Ontario Energy Board
EB-2008-0046

Report of the Board

on Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR)

July 31, 2009

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Executive Summary

The Ontario Energy Board (the "Board") is required under section 78 of the *Ontario Energy Board Act, 1998* to periodically review the electricity distributor's variance and deferral accounts (the "Accounts"). Specifically, the Act requires that the Board makes an order determining whether and how amounts recorded in the Accounts should be reflected in rates. The Account associated with the commodity of electricity is to be reviewed quarterly and the remaining Accounts are to be reviewed annually.

In a letter dated February 19, 2008, the Board initiated a process to review the electricity distributor's Accounts.

On April 1, 2009 Board staff issued a discussion paper entitled Board staff Discussion Paper on Electricity Distributors' Deferral and Variance Account Review ("Discussion Paper") for stakeholder comment. The purpose of the Discussion Paper was to invite comments from stakeholders on options that the Board may wish to consider for determining if, when, and how account balances should be reviewed and disposed. Also, stakeholders were asked to comment on whether this initiative should be expanded to include all the Accounts. Eight stakeholders submitted comments.

Given the legislative requirements to review the Accounts annually and one at least quarterly, the Board is of the view that this initiative should include all the Accounts.

In the Discussion Paper Board staff had classified the various Accounts into three groups. Over the course of its consideration of the issue, the Board has determined that the Accounts can be divided into two groups. Throughout this Report references to Groups 1, 2, and 3 relate to Board staff's initial Account classification. References to the revised Group 1 and 2 reflect the Board's current approach.

The two groupings (i.e. revised Group 1 and Group 2) are based on the required depth of the Board's review and the process in which the Account balances would be reviewed.

During the Incentive Regulation Mechanism ("IRM") plan term, the Board has decided that the revised Group 1 Account balances would be reviewed and that a preset disposition threshold of $0.001/kWh (debit or credit) would trigger their disposition. The current process as outlined in the Board's *Guidelines for Review of Electricity Deferral and Variance Accounts, September 28, 2005* will continue for the revised Group 2 Accounts.

The Board has decided that at the time of rebasing all Account balances should be reviewed and disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline.

With respect to the quarterly review of Account 1588, the Board believes that a 30-day streamlined written hearing process is appropriate when a distributor has exceeded the disposition threshold of $0.01/kWh (debit or credit) for two consecutive quarters. The distributor will be required to self-identify when the disposition of Account 1588 is triggered and file a separate application for the disposition of Account 1588 balance.

The Board believes that a default cost allocation methodology should apply to all electricity distributors. The default cost allocation methodology will be based on the allocation factors determined in the Board's combined Decision for the Recovery of Regulatory Assets - Phase 2 Decision dated December 9, 2004 ("Phase 2 Decision").

The Board is of the view that volumetric rate riders should be used to dispose of the Account balances, consistent with its findings in the Phase 2 Decision. The Board is also of the view that the default disposition period used to clear the Account balances through a rate rider should be one year. However, a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

Finally, the Board has established filing guidelines to facilitate the filing and review process.

1. INTRODUCTION

The Ontario Energy Board (the "Board") is required under section 78 of the *Ontario Energy Board Act, 1998* (the "Act") to periodically review the electricity distributor's variance and deferral accounts (the "Accounts"). Specifically, the Act requires that the Board makes an order determining whether and how amounts recorded in the Accounts should be reflected in rates. The Account associated with the commodity of electricity (the "Commodity Account") is to be reviewed quarterly and the remaining Accounts (the "Non-Commodity Accounts") are to be reviewed annually. The applicable legislation under the Act is shown in Appendix A.

The purpose of this Report is to establish a framework for the review and disposition of deferral and variance accounts for electricity distributors.

Process

In a letter dated February 19, 2008, the Board initiated a process to review the electricity distributor's deferral and variance accounts ("EDDVAR").

On April 1, 2009 Board staff issued a discussion paper entitled Board staff Discussion Paper on Electricity Distributors' Deferral and Variance Account Review ("Discussion Paper") for stakeholder comment. The purpose of the Discussion Paper was to solicit comments from stakeholders on options that the Board may wish to consider for determining if, when, and how account balances should be reviewed and disposed. Eight stakeholders submitted comments.

All materials related to EDDVAR are available on the Board's website.

Background

The Board's current review process of the Accounts is based on the information reported by the distributors under the Reporting and Record-keeping Requirements ("RRR"). Under the RRR, information on all of the Accounts is reported quarterly.

The Commodity Account balances are reviewed by the Board on a quarterly basis (based on balances as of March 31, June 30, September 30 and December 31) in accordance with section 78 of the Act. Non-Commodity Account balances are reviewed annually and are based on balances as of December 31. These Accounts are reviewed in conjunction with the Commodity Account's fourth quarter review.

When the Board requires a more detailed review of a distributor's Account balances, distributors must file additional information to assist the Board with its review. Following this review, the Board may initiate a notice of a written hearing on its own motion.

The Board issues orders for all distributors on completion of its quarterly and annual review of the Accounts. The orders reflect the Board's determination as to whether the Account balances reviewed ought to be disposed of, and if so, the balance(s) that will be disposed of and how they will be reflected in rates.

Organization of the Report

This report is organized as follows. Section 2 addresses the scope, section 3 addresses the classification criteria and classification of accounts; section 4 addresses the annual disposition and review process during the IRM plan term; section 5 outlines the annual disposition and review process in a rebasing year; section 6 describes the quarterly disposition and review of commodity account 1588; section 7 describes the cost allocation methodology; section 8 describes the derivation of the rate rider; section 9 provides the timelines for the various review processes; and section 10 provides the filing guidelines.

Appendix A provides the Filing Guidelines; Appendix B contains excerpts of the Board's legislative requirements under Section 78 of the Act; Appendix C lists the Accounts; Appendix D provides a description of the Accounts based on the Accounting Procedures Handbook.

2. SCOPE

In a letter dated February 19, 2008, the Board announced that it would launch an initiative to consider options for the review and disposition of Account 1588 of the Uniform System of Accounts ("USoA"), the only Commodity Account currently in place. Further, the Board would consider using Account disposition thresholds or "disposition triggers" for disposing the balances in the Commodity Account. The Board also noted that it would contemplate extending this initiative to Non-Commodity Accounts that are similar in nature to Account 1588, such as the Retail Settlement Variance Account ("RSVA") and the Retail Commodity Variance Account ("RCVA").

Staff Discussion Paper

Given the legislative requirements to review all the Accounts at least annually, and Account 1588 at least quarterly, Board staff suggested that there would be benefits to extending this initiative to all the Accounts.

Stakeholder Comments

Most stakeholders agreed that the scope of this initiative should include all Accounts.

