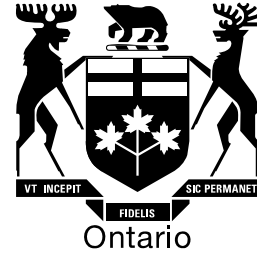


Ontario Energy Board

Commission de l'énergie de l'Ontario



Chapter 3 of the Filing Requirements for Transmission and Distribution Applications

July 9, 2010

Table of Contents

CHAPTER 3	FILING REQUIREMENTS FOR INCENTIVE REGULATION MECHANISMS FOR ANNUAL RATE ADJUSTMENTS	4
1.0	Introduction	4
1.1	Key References	5
1.2	Rate Adder versus Rate Rider	6
1.2.1	Rate Adder	6
1.2.2	Rate Rider	6
1.2.3	Materiality for Rate Adders and Rate Riders	6
1.3	Grouping for Filings	7
1.4	Components of the Application Filing	9
1.5	Bill Impacts	9
1.6	Applications and Electronic Models	10
2.0	IRM2 and IRM3 Common Adjustments	10
2.1	Price Cap Adjustment	10
2.2	Z-factor Claims	11
2.2.1	Eligibility Criteria for Z-factor Amounts	11
2.2.2	Materiality Threshold	12
2.2.3	Z-factor Filing Guidelines	13
2.2.4	Other Matters in Relation to Z-Factors	14
2.2.5	Z-factor Accounting Treatment	14
2.3	Smart Meter Funding Adder	14
2.4	Low Voltage Service Charges	15
2.5	Lost Revenue Adjustment Mechanism (LRAM) and/or Shared Savings Mechanism (SSM) Cost Claims	15
2.6	Electricity Distribution Retail Transmission Service Rates	16
2.7	Electricity Distribution Deferral and Variance Accounts	16
2.8	Distribution System Plans - Filing under Deemed Conditions of Licence	17
2.9	Other Rate Adjustments	18
3.0	IRM2-Specific Adjustments	19
3.1	Tax Changes	19
4.0	IRM3 Specific Adjustments	19
4.1	Incremental Capital Module	19
4.1.1	ICM Threshold	20
4.1.2	ICM Filing Guidelines	21
4.1.3	ICM Reporting Requirements	22
4.1.4	ICM Accounting Treatment	22
4.1.5	Rate Generator and Supplemental Filing Module for ICM	23
4.2	Tax Changes in Relation to the Z-factor	23
4.3	Revenue-to-Cost Ratio Adjustments	24
5.0	Specific Exclusions from IRM Applications	24
6.0	Off-ramps	25
Appendix A:	Disposition of Residual Balance to USoA Account 1590 or 1595	26

Appendix B: Application of recoveries to principal and interest carrying charges amounts in accounts 1590 and 1595

27

Chapter 3 Filing requirements for incentive regulation mechanisms for annual rate adjustments

1.0 Introduction

The Ontario Energy Board regulates the rates of electricity distributors using a combination of annual incentive rate mechanism (“IRM”) adjustments and periodic cost of service reviews.

The examination and decision on an application is based on the evidence filed in that case. This ensures that all interested parties to the proceeding have an opportunity to see the evidence, participate meaningfully in the Board’s process, and understand the reasons for the decision in that case. To help ensure that there is a complete record, the applicant must meet all of the applicable Filing Requirements.

The filing requirements herein replace version 1.0 of Chapter 3 of the *Filing Requirements for Transmission and Distribution Applications*, dated July 22, 2009. The requirements set out the Board’s expectations for filings by electricity distributors that are applying for annual rate adjustments under the 2nd and 3rd Generation IRM plans.

Electricity distributors that have completed a cost of service application for the 2008 rate year and beyond are eligible to file a 3rd Generation IRM rate application (“IRM3”).

Electricity distributors that have not re-based subsequent to their 2006 EDR application are eligible to file a 2nd Generation IRM (“IRM2”) application.

