budget has increased for the first time since 2011, to accommodate an expanded mandate and priorities. The budget increase was not a consideration during MNP’s analysis of the CAM. The 2015-18 Business Plan and budget is also located on the OEB website.
New Variance Account

The OEB has established the following variance account for electricity distributors and transmitters to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model effective April 1, 2016:

- Account 1508 Other Regulatory Assets, Sub-account OEB Cost Assessment Variance
- Note: the offsetting entry to this account shall be to Account 5655, Regulatory Expenses.

The OEB has also authorized the establishment of a similar variance account by natural gas distributors, OPG and the IESO.

Entries into the variance accounts are to be made on a quarterly basis when the OEB’s cost assessment invoice is received. Amounts should be prorated to take into account the effective date of rebased/reset rates, payment amounts or fees (as applicable). Regulated entities are to cease recording amounts in these accounts when their rates, payment amounts or fees (as applicable) are rebased/reset (cost of service or custom IR) incorporating an updated forecast of cost assessments.

Carrying charges at the OEB-prescribed rate are to be calculated using simple interest applied to the monthly opening balances in the accounts (exclusive of accumulated interest) and recorded in a separate sub-account.

Regulated entities are expected to seek disposition of the variance account balances when their rates, payment amounts or fees, as applicable, are next rebased/reset, and the accounts will be closed to any further entries at that time.

Regulated entities are reminded that, in the normal course, any disposition of deferral and variance account balances must meet any OEB default or company-specific materiality thresholds.

Any questions can be directed to John Moon at john.moon@ontarioenergyboard.ca or 416-440-7748.

Yours truly,

Original signed by

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People, Culture & Business Solutions| Ontario Energy Board