One stakeholder however expressed the view that the current approach to clearing the Accounts is working well and therefore there is no need for additional mechanisms. This stakeholder was of the view that if an automatic adjustment mechanism is implemented, a distributor should have the ability to opt out when for example, the balance is below a minimum threshold or the Account balance can self-correct.

Another stakeholder, representing a group of distributors, commented that the balances in these Accounts form the regulatory assets or liabilities recorded on a distributor's balance sheet. Clarity on the approach that the Board will take to dispose of all such regulatory assets/liabilities is of significant importance to distributors, and may be even more critical with the advent of the International Financial Reporting Standards.

Board's Policy and Rationale

The Board is of the view that a systematic approach to the review and disposition the Accounts is a desirable outcome from the perspective of regulatory efficiency, predictability and transparency. Further, a systematic approach may also act to mitigate inter-generational inequities and enhance the distributor's ability to manage its cash flow. Therefore, the Board agrees that the scope of this initiative should include all Accounts.

The Board expects that the electricity distributors will use the framework outlined in this Report. The Board however recognizes that there might be specific circumstances where a disposition of the Accounts may not be warranted. The onus will be on the distributor to justify any departure from the guidelines outlined in this Report.

3. CLASSIFICATION CRITERIA AND CLASSIFICATION OF ACCOUNTS

Staff Discussion Paper

To facilitate the Board's annual review of the Accounts during the Incentive Regulation Mechanism ("IRM") plan term, Board staff proposed the use of classification criteria in order to ensure that Accounts that have similar characteristics are treated the same way. The criteria Board staff suggested were: (i) whether a prudence review is required; and (ii) whether a threshold mechanism can be used to trigger a disposition. Based on these criteria, Board staff developed three Groups:

- **Group 1**: Includes Accounts that do not require a prudence review;

- **Group 2**: Includes Accounts that require a prudence review and lend themselves to a disposition threshold;

- **Group 3**: Includes Accounts that require a prudence review (i.e., a case-by-case review) and do not lend themselves to a disposition threshold.

Stakeholder Comments

Stakeholders generally supported the classification criteria suggested by Board staff.

One stakeholder however commented that the classification criteria should also take into consideration the extent of the Board's review. In particular, the classification criteria for Group 1 Accounts should be expanded to include those Accounts whose balances have been approved by the Board in a previous proceeding (i.e. 1590 and 1595).

Two stakeholders suggested that Account 1582 be classified in Group 1 instead of Group 2. These stakeholders commented that the description of this Account in the Accounting Procedure Handbook ("APH") states that it only relates to costs from the Independent Electricity System Operator ("IESO") settlement invoices. On that basis, this Account should be included in the same category as all the other RSVAs.

Board's Policy and Rationale

The Board sees merit in establishing the Groupings based on the required depth of the Board's review and the process in which the Account balances would be reviewed. The Board is particularly concerned that the Account review process may delay the IRM rate setting process. Therefore, the Board has decided that the Accounts that will be reviewed in an IRM application should be limited to Accounts that do not require a prudence review. The classification criteria should also facilitate the classification of Accounts that the Board may establish from time to time.

In conclusion, the Board has established the following revised Groupings:

- **Revised Group 1** will include Accounts that do not require a prudence review. This group will include Account balances that are cost pass-through and Accounts whose original balances were approved by the Board in a previous proceeding; and

- **Revised Group 2** will include Accounts that require a prudence review.

The Board disagrees that Account 1582 should be included in the revised Group 1 as suggested by some stakeholders. This Account may include penalties levied by the IESO and as such may require the Board to conduct a prudence review.

The Board agrees that Accounts 1590 and 1595 should be classified in the revised Group 1. Accounts 1590 and 1595 are used to record the difference between amounts previously approved by the Board for disposition and amounts actually collected or refunded from/to customers by means of a rate rider. The Board finds this reclassification is consistent with the definition of the revised Group 1 Accounts. The Board however notes that the balances in these Accounts should not be cleared until the associated rate rider has ended.

Accordingly, the Board has established that the two Groupings will include the following Accounts:

Revised Group 1:

- 1550 Low Voltage Account;
- 1580 RSVA Wholesale Market Service Charge Account;
- 1584 RSVA Retail Transmission Network Charges Account;
- 1586 RSVA Retail Transmission Connection Charge Account;
- 1588 RSVA Power (Including Global Adj. Sub a/c) Account;
- 1590 Recovery of Regulatory Asset Balances Account; and
- 1595 Disposition and Recovery of Regulatory Balances Account.

Revised Group 2:

- 1508 Other Regulatory Assets Account;
- 1518 RCVA Retail Account;
- 1525 Miscellaneous Deferred Debits Account;
- 1531 Renewable Connection Capital Deferral Account;
- 1532 Renewable Connection OM&A Deferral Account;
- 1534 Smart Grid Capital Deferral Account;
- 1535 Smart Grid OM&A Deferral Account;
- 1548 RCVA Service Transaction Account;
- 1555 Smart Meter Capital Account;
- 1556 Smart Meter OMA Account;
- 1562 Deferred PILs Account;
- 1563 Contra Account-PILs Account;
- 1565 CDM Expenditures & Recovery Account;
- 1566 CDM Contra Account;
- 1570 Qualifying transition costs Account;
- 1571 Market Opening Variance Account;
- 1572 Extra-Ordinary Event Costs Account;
- 1574 Deferred Rate Impact Amounts;
- 1582 Onetime Wholesale Market Service Account;
- 1592 PILS & Tax Variance for 2006 and Subsequent years Account; and
- 2425 Other Deferred Credits Account.

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4. ANNUAL DISPOSITION AND REVIEW PROCESS DURING THE IRM PLAN TERM

4.1 Disposition Threshold

Staff Discussion Paper

Board staff proposed to use preset disposition thresholds for the disposition of certain Accounts during the IRM plan term.

Board staff suggested that disposition thresholds be established based on a $/kWh as opposed to a fixed dollar amount since this would take into account the size of the utility. Board staff suggested that if the sum of the Account balances within a Group divided by the total billed kWh for the corresponding calendar year exceeded the preset disposition threshold, then the disposition process would be initiated.

Board staff proposed the following disposition thresholds during the IRM plan term:

- Group 1 - $0.002/kWh (credit or debit)
- Group 2 - $0.01/kWh (credit or debit)

Board staff also suggested that when the clearance of the Account balances results in a bill impact greater than 10% on any class of customers, a distributor should also be required to file a rate mitigation plan. Based on data for a typical residential customer, Board staff translated the 10% total bill impact into a unit rate of $0.01/kW.

Stakeholder Comments

The majority of the stakeholders supported the use of a preset disposition threshold mechanism based on a $/kWh. These stakeholders however were of the view that the proposed preset disposition threshold of $0.01/kWh for Group 2 is too high and should be lowered.

Some stakeholder supported Board staff proposed disposition threshold of $0.002/kWh for Group 1 Accounts, but submitted that the Board should consider reducing the threshold for Group 2 Accounts to $0.005/kWh in order to minimize the accumulation of large Account balances.

In addition, some stakeholders recommended that the Board combine the balances of both Group 1 and Group 2 Accounts, and have a single preset disposition threshold. This approach could mitigate offsetting balances in each group thereby providing a smoothing effect to the rate adjustments. It was also suggested that this may be less confusing for ratepayers.

Based on an analysis of the impact of different thresholds in relation to a distributor's net income, a stakeholder proposed a threshold of $0.001/kWh during the IRM plan term that could apply to all Accounts.

Some stakeholders clarified that the 10% bill impact should include the combined effect of any rate changes and the disposition of the Accounts and should be applicable to all customer rate classes.

Board's Policy and Rationale

Since the Board has decided that the Accounts that would be reviewed in an IRM application will be limited to Accounts that do not require a prudence review (i.e. the revised Group 1 Accounts), the notion of combining Board staff's original Group1 and Group 2 Account balances and having a single disposition threshold is no longer applicable.

During the IRM plan term, the Board has decided that a preset disposition threshold of $0.001/ KWh is appropriate. In the Board's view, this level would lead to a more systematic approach to the disposition of the revised Group 1 Account balances. This systematic approach should mitigate inter-generational inequities and the accumulation of large Account balances. Further, this disposition threshold level should enhance the distributor's ability to manage its cash flow. When this threshold is exceeded, a distributor will file a proposal for the disposition of all revised Group 1 Account balances (including carrying charges). The onus will be on the distributor to justify why any Account balance should not be cleared.

The Board also agrees that when the impact on the total bill exceeds 10% for any given rate class, including the impact of both the disposition of Account balances and any other rate change, a distributor must also file a rate mitigation plan.

4.2 Annual Review Process

Staff Discussion Paper

With respect to the annual review process during the IRM plan term, Board staff proposed separate processes for Group 1 and Group 2 Accounts. For Group 1 Accounts, Board staff proposed a streamlined 30-day approval process, similar to the process used for the natural gas quarterly rate adjustment mechanism applications. Applications for disposition of Group 1 Account balances would be filed by September 1, for a November 1 implementation date.

For Group 2, Board staff suggested that the Account balances be reviewed as part the distributor's IRM application.

The review of Group 3 Accounts would be done on a case-by-case basis and would follow the process outlined in *Guidelines for Review of Electricity LDC Deferral and Variance Accounts, dated September 28, 2005*.

Stakeholder Comments

Most stakeholders supported a case-by-case review of Group 3 Accounts but some of these stakeholders had different views on the appropriate annual review process for Group 1 and Group 2 Accounts during the IRM plan term. Specifically,

- One consumer group expressed concern that the proposed 30-day streamlined review process for Group 1 Accounts did not allow for a sufficient discovery process, which they felt was essential.

- The distributor group recommended all Accounts reviewed during the IRM plan term should be included in the distributor's IRM application and that the balances be the most recent trial balances reported to the Board by April 30. Also, an IRM application that includes the disposition of Group 2 and/or Group 3 could be filed in advance (i.e., September 1) of the remaining elements of the application.

Board's Policy and Rationale

The Board believes that the revised Group 1 Account balances should be reviewed in the distributor's IRM application. The Account balances to be reviewed in the distributor's IRM application (including carrying charges) will be for the most recent period ending December 31 as reported to the Board as of April 30 through the RRR.

Given the Board's legislative requirement to make an order every twelve months on how non-commodity Account balances will be reflected in rates, the revised Group 1 Account balances will be reviewed as part of the distributor's IRM application regardless of whether the disposition threshold have been met. If the disposition threshold was not exceeded, the balances will not be cleared.

As noted in a Board letter dated July 3, 2009, a distributor whose revised Group 1 Account balance exceeds the disposition threshold will be required to file its IRM application by October 21, 2009. A distributor whose revised Group 1 Account balance is below the disposition threshold should file its IRM application according to the schedule included in the above referenced letter.

During the IRM plan term, the revised Group 2 Accounts will be reviewed using the Board's current process as outlined in *Guidelines for Review of Electricity Deferral and Variance Accounts, September 28, 2005* will be used. Under this process, the Board will issue an order for all distributors on completion of its annual review of the Accounts. The order will reflect the Board's determination as to whether the Account balances reviewed ought to be disposed of, and if so, the balance(s) that will be disposed of and how they will be reflected in rates.

5. ANNUAL DISPOSITION AND REVIEW PROCESS IN A REBASING YEAR

5.1. Disposition Threshold

Staff Discussion Paper

In a rebasing year, Board staff suggested that a distributor should be required to dispose of all Account balances with the exception of Group 3 Accounts. As a result, no preset disposition threshold was proposed by Board Staff in a rebasing year. The onus would be on the distributor to justify why any Account balance should not be considered for disposition.

Stakeholder Comments

Most stakeholders supported Board staff's suggestion that all Account balances be disposed of in a rebasing year unless otherwise justified by the distributor.

One stakeholder suggested that disposition should only occur when the net balances are material enough to result in a rate rider greater than $0.0001/kWh or $0.0001/kW (debit or credit).

Board's Policy and Rationale

The Board agrees that at the time of rebasing, all Account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline.

From a practical standpoint, the Board also agrees that if the net balances of all Account balances when unitized are lower than $0.0001/kWh or $0.0001/kW, then the disposition should not occur.

A distributor will also have to file a rate mitigation plan when the impact on the total bill exceeds 10% for any given rate class, including the impact of both the disposition of Account balances and any other rate change.

5.2. Annual Review Process

Staff Discussion Paper

Board staff suggested that a distributor should be required to file all Account balances in its cost-of-service application regardless of whether it wishes to dispose of an Account balance or not.

Stakeholder Comments

All stakeholders supported Board staff's suggestion.

Board's Policy and Rationale

Given the Board's legislative requirement, the Board agrees with stakeholders that all Account balances will be reviewed at the time of rebasing.

6. QUARTERLY DISPOSITION AND REVIEW OF COMMODITY ACCOUNT 1588

6.1 Disposition Threshold

Staff Discussion Paper

Due to data considerations and differences in accounting methods across distributors, Board staff proposed that the disposition threshold for Account 1588 balances be set at a level that would limit the quarterly disposition to exceptional cases only.

Board staff proposed that when the balance exceeds a preset disposition threshold of $0.01/kWh for two consecutive quarters (credit or debit), the disposition process would be initiated. This level would limit the quarterly disposition process to exceptional cases only.

Board staff also suggested that distributors be required to file a rate mitigation plan when the net debit balance exceeds $0.01/kWh when unitized.

Stakeholder Comments

Many stakeholders commented that the proposed disposition threshold of $0.01/kWh for two consecutive quarters is too high. Some of these stakeholders proposed a threshold of $0.005/kWh (debit or credit).

Board's Policy and Rationale

The Board agrees with Board staff that the preset disposition threshold for the quarterly review of Account 1588 should be set at a level that would limit the disposition to exceptional cases only. The Board is of the view that the annual review and automatic disposition of Account 1588 at the time of rebasing and the annual review during the IRM plan term subject to a lower disposition threshold should mitigate the need to dispose of this Account on a quarterly basis. The Board therefore, believes that the preset disposition threshold for Account 1588 should be set at $0.01/kWh (debit or credit) for two consecutive quarters.

When the impact on the total bill exceeds 10% for any given rate class, which includes the impact of the disposition of Account balances and any other rate change, a distributor must also file a rate mitigation plan.

6.2 Quarterly Review Process

Staff Discussion Paper

Board staff suggested that distributors self-identify when the disposition of Account 1588 is triggered. After self-identifying, Board staff proposed that distributors be required to file a separate application for the disposition of Account 1588 balance. Board staff suggested that this application be reviewed in a streamlined written hearing that could be completed within 30 calendar days, similar to the Quarterly Rate Adjustment Mechanism ("QRAM") process for natural gas utilities. As part of this process, a distributor would be required to give notice to all participants in its most recent cost-of-service application. Stakeholders could make submissions and distributors would have an opportunity to reply. The proceeding would culminate with the Board issuing an Order for the disposition of Account 1588 balance.

Stakeholder Comments

Stakeholders generally supported the process outlined by Board staff.

One stakeholder suggested that the Board should investigate a quarterly or semi-annual rate adjustment mechanism process similar to the one currently used by natural gas distributors. This quarterly (or semi-annual) review would ensure that the balances in account 1588 remain low and that inter-generational issues would be minimized.

One stakeholder commented that the quarterly review should be expanded to include all Group 1 Accounts since experience has shown that some Group 1 Accounts can accumulate significant balances.

One consumer group recommended that the proposed 30-day streamlined process be extended to a 45-day process and noted that any review process must allow stakeholders an opportunity to ask interrogatories and make submissions.

Board's Policy and Rationale

By statute, the Board is required to review Account 1588 every quarter. The Board agrees that a distributor should self-identify when the disposition of Account 1588 is triggered. Following the self-identification process, the distributor will be required to file a separate application for the disposition of Account 1588 balance. The Board believes that a streamlined written hearing process is appropriate when the distributor has exceeded the disposition threshold of $0.01/kWh (debit or credit) for two consecutive quarters.

Most stakeholders agreed that a streamlined written hearing process is adequate for the review of Account 1588 when a disposition has been triggered. The issue is whether the proposed 30-day period should be extended to a 45-day period. The Board is not convinced that the review of Account 1588 should be longer than the existing QRAM for natural gas distributors. The Board therefore concludes that a 30-day period is sufficient to provide stakeholders with the opportunity to make submissions.

If the disposition is not triggered, the Board will continue to conduct a quarterly review and this process will follow the *Guidelines for Review of Electricity Deferral and Variance Accounts, September 28, 2005.*

The Board will not extend the quarterly review to include all Group 1 Accounts. The Board is of the view that the disposition of all Accounts at the time of rebasing and at the annual review process during the IRM plan term should mitigate the accumulation of large Account balances.

The Board notes the comment made by a stakeholder on investigating a quarterly or semi-annual rate adjustment mechanism. The Board believes that this is outside the scope of this initiative.

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7. COST ALLOCATION METHODOLOGY

Staff Discussion Paper

Board staff suggested that the Board use a default cost allocation methodology, where applicable, to facilitate the disposition process. This would promote transparency and consistency across electricity distributors. A distributor could propose a different cost allocation methodology in a cost-of-service review, if appropriate. The onus would be on the distributor to justify why a departure from the default approach is warranted.

Board staff proposed that the allocation factors determined in the Board's combined Decision for the Recovery of Regulatory Assets - Phase 2 Decision dated December 9, 2004 ("the Phase 2 Decision") should be used. For Accounts that did not exist at the time of the Phase 2 Decision or where changes were made to existing Accounts, Board staff suggested specific allocation factors.

For Account 1588, Board staff proposed to use the allocation factors determined in the *Guidelines for Reviewing Electricity Variance and Deferral Accounts, September 28, 2005.*

With regard to Group 3 Accounts, Board staff recommended that the allocation factors be determined on a case-by-case basis.

Stakeholder Comments

Most stakeholders supported the use of a default cost allocation methodology to allocate the Accounts balances.

One stakeholder commented that the allocation factors to be used during an IRM plan term should be those approved by the Board in the distributor's latest cost-of-service filing.

With respect to the RSVA (1580, 1584, 1586, 1588 Power and 1588 sub-account Global Adjustment), stakeholders agreed that the balances in these Accounts should be allocated on the basis of kWh.

For Accounts 1590 and 1595, one consumer group disagreed with Board staff's suggestion that the approach outlined in the Phase 2 Decision be used. This stakeholder recommended that the allocators be determined on a case-by-case basis because the Board may be overlooking changes that occurred between the time period when the rate rider was implemented and present day. For example, this may include situations where customer rate classes were created or deleted after the implementation of the rate rider.

One stakeholder disagreed with Board staff's suggestion that Account 1518 and 1548 balances be allocated using the number of customers. In keeping with the principles of cost causality, this stakeholder recommended that the balances in these accounts be recovered from (or refunded to) retailers or customers of retailers. This stakeholder further noted that if the Board decides to recover/refund the balances from all customers, then the appropriate allocator should be kWh.

Board's Policy and Rationale

The Board agrees with the establishment of a default cost allocation methodology, where applicable, to facilitate the disposition process. The allocation factors determined in the Board's Phase 2 Decision will be used.

The Board does not believe that it is necessary to allocate the residual balances in Accounts 1590 and 1595 on a case-by-case basis. The Board expects that the residual balances in these Accounts would not be material. The Board is of the view that the approach set forth in the Phase 2 Decision should be maintained for the reasons outlined in that Decision. However, a distributor should identify in its application any circumstances that may warrant a different approach.

The Board finds that the balances in Accounts 1518 and 1548 should be allocated on the basis of customer count. This approach is consistent with the methodology adopted by the Board in the Phase 2 Decision.

Table 1 below summarizes the default allocation factors approved by the Board.

TABLE 1 – Summary of the Default Allocation Factors	
Revised Group 1	***Allocation Factor***
1550 Low Voltage	kWh
1580 RSVA – Wholesale Market Service Charges	kWh
1584 RSVA – Retail Transmission Network Charges	kWh
1586 RSVA – Retail Transmission Connection Charges	kWh
1588 RSVA – Power (excluding the Global Adjustment Sub-account)	kWh
1588 RSVA – Power – Global Adjustment Sub-account	kWh for non-RPP customers
1590 Recovery of Regulatory Asset Balances	Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.
1595 Disposition and Recovery of Regulatory Balances Control Account and Sub-accounts	Residual Account balance to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.
Revised Group 2	***Allocation Factor***
1508 Other Regulatory Assets	Dx Revenues for specific Hydro One Networks Inc. (“HONI”) accounts
1518 RCVA – Retail	Number of Customers
1525 Miscellaneous Deferred Debits – Rebate Cheques Sub-account	Number of Customers with rebate cheques
1531 Renewable Connection Capital Deferral Account	Case-by-case basis
1532 Renewable Connection OM&A Deferral Account	Case-by-case basis
1534 Smart Grid Capital Deferral Account	Case-by-case basis
1535 Smart Grid OM&A Deferral Account	Case-by-case basis
1548 RCVA – Service Transaction Request	Number of Customers
1555 Smart Meter Capital and Recovery Offset	Case-by-case basis
1556 Smart Meter Operation, Maintenance and Administration	Case-by-case basis
1562 Deferred PILS	Case-by-case basis
1563 Contra Account- PILS	Case-by-case basis
1565 CDM Expenditures & Recovery	Case-by-case basis
1566 CDM Contra	Case-by-case basis

1570 Qualifying Transition Costs	Number of Customers
1571 Pre-Market Opening Energy Variances	kWh for Non-Time-of-Use Customers
1572 Extraordinary Event Costs	Number of Customers (Enwin and CNPI), Dx Revenues (Essex), kW or KWh as billing determinants for all
1574 Deferred Rate Impact Amounts	Case-by-case basis
1582 RSVA – One-Time Wholesale Market Service	kWh
1592 PILS & Tax Variance for 2006 and Subsequent years Account	Case-by-case basis
2425 Other Deferred Credits	Case-by-case basis

8. RATE RIDER DERIVATION

Staff Discussion Paper

Consistent with the Board's findings in the Phase 2 Decision, Board staff proposed to use a volumetric rate rider to clear the Account balances.

Board staff also proposed that the default disposition period used to clear the Account balances through a rate rider should be one year. A distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate. The onus would be on the distributor to justify why a departure from the default approach would be warranted.

Stakeholder Comments

All stakeholders supported Board staff's suggestion that a one-year default disposition period be used to clear the Account balances through rate riders and that distributors could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate. Furthermore, most stakeholders agreed with Board staff's proposed use of a volumetric rate rider to dispose of the deferral and variance account balances.

One stakeholder commented that a volumetric approach puts the distributor at risk for load destruction and reduced energy use. Another stakeholder noted that the Discussion Paper did not specifically define which volumes should be used to calculate the rate riders. This stakeholder suggested that in a cost-of-service application (at rebasing), the volumetric forecast for the test year should be used since it represents the best forecast available over which to recover or refund account balances. During the IRM plan term, the Board could use: a) the most recent Board-approved volumetric forecast; b) the most recent 12 months of actual data available; or c) a new volumetric forecast. This stakeholder preferred that the Board use the first option but indicated that the second option would be appropriate when there is a significant volumetric change from the last Board-approved volumetric forecast.

Board's Policy and Rationale

The Board agrees that a volumetric rate rider to dispose of the deferral and variance account balances is appropriate.

With respect to the stakeholder comment that a volumetric approach may put the distributor at risk for load destruction and reduced energy use, the Board notes that the variance between the amount approved by the Board for disposition and the amount recovered or refunded to customers by means of a rate rider would be captured in Accounts 1590 or 1595. Consistent with the rationale for establishing deferral and variance accounts, the Board is of the view that these residual balances should be trued-up such that ratepayers and distributors are kept whole in the disposition process.

The Board also agrees the default disposition period used to clear the Account balances through a rate rider should be one year. However, a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

In cases where the impact on the total bill exceeds 10% for any given rate class, which includes the impact of the disposition of Account balances and any other rate change, a distributor will also be required to file a rate mitigation plan.

With respect to the volume that should be used to calculate the rate riders, the Board agrees that the most recent Board-approved volumetric forecast should be used. Where there are material differences between the latest Board-approved volumetric forecast and the more recent volumetric data, a distributor should use the most recent 12-month of actual data.

9. TIMELINES

Staff Discussion Paper

For the annual review of Accounts, Board staff proposed that the beginning and ending of the disposition period for all Groups coincide with other regular rate changes. Distribution rate adjustments usually occur on May 1 while the regulated price plan ("RPP") adjustments can occur on May 1 and November 1 of each year. Accordingly, Board staff suggested that any triggered disposition as part of the annual review process be implemented effective May 1 or November 1.

For the quarterly review of Account 1588, four different default start dates could be used, depending on the quarter being reviewed.

Stakeholder Comments

Most stakeholders agreed that the timing of the disposition of deferral and variance accounts should coincide with regular distribution rate changes or changes to the RPP.

One stakeholder noted that a distributor should have the option of proposing alternative timelines to the May 1 implementation date to suit its specific circumstances.

Board's Policy and Rationale

Based on the Board's findings in this Report, the Board approves the following timelines for the quarterly review of Account 1588 when a disposition has been triggered:

	Period	RRR Data Used for Review	RRR Filing Due Date	If Disposition Triggered, Application Due On	Effective Date
Account 1588	Q1	2.1.1 Data	Apr. 30	June 15	Aug. 1
	Q2	2.1.1 Data	Jul. 31	Sept. 15	Nov. 1
	Q3	2.1.1 Data	Oct. 31	Dec. 15	Feb. 1
	Q4	2.1.1 Data	Jan. 31	Mar. 15	May 1

For the annual review of Accounts during the IRM plan term or at the time of rebasing, the Board is mindful of minimizing the number of rate changes. Accordingly, the Board finds that the effective date of the disposition of Accounts, where applicable, should be concurrent with the implementation of the distribution rate changes approved by the Board. The expected effective date is May 1.

10. FILING GUIDELINES

Staff Discussion Paper

Board staff suggested that filing guidelines be established to facilitate the filing and review process.

Board staff recommended the inclusion of a statement by the distributor's external auditor certifying that the information filed is consistent with the Board's accounting requirements and procedures in the APH and any other accounting procedures the Board may approve from time to time. Board staff also recommended that distributors provide Account balances on the basis of trial balance data filed under section 2.1.7 of the RRR.

Stakeholder Comments

Stakeholders generally supported most of Board staff proposed filing guidelines.

Some distributors expressed concerns with Board staff's suggestion that an additional audit certification be required. Further, one stakeholder commented that this process would require an extensive audit and may be costly. In this stakeholder's view, the traditional financial statement audit and certification that is provided as part of the current annual RRR filing is sufficient. Another stakeholder mentioned that the regulatory trial balance that is reported to the Board as part of the RRR includes the balances in the Accounts and can be readily reconciled to the audited financial accounting trial balance.

One stakeholder suggested that the customer rate impact analysis requirement be provided on the same basis as it is currently filed in support of rate applications.

One stakeholder expressed concern that the data reported under section 2.1.7 of the RRR is currently classified as confidential and therefore not released publicly. This stakeholder recommended that the Board should consider removing the confidentiality status of the RRR data.

Board's Policy and Rationale

The Board agrees that filing guidelines should be established to facilitate the filing and review process.

Also, the Board believes that the additional audit certification is not necessary. The Board however will require a distributor to file a reconciliation of the regulatory trial balance that is reported to the Board as part of the RRR and the audited financial statements.

With respect to the confidentiality of the trial balance data, the Board is in the process of reviewing the requirement for confidentiality of the data filed under section 2.1.7 of the RRR as part of the RRR Review (EB-2009-0161).

The Board is of the view that it would be useful if the customer rate impact analysis requirement be provided on the same basis as it is currently filed in support of rate applications.

The Board's filing guidelines are included in Appendix A.

Appendix A: Filing Guidelines

General Filing Requirements

Each application should include:

a) A manager's summary which should summarize the application, note and explain any exceptions to the accounting procedures[1] and include a certification by the distributor's Chief Executive Officer.

b) A reconciliation of the regulatory trial balance that is reported to the Board as part of the reported RRR data and the audited financial statements.

c) For each Account balance submitted for disposition:

    i. A continuity schedule.

    ii. The last Board approved balance (carrying charges shown separately), the date of the last Board approved balance, and a reference to the proceeding in which the balance was approved by the Board.

    iii. A statement confirming whether the last Board approved balance provided in c) ii) has been transferred to Account 1590 or 1595, as appropriate. If not confirmed, a detailed explanation why the transfer has not occurred.

    iv. The balance submitted for disposition (carrying charges shown separately), the date upon which this balance is based.

    v. The projected carrying charges for each Account balance provided in c) iv) to the proposed rate rider implementation date.

[1] Information on the Accounting Procedures Handbook and other accounting procedures approved by the Board can be found at: http://www.oeb.gov.on.ca/OEB/Industry+Relations/Rules+Codes+Guidelines+and+Forms/Rules+Codes+Guidelines+and+Forms+-+Regulatory#accountingprocedures

d) A statement as to the interest rates used to record carrying charges and whether this interest rate is consistent with the Board's prescribed rates. If the interest rates used deviates from the Board's prescribed rates, an explanation for the deviation.

e) A statement confirming whether all balances claimed are allocated to the rate classes based on the default cost allocation methodology to be set out in the Board's Guidelines expected to result from this proceeding (EB-2008-0046), and an explanation of any deviation, as applicable.

f) A customer rate impact analysis showing total bill increases in each rate class and, if total bill increases for any rate class or group exceed 10%, a rate impact mitigation plan.

g) A detailed calculation of the proposed rate rider(s).

Account Specific Filing Requirements

Accounts 1508, 1525 and 2425 (Various Regulatory Assets, Debits, and Credits)

The application should include:

a) A detailed description of the assumptions and methodology used for the Account;

b) A breakdown by sub-account and major category of charge; and

c) A description of each type of expense recorded and an explanation as to why each category of charge is not funded by the distributor's rates.

Account 1555 and 1556 (Smart Meters)

Additional filing requirements set out in the *Smart Meter Funding and Cost Recovery Guideline* dated October 22, 2008 (G-2008-0002).

Account 1531, 1532, 1534 and 1535 (Renewable Connection and Smart Grid)

Additional filing requirements set out in the *Deemed Condition of Licence: Distribution System Planning Guideline* dated June 16, 2009 (G-2009-0087).

Accounts 1562, 1563 and 1592 (PILs)

Additional filing requirements that may result from the combined PILs proceeding (EB-2008-0381).

Account 1572 (Extraordinary Event Costs)

An application to dispose of this Account should include:

a) A detailed description of the assumptions and methodology used for the Account;

b) A breakdown by sub-account and major category of charge; and

c) A description of each type of expense recorded and an explanation as to how the eligibility criteria have been met for each type of expense.

In addition to the Accounting Procedure Handbook, distributors should refer to the appropriate document (depending on whether they are filing a rebasing application, or a 2nd or 3rd Generation IRM application) to determine what the additional filing requirements associated with this Account are:

- **Rebasing application**: *2000 Electricity Distribution Rate Handbook*, dated March 9, 2000, as revised on November 3, 2000, and October 1, 2001.
- **2nd Generation IRM application**: *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* dated December 20, 2006.
- **3rd Generation IRM application**: *Supplemental Report of the Board 3ndGeneration Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008.

Accounts 1580, 1582, 1584, 1586, and 1588 (the RSVA Accounts)

A statement as to which approach (billed or accrual) has been used for the RSVA Accounts and whether this approach has been used consistently over time and among RSVA Accounts for the applicable period. If the approach (billed or accrual) has not been used consistently among RSVA Accounts over the applicable period, an explanation why this is the case and the time period during which each approach was used.

Account 1588 (RSVA Power)

A statement confirming whether the variance between Board-approved and actual line losses is reflected in Account 1588 for the applicable period.

Where a distributor has a disposition request for Account 1588 before the Board, the quarterly threshold assessment of Account 1588 should be net of the balance already submitted for review.

Rebasing Year

The cost-of-service application should include the information specified in the General Filing Guidelines and the Accounts Specific Filing Requirements for all the Accounts in conjunction with other information the Board may require in accordance with the cost-of-service minimum filing requirements.

Appendix B: Legislative Requirements

The Board's legislative requirements to review the electricity distributors' Commodity and Non-Commodity Accounts are set out in Section 78 of the *Ontario Energy Board Act, 1998*:

S. 78…

(6.1) If a distributor has a deferral or variance account that relates to the commodity of electricity, the Board shall, at least once every three months, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates. 2003, c. 3, s. 52 (4).