1.1 Key References

The documents listed below are key to understanding these Filing Requirements:

- *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario's Electricity Distributors* (filing guidelines: Appendix F) – December 20, 2006;
- *Guidelines for Electricity Distributors' Conservation and Demand Management* – March 28, 2008;
- *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*– July 14, 2008;
- *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* – September 17, 2008;
- *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* – January 28, 2009;
- *Guideline (G-2008-0001) on Retail Transmission Service Rates* – October 22, 2008 (Revision 2.0 July 8, 2010 and any subsequent updates);
- *Guideline (G-2008-0002) on Smart Meter Funding and Cost Recovery* – October 22, 2008 (and any subsequent updates);
- *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)* – July 31, 2009; and
- *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence EB-2009-0397* March 25, 2010.

1.2 Rate Adder versus Rate Rider

1.2.1 Rate Adder

A rate adder (or funding adder) is a tool designed to provide advance funding on an interim basis to distributors for certain investments or expenses as prescribed by the Board and to mitigate or smooth the anticipated rate impact when recovery of these costs are approved by the Board. Approval of a rate adder does not constitute regulatory approval of any costs actually incurred. The prudence of such costs is examined, and the costs are approved in whole or in part, at the time at which the distributor brings the matter forward for regulatory review.

Rate adders are identified and listed separately on a distributor's Tariff of Rates and Charges without an explicit sunset or termination date.

1.2.2 Rate Rider

A rate rider differs from a rate adder in that it is designed to recover or refund Board-approved amounts following a prudence review.

Rate riders are identified and listed separately on a distributor's Tariff of Rates and Charges, with an explicit sunset or termination date.

1.2.3 Materiality for Rate Adders and Rate Riders

Rate adders and rate riders normally apply to one or more select rate classes on a fixed basis, a volumetric basis or a combination of both. A rate adder or rate rider is usually determined by dividing the Board-approved allocated amounts by the Board-approved forecast or historical energy use or demand,.

Occasionally, the calculated rate adders or rate riders for one or more rate classes may be negligible. The Board has determined in the event where the calculation of one or more rate classes' rate adder or rate rider results in energy-based kWh rate riders of \$(0.0000) when rounded to the fourth decimal place and demand-based kW rate riders of \$(0.00) when rounded to the second decimal place, the entire Board-approved amount for recovery or refund shall be recorded in a USoA account to be determined by the Board for disposition in a future rate setting.

1.3 Grouping for Filings

The Board will assign electricity distributors in one of six application groupings noted below based on the expected level of complexity of the application.

The length of time required to review an application is commensurate upon its level of complexity. The applications of greater complexity and hence requiring more time to review will be required to be filed first. Staggering of the applications allows the Board and other stakeholders to appropriately schedule resources to allow for adequate review of the applications. The deadlines for filing an IRM application have been determined so that, in the normal course of events, a Decision and Order would be issued in time for a May 1 implementation date.

The application deadlines are as follows.

- Friday September 17, 2010
- Friday October 1, 2010
- Friday October 15, 2010
- Friday October 29, 2010
- Friday November 12, 2010
- Friday November 26, 2010

Board staff will survey potential IRM applicants in July 2010 requesting that applicants identify the expected elements of their IRM application for the purpose of assisting the Board in assigning a filing deadline for each electricity distributor. Applicants expected to include one or more of the following elements in their application will be assigned an earlier filing date:

- LRAM/SSM recovery;
- Revenue-to-Cost Ratio Adjustments;
- Rate Harmonization pursuant to a prior Board decision;
- Z Factor claim;
- Incremental Capital Module claim; and
- Renewable Generation and/or Smart Grid Rate Adder request.

The assignment of distributors under these filing dates will be identified in a separate communication.

1.4 Components of the Application Filing

Each application must include:

- A Manager's Summary thoroughly documenting and explaining all rate adjustments applied for;
- A completed Rate Generator¹ with supplemental filing modules² or work forms, provided by the Board, both in electronic (i.e. Excel) and PDF form;
- A PDF copy of the current Tariff Sheet;
- A PDF copy of the facsimile tariff sheet generated by the Rate Generator; and
- A PDF copy of the bill impacts generated by the Rate Generator.

