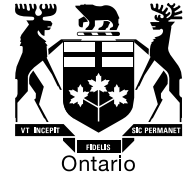


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VIA E-MAIL AND WEB POSTING

September 18, 2014

To: All licensed Electricity Distributors
All Registered Intervenors in Electricity Distribution Rate Applications

**Re: Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module
Board File Number EB-2014-0219**

On June 20, 2014 the Ontario Energy Board initiated a consultation on New Policy Options for the Funding of Capital Investments. The Board indicated that Board staff had developed two new policies on which it will be seeking comments before bringing the new policy options to the Board for consideration:

- The elimination of the effect of the half year rule on test year capital additions for the intervening years between rebasing applications; and
- The introduction of a new funding mechanism that would enable review during a cost of service application for the need and prudence of any incremental capital module funding requests for discrete projects that are part of a distributor's Distribution System Plan, and that are planned to come into service during the IRM period (the Advanced Capital Module or "ACM").

It was the Board's intention that these policy options, if approved, would be available to distributors under the Price Cap Incentive Rate-Setting IR ("Price Cap IR") option. They would not apply to distributors under the Annual Incentive Rate-Setting Index option. Distributors that have specific needs for capital funding that cannot be accommodated under Price Cap IR, should consider whether their specific circumstances would be best addressed through an application for a 5-year Custom Incentive Rate-Setting plan.

A working group of stakeholders comprised of several representatives from electricity distributors who had adopted the Price Cap IR option for 2015 rates, as well as other stakeholders, was convened on June 25, 2014 to consider these two options.

Based on the feedback provided by the working group, the Board has decided to establish the Advanced Capital Module mechanism. Accordingly, the Board has today released the *Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (the "ACM Report")*. This ACM Report supersedes the two previous reports related to the ICM.¹

The purpose of this ACM Report is to articulate the Board policy on the ACM, and how the current policy regarding the Incremental Capital Module ("ICM") mechanism is changing.

The Board has not proposed substantive changes to the ICM materiality threshold formula at this time. The Board intends to continue to review this matter and will determine a course of action, if any, in the future.

The other proposed policy amendment considered by the working group was the elimination of the effect of the half year rule on test year capital additions for the IR years. The Board intends to do further analysis on this issue before determining next steps. Accordingly, this ACM Report is limited to the establishment of the ACM and the refinement of the ICM criteria.

The Board wishes to thank the working group members for their efforts in reviewing Board staff's recommendations and providing their views. While the policy established in this ACM Report is effective immediately, the Board expects that it will continue to refine the criteria as needed as it adjudicates applications containing incremental capital requests going forward.

Cost Awards

In the letter initiating this consultation, the Board indicated that cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for participation in cost eligible activities as set out in the June 20, 2014 letter. Eligible parties may file their cost claims by September 29, 2014.

Sincerely,

Original Signed By

Kirsten Walli
Board Secretary

¹ [Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#), and the [Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors \(EB-2007-0673\)](#)