(6.2) If a distributor has a deferral or variance account that does not relate to the commodity of electricity, the Board shall, at least once every 12 months, or such shorter period as is prescribed by the regulations, make an order under this section that determines whether and how amounts recorded in the account shall be reflected in rates. 2003, c. 3, s. 52 (4).

(6.3) An order that determines whether and how amounts recorded in a deferral or variance account shall be reflected in rates shall be made in accordance with the regulations. 2003, c. 3, s. 52 (4).

(6.4) If an order that determines whether and how amounts recorded in a deferral or variance account shall be reflected in rates is made after the time required by subsection (6.1) or (6.2) and the delay is due in whole or in part to the conduct of a distributor, the Board may reduce the amount that is reflected in rates. 2003, c. 3, s. 52 (4).

(6.5) If an amount recorded in a deferral or variance account of a distributor is reflected in rates, the Board shall consider the appropriate number of billing periods over which the amount shall be divided in order to mitigate the impact on consumers. 2003, c. 3, s. 52 (4).

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Appendix C: Uniform System of Account Deferral and Variance Accounts

The electricity distributor variance and deferral accounts are classified as either commodity or non-commodity according to the nature of their market operations, utility function, and the type of transactions recorded therein. Generally, a commodity account is directly related to the electricity amount (e.g., MWh) charged to a distributor by the IESO, host distributor, or embedded generator in accordance with the settlement invoice for the electricity cost. All other variance and deferral accounts not meeting this general description are classified as non-commodity. A list of the commodity and non-commodity accounts is provided below.

Commodity accounts

1588 RSVA – Power (including the Global Adjustment Sub-account)

Non-commodity accounts

1508 Other Regulatory Assets
1518 RCVA – Retail
1525 Miscellaneous Deferred Debits
1531 Renewable Connection Capital Deferral Account;
1532 Renewable Connection OM&A Deferral Account;
1534 Smart Grid Capital Deferral Account;
1535 Smart Grid OM&A Deferral Account;
1548 RCVA – Service Transaction Request
1550 Low Voltage Variance Account
1555 Smart Meter Capital and Recovery Offset
1556 Smart Meter Operation, Maintenance and Administration
1562 Deferred PILs
1563 Contra Account – Deferred PILs
1565 Conservation and Demand Management Expenditures and Recoveries
1566 Conservation and Demand Management Contra Account
1570 Qualifying Transition Costs
1571 Pre-Market Opening Energy Variances
1572 Extraordinary Event Costs
1574 Deferred Rate Impact Amounts
1580 RSVA – Wholesale Market Service Charges
1582 RSVA – One-time Wholesale Market Service
1584 RSVA – Retail Transmission Network Charges
1586 RSVA – Retail Transmission Connection Charges
1590 Recovery of Regulatory Asset Balances
1592 PILs and Tax Variances for 2006 and Subsequent Years
1595 Disposition and Recovery of Regulatory Balances Control Account
2425 Other Deferred Credits

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Appendix D: Account Description

This section includes a brief description of the Accounts, based on excerpts from the Accounting Procedures Handbook. For a detailed description of those Accounts, please refer to the Accounting Procedures Handbook.

1508 Other Regulatory Assets – OEB Cost Assessment Sub-account

This account has been used to record the difference between OEB costs assessments invoiced to the distributor for the Board's 2004/05 and 2005/06 (up to April 30, 2006) fiscal years and OEB costs assessments previously included the distributor's rates. When OEB cost assessments were incorporated in the distribution rates, distributor ceased recordings in this account, except for carrying charges.

1508 Other Regulatory Assets – Pension Contributions Sub-account

This account is used to record the pension costs associated with the cash contributions paid to OMERS for the period from January 1, 2005 to April 30, 2006, or where a distributor receives approval through an order of the Board to record pension costs in a deferral account for a specified period.

Effective May 1, 2006, pension cost contributions to OMERS were incorporated in distribution rates of distributors that filed rate applications for the 2006-07 rate year.

1518 RCVA – Retail

This account is used to record the net of:

i) revenues derived from the following services described in the 2000 electricity Distribution Rate Handbook:

a) Establishing Service Agreements;

b) Distributor-Consolidated Billing;

c) Retailer-Consolidated Billing; and

d) Split Billing.

AND

ii) the costs of entering into Service Agreements, and related contract administration, monitoring, and other expenses necessary to maintain the contract, as well as the incremental costs incurred to provide the services in (b) and (d) above, as applicable, and the avoided costs credit arising from Retailer-Consolidated Billing.

1525 Miscellaneous Deferred Debits

This account includes all debits not elsewhere provided for which will benefit future periods and are to be carried forward and charged to expense over the term of the benefit.
The Payment to Customers Sub-account includes the cost of issuing refund cheques/credits to electricity consumers in accordance with government legislation, regulations or Board requirements.

1531 Renewable Connection Capital Deferral Account

Investments related to "renewable enabling improvements" will be recorded in this capital deferral account. A "renewable enabling improvement" is a modification or addition to the main distribution system that is made to enable the main distribution system to accommodate generation from renewable energy generation facilities and that consists of one or more of the following:

- modifications or additions to allow for and accommodate 2-way electrical flows, as opposed to radial flow;
- modifications to, or the addition of, electrical protection equipment;
- modifications to, or the addition of, voltage regulating equipment; or
- the provision of protection against islanding (transfer trip or equivalent).

In addition, the capital cost of changes to a distributor's Customer Information System to enable the automated settlement of FIT contracts may be included in this account.

1532 Renewable Connection OM&A Deferral Account

Incremental operating, maintenance, amortization and administrative expenses directly related to "renewable enabling improvements" (see above) will be recorded in this operating deferral account. In addition, costs that can be recorded in this account also include expenses associated with preparing a Distribution System Plan pursuant to the planning guidelines set out in section IV of these Guidelines and expenses associated with changes to a distributor's Customer Information System to enable the automated settlement of FIT contracts.

1534 Smart Grid Capital Deferral Account

Investments related to smart grid demonstration projects will be recorded in this capital deferral account.

This account will also be used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation.

This account may not be used to record expenditures for smart meter-related investments, including advanced metering infrastructure.

1535 Smart Grid OM&A Deferral Account

Operating, maintenance, amortization and administrative expenses directly related to the following smart grid development activities will be recorded in this operating deferral account:

- smart grid studies or demonstration projects;
- smart grid planning; and
- smart grid education and training.

This includes expenses associated with preparing a Distribution System Plan pursuant to the planning guidelines set out in section IV of these Guidelines.

This account may not be used to record expenditures for smart meter-related expenses, including in relation to advanced metering infrastructure.