1.5 Bill Impacts

The Rate Generator includes a bill impact analysis by rate class and produces total bill impacts excluding any changes to the Debt Retirement Charge (DRC), Special Purpose Charge (SPC), the Regulated Price Plan (RPP) and sales tax. This analysis is similar to that used in assessing rate applications in recent years. The latest RPP and sales tax rates at the time of publication of the Rate Generator model will be used and will remain unchanged for the duration of the application process.

For the Board's Notice of Application and other public communication purposes, the bill impacts used will be based on the "Delivery" component as shown on a Standardized Bill for a residential customer using 800 kWh per month and a General Service Less than 50 kW customer using 2,000 kWh per month.

¹ The Rate Generator is a Board-provided Microsoft Excel workbook designed to translate a distributor's current tariff of rates and charges stepwise to the proposed tariff of rates and charges in an IRM Application.

² A supplemental filing module is a Board-provided Microsoft Excel workbook designed to calculate one or more complex rate adjustments which results are entered as a component in the Rate Generator.

1.6 Applications and Electronic Models

The models prepared by Board staff are provided to assist the distributor in filing a rate application. An application to the Board is the distributor's responsibility and the Board expects that the application will be complete and accurate. While Board staff may issue electronic filing models for use in IRM rate applications, the distributor bears the responsibility to ensure the accuracy and appropriateness of any models that it uses in supporting its application. The distributor is responsible for advising the Board of any concerns it may have regarding calculations flowing from the models. Utilization of Board staff models does not necessarily constitute Board acceptance.

2.0 IRM2 and IRM3 Common Adjustments

2.1 Price Cap Adjustment

The Board has determined that the Gross Domestic Product Implicit Price Index for Final Domestic Demand (GDP-IPI) as published by Statistics Canada for the prior calendar year will be used as the price escalator for the IRM applications. Board staff prepared models will originally include the preceding year's GDP-IPI value as an estimate of the inflationary adjustment to input prices (i.e. costs) for the upcoming rate year. Statistics Canada publishes the prior year's data at the end of February. Upon publication by Statistics Canada, the Board will issue a letter establishing the updated GDP-IPI and will update the GDP-IPI in each distributor's rate application model in order to calculate the price cap adjustment index for distribution rates for all applicants.

The price cap adjustment index is determined as the annual percentage change in the GDP-IPI less the X-Factor. For IRM2, the X-factor is 1%. For IRM3, the X-factor is 0.72% plus a stretch factor. The value of the stretch factor is specific to each distributor for each rate year, and will be one of the following values: 0.2%; 0.4%; or 0.6%. Each distributor's stretch factor will be determined by the Board. The distributor specific

stretch factors will not be available before the application is filed. Therefore, the IRM Model will include a proxy stretch factor of 0.4%. Once the updated groupings are determined, the Board will adjust the stretch factor in each distributor's individual rate application model.

The price cap adjustment will be applied to the Service Charge and Distribution Volumetric Rate. The price cap adjustment will not be applied to the Rate Adders, Rate Riders, Low Voltage Service Charges, Retail Transmission Service Rates, the Wholesale Market Service Rate, the Rural Rate Protection Charge, the Standard Supply Service – Administrative Charge, microFIT service charge, Specific Service Charges, Allowances³, Retail Service Charges or Loss Factors.

2.2 Z-factor Claims

Z-factors are intended to provide for unforeseen events outside of a distributor's management control and the cost must be material and incremental. A distributor must follow the guidelines listed below when applying to the Board to recover the amounts that the distributor has recorded in a Board-approved deferral account related to a Z-factor claim.

2.2.1 Eligibility Criteria for Z-factor Amounts

The eligibility criteria for a request to recover amounts by way of a Z-factor are discussed in section 2.6 of the Board's Report on 3rd generation incentive regulation – July 14, 2008, and are summarized in Table 1 below. The Board expects that any application for a Z-factor will be accompanied by a clear demonstration that the management of a distributor could not have been able to plan and budget for the event and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations. In order for amounts to be considered for

³ Transformation and primary metering allowances and any other allowances the Board may determine.

recovery by way of a Z-factor, the amounts must satisfy all three eligibility criteria set out in Table 1.

Table 1: Z-factor Amount Eligibