

Ontario Energy Board



RRR 2.1.5.6 ROE Complete Filing Guide

FOR ELECTRICITY DISTRIBUTORS' REPORTING AND RECORD
KEEPING REQUIREMENTS (RRR)

PREPARED BY OEB STAFF

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DISCLAIMER NOTICE

The ROE Filing Guide has been prepared by OEB staff as an operational document and is not intended to create any new OEB policy or to re-define the existing policy in the Electricity Reporting and Record Keeping Requirements (RRR) or other documents of the OEB. Where needed, it provides a reference for further information or examples to clarify reporting requirements given the various scenarios that arise for different distributors.

All examples presented in the ROE Filing Guide are for general illustration purposes only, and may not address the specific circumstances of any one distributor.

2.1.5.6 Regulated Return on Equity (ROE)

Content

RRR dated October 29, 2015 states that:

A distributor shall report, in the form and manner determined by the Board, the regulatory return on equity earned in the preceding fiscal year. The reported return is to be calculated on the same basis as was used in establishing the distributor's base rates.

New to the ROE form for the 2015 reporting year

The RRR 2.1.5.6 filing for the 2015 reporting year has been changed substantially. Please refer to Attachment A at the end of this document for the ROE flowchart.

The main changes to the ROE filing are as follows:

- The calculation template for the RRR 2.1.5.6 ROE filing has been removed from the RRR 2.1.5 input form and a separate standalone input form has been created for this filing in the RRR portal.
- Many cells required for the ROE filing are now auto-populated from the relevant USoAs reported in the RRR 2.1.7 trial balance and the parameters in the distributor's last Cost of Service (CoS) Decision and Order.
- Some cells must be inputted by the distributor and derived at the underlying transaction level (for example the separate revenue/expense streams in Appendix 1 for non-rate regulated items). Other values must be derived from other sources of information or analyses (for example, in Appendix 6, Current Tax for Regulatory Purposes, some adjustment items are determined using supporting schedules for tax related items or deferral and variance accounts).

Tips for an accurate ROE filing

- Ensure the accuracy of the RRR 2.1.7 trial balance.
- Have a clear and thorough understanding of the last CoS Decision and Order comprising the approved revenues and expenses, approved rate base, and approved PILs.
- Have a clear understanding of the nature of the transactions incurred in the reporting year to identify the non-rate regulated items and other adjustments that are to be excluded from the ROE filing.
- Have a tax preparer with the knowledge of the distributor's approved PILs in the last CoS Decision and Order to review the Appendix 6 Current Tax for Regulatory Purposes.

- If the distributor is in an over-earning/under-earning position for the reporting year, ensure that the required information is provided in Over-Earning/Under-earning Tabs to identify the main causes.

The most important underlying principle is that costs and revenues not approved by the OEB in a distributor's previous CoS rate proceeding are excluded from the calculation of achieved ROE.

The ROE form and appendices identify many of the common adjustment items that should not be included in the calculation of the achieved ROE. However, the items identified should not be considered exhaustive. It is each distributor's responsibility to identify all necessary adjustments to the achieved ROE. This is to ensure that the achieved ROE is calculated correctly and on a comparable basis to deemed ROE.

General Overview:

1. Purposes of the ROE filing:

- To provide a consistent methodology and standardized approach to calculating the achieved ROE as reported in the RRR and on the electricity distributor's Scorecard.
- To assess a distributor's ROE performance in the reporting year in order to determine whether a distributor's ROE falls within/outside of the 300 basis points deadband.
- To provide a mechanism for distributors to explain the drivers for over/under-earning if applicable.
- **Distributors must ensure the accuracy of the RRR 2.1.7 trial balance before completing the ROE filing.**

Many of the cells in the ROE filing are auto-populated from RRR 2.1.7. It is essential that RRR 2.1.7 is correctly filed. If the distributor identifies errors in the RRR 2.1.7 when completing the ROE filing and the filing due date has not passed, the distributor can make revisions to their RRR 2.1.7. A successful re-submission of the RRR 2.1.7 will automatically update the values that are auto-populated on the RRR 2.1.5.6 ROE form. If the filing due date has passed, the distributor cannot manually edit the auto-populated figure(s) in the RRR 2.1.5.6 ROE form; distributors must submit a data revision request to re-file the RRR 2.1.7 trial balance and to open and re-calculate the RRR 2.1.5.6 ROE form.

- Distributors must retain supporting documentation for each reconciliation item used to derive the regulatory ROE. This documentation must be made available upon the OEB's request. Examples of supporting documents are:
 - a. Schedules for non-rate regulated revenues and expenses;
 - b. References to the evidence in the CoS Decision and Order regarding the disallowance of certain revenues and costs; and
 - c. Schedules to support the tax adjustments in Appendix 6

It is each distributor's responsibility to determine the form and format of the supporting documentation.

- An Excel template of the 2.1.5.6 ROE form is available on the OEBs website at the following link:

<http://ontarioenergyboard.ca/oeb/Industry/Rules%20and%20Requirements/Reporting%20and%20Record%20Keeping%20Requirements/RRR%20Documents>.

It is recommended that the Excel spreadsheet be used as a working document and be completed in conjunction with the on-line filing under RRR 2.1.5.6.

- Business rule for input cells: The signs of the input cells are to be aligned with the signs of the USoAs reported in RRR 2.1.7 trial balance. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers. Detailed descriptions and instructions for each input cell are provided in this guide.
- For the convenience of the ROE filing, the data source of each auto-populated/linked cell is displayed on the right hand side of the screen. The formula for each auto-calculated cell is also displayed beside the cell. Descriptions for each auto-populated/linked/calculated cell are provided in this guide for the distributors' understanding of these cells.
- Please contact the OEB's IT group for any technical issues of the ROE filing. Please contact the Industry Relations via the email below for the issues related to the CoS parameters and the values in the auto-populated/linked cells:
IndustryRelations@ontarioenergyboard.ca

Format of the ROE Filing:

The ROE filing contains five separate tabs. The first three tabs (Checklist, Input Appendices, and ROE Summary) are to be completed by all distributors. Distributors whose achieved ROE exceeds the deemed ROE by +/-3% are required to complete one of the remaining tabs (Over-Earning Drivers or Under-Earning Drivers), depending on whether the distributor is in an over-earning or under-earning position for the reporting year.

The cells in each tab of the ROE filing have been color-coded to indicate whether the cells are auto-populated/linked/calculated cells (in grey) or input cells (in white) for which the distributor needs to input data. The auto-populated/linked cells and the calculated cells are protected to prevent overwriting of these cells.

Auto-populated cells comprise of: 1) the CoS parameters (such as working capital allowance %) from the distributor's last CoS Decision and Order, and 2) the relevant USoAs that were successfully submitted into the RRR 2.1.7 trial balance. Please

review each auto-populated/linked cell for accuracy and contact Industry Relations Enquiry if there are any questions. Distributors should enter the applicable values (i.e. numbers or text) in the input cells in the ROE filing.

The five tabs in the ROE filing template are as follows:

1. Checklist Tab

The Checklist tab contains questions which the distributor must answer with respect to the review and/or completion of the ROE filing. The purpose of the checklist is to ensure that all necessary information affecting the ROE filing has been taken into consideration and that any issues have been resolved before the submission of the filing. Due to the complex nature of the ROE filing, the checklist tab serves as an additional layer of the review for the distributors to ensure the accuracy of the filing.

The checklist can be reviewed before, during and/or after the completion of the remaining ROE tabs. The boxes assigned to each applicable checklist item must be checked off before the ROE filing can be submitted.

At the bottom of the checklist, there is an input cell titled "Submit?" with the option to select "Yes" or "No". Selecting "No" allows the distributor to save any data entered without submitting the filing. Selecting "Yes" allows the distributor to submit the filing. This should only be selected after the final review is completed.

2. Input Appendices Tab

There are six input appendices as below. It is each distributor's responsibility to ensure that the information in each appendix is complete and accurate.

- Appendix 1: Non-rate regulated items and other adjustments;
- Appendix 2: Non-Recoverable Donations;
- Appendix 3: Net interest/carrying charges on Deferral and Variance Accounts (DVAs);
- Appendix 4: Interest Adjustment for Deemed Debt;
- Appendix 5: Property Plant & Equipment (PP&E); and
- Appendix 6: Current Tax for Regulatory Purposes.

A description of each appendix and the instructions on how to complete each appendix is provided in Section A of this guide.

3. ROE Summary Tab

The ROE Summary tab summarizes the calculation of the achieved ROE and compares it to the deemed ROE to determine the distributor's ROE status for the reporting year (i.e. whether the distributor is in an over-earning/under-earning position or within the 300 basis points deadband). With the exception of seven cells, all cells on the ROE Summary tab are either auto-populated from the RRR 2.1.7 Trial Balance and the parameters from the distributor's last CoS Decision and Order

(such as working capital allowance %) or linked to the ROE Input Appendices. The distributor is required to enter values (numbers or text) for seven input cells, as applicable.

A description of this tab and instructions on how to complete it are provided in Section B of this guide.

4. Over-earning Drivers Tab

The Over-earning Drivers tab must be completed when the distributor's achieved ROE is 300 basis points above its deemed ROE. (i.e. the distributor is identified as over-earning for the reporting year). Two appendices must be completed:

- Appendix 7: Drivers for Over-earners
- Appendix 8: Earning above the 300 Basis Points Per Customer/Connection per Month by main rate classes

A description of this tab and instructions on how to complete it are provided in Section C of this guide.

5. Under-earning Drivers Tab

The Under-earning Drivers tab must be completed when the distributor's achieved ROE is 300 basis points below its deemed ROE. (i.e. the distributor is identified as under-earning for the reporting year). Two appendices must be completed:

- Appendix 9: Drivers for Under-earners
- Appendix 10: Earning below the 300 Basis Points Per Customer/Connection per month by main rate classes

A description of this tab and instructions on how to complete it are provided in Section D of this guide.

Section A: Input Appendices

Section A.1 : Appendix 1 Non-rate regulated items and other adjustments

1. General Overview

Non-rate regulated items are revenues and/or expenses not related to the provision of electricity distribution services and, therefore, are excluded from the calculation of regulated net income. Examples of the non-rate regulated revenues and expenses include those associated with qualifying distributor-owned generation and storage facilities, conservation demand management (CDM) programs or other initiatives outside the regulated distribution rates framework. Please note that there is no need to adjust for these items if the distributor has excluded the non-rate regulated revenues and expenses from the RRR 2.1.7 trial balance.

Accounting Procedures Handbook (APH) Article 330 states that "Non-rate regulated revenues and expenses should be accounted for separately from regulated

revenues and expenses to ensure that there is no cross-subsidization between regulated and non-rate regulated lines of business.”

Other adjustments are the adjustments needed to allow a comparison of the distributor’s achieved ROE with the deemed ROE, as approved in the distributor’s last CoS Decision and Order, is consistent. For example, if the CoS Decision and Order has disallowed a certain expense which is recorded in the distributor’s net income on RRR 2.1.7, the distributor must remove the expense using the other adjustment line provided and indicate the nature of the adjustment, the amount of the expense and the relevant USoA.

2. Purpose of Appendix 1

- To remove the non rate-regulated revenues and expenses that were not approved by the OEB in the last CoS Decision and Order.
- To remove any other revenue and expense adjustment items that were not approved by the OEB in the last CoS Decision and Order.

3. Specific Non-rate regulated Items and Other Adjustments

a) CDM revenues (recorded in Account 4375) (Cell aa)

Description: This cell represents revenue or funding associated with CDM activities. As per the APH, revenues or funding associated with CDM activities are to be recorded in USoA 4375 Revenues from Non Rate-Regulated Utility Operations.

Instruction: Enter the CDM revenues in Cell aa as a negative amount, which is consistent with recording revenues as credits in the RRR 2.1.7 trial balance.

b) CDM expenses (recorded in Account 4380) (Cell ab)

Description: This cell represents the expenses or costs associated with CDM activities. As per the APH, expenses associated with CDM activities are to be recorded in USoA 4380 Expenses of Non Rate-Regulated Utility Operations.

Instruction: Enter the CDM expenses in Cell ab as a positive amount which is consistent with recording expenses as debits in the RRR 2.1.7 trial balance.

c) CDM –net revenues/expenses (Cell ac)

Description: This cell is equal to the net amount of revenues (Cell aa) and expenses associated with CDM activities (Cell ab).

d) Renewable generation revenues (recorded in Account 4375) (Cell ad)

Description: Renewable generation revenues are the revenues associated with the operations of generation facilities or assets, including revenues from Feed-in Tariff contracts. The APH states that the revenues should be recorded in USoA 4375 Revenues from Non-Regulated-Utility Operations, Sub-account Generation Facility Revenues.

Instruction: Enter the renewable generation revenues in Cell ad as a negative amount which is consistent with recording revenues as credits in the RRR 2.1.7 trial balance.

- e) Renewable generation expenses (recorded in Account 4380) (Cell ae)

Description: Renewable generation expenses are expenses associated with the operations of generation facilities or assets, including energy supply expenses. The APH states that the expenses should be recorded in USoA 4380 Expenses from Non Rate-Regulated Utility Operations, Sub-account Generation Facility Expenses.

Instruction: Enter the renewable generation expenses in Cell ae as a positive amount which is consistent with recording expenses as debits in the RRR 2.1.7 trial balance.

- f) Renewable generation –net revenues/expenses (Cell af)

Description: This cell is equal to the net amount of the revenues (Cell ad) and expenses associated with renewable generation (Cell ae).

- g) Water services revenues (recorded in Account 4375) (Cell ag)

Description: Water services revenues are the revenues attributable to the managing or operating of water and/or sewage services. If not approved by the OEB in the distributor's last CoS, the revenue should be removed from the regulated net income.

Instruction: Enter the amount of water and/or sewage services revenues in Cell ag as a negative amount which is consistent with the reporting of revenues as credits in the RRR 2.1.7 trial balance.

- h) Water services expenses (recorded in Account 4380) (Cell ah)

Description: Water services expenses are the expenses attributable to managing or operating water and/or sewage services. If not approved by the OEB in the distributor's last CoS, the revenue should be removed from the regulated net income.

Instruction: Enter the amount of water and/or sewage services expenses in Cell ah as a positive amount which is consistent with the reporting of expenses as debits in the RRR 2.1.7 trial balance.

- i) Water services – net revenues/expenses (Cell ai)

Description: This cell represents the net of the revenues (Cell ag) and expenses associated with water and/or sewage services (Cell ah).

- j) Non-rate regulated utility rental income/investment income (recorded in Account 4385) (Cell aj)

Description: Non-rate regulated utility rental income/investment income represents the rent revenues and related expenses of land, buildings, or other property used for non-utility purposes or non-utility investment income.

Instruction: Enter the amount of investment income and/or rental income from non-rate regulated business in Cell aj as a negative amount which is consistent with the reporting of revenues as credits in the RRR 2.1.7 trial balance.

- k) Depreciation expense on non-rate regulated assets (Cell ak)

Description: This cell represents the depreciation expense associated with non-rate regulated assets which is included in regulated net income in the RRR 2.1.7 trial balance.

Instruction: Enter the amount of depreciation expense on non-rate regulated assets in Cell ak as a positive amount which is consistent with the reporting of expenses as debits in the RRR 2.1.7 trial balance. Enter the USoA(s) in which the depreciation expense is recorded in the RRR 2.1.7 trial balance in the cell beside Cell ak.

- l) Other adjustments for other revenue items that were not approved by the OEB (Cells al and am)

Description: These two cells represent other adjustments, if applicable, for any other revenue items that were not approved by the OEB in the distributor's last CoS Decision and Order.

Instruction: For each of the applicable adjustments, enter the description of the adjustment, the amount of the corresponding revenue amount, and the associated USoA in which the revenue was recorded in the RRR 2.1.7 trial balance.

- m) Other adjustments for other expense items that were not approved by the OEB (Cells an, ao, ap)

Description: These three cells represent other adjustments, if applicable, for any other expense items that were not approved by the OEB in the distributor's last CoS Decision and Order.

Instruction: For each of the applicable adjustments, enter the description of the adjustment, the amount of the corresponding expense amount, and the associated USoA in which the expense was recorded in the RRR 2.1.7 trial balance.

Section A.2 : Appendix 2 Non-Recoverable Donations

1. General Overview

Charitable donations are intended to provide assistance to the communities served by the distributor; however, these expenses, in general and with the exception of Low-Income Energy Assistance Program (LEAP) funding, are not related to the provision of electricity distribution services. As a result, these non-recoverable donations are excluded from expenses for the purposes of calculating regulated net income.

2. Purpose of Appendix 2:

Charitable donations that were reported in RRR 2.1.7 and were not approved by the OEB in the last CoS Decision and Order must be removed from expenses for the purposes of calculating regulated net income.

3. Specific Cells

a) All donations (Cell ba)

Description: This cell represents all donations expensed by the distributor. As per APH, USoA 6205 is to be used to record all payments or donations for charitable, social or community welfare purposes. This cell is auto-populated from the USoA 6205 reported in the RRR 2.1.7 trial balance.

b) LEAP Funding (cell bb)

Description: LEAP Funding provides emergency financial assistance to low-income consumers. LEAP provides a one-time grant towards a customer's electricity bill if they are temporarily unable to make ends meet in an emergency situation. LEAP Funding is approved by the OEB in the distributor's CoS Decision and Order and is an allowable expense included in calculating regulated net income. As per the APH, LEAP donations must be recorded in USoA 6205 Donations, Sub-account LEAP Funding. Please note that the sub-account balance is also included in the USoA 6205 Donations since the account is to include all payments or donations for charitable, social or community welfare purposes.

This cell is auto-populated from USoA 6205 sub-account LEAP Funding reported in RRR 2.1.7 trial balance. Please note that the calculation in Appendix 2 will be incorrect if the distributor fails to record LEAP donations in USoA 6205

sub-account LEAP Funding. In this case, the distributor should re-file RRR 2.1.7 to reflect the correct balance in USoA 6205 sub-account LEAP funding.

- c) Calculated LEAP Funding approved in the distributor's last CoS (Cell bb1)

Description: Calculated LEAP Funding is equal to the greater of \$2,000 or the 0.12% of the distributor's service revenue requirement¹ approved by the OEB in the distributor's last CoS Decision and Order. This cell is for informational purposes only and serves as a cross-check for the distributor regarding the LEAP Funding recorded in the RRR 2.1.7 trial balance. This cell is an auto-calculated cell.

- d) Other recoverable donations approved, please specify (Cells bc and bd)

Description: These two cells represent other recoverable donations, as applicable, that were approved by the OEB in the distributor's last CoS Decision and Order.

Instruction: For each applicable donation, enter the description and USoA(s), the corresponding amounts in Cells bc and bd, if applicable.

- e) Non-recoverable donations (Cell be)

Description: This cell represents the total non-recoverable donations that were not approved by the OEB in the distributor's last CoS Decision and Order. As such, these donations should be removed from the regulated net income for the ROE calculation.

It is auto-calculated equal to the total donations in the RRR 2.1.7 trial balance less the sum of LEAP donations (Cell bb) and any other recoverable donations (Cells bc and bd).

Section A.3 Appendix 3 Net interest/carrying charges on Deferral and Variance Accounts (DVAs)

1. General Overview

As per the APH Articles 220 and 490 dated January 1, 2012, distributors are required to record interest/carrying charges relating to regulatory asset and liability accounts as interest income or expense respectively in the RRR 2.1.7 trial balance. For purposes of filing CoS rate applications, revenues or costs

¹ 2016 Filing Requirement states that "The LEAP amount must be calculated based on total distribution revenues, and is to be recovered from all rate classes based on the respective distribution revenue of each of those rate classes. A distributor must include the relevant LEAP amount as part of its OM&A expenses. For greater clarity, OEB-approved total distribution revenue means a distributor's forecasted service revenue requirement as approved by the OEB."

(including interest) associated with deferral and variance accounts must not be included in Other Revenue². As such, these amounts must be removed for the purposes of determining achieved ROE.

2. Purpose of Appendix 3:

To calculate regulated net income, net carrying charges on DVAs must be excluded to ensure consistent treatment with the approach used to determine deemed ROE as approved in the distributor's CoS Decision and Order.

3. Specific Cells

a) Interest expense on DVAs (recorded in Account 6035) (Cell ca)

Description: This cell represents the interest expense on DVAs. As per the APH, the interest expense is to be recorded in USoA 6035, Other Interest Expense.

Instruction: Enter the interest expense on DVAs in Cell ca as a positive amount which is consistent with the reporting of expenses as debits in the RRR 2.1.7 trial balance.

b) Interest income on DVAs (recorded in Account 4405) (Cell cb)

Description: This cell represents the interest income on DVAs. As per the APH, the interest income is to be recorded in USoA 4405, Interest and Dividend Income.

Instruction: Enter the interest income on DVAs in Cell cb as a negative amount which is consistent with the reporting of revenues as credits in the RRR 2.1.7 trial balance.

c) Net interest/carrying charges from DVAs (Cell cc)

Description: This cell represents the net of interest revenue and expenses recorded on DVAs. This cell is an auto-calculated cell equal to the sum of Cells ca and cb.

Section A.4 Appendix 4 Interest Adjustment for Deemed Debt

1. General Overview

Deemed interest expense, not actual interest expense, is treated as a deduction for

² Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rates Applications - Chapter 2 Cost of Service July 16, 2015, subsection 2.3.3 Other Revenue, page 33.

the purposes of calculating regulated net income. Actual interest expense is reported in the RRR 2.1.7 trial balance. Appendix 4 determines the adjustment to actual interest expense required for the purposes of calculating regulated net income (i.e. the adjustment required to reflect deemed interest expense). There are two main calculations in Appendix 4:

- The calculation of the actual interest expense pertaining to debts, and
- The calculation of the deemed interest expense based on deemed debt at the weighted average debt rate.

2. Purpose of Appendix 4

- To determine the adjustment to actual interest expense;
- To provide consistency with the methodology used in rate applications with respect to the treatment of interest expenses; and
- To provide the detailed calculation of deemed interest.

3. Specific Cells

a) Interest expense as per RRR 2.1.7 (Cell da)

Description: This cell represents the starting point for the calculation of the interest expense paid by distributors on any type of short-term and long-term borrowings – bonds, loans, convertible debt or lines of credit. This cell is auto-populated equal to the sum of the USoAs 6005-6045 reported in the RRR 2.1.7 trial balance.

b) Interest expense on DVAs (recorded in 6035) (Cell db)

Description: Interest expense on DVA accounts reported in USoA 6035 must be removed from actual interest expense (Cell da). This adjustment is needed to ensure that there is no “noise” in the interest expenses after adjustments (Cell dc) that is to be compared to the deemed interest expense (Cell df). This cell is auto-linked to Cell ca in Appendix 3.

c) Unrealized (gains)/losses on interest rate swaps if recorded in Account 6035 (Cell db1)

Description: Unrealized gains/losses on interest rate swaps if recorded in Account 6035 in the RRR 2.1.7 trial balance must be removed from actual interest expense (cell da). This adjustment is needed to ensure that there is no “noise” in the interest expenses after adjustments (Cell dc) that is to be compared to the deemed interest expense (Cell df).

Instruction: Enter the amount related to unrealized gains/losses on interest rate swaps in Cell db1 if this amount is included in USoA 6035.

d) Other adjustments, please specify (Cells db2 and db3)

Description: Other adjustments may be required to ensure that interest expense after adjustments (Cell dc) represents interest expense related to the distributor's outstanding debts only. It is each distributor's responsibility to make the appropriate adjustments to ensure that interest expense includes only those expenses permitted for rate making purposes.

Instruction: Enter other adjustments that are recorded in the interest expenses UsoAs 6005-6045 in Cells db2 and db3, if applicable. Enter a description of each adjustment in the blank cells to the left of Cells db2 and db3.

e) Interest expense after adjustments (Cell dc)

Description: This cell represents interest expense net of adjustments. This amount will be netted against deemed interest expense to determine the interest adjustment for deemed debt (Cell dg). It is auto-calculated equal to the Cell da less the sum of all adjustments reported in Cells db, db1, db2, and db3.

f) Regulated deemed debt, as per ROE Summary tab (Cell dd)

Description: This cell represents the regulated deemed debt calculated for the reporting year based on actual inputs, using the deemed short-term and long-term debt per the Deemed Equity section of the ROE Summary tab. It is auto-linked equal to the sum of Cells v1 and w1 in the ROE summary tab.

g) Weighted average debt rate (%) (Cell de)

Description: This cell represents the weighted average debt rate % used for the calculation of deemed interest in Cell df. This debt rate is the weighted average of the short term and long term debt rates approved in each distributor's last CoS Decision and Order. It is auto-populated from the distributor's last CoS Decision and Order.

h) Deemed Interest (Cell df)

Description: Deemed interest is calculated based on a distributor's actual calculated rate base for the reporting year, as the deemed debt ratio, multiplied by the weighted average debt rate % approved in the distributor's last CoS Decision and Order. It is auto-calculated equal to the product of Cells dd and de.

i) Interest adjustment for deemed debt (Cell dg)

Description: Interest adjustment for deemed debt is the adjustment to actual interest expense required for the purposes of calculating regulated net income.

It is auto-calculated equal to the difference between Cells dc and df. This cell is linked to Cell g of the ROE Summary tab.

Section A.5 Appendix 5 Property, Plant and Equipment (PP&E)

1. General Overview

Appendix 5 calculates the average regulated PP&E which is a component of rate base equal to the opening and closing PP&E balances after the applicable adjustments. There are two main components of the PP&E calculation:

- The calculation of the opening balance for regulated PP&E (NBV); and
- The calculation of the closing balance for regulated PP&E (NBV)

2. Purpose of Appendix 5:

The purpose of Appendix 5 is to determine the average Net Book Value (NBV) balance for regulated PP&E which contributes to the provision of electricity distribution services. It is based on the same methodology that was used to set rates in the distributor's last CoS Decision and Order.

3. Specific cells

a) Prior year "Closing balance - regulated PP&E (NBV)" (Cell ea)

Description: This cell represents the distributor's regulated fixed assets closing NBV balance in the prior year's RRR 2.1.5.6 filing. It is auto-populated from the "closing balance – regulated assets (NBV)" data in the prior year's RRR 2.1.5.6 filing.

b) Adjustments if required (Cell eb)

Description: This cell represents any adjustments to the prior year's regulated fixed assets closing NBV. Distributors must retain supporting documentation if any adjustments are required. Examples of the adjustment include the restatement of the prior year's fixed asset closing NBV by the external auditor(s) and the adjustment required for the Account 1575/1576 for the distributors who has not been rebased under revised capitalization and depreciation policies.

Please note that for those distributors who have not yet rebased under Modified IFRS (MIFRS) or CGAAP with the revised capitalization and depreciation policies after making changes to their capitalization and depreciation policies in 2012 or 2013, an adjustment to the opening PP&E balances for the reporting year is required relating to the unamortized balances of accounts 1575 and/or 1576. The adjustment must only be made for the components of these two DVAs' that relate to the changes to the capitalization and depreciation policies since the distributors last rebased. This adjustment will ensure that capitalization and depreciation treatment used to determine the achieved ROE is consistent with the capitalization and depreciation policies applicable in the distributor's last CoS Decision and Order. However, there is no need for such adjustments where

distributors last rebased under either MIFRS or CGAAP with the revised capitalization and depreciation policies.

Instruction: Enter the description of the adjustment(s) and the corresponding amount in Cell eb. An increase to the PP&E NBV should be entered as a positive amount and a decrease to the PP&E NBV should be entered as a negative amount.

c) Opening balance - regulated PP&E (NBV) (Cell ec)

Description: This cell represents the regulated PP&E opening NBV after any applicable adjustments. It is auto-calculated equal to the sum of Cells ea and eb.

d) Total PP&E (NBV)- Closing Balance (Cell ed)

Description: This cell represents the starting point for the calculation of the regulated PP&E closing NBV at the end of the current reporting year. Please note that under IFRS customer contributions received post-IFRS conversion are recorded in USoA 2440 Deferred Revenues. Account 2440 is included in this cell as the starting point of the PP&E closing NBV.

It is noted that Account 2440 may include contributions or grants amounts other than contribution received in aid of construction or for acquisition of fixed assets. In this case, the distributors should exclude these contributions and grants using one of the other adjustments in Cells eg, eh, ei, ek and ei.

This cell is to be adjusted using the two common adjustment items for Construction work-in-progress (Cell ee) and for Non-distribution assets NBV (Cell ef). The other five adjustment cells are provided as needed for the distributors in order to adjust the achieved PP&E NBV to align with the approved PP&E in the distributor's last CoS.

It is auto-populated to equal to the sum of the balances reported in USoAs 1605 to 2075, 2440, and 2105 to 2180.

e) Construction work-in-progress (CWIP) (Cell ee)

Description: This cell represents the CWIP amount that needs to be removed from the PP&E closing NBV. CWIP is excluded from rate base for the purposes of calculating deemed equity.

It is auto-populated from the USoA 2055 in the RRR 2.1.7 trial balance.

f) Non-distribution assets (NBV) (Cell ef)

Description: This cell represents the NBV of the non-distribution assets to be

removed from the PP&E closing balance, if applicable. As per the APH, gross cost of the non-distribution assets is to be recorded in USoA 2075, Non Rate-Regulated Utility Property Owned or Under Finance Leases and accumulated depreciation is to be recorded in USoA Accumulated Depreciation of Non Rate-Regulated Utility Property.

It is auto-populated equal to the sum of USoAs 2075 and 2180 from the RRR 2.1.7 trial balance.

g) Other adjustments (Cells eg, eh, ei, ej,ek)

Description: These five cells represent any other adjustments required to the PP&E closing NBV in order to be consistent with the PP&E approved in the distributor's last CoS Decision and Order.

Please note that the other adjustment cells are used to remove any other assets that were not included as part of the rate base in the distributor's last CoS. Examples of these adjustments are:

- NBV of Goodwill arising from acquisitions, not approved in the distributor's last CoS;
- NBV of Intangible assets not approved in the distributor's last CoS;
- NBV of Organization costs; and
- NBV on PP&E from acquisitions not approved in the distributor's last CoS.

Additional notes for the distributors who have not rebased under MIFRS

Please note that for those distributors who have not yet rebased under MIFRS or CGAAP with the revised capitalization and depreciation policies after making changes to their capitalization and depreciation policies in 2012 or 2013, an adjustment to the closing PP&E balances for the reporting year is required relating to the unamortized balances of USoAs 1575 and/or 1576. The adjustment must only be made for the components of these two DVAs that relate to the changes to the capitalization and depreciation policies since the distributors last rebased. This adjustment will ensure that capitalization and depreciation treatment used to determine the achieved ROE is consistent with the capitalization and depreciation policies applicable in the distributor's last CoS Decision and Order. The tax implications of the policy changes, if any, are to be identified and adjusted using the other adjustment lines in Appendix 6.

An adjustment is not required to the regulated net income for any distributors who used USoAs 1575 and/or 1576 DVAs and who revised their capitalization and depreciation policies since their last rebasing (and did not dispose of the DVA balances in an IRM application). The reason is because distributors were kept financially whole by the accounting mechanisms of USoAs 1575 and 1576; i.e. distributors would have recognized the accounting differences arising from the change in OM&A and depreciation expense through regulatory debits/credits recorded in accounts 4305/4310. The result was that distributors did not

experience a P&L impact of the change in capitalization and depreciation policies.

However, in a case where a distributor received approval for the disposition of USoAs 1575/1576 in an IRM Decision and Order instead of a CoS Decision and Order, the distributor needs to assess if there is any impact of the disposition of the DVAs 1575/1576 on its regulated net income and make the necessary adjustments accordingly, using the other adjustment lines in Appendix 1.

Instruction: Enter the description of the adjustments, provide the USoAs and the corresponding amounts in the description cells and Cells eg, eh, ei, ej and ek.

h) Adjusted Closing balance - regulated PP&E (NBV) (Cell ei)

Description: This cell represents the adjusted closing balance of regulated PP&E NBV, consistent with the methodology and PP&E approved used in CoS Decision and Order. This cell is a component of rate base and subsequently, the deemed equity used to calculate the achieved ROE. It is the distributor's responsibility to ensure that the regulated PP&E closing NBV for the reporting year aligns with the PP&E approved in the distributor's last CoS. It is auto-calculated equal to the Cell ed less the sum of adjustment cells ee to ek.

Section A.6 Appendix 6 Current Tax for Regulatory purposes

1. General Overview

The methodology used in Appendix 6 is consistent with the Payments in Lieu of Taxes (PILs) methodology set out in Chapter 7 (Taxes/PILs) of the 2006 Electricity Distribution Rate (EDR) Handbook and the EDR Handbook Report of the Board³.

2. Purpose of Appendix 6:

- To provide a consistent methodology and standardized approach to calculating the current tax provision for regulatory ROE purposes;
- To adjust the calculation of the current tax provision reported in the RRR 2.1.7 trial balance to be consistent with the PILs tax methodology used in CoS Decision and Order; and
- To ensure that the correct current tax provision is used in the ROE calculation.

3. The starting point for the Appendix 6 calculation is the Current Tax Provision/(Recovery) as per in RRR 2.1.7 trial balance USoA 6110. A number of adjustment items and other adjustments are provided in the appendix to ensure that the Current Tax Provision/(Recovery) is accurately calculated for the purpose of the

³ RP-2004-0188 Electricity Distribution Rate Handbook, Report of the Board 2005 May 11.

ROE filing. It is the distributor's responsibility to ensure that the current tax provision/(recovery) for the purpose of calculating regulated ROE aligns with the OEB's PILs methodology.

4. Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS) is to be reconciled to the current tax expense figure reported in USoA 6110 of RRR 2.1.7. This reconciliation should be included in the RRR mapping document 2.1.13. The total reconciliation amount for the current tax is to be inputted by the distributors, if applicable, to increase the clarity and assurance of the current tax provision. The distributors should have a clear understanding of the components of the current tax provisions and the components of the reconciliation amount from the AFS to RRR to ensure an accurate calculation of the current tax provision for the purposes of calculating Regulated ROE.
5. Appendix 6 determines the current tax expense used in the calculation of a distributor's Regulated ROE after factoring in the relevant adjustment items. The adjustment items identified in Appendix 6 are not all inclusive. It is each distributor's responsibility to ensure that Appendix 6 is accurate, complete and includes all applicable adjustment items.

Distributors must retain supporting documentation for each adjustment item used to derive the current tax provision for regulatory ROE purposes. Supporting documentation must be made available to the OEB on request.

The OEB does not prescribe the form of the supporting documentation. It is the distributor's responsibility to keep complete and accurate supporting documentation for the adjustment items.

Some examples of acceptable supporting documentation are provided below for reference:

- Activity in Regulatory Accounts included in taxable income on Schedule 1: appropriate documentation could include a continuity schedule for the activity in regulatory accounts included in taxable income on Schedule 1. The continuity schedule should clearly show the opening balances, transactions entered in the year and ending balances for these regulatory accounts. The continuity schedule should break out the activity in the regulatory accounts between principal and interest accumulated.
- CCA on Non rate-regulated assets: appropriate documentation could include a separate schedule similar to Schedule 8 of the distributor's tax return. The CCA on these non-rate regulated assets should tie back to the distributors' Schedule 8 supporting the tax provision.
- CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the CoS: appropriate documentation could include a separate schedule similar to Schedule 10 of the distributor's tax return. The CEC on the goodwill and intangible assets should tie back to the distributors'

Schedule 10 supporting the tax provision.

- CCA adjustment on PP&E from acquisitions that was not approved in the CoS: appropriate documentation could include a separate schedule similar to schedule 8 of the distributor's tax return for the PP&E. The CCA on these PP&E should tie back to the distributor's schedule 8 supporting the tax provision.

6. Specific Cells

a) **Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS) (Cell fa)**

Description: This cell represents the current provision for PILs or taxes. The current tax provision excludes deferred PILS or taxes (i.e. the origination and reversal of temporary differences).

Instruction: Enter the Current Tax Provision from the income statement of the distributor's AFS in Cell fa. Ensure that the number entered in the cell agrees to the number on the distributor's AFSs.

b) **Reassessment of taxes from prior years included in current tax provision as per AFS (Cell fa1)**

Description: Distributors may have reassessed taxes from prior years by the local tax authority that are included in the current tax provision or recovery as per the AFS. These amounts have been identified separately to determine if the impact on the ROE calculation is material. This cell is for the OEB's information only.

Instruction: If the Current Tax Provision from the distributor's AFS entered in Cell fa includes prior year(s) reassessments, enter the amount of any prior year reassessments in Cell fa1.

c) **Loss carry forward from prior years included in current tax provision as per AFS (Cell fa2)**

Description: Distributors may have loss carry-forward from prior years that is included in the current tax provision or recovery as per the AFS. These amounts have been identified separately to determine if the impact on the ROE calculation is material. This cell is for the OEB's information only.

Instruction: If the Current Tax Provision from the distributor's AFS entered in cell fa includes prior year(s) loss carry-forward, enter the amount of any loss carry-forward in Cell fa2.

d) **Actual Tax Rate (Cell xy)**

Description: Distributor's actual combined statutory provincial and federal tax rate that was used to determine the current tax provision for the AFSs of the year. This tax rate is used to calculate the tax effect of all adjustment items.

Instruction: Enter the combined tax rate as defined above into Cell xy. For example, if the actual tax rate is 26.50%, please enter 26.50 in the input cell.

e) Current Tax Adjustment required to reconcile to RRR trial balance (Cell fb)

Description: This cell represents the current tax effect of any reconciling items required to balance net income on the AFS to the RRR trial balance. An example would be current taxes associated with non-rate-regulated business income included in the AFS, but not the RRR trial balance. The line item may not be applicable when a distributor does not have non-rate-regulated business. Please note that this reconciling amount is provided in the RRR 2.1.13 mapping document to reconcile the AFSs to the RRR 2.1.7 trial balance.

Instruction: If applicable, enter the tax effect of any reconciling items required to balance net income on the AFS to the RRR trial balance in Cell fb. A reconciliation schedule, if not available in the RRR 2.1.13, must be prepared and retained to support the reconciling items.

f) Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110 (Cell fc)

Description: This cell represents the current tax provision or recovery in USoA 6110 in the RRR trial balance (Cell fc).

Instruction: The amount in Cell fc is automatically populated from USoA 6110 reported in RRR 2.1.7. A balance check is performed to compare the sum of Cells fa and fb to Cell fc. If an "ERROR" message appears below Cell fc, please check inputs for Cells fa and fb above and revise to ensure the sum of Cells fa and fb balances to USoA 6110 in Cell fc. If a "CORRECT" message appears below Cell fc, then no further action is required.

g) Non-rate regulated items (Appendix 1) (Cells gd and fd)

Description: This line item is to calculate the tax effect of the total non-rate regulated items and other adjustments from Appendix 1. Cell gd is auto-populated from Cell aq "Total non-rate regulated items" in Appendix 1. The tax effect on the total non-rate regulated items and other adjustments (Cell fd) is automatically calculated and equal to the product of Cell gd and the distributor's actual tax rate (Cell xy).

h) Non-recoverable donations (Appendix 2) (Cells ge and fe)

Description: This line item is to calculate the tax effect of the total non-recoverable donations from Appendix 2. Cell ge is automatically populated from

Non-recoverable donations (Cell be in Appendix 2 of the RRR 2.1.5.6 ROE form). The tax effect on the non-recoverable donations (Cell fe) is automatically calculated and equal to the product of Cell ge and the distributor's actual tax rate (Cell xy).

i) **Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable (Cells gf and ff)**

Description: The activity of regulatory asset and liability accounts is not allowed in PILs embedded into the rates as stated in the 2006 EDR Handbook, Report of the Board⁴ and Chapter 2 of the Filing Requirements⁵. As a result, if a distributor has included the activity of regulatory accounts in its taxable income, it must be removed from the current tax provision for the purposes of determining regulatory ROE. That is, if the tax treatment for regulatory asset and liabilities accounts in the RRR differ from the treatment of PILs in the distributor's CoS Decision and Order, then an adjustment for the tax impact of regulatory account activities is required.

Attachment B (located at the end of this document) outlines four scenarios (1 through 4) for the treatment of regulatory account activity and the impact on taxes. Two of the scenarios are based on early adoption of the IFRS financial reporting standard, and the other two scenarios are based on late adoption of the IFRS financial reporting standard.

- For distributors filing income taxes under either scenario 2 or 4, a tax adjustment is not required. Net income for tax purposes excludes regulatory assets and liabilities.
- For distributors filing taxes under either scenario 1 or 3, a tax adjustment is required. Net income for tax purposes includes regulatory assets and liabilities.
- For distributors using alternate financial reporting standards, the distributor is required to identify the treatment of regulatory accounts for tax purposes to determine if an adjustment is required.

Instruction: Enter activity in regulatory accounts which is included in taxable income in Cell gf, if applicable.

⁴ RP-2004-0188 Electricity Distribution Rate Handbook, Report of the Board 2005 May 11, page 61. "**Regulatory assets and liabilities**, A PILs or tax provision is not needed for the recovery of deferred regulatory asset costs, because the distributors have deducted, or will deduct, these costs in calculating taxable income in their tax returns. The Handbook will reflect this treatment."

⁵ Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rates Applications - Chapter 2 Cost of Service July 16, 2015, page 42. "**Regulatory assets and liabilities must generally be excluded from PILs calculations both when they were created and when they were disposed, regardless of the actual tax treatment accorded those amounts.**"

a. Net **Credit** activity of regulatory accounts requires a **negative** adjustment:

If net income for the purposes of calculating tax provision in the AFS/tax return/RRR includes regulatory assets and liabilities; and the activity of regulatory accounts is a **net credit** (i.e. net income in the AFS/tax return was **increased**), a **reduction** to net income for the purposes of calculating regulatory ROE is required. Enter regulatory account activity in Cell gf as a **negative** number. The tax **recovery** in Cell ff will automatically populate to calculate the tax effect of the activity.

b. Net **Debit** activity of regulatory accounts requires a **positive** adjustment:

If net income for the purposes of calculating tax in the AFS/tax return/RRR includes regulatory assets and liabilities, and the activity of regulatory accounts is a **net debit** (i.e. net income in the AFS/tax return was **decreased**), an **increase** to net income for the purposes of calculating regulatory ROE is required. Enter regulatory account activity in Cell gf as a **positive** number. The tax **provision** in Cell ff will be automatically populated to calculate the tax effect of the activity.

A reconciliation schedule must be prepared and retained to support the net activity of regulatory accounts and the associated tax adjustment.

Scenarios 1 to 4 in Attachment B (located at the end of this document) assume that the activity in the regulatory accounts includes carrying charges. If regulatory activity excludes carrying charges, it is the distributor's responsibility to ensure that the appropriate modifications are made to the calculations to arrive at the correct current tax provision.

j) **Net carrying charges on DVAs (Appendix 3) (Cells gg and fg)**

Description: This line item is to calculate the tax effect of the net carrying charges on DVAs in Appendix 3.

Instruction: Cell gg is auto-populated from Cell cc, Net interest/carrying charges from DVAs in Appendix 3 of the RRR 2.1.5.6 ROE form. No entry is required. The tax effect in Cell fg is automatically calculated and equal to the product of Cell gg and the distributor's actual tax rate (Cell xy).

If net carrying charges have been recognized as interest **income**, income for the purposes of calculating regulatory ROE is **reduced**. If net carrying charges have been recognized as interest **expense**, the income for the purposes of calculating regulatory ROE is **increased**.

k) **Add back Actual interest expense (Appendix 4) (Cells gh and fh)**

Description: This line item is to calculate the tax effect of the actual interest expense that is added back for the purposes of the ROE filing. Cell gh is

automatically populated from Cell dc Net interest expense in Appendix 4. No entry is required. The tax effect of the actual interest is automatically calculated in Cell fh.

l) Deduct Deemed Interest expense (Appendix 4) (Cells gi and fi)

Description: This line item is to calculate the tax effect of the deemed interest expense that is to be deducted for the purposes of the ROE filing. Cell gi is automatically populated from Cell df Deemed interest in Appendix 4. The tax effect of the deemed interest is automatically calculated in Cell fi.

m) CCA on Non-rate regulated assets (Cells gj and fj)

Description: CCA on non-rate regulated assets is CCA on assets which do not contribute to the provision of electricity distribution services. CCA cannot be deducted from net income for the purposes of calculating the current tax provision for the determination of regulatory ROE if this is the case. CCA related to non-rate regulated assets and deducted from net income on the AFS/tax return/RRR must be added back to net income for the purposes of the ROE filing. Please note that the tax effect of the depreciation expense on these non-rate regulated assets is dealt as part of the tax effect of the total non-rate regulated items.

Instruction: An adjustment is required if distributors have non-rate regulated assets reported as part of in RRR 2.1.7 and reported in Appendix 5 in Cell ef, non-distribution assets (NBV). Enter the CCA on non-rate regulated assets included as a deduction in the AFS/tax return/RRR in Cell gj. The tax effect on the CCA on non-rate-regulated assets is automatically calculated in Cell fj.

A reconciliation schedule must be prepared and retained to support the CCA adjustment and associated tax effect.

n) CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS (Cells gk and fk)

Description: Where a distributor's Cumulative Eligible Capital amounts include purchased goodwill or other intangible assets that are non-recoverable or disallowed for regulatory purposes, such amounts will also be excluded from the regulatory tax calculation⁶. The tax impact of the CEC adjustments that were not approved in the CoS should be removed from the current tax provision. Therefore, these amounts need to be added back to income for the purposes of the ROE filing.

⁶ Per the 2006 Electricity Distribution Rate Handbook, May 11, 2015 Subsection 7.2.5 Regulatory tax treatment of Eligible Capital Expenditures (ECE) "...where a distributor's Cumulative Eligible Capital Amounts includes purchased goodwill or other intangible assets that are non-recoverable or disallowed for regulatory purposes, such amounts will also be excluded from the 2006 regulatory tax calculation."

Instruction: Enter the disallowed CEC in Cell gk. The tax effect is automatically calculated in Cell fk.

A reconciliation schedule must be prepared and retained to support the CEC adjustment and associated tax effect. Note that the tax impact of any CEC adjustment on goodwill from the fair market value bump back to 2001 should not be included as an adjustment item.

o) CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS (Cells gl and fl)

Description: The ROE tax calculation will not take into account an increase in CCA as a result of a fair market value increase from acquisitions that were not approved in Rates⁷. Therefore, the tax impact of an increased amount of CCA from acquisitions that were not approved in a previous CoS should be removed from income for the purposes of the ROE filing.

Instruction: Enter the CCA reduction from acquisitions that were not approved in a previous CoS in Cell gl. The tax effect is automatically calculated in Cell fl.

A reconciliation schedule must be prepared and retained to support the CCA reduction and associated tax effect. Note that the tax impact of increased CCA resulting from the fair market value bump back in 2001 should not be included as an adjustment item.

p) Other Adjustments (Please specify) (Cells gm, gn, go and Cells fm, fn, fo)

Description: Other regulatory adjustments include any other items (which have not been identified previously in Appendix 6) required to determine the current tax provision for the purposes of calculating regulatory ROE consistent with the PILs methodology set out in Chapter 7 (Taxes/PILs) of the 2006 EDR Handbook and the EDR Handbook Report of the Board. Please note that no further adjustments are needed for the tax effects of non-cash adjustment items on the ROE summary tab. Examples of non-cash adjustment items include, unrealized gains/losses on interest rate swaps and actuarial gains/losses on OPEB or Pension not approved by the Board. Since non-cash adjustments are not deductible for corporate tax purposes, there is no tax effect in USoA 6110 of non-cash gains or losses. Therefore, an adjustment is not needed in Appendix 6, to arrive at the Current Tax Provision/Recovery for the purposes of calculating Regulated ROE.

Instruction: Enter any other regulatory adjustments in Cells gm, gn and go, if applicable. The tax effects of these adjustments are then automatically calculated in Cells fm, fn and fo respectively. Specify the nature of the

⁷ 2006 Electricity Distribution Rate Handbook, subsection 7.2.4 Undepreciated capital cost (UCC) and capital cost allowance (CCA), page 62 paragraph 2 "...The OEB regulatory tax calculation will not take into account any increase in capital cost allowance when distribution assets are purchased above book value".

adjustment and prepare/retain supporting documentation.

q) **Total Adjustment Items (Cells gp and fp)**

Description: This cell represents the total adjustment to regulated net income and the associated tax impact required to determine the current tax provision for the purposes of calculating regulatory ROE. Cells gp and fp are calculated cells equal to the sum of Cells gd to go and Cells fd to fo respectively.

r) **Current Tax Provision/(Recovery) for the purposes of calculating regulated ROE (Cell fq)**

Description: This cell represents the current tax provision for the current year after the exclusion of the adjustment items. Cell fq is a calculated cell equal to the sum of Cells fc and fp.

Section B ROE Summary

1. General Overview

The ROE Summary tab summarizes the calculation of the achieved regulated ROE for the reporting year. The achieved regulated ROE as filed in RRR 2.1.5.6 is reported on the distributor's Scorecard. The majority of the cells in the ROE Summary tab are linked to values in Appendices 1 to 6.

The starting point for the calculation of achieved ROE is the regulated net income or loss as reported on the RRR 2.1.7 trial balance. Adjustments to regulated net income as per RRR 2.1.7 are made, as applicable, to determine adjusted regulated net income, which is divided by regulated deemed equity to determine achieved ROE % and the distributor's ROE status for the reporting year (i.e. whether the distributor is in an over-earning/under-earning position or within the 300 basis points deadband).

2. Purpose of the ROE Summary Tab

- To display the calculation of the ROE filing.
- To calculate regulated net income and regulated deemed equity for the purposes of determining achieved ROE on a comparable basis to the deemed ROE approved in the distributor's last CoS Decision and Order.
- To determine the distributor's achieved ROE % and compare to the deemed ROE % to show the distributor's ROE status for the reporting year.

3. Information for Display Purposes Only

- a) The CoS Decision and Order EB number for the ROE (Cell xx)
- b) Accounting standard used in CoS Decision and Order (Cell yy)

These two cells are auto-populated from each distributor's last CoS Decision and Order. Distributors must check the displayed information for accuracy. Any issues regarding the accuracy of the displayed information must be resolved by contacting Industry Relations at the OEB via email at: IndustryRelations@ontarioenergyboard.ca

4. Specific Cells in the section of "Regulated net income"

a) Regulated net income (loss), as per RRR 2.1.7 (Cell a)

Description: The starting point for the ROE calculation is the regulated net income or loss as reported in the distributor's RRR 2.1.7 trial balance. This cell is auto-calculated from USoA 3046 in RRR 2.1.7 trial balance and multiplied by -1. A positive number indicates a net profit for the year, and a negative number indicates a net loss for the year.

b) Non-rate regulated items and other adjustments (Appendix 1) (Cell b)

Description: Appendix 1 must be completed to remove those non-regulated income/expenses and other adjustments, if applicable, included in regulated net income on RRR 2.1.7. Refer to Section A.1 for the detailed guidance for the appendix. This cell is linked from Appendix 1 Cell aq where the detailed calculation is completed.

c) Unrealized (gains)/losses on interest rate swaps (Cell c)

Description: Unrealized gains/losses on interest rate swaps reported in the RRR 2.1.7 trial balance must be removed for the purposes of the ROE filing.

Unrealized gains/losses on interest rate swaps are not repayable or recoverable from distributors' customers and, therefore, are not included in the revenue requirement for rate making purposes. Accordingly, the unrealized gains/losses should be excluded from the ROE calculation.

Depending on the accounting standard and policies used by the distributor, unrealized gains/losses can be recorded as a revenue/expense item in the income statement or as other comprehensive income (OCI). If reported as a revenue/expense item in the RRR 2.1.7 trial balance then an adjustment is required. If reported as part of OCI in USoAs 7005 to 7030, then an adjustment is not required.

Instruction: Enter unrealized gains/losses in Cell c. No entry is required if unrealized gains/losses have been recorded as OCI on RRR 2.1.7 trial balance. Enter the USoA account(s) in which the unrealized gains/losses were reported in the text box beside Cell c.

d) Actuarial (gains)/losses on Other Post Employee Benefits (OPEB) and/or Pension not approved by the OEB (Cell d)

Description: Actuarial gains/losses on Other Post Employee Benefits (OPEB) and/or Pension included in RRR 2.1.7 trial balance regulated net income must be removed for the purposes of the ROE filing, if they were not approved by the OEB in the distributor's last CoS Decision and Order.

Below please see the four scenarios for the actuarial gains/losses on the OPEB and/or Pension and the actions required for each of the scenarios:

	Last CoS approved actuarial gains/losses	Last CoS did not approve actuarial gains/losses
Actuarial gains/losses recorded in Net Income	Scenario A	Scenario C
Actuarial gains/losses recorded in OCI	Scenario B	Scenario D

Scenarios A and D: no action is required since the regulated net income will be consistent with the inclusion/exclusion of the gains/losses in the distributor's last CoS.

Scenario B: the distributor needs to add back the portion of gains/losses using the same methodology in the last CoS Decision and Order. This can be accomplished using the other adjustment line in Appendix 1.

Scenario C: the distributor should use this input cell to adjust the regulated net income for the purposes of ROE filing.

Please note that no action is required if the distributor has a Board-approved Deferral and Variance account for the actuarial gains/losses on OPEB and/or Pension.

Instruction: Enter Actuarial gains/losses on Other Post Employee Benefits (OPEB) and/or Pension not approved by the OEB in Cell d, if applicable. Enter the USoA(s) in which the unapproved actuarial gains/losses were recorded in the text box beside Cell d.

e) Non-recoverable donations (Appendix 2) (Cell e)

Description: Appendix 2 must be completed to remove the non-recoverable donations from regulated net income for the purposes of the ROE filing. Refer to Section A.2 for the detailed guidance for the appendix. This cell is linked from Appendix 2 Cell be where the detailed calculation is completed.

f) Net interest/carrying charges from Deferral and Variance accounts (DVAs)

(Appendix 3) (Cell f)

Description: Appendix 3 must be completed to remove the interest/carrying charges on Deferral and Variance accounts (DVAs) from regulated net income for the purposes of the ROE filing. Refer to Section A.3 for the detailed guidance for the appendix. This cell is linked to Appendix 2 Cell cc where the detailed calculation is completed.

g) Interest adjustment for deemed debt (Appendix 4) (Cell g)

Description: deemed interest expense calculated, not actual interest expense is treated as a deduction for the purposes of the ROE filing. Therefore, Appendix 4 must be completed to determine the interest adjustment for deemed debt. Refer to Section A.4 for the detailed guidance for the appendix. This cell is linked from Appendix 4 Cell dg where the detailed calculation is completed.

h) Adjusted regulated net income before tax adjustments (Cell h)

Description: This represents regulated net income before tax after adjustments in Cells b to g. This cell is a calculated cell equal to the sum of Cells a through g. Revenues (entered as negative numbers) are removed from regulated net income and expenses (entered as positive numbers) are added back to regulated net income.

i) Future /deferred taxes expense (Cell i)

Description: The OEB's 2006 EDR Handbook states that *"The tax amount included in rates reflects taxes payable as a result of operating the distribution-only business, rather than taxes calculated for accounting purposes, and hence future/deferred taxes will not be recovered through rates as a result of this filing"*⁸. As per the APH, the distributors should record the future/deferred tax expense in the USoA 6115. As such, to arrive at adjusted regulated net income before taxes for the purposes of the ROE filing, future income taxes reported in USoA 6115 must be added back to regulated net income. This cell is auto-populated from the USoA 6115 balance reported in RRR 2.1.7 trial balance.

j) Current income tax expense (Cell j)

Description: As identified in the OEB's 2006 EDR Handbook, taxes calculated for rate setting purposes using the OEB's prescribed methodology may not be the same as the one used from taxes calculated for accounting purposes. As a result, current income taxes reported in USoA 6110 are added back to regulated net income. This cell is auto-populated from the USoA 6110 balance reported in RRR 2.1.7 trial balance.

⁸ 2006 Electricity Distribution Rates Handbook, Page 58

k) Current Income tax expense for regulated ROE purposes (Appendix 6) (Cell k)

Description: To determine adjusted regulatory income net of current taxes, current income tax expense for regulated ROE purposes is deducted from adjusted regulated net income before tax (i.e. k is deducted from the sum of (h+i+j)). This amount is calculated in Appendix 6. This cell is linked from Cell fq in Appendix 6.

l) Adjusted regulated net income (cell l)

Description: The adjusted regulated net income represents the regulated net income after tax adjustments. This cell is used in the calculation of the achieved ROE for the reporting year. This cell is a calculated cell equal to h+i+j-k. .

4. Specific Cells in the section “Deemed Equity”

This section, which calculates deemed equity, consists of cells which are auto-populated, calculated or linked cells except for one input cell (Cell n2) for any applicable adjustment(s) for operation expenses.

a) Cost of power (Cell m)

Description: The cost of power includes the sum of USoAs 4705 to 4751 as reported in RRR 2.1.7 trial balance. It is included in the calculation of rate base.

This cell is auto-populated from the sum of USoAs 4705 to 4751 reported in RRR 2.1.7 trial balance.

b) Operating expenses before any applicable adjustments (Cell n1)

Description: This cell is a starting point for the calculation of the operating expenses. It is an auto-populated cell equaling to the sum of USoAs 4505 to 4640, 4805 to 5695, 6105, 6205, 6210, and 6225 as reported in the RRR 2.1.7 trial balance and less the Actuarial gains/losses and non-recoverable donations reported in the regulated net income section .

This cell is auto-populated from the sum of USoAs 4505 to 4640, 4805 to 5695, 6105, 6205, 6210, and 6225, less actuarial gains/losses (ROE Summary Cell d) and non-recoverable donations (ROE summary Cell e).

c) Other adjustments (Cell n2)

Description: This cell includes any adjustment(s) that should not be included in the calculation of operating expenses. The distributors may have certain expenses not approved by the OEB but included as part of the starting point of the operating expenses in Cell n1. In this case, these expense(s) should be summarized and provided in this cell with the nature of the expense(s) and the USoA(s) of these expenses that they were recorded in the RRR 2.1.7 trial

balances. Each distributor must be prepared to justify the rationale for including other adjustments in operating expenses.

Instruction: Input other applicable adjustments in Cell n2. Provide the nature of the adjustments and input the corresponding USoAs in the blank cell adjacent to Cell n2 using the text boxes. Sum all adjustment items in the cell since only one line is provided for the adjustments.

d) Adjusted Operating expenses (Cells n)

Description: This cell represents the sum of operating expenses before any applicable adjustments and other adjustments. Adjusted operating expenses are included in the calculation of working capital and subsequently rate base, which is a determining factor in the calculation of deemed equity. This cell is the net of Cells n1 and n2.

e) Total Cost of Power and Operating Expenses (Cell o)

Description: This cell is the basis to calculate the working capital allowance \$ and, subsequently, rate base. This cell is the sum of Cells m and n.

f) Working capital allowance % as approved in the distributor's last CoS Decision and Order (Cell p)

Description: The working capital allowance for the purposes of calculating achieved ROE is the working capital allowance % approved in the distributor's last CoS Decision and Order. This cell is an auto-populated cell from the working capital allowance % approved in the distributor's last CoS.

g) Total working capital allowance \$ (Cell q)

Description: Total working capital allowance is equal to the working capital allowance % multiplied by the sum of Cost of Power and Operating expenses. This cell is an auto-calculated cell equal to the product of Cell o and Cell p.

h) Opening balance – regulated PP&E (NBV) (Cell r)

Description: The opening NBV balance of regulated PP&E is used to determine average regulated PP&E, which is a component of rate base. Refer the Section A.5 of this guide for details. This cell is linked from Cell ec in Appendix 5.

i) Adjusted closing balance – regulatory PP&E (NBV) (Cell s)

Description: The closing NBV balance of regulated PP&E is used to determine average regulated PP&E, which is a component of rate base. Refer the Section A.5 of this guide for details. This cell is linked from Cell el in Appendix 5.

j) Average regulated PP&E (Cell t)

Description: The average net book value of PP&E is equal to the average of the opening and closing NBV of PP&E. It is a component of rate base, which is a determining factor in the calculation of deemed equity. This cell is an auto-calculated cell equal to the average of Cells r and s.

k) Total rate base (Cell u)

Description: Total rate base is equal to the sum of the total working capital allowance and average regulated PP&E. It is a component of deemed debt which is used in the calculation of achieved ROE. This cell is a calculated cell equal to the sum of cells q and t.

l) Regulated Deemed Short-term debt % and \$ (Cells v and v1)

Description: Regulated deemed short-term debt % and \$ are used to calculate deemed interest expense in Appendix 4.

Cell v is auto-populated from the distributor's last CoS Decision and Order and Cell v1 is auto-calculated equal to the product of total rate base and regulated deemed short-term debt %.

m) Regulated Deemed Long-term debt % and \$ (Cells w and w1)

Description: Regulated deemed long-term debt % and \$ are used to calculate deemed interest in Appendix 4.

Cell w is auto-populated from the distributor's last CoS Decision and Order and Cell w1 is auto-calculated equal to the product of total rate base and regulated deemed long-term debt %.

n) Regulated Deemed Equity % and \$ (Cells x and x1)

Description: The regulated deemed equity % and \$ are used to determine the achieved ROE for the reporting year.

Cell x is auto-populated from the distributor's last CoS Decision and Order and cell x1 is auto-calculated equal to the product of total rate base and regulated deemed equity %.

o) Achieved ROE % (cell y)

Description: This cell represents the achieved ROE achieved by the distributor for the reporting year, based on adjusted regulated net income and the deemed equity. It is reported on the distributor's Scorecard.

This cell is auto-calculated equal to the adjusted regulated net income net of current taxes (Cell l) divided by the regulatory deemed equity in Cell x1.

p) Deemed ROE % from the distributor's last CoS Decision and Order (Cell z)

Description: This is the deemed ROE from the distributor's last CoS Decision and Order and it appears on the Scorecard. Each distributor must check the % for accuracy and contact Industry Relation of the OEB if any issues are noted.

This cell is auto-populated from the distributor's last CoS Decision and Order.

z1) Difference – maximum deadband 3% (cell z1)

Description: This is equal to the difference between the distributor's achieved ROE and deemed ROE from the distributor's last CoS Decision and Order, expressed as a %.

This cell is auto-calculated and is equal to the difference between Cell y and Cell z.

z2) ROE status for the year (Over-earning /Under-earning/Within 300 basis points deadband) (Cell z2)

Description: Depending on the % displayed in Cell z1, this cell will display either "Within 300 basis points deadband", "Over-earning" or "Under-earning". If the result in Cell z1 is greater than 3%, then Cell z1 will display "Over-earning". If the result in Cell z1 is less than -3%, then Cell z1 will display "Under-earning". If the result in Cell z1 is greater than -3% and less than +3%, Cell z1 will display "Within 300 basis points deadband".

If a distributor's ROE status is "Over-earning", Appendices 7 and 8 must be completed to identify the drivers of the over-earning and associated estimated customer impacts. If a distributor's ROE status is "Under-earning", Appendices 9 and 10 must be completed to identify the drivers of the under-earning and associated estimated customer impacts. If a distributor's ROE status is "Within 300 basis points deadband", no further action is required. This cell is auto-populated based on the results in Cell z1.

Section C Over-Earning Drivers Appendices 7 and 8

1. General Overview

If the distributor is in an over-earning position as indicated in Cell z2 on the ROE Summary tab, the distributor is required to complete Appendices 7 and 8 in the Over-Earning Drivers tab. Over-earning occurs when the distributor's achieved ROE is over 300 basis points, or 3% higher than the deemed ROE approved by the OEB in the distributor's last CoS Decision and Order.

2. Purpose of the Over-earning drivers appendices

The main purpose of Appendices 7 and 8 is to provide a mechanism and consistent methodology for a distributor to explain the drivers of its over-earning position.

It is each distributor's responsibility to ensure that the form is accurate and complete and that all necessary documentation is retained to support the amounts included in the appendices. In addition, the final Revenue Requirement Work Form (RRWF) approved by the OEB in the distributor's last CoS Decision and Order is to be used as the basis for determining the sources of the variances between achieved ROE and deemed ROE.

Section C.1 Appendix 7: Drivers for Over-earners

There are three tables in Appendix 7: Table 7.1, Table 7.2 and Table 7.3.

a) **Table 7.1 Breakdown of the ROE difference into Regulated Net Income and Regulated Deemed Equity**

- Table 7.1 is for informational purposes only. The source of the numbers in this table are the distributor's deemed ROE and equity approved in the last CoS Decision and Order, and the calculated ROE and equity from the calculations in the ROE summary tab.
- The purpose of Table 7.1 is to provide a snapshot of the over-earning: whether the over-earning is mainly due to the variance between the distributor's achieved regulated net income and ROE \$ approved in the last CoS Decision and Order, or the variance between achieved equity and deemed equity approved in the last CoS Decision and Order or both.
- The distributor is responsible for validating the accuracy of this table.
- The distributor may provide a summary of factors contributing to the over-earning position in the cell "Overall comment on variance between approved and achieved ROE".

b) **Table 7.2 Regulated Net Income Variances**

- The distributor is required to complete Table 7.2 to identify the components of the variance regarding regulated net income as compared to the ROE \$ approved in the last CoS Decision and Order.
- The distributor is to compare the achieved revenues and costs with the values approved in the final RRWF from the last CoS Decision and Order and to calculate the variance amount for each of the common components in the table. The revenue/gain variances are to be calculated as the achieved amount for the reporting year minus the approved revenue/gain amount in

the last CoS. The cost/expense variances are to be calculated as the approved cost/expense amount in the last CoS minus the achieved cost/expense for the reporting year.

- The variance between achieved regulated net income and ROE \$ approved in the distributor's last CoS Decision and Order may be a result of one or more the following factors:
 1. Change in distribution revenue
 2. Rate riders that are recorded in distribution revenues collected for the year
 3. Change in Other revenues
 4. Change in OM&A expenses
 5. Change in depreciation / amortization expenses
 6. Change in current tax expense
 7. Change in other expenses
 8. Other variances that are not identified above

Allocating the variance between achieved ROE and the deemed ROE approved in the distributor's last CoS Decision and Order to specific factors facilitates the identification of the main drivers for over-earning for the reporting year.

Distributors are to input the variance amounts for each applicable factor with the exception of the rate riders that are recorded in distribution revenues and collected in the year. These rate riders are automatically linked to Table 8.1 "Rate riders that are recorded in distribution revenues", discussed in further detail below.

- Distributors are required to quantify the variance for each applicable factor and explain the reason(s) for the variance(s) in the detailed explanation box provided next to each line item, as applicable.
- Distributors are required to provide a sufficient level detail in their explanations to facilitate the OEB's understanding of the reasons for over-earning as a result of variance in regulated net income.
- Cell titled "Total variance explained (%)" is auto-calculated equal to the total variance explained in Table 7.2 divided by the total variance as a result of changes in regulated net income in Table 7.1. The distributors should explain majority of the variance between achieved regulated net income and ROE \$ approved in its last CoS Decision and Order. This calculated cell represents the degree of completeness for variance analysis as performed by the distributors regarding regulated net income. A value of greater or equal to 80% for "Total variance explained (%)" would indicate a complete variance analysis.

Table 7.3 Regulated Deemed Equity Variances

- The distributor is required to complete Table 7.3 to identify the variance between the achieved equity calculated in the reporting year and the regulated

deemed equity approved in the last CoS Decision and Order:

- Change in Working capital allowance (\$) and
 - Change in Average regulated PP&E (NBV)
- The distributor is to compare the achieved working capital allowance/average regulated PP&E with the values approved from the final RRWF of the last CoS Decision and Order and to calculate the variance amount for each of the components in the table. The variances to be calculated are between the achieved working capital allowance/average regulated PP&E for the reporting year, and the approved values from the last CoS Decision and Order.
 - Distributors are required to provide a sufficient level detail in their explanations to facilitate the OEB's understanding of the variance in regulated deemed equity.
 - Cell titled "Total variance explained (%)" is auto-calculated equal to the total variance explained in Table 7.3 divided by the total variance as a result of changes identified in Table 7.1 regarding the regulated deemed equity. The distributors should explain majority of the variance between achieved equity and regulated deemed equity approved in its last CoS Decision and Order. This calculated cell represents the degree of completeness for variance analysis as performed by the distributors regarding regulated deemed equity. A value of greater or equal to 80% for "Total variance explained (%)" would indicate a complete variance analysis.

Section C.2 Appendix 8: Earning above the 300 Basis Points Per Customer/Connection per Month by main rate classes

There are three tables in Appendix 8: Table 8.1, Table 8.2 and Table 8.3.

Table 8.1 Rate riders that are recorded in distribution revenues

- Table 8.1 tabulates the total amount of rate rider revenues that are recorded in distribution revenue USoA 4080 for the reporting year. Please note that rate riders that are removed from distribution revenue and recorded against regulatory assets and liabilities should not be included in this table (e.g. DVA and Global Adjustment rate riders). There are two objectives for Table 8.1:
 - The total rate rider revenue calculated in this table is automatically linked to Cell hb in Table 7.2 "Rate riders that are recorded in distribution revenues collected for the year".
 - The total rate rider revenue calculated in this table is to be excluded from the calculation of the estimated customer impact of over-earning in Table 8.2.
- It is the distributor's responsibility to identify all rate riders that are recorded in

distribution revenue for the reporting year. For each of the rate riders, enter the description, the amount, the effective date and the sunset date. Please do not include the Smart Meter Incremental Revenue Requirement (SMIRR) Rate Riders into the table.

Table 8.2 Net \$ for ROE over the 300 basis points excluding rate rider revenues

- The purpose of Table 8.2 is:
 - To exclude the impact of total rate rider revenue from the over-earning calculation; and
 - To calculate the regulated net income associated with the ROE over 300 basis points in order to allocate it to main rate class. This allocation occurs in Table 8.3.
- The distributor is responsible for validating the accuracy of this table.

Table 8.3 Estimated customer impact (per month) for ROE over the 300 basis points

- The purpose of Table 8.3 is:
 - To allocate the regulated net income associated with over-earnings greater than 300 basis points to the main rate classes; and
 - To calculate an estimated customer impact (per month) in the main rate classes.
- Table 8.3 allocates the regulated net income over 300 basis points to the main rate classes based on the annual distribution revenues by main rate classes for the reporting year and then divided by average customer/connection numbers for the year in the main rate classes. The annual distribution revenues by rate class are auto-populated from the RRR 2.1.5.4 annual filing and the customer/connection numbers by rate class are auto-populated from the most recent RRR 2.1.2 quarterly filing.
- Please note that distributors must submit the filings for RRR 2.1.5.4 and RRR 2.1.2 in order for Table 8.3 to be populated. Distributors are responsible for validating the accuracy of the auto-populated information. If any discrepancies are identified, the distributor may need to re-file the relevant filing in order for the correct information to populate in Table 8.3.
- Please note that this table provides an estimate of the impact to customers using the main rate classes. Some distributors may have specific sub-classes in each of the main rate classes (i.e. a distributor may have four sub-classes in the residential class). In addition, revenue/cost ratios are not factored into the allocation of regulated net income earned greater than 300 basis points. The calculation is simplified and intended to provide a directional approximation of the impact to customers. If a distributor strongly feels that a more detailed calculation is warranted, please contact the Industry Relations

at IndustryRelations@ontarioenergyboard.ca

Section D Under-Earning drivers Appendices 9 and 10

1. General Overview

If the distributor is in an under-earning position as indicated in Cell z2 on the ROE Summary tab, the distributor is required to complete Appendices 9 and 10 in the Under-Earning Drivers tab. Under-earning occurs when the distributor's achieved ROE is below 300 basis points, or 3% less than the deemed ROE approved by the OEB in the distributor's last CoS Decision and Order.

2. Purpose of the Under-earning drivers appendices

The main purpose of Appendices 9 and 10 is to provide a mechanism and consistent methodology for a distributor to explain the drivers of its under-earning position.

It is each distributor's responsibility to ensure that the form is accurate, complete, and all necessary documentation is retained to support the amounts included in the appendices. In addition, the final RRWF approved by the OEB in the last CoS Decision and Order is to be used as the basis for determining the sources of the variances between achieved ROE and deemed ROE.

Section D.1 Appendix 9: Drivers for Under-earners

There are three tables in Appendix 9: Table 9.1, Table 9.2 and Table 9.3.

- a) Table 9.1 Breakdown of the ROE difference into Regulated Net Income and Regulated Deemed Equity
- Table 9.1 is for informational purposes only. The source of the numbers in the table are the distributor's deemed ROE and equity approved in the last CoS Decision and Order, and the calculated ROE and equity from the calculations in the ROE summary tab.
 - The purpose of Table 9.1 is to provide a snapshot of the under-earning: whether the under-earning is mainly due to the variance between the distributor's achieved regulated net income and ROE \$ approved in the last CoS Decision and Order, or the variance between achieved equity and deemed equity approved in the last CoS Decision and Order or both.
 - The distributor is responsible for validating the accuracy of this table.

- The distributor may provide a summary of factors contributing to the under-earning position in the cell “Overall comment on variance between approved and achieved ROE”

Table 9.2 Regulated Net Income Variances

- The distributor is required to complete Table 9.2 to identify the components of the variance regarding regulated net income as compared to the ROE \$ approved in the last CoS Decision and Order.
- The distributor is to compare the achieved revenues and costs with the values approved in the RRWF from the last CoS Decision and Order and to calculate the variance amount for each of the common components in the table. The revenue/gain variances are to be calculated as the achieved amount for the reporting year minus the approved revenue/gain amount from the last CoS. The cost/expense variances are to be calculated as the approved cost/expense amount in the last CoS minus the achieved cost/expense for the reporting year.
- The variance between achieved regulated net income and ROE \$ approved in the distributor’s last CoS Decision and Order may be a result of one or more the following variances:
 1. Change in distribution revenue
 2. Change in OM&A expenses
 3. Change in depreciation / amortization expenses
 4. Change in current tax expense
 5. Change in other expenses
 6. Other variances that are not identified above
- Allocating the variance between achieved regulated net income and the regulated net income approved in the distributor’s last CoS Decision and Order to specific drivers facilitates the identification of the main drivers for under-earning for the reporting year.
- Distributors are to input the variance amounts for each applicable factor with the exception of the rate riders that are recorded in distribution revenues and collected in the year. These rate riders are automatically linked to Table 10.1 “Rate riders that are recorded in distribution revenues”, discussed in further detail below. For distributors in an under-earning position, rate rider revenue will mitigate the shortfall in actual regulated net income as compared to the regulated net income approved in the distributor's last CoS Decision and Order.
- Distributors are required to quantify the variance for each applicable factor and explain the reason(s) for the variance(s) in the detailed explanation box provided next to each line item as applicable.
- Distributors are required to provide a sufficient level of detail in their explanations to facilitate the OEB’s understanding of the reasons for under-

earning as a result of variance in regulated net income.

- Cell titled “Total variance explained (%)” is auto-calculated equal to the total variance explained in Table 9.2 divided by the total variance as a result of changes in regulated net income in Table 9.1 regarding the regulated net income. The distributors should explain majority of the variance between achieved regulated net income and ROE \$ approved in its last CoS Decision and Order. This calculated cell represents the degree of completeness for variance analysis as performed by the distributors regarding regulated net income. A value of greater or equal to 80% for “Total variance explained (%)” would indicate a complete variance analysis.

Table 9.3 Regulated Deemed Equity Drivers

- The distributor is required to complete Table 9.3 to identify the variance between the achieved equity calculated in the reporting year and the regulated deemed equity approved in the last CoS Decision and Order:
 - Change in Working capital allowance (\$) and
 - Change in Average regulated PP&E (NBV)
- The distributor is to compare the achieved working capital allowance/average regulated PP&E with the values approved in the final RRWF of the last CoS Decision and Order and to calculate the variance amount for each of the components in the table. The variances to be calculated are between the achieved working capital allowance/average regulated PP&E for the reporting year, and the approved values in the last CoS Decision and Order.
- Distributors are required to provide a sufficient level of detail in their explanations to facilitate the OEB’s understanding of the variances in regulated deemed equity.
- Cell titled “Total variance explained (%)” is auto-calculated equal to the total variance explained in Table 9.3 divided by the total variance as a result of changes identified in Table 9.1 regarding the regulated deemed equity. The distributors should explain majority of the variance between achieved equity and regulated deemed equity approved in its last CoS Decision and Order. This calculated cell represents the degree of completeness for variance analysis as performed by the distributors regarding regulated deemed equity. A value of greater or equal to 80% for “Total variance explained (%)” would indicate a complete variance analysis.

Section D.2 Appendix 10: Earning below the 300 Basis Points Per Customer/Connection per Month by main rate classes

There are three tables in Appendix 10: Table 10.1, Table 10.2 and Table 10.3.

Table 10.1 Rate riders that are recorded in distribution revenues

- Table 10.1 tabulates the total amount of rate rider revenues that are recorded in distribution revenue USoA 4080 for the reporting year. Please note that rate riders that are removed from distribution revenue and recorded against regulatory assets and liabilities should not be included in this table (e.g. DVA and Global Adjustment rate riders). There are two objectives for Table 10.1:
 - The total rate rider revenue calculated in this table is automatically linked to Cell j*b* in Table 10.2 “Rate riders that are recorded in distribution revenues collected for the year”; and
 - The total rate rider revenue calculated in the table is to be excluded in the calculation of the estimated customer impact of under-earning in Table 10.2.
- It is the distributor’s responsibility to identify all rate riders that are recorded in distribution revenue in the reporting year. For each of the rate riders, enter the description, the amount, the effective date and the sunset date. Please do not include the SMIRR Rate Riders into the table.

Table 10.2 Net \$ for ROE under the 300 basis points excluding rate rider revenues

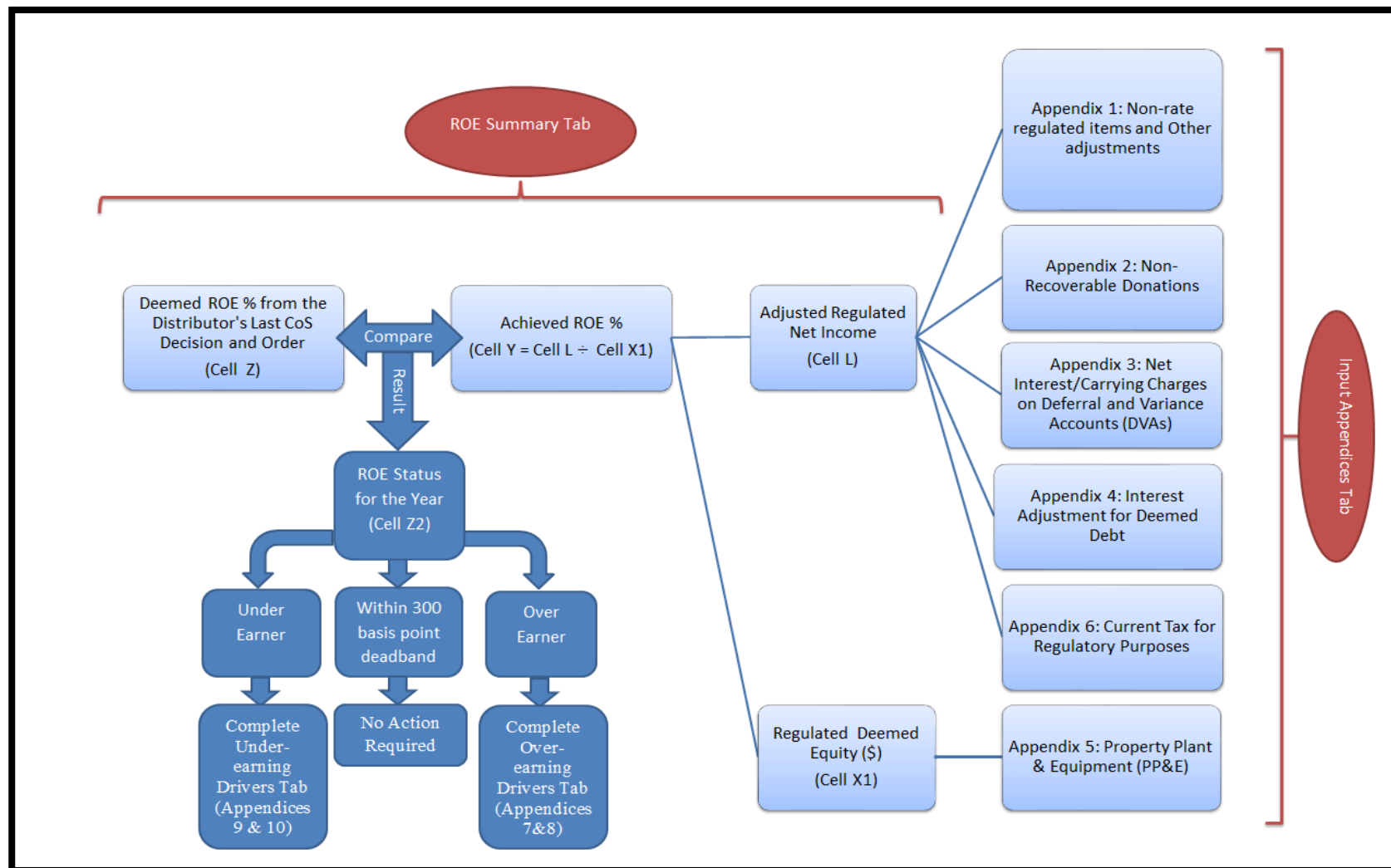
- The purposes of Table 10.2 are:
 - To exclude the impact of total rate rider revenue from the under-earning calculation; and
 - To calculate the regulated net income associated with the ROE under 300 basis points in order to allocate it to main rate class. This allocation occurs in Table 10.3.
- The distributor is responsible for validating the accuracy of this table.

Table 10.3 Estimated customer impact (per month) for ROE under the 300 basis points

- The purposes of Table 10.3 are:
 - To allocate the regulated net income associated with under-earning under 300 basis points to the main rate classes; and
 - To calculate an estimated customer impact (per month) in the main rate classes.
- Table 10.3 allocates the regulated net income under 300 basis points to the main rate classes based on the annual distribution revenues by main rate class for the reporting year and then divided by average customer/connection numbers for the year in the main rate classes. The annual distribution revenues by rate class are auto-populated from the RRR 2.1.5.4 annual filing and the customer/connection numbers by rate class are auto-populated from the most recent RRR 2.1.2 quarterly filing.

- Please note that distributors must submit the filings for RRR 2.1.5.4 and RRR 2.1.2 in order for Table 10.3 to be populated. Distributors are responsible for validating the accuracy of the auto-populated information. If any discrepancies are identified, the distributor may need to re-file the relevant filing in order for the correct information to populate in Table 10.3.
- Please note that this table provides an estimate of the impact to customers using the main rate classes. Some distributors may have specific sub-classes in each of the main rate classes (i.e. a distributor may have four sub-classes in the residential class). In addition, revenue/cost ratios are not factored into the allocation of regulated net income earned less than 300 basis points. The calculation is simplified and intended to provide a directional approximation of the impact to customers. If a distributor strongly feels that a more detailed calculation is warranted, please contact the Industry Relations at IndustryRelations@ontarioenergyboard.ca

Attachment A: Flowchart



Attachment B: Background

Tax Scenarios							
Note: the following provides the background for the four tax scenarios.							
IFRS: Regulatory Assets and Liabilities (RA/L) are not recognized (early adopter)							
MIFRS: Regulatory Assets and Liabilities (RA/L) are recognized (late adopter)							
<u>Income statement</u>		Tax Calculation		Tax Scenarios			
	IFRS	MIFRS		1	2	3	4
				Early Adopter	Early Adopter	Late Adopter	Late Adopter
Distribution Revenue	(\$1,000)	(\$1,000)	IFRS Conversion	Early Adopter	Early Adopter	Late Adopter	Late Adopter
Distribution Expenses	\$700	\$700	RA/L Recognized on AFS?	no	no	yes	yes
Cost of Power Revenue	(\$5,050)	(\$5,050)	Accounting Standard on which Tax is Paid:	IFRS	MIFRS	IFRS	MIFRS
Cost of Power Expenses	\$4,900	\$4,900	Starting Net Income for Tax Return	\$350.00	\$350.00	\$185.00	\$185.00
All Other Interest Expense	\$100	\$100	RA/L Adjustment to Taxable Income ¹	\$0.00	(\$165.00)	\$165.00	\$0.00
DVA Interest Expense	\$0	\$15	Net Income for Tax Purposes	\$350.00	\$185.00	\$350.00	\$185.00
			Tax Payable per Tax Return	\$92.75	\$49.03	\$92.75	\$49.03
Cash or A/R	\$350	\$350					
Regulatory Liability	\$0	(\$165)	Is Actual Tax Paid on a different accounting basis than PILS?	yes	no	yes	no
Net Income	(\$350)	(\$185)					
			Current Tax Provision per Tax Return	\$92.75	\$49.03	\$92.75	\$49.03
Deemed Interest	\$175	\$175	RA/L Adjustment ¹	(\$43.73)	\$0.00	(\$43.73)	\$0.00
			Carrying Charges Adjustment	\$3.98	\$3.98	\$3.98	\$3.98
PILS Calculation			Add back Actual Interest (excludes DVA interest)	\$26.50	\$26.50	\$26.50	\$26.50
Net Revenue	\$300.00		Deduct Deemed Interest	(\$46.38)	(\$46.38)	(\$46.38)	(\$46.38)
Deemed Interest	(\$175.00)		Current Tax Provision per Regulated ROE	\$33.13	\$33.13	\$33.13	\$33.13
Taxable Income	\$125.00						
			Example of Appendix 6 Calculation using Scenario 3	Income	Tax		
Tax Provision	\$33.13		IFRS Net Income for tax purposes	\$350.00	\$92.75		
			RA/L adjustment included on Sch 13 (incl DVA interest)	(\$165.00)	(\$43.73)		
ROE Calculation Per 2.1.5.6 ROE Form			MIFRS including DVA interest	\$185.00	\$49.03		
Net Income per 2.1.7	\$185.00		Remove DVA interest	\$15.00	\$3.98		
Add back DVA Interest Expense	\$15.00		MIFRS for PILs before deemed interest adj	\$200.00	\$53.00		
Interest Adjustment	(\$75.00)		Interest Adjustment	(\$75.00)	(\$19.88)		
Taxable Income	\$125.00		MIFRS for ROE	\$125.00	\$33.13		
Tax Provision	\$33.13						

Attachment B: Scenario 1

Scenario 1:			
Distributor A early adopted the IFRS prior to 2015. As such, the regulatory assets and liabilities are not recognized on the AFS. Distributor A accrued the tax provision on the basis of IFRS. As such, the regulatory assets and liabilities were expensed in the current tax provision, i.e., tax was paid on the transactions entered for the regulatory assets and liabilities in the year.			
Appendix 6: Current Tax for Regulatory Purposes			
			Tax Provision/ (Recovery)
Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS)			\$93.00 fa
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	\$0.00	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	\$0.00	fa2	
Actual Tax rate	26.50%	% xy	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance			\$0.00 fb
Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110			\$93.00 fo
Check balance - Does fa+fb=fo?			CORRECT
	(Income)/Expens		
Adjustment items			
Non-rate regulated items (Appendix 1)	\$0		\$0 fd=gd'xy
Non-recoverable donations (Appendix 2)	\$0	ge=be	\$0 fe=ge'xy
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	-\$165	gf	-\$44 ff=gf'xy
Net carrying charges on DVAs (Appendix 3)	\$15	gg=cc	\$4 fg=gg'xy
Add back Actual interest expense (Appendix 4)	\$100	gh=dc	\$27 fh=gh'xy
Deduct Deemed Interest expense (Appendix 4)	-\$175	gi= -df	-\$46 fi=gi'xy
CCA on Non rate-regulated assets		gj	\$0 fj=gj'xy
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS		gk	\$0 fk=gk'xy
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS		gl	\$0 fl=gl'xy
Other adjustments (Please specify)			
		gm	\$0.00 fm=gm'xy
		gn	\$0.00 fn=gn'xy
		go	\$0.00 fo=go'xy
Total Adjustment Items	-\$225	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+g	-\$60 fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo
Current Tax Provision/(Recovery) for the purposes of calculating Regulated ROE			\$33 fq=fo+fp

Attachment B: Scenario 2

Scenario 2:			
<p>Distributor B early adopted the IFRS prior to 2015. As such, the regulatory assets and liabilities are not recognized on the AFS. Distributor B accrued the tax provision on the basis of MIFRS. As such, the regulatory assets and liabilities were NOT expensed in the current tax provision, i.e, tax was NOT paid on the transactions entered for the regulatory assets and liabilities in the year.</p>			
Appendix 6: Current Tax for Regulatory Purposes			
			Tax Provision/ (Recovery)
Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS)			\$43.00
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	\$0.00	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	\$0.00	fa2	
Actual Tax rate	26.50%	% xy	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance			\$0.00
Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110			\$43.00
Check balance - Does fa+fb=fc?			CORRECT
	(Income)/Expens		
Adjustment items			
Non-rate regulated items (Appendix 1)	\$0		\$0
Non-recoverable donations (Appendix 2)	\$0	ge=be	\$0
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	\$0	gf	\$0
Net carrying charges on DVAs (Appendix 3)	\$15	gg=cc	\$4
Add back Actual interest expense (Appendix 4)	\$100	gh=dc	\$27
Deduct Deemed Interest expense (Appendix 4)	-\$175	gi= - df	-\$46
CCA on Non rate-regulated assets	\$0	gj	\$0
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS		gk	\$0
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS		gl	\$0
Other adjustments (Please specify)			
		gm	\$0.00
		gn	\$0.00
		go	\$0.00
Total Adjustment Items	-\$60	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+g	-\$16
Current Tax Provision/(Recovery) for the purposes of calculating Regulated ROE			\$33

Attachment B: Scenario 3

Scenario 3:			
Distributor C adopted the IFRS in 2015. As such, the regulatory assets and liabilities are recognized on the AFS. Distributor C accrued the tax provision on the basis of IFRS. As such, the regulatory assets and liabilities were expensed in the current tax provision, i.e., tax was paid on the transactions entered for the regulatory assets and liabilities in the year.			
Appendix 6: Current Tax for Regulatory Purposes			
			Tax Provision/ (Recovery)
Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS)			\$93.00 fa
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	\$0.00	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	\$0.00	fa2	
Actual Tax rate	26.50%	% xy	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance			\$0.00 fb
Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110			\$93.00 fc
Check balance - Does fa+fb=fc?			CORRECT
	(Income)/Expens		
Adjustment items			
Non-rate regulated items (Appendix 1)	\$0		\$0 fd=gd*xy
Non-recoverable donations (Appendix 2)	\$0	ge=be	\$0 fe=ge*xy
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	-\$165	gf	-\$44 ff=gf*xy
Net carrying charges on DVAs (Appendix 3)	\$15	gg=cc	\$4 fg=gg*xy
Add back Actual interest expense (Appendix 4)	\$100	gh=dc	\$27 fh=gh*xy
Deduct Deemed Interest expense (Appendix 4)	-\$175	gi=-df	-\$46 fi=gi*xy
CCA on Non rate-regulated assets	\$0	gj	\$0 fj=gj*xy
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS		gk	\$0 fk=gk*xy
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS		gl	\$0 fl=gl*xy
Other adjustments (Please specify)			
		gm	\$0.00 fm=gm*xy
		gn	\$0.00 fn=gn*xy
		go	\$0.00 fo=go*xy
Total Adjustment Items	-\$225	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+g	-\$60 fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo
Current Tax Provision/(Recovery) for the purposes of calculating Regulated ROE			\$33 fq=fc+fp

Attachment B: Scenario 4

Scenario 4:			
Distributor D adopted the IFRS in 2015. As such, the regulatory assets and liabilities are recognized on the AFS. Distributor D accrued the tax provision on the basis of MIFRS. As such, the regulatory assets and liabilities were NOT expensed in the current tax provision, i.e. tax was NOT paid on the transactions entered for the regulatory assets and liabilities in the year.			
Appendix 6: Current Tax for Regulatory Purposes			
			Tax Provision/ (Recovery)
Current Tax Provision/(Recovery) as per the Audited Financial Statements (AFS)			\$49.00 fa
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	\$0.00	fa1	
Loss carry forward from prior years included in current tax provision as per AFS	\$0.00	fa2	
Actual Tax rate	26.50%	% xy	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance			\$0.00 fb
Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110			\$49.00 fc
Check balance - Does fa+fb=fc?			CORRECT
	(Income)/Expens		
Adjustment items			
Non-rate regulated items (Appendix 1)	\$0		\$0 fd=gd*xy
Non-recoverable donations (Appendix 2)	\$0	ge=be	\$0 fe=ge*xy
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	\$0	gf	\$0 ff=gf*xy
Net carrying charges on DVAs (Appendix 3)	\$15	gg=cc	\$4 fg=gg*xy
Add back Actual interest expense (Appendix 4)	\$100	gh=dc	\$27 fh=gh*xy
Deduct Deemed Interest expense (Appendix 4)	-\$175	gi= - df	-\$46 fi=gi*xy
CCA on Non rate-regulated assets	\$0	gj	\$0 fj=gj*xy
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS		gk	\$0 fk=gk*xy
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS		gl	\$0 fl=gl*xy
Other adjustments (Please specify)			
		gm	\$0.00 fm=gm*xy
		gn	\$0.00 fn=gn*xy
		go	\$0.00 fo=go*xy
Total Adjustment Items	-\$60	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+go	-\$16 fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo
Current Tax Provision/(Recovery) for the purposes of calculating Regulated ROE			\$33 fq=fc+fp