1548 RCVA – Service Transaction Request

This account is used to record the net of:

i) revenues derived from the Service Transaction Request services described in the 2000 Electricity Distribution Rate Handbook and charged by the distributor, as prescribed, in the form of a:

   a) Request fee;

   b) Processing fee;

   c) Information Request fee;

   d) Default fee; and

   e) Other Associated Costs fee.

AND

ii) the incremental cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the above items.

1550 Low Voltage Variance Account

On a monthly basis, this account is used to record the net of:

i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services (Account 4750);

AND

ii) the amount billed to the embedded distributor's customers based on the embedded distributor's approved LV rate(s) (Account 4075).

Effective May 1, 2006, this account has been used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. Embedded distributors use account 1550 to record LV charges for which an LV amount was included in distribution rates.

1555 Smart Meter Capital and Recovery Offset

Amounts recorded in this account include the revenues approved by the Board for smart meters and related capital costs incurred by the distributor.

The Stranded Meter Costs Sub-account is used to record the stranded costs associated with conventional or accumulation meters removed at the time of installation of smart meters. The distributor must have owned these stranded meters prior to January 1, 2006.

1556 Smart Meter Operation, Maintenance and Administration

This account is used by the distributor to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters.

1562 Deferred PILs

This account records the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years.

1563 Contra Account – Deferred PILs

Amounts recorded in this account are applicable to a distributor using the third accounting method approved for recording entries in account 1562 in accordance with the Board's accounting instructions for PILs as set out in the April 2003 Frequently Asked Questions on the Accounting Procedures Handbook. The offsetting entry of each entry in account 1562 shall be made to this contra account.

1565 Conservation and Demand Management Expenditures and Recoveries

Amounts recorded in this account track the costs incurred for conservation and demand management activities and expenditures, and the revenue proxy amount equivalent to the distributor's (first generation) third tranche of the market adjusted revenue requirement or an amount otherwise approved by the Board.

1566 Conservation and Demand Management Contra Account

This account shall be used to record the offsetting entry for amounts recorded in account 1565, Conservation and Demand Management Expenditures and Recoveries, for the reversal of entries to the accounts of original entries.

1570 Qualifying Transition Costs

This account has been used to record transition costs that meet the four qualifying criteria established in the 2000 Electricity Distribution Rate Handbook. Entries to this account, other than carrying charges, ceased on the electricity market opening (i.e., May 1, 2002), unless otherwise authorized by the Board.

1571 Pre-Market Opening Energy Variances

This account was used for the sole purpose of recording the difference between the utility's purchased cost of power based on time-of-use ("TOU") and the amounts billed to non-TOU customers (charged at an average rate) for the same period. Amounts recorded in this account were restricted to the period starting January 1, 2001 and ending on the date prior to the opening of the electricity market in Ontario. After market opening, the electricity distributors have used Account 1588.

1572 Extraordinary Event Costs

This account is used to record extraordinary event costs that meet the criteria established in the 2000 Electricity Distribution Rate Handbook for rebasing applications. In the case of 2^{nd} and 3^{rd} Generation IRM, the eligibility criteria, including the materiality threshold, are contained in the *Report of the Board on Cost of Capital and 2^{nd} Generation Incentive Regulation for Ontario's Electricity Distributors*, and the *Supplemental Report of the Board 3^{nd}Generation Incentive Regulation for Ontario's Electricity Distributors* respectively. Amounts recorded in this account does not imply Board acceptance of these amounts. Consequently, amounts are subject to regulatory review and approval prior to disposition in rates.

1574 Deferred Rate Impact Amounts

This account has been used to record amounts equal to rate impacts associated with market-based rate of return, transition costs, and extraordinary costs that the utility has determined to be excessive and has decided to defer to future periods. When authorized or directed by the Board, this account shall be used to record the difference between the rate of return reflected in rates and the market based rate of return.

1580 RSVA – Wholesale Market Service Charges

This account is used to record the net of:

i) the amount charged by the IESO, based on the settlement invoice, for the operation of the IESO administered markets and the operation of the IESO-controlled grid (as defined in the *Electricity Act, 1998*), specified by the Board;

AND

ii) the amount billed to customers using the Board-approved Wholesale Market Service Rate.

When applicable, embedded distributors use this account to record the difference between the amounts charged by the host distributor (based on the settlement invoice) for wholesale market services and the amount billed to customers using the Board-approved Wholesale Market Service Rate.

1582 RSVA – One-time Wholesale Market Service

This account is used to record the net of:

i) the amount charged by the IESO, based on the settlement invoice, for Wholesale Market Service, specified by the Board (these charges are not normally already incorporated in Wholesale Market Service Rate);

AND

ii) the amount billed to customers for the same services using the Board approved Rate.

1584 RSVA – Retail Transmission Network Charges, and

1586 RSVA – Retail Transmission Connection Charges

Distributors deemed to be transmission customers use these accounts to record the net of:

i) the amount charged by the IESO, based on the settlement invoice, for transmission network services;

AND

ii) the amount billed to customers for the same services using the Board approved Transmission Network Charge Rate (in the case of account 1584) and the Board approved Transmission Connection Charge Rate (in the case of account 1586).

Embedded distributors also use these accounts to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network and connection services and the amount billed to customers using the Board-approved Transmission Network and Connection Charge Rates.

1588 RSVA – Power (including the Global Adjustment Sub-account)

This account is used to record the net of:

i) the energy amount billed to customers;

AND

ii) the energy charge to a distributor using the settlement invoice received from the IESO, host distributor or embedded generator;

The Sub-account Global Adjustment is used to record the difference between:

i) the global adjustment amount billed to non-Regulated Price Plan consumers;

AND

ii) the global adjustment charge (i.e., charge types 146, 142 and others as applicable) to a distributor for non-Regulated Price Plan consumers using the settlement invoice received from the IESO, host distributor or embedded generator.

1590 Recovery of Regulatory Asset Balances

This account includes the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers. Payments received arising from the disposition of account balances recovered in rates or paid to customers per a Board order must be recorded in this account.

1592 PILs and Tax Variances for 2006 and Subsequent Years

For the period starting May 1, 2006, the distributor has used this account to record the tax impact of any of the following differences:

(i) any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.

(ii) any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

(iii) any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:

a) received by the distributor after its 2006 rate application is filed, and before May 1, 2007;

OR

b) relating to any tax year ending prior to May 1, 2006.

1595 Disposition and Recovery of Regulatory Balances Control Account

This account is used to record the disposition and recoveries of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process.

The Sub-account “Disposition of Account Balances Approved in 2008” captures amounts approved for recovery (or refund) through the 2008 rate review process.

2425 Other Deferred Credits

This account includes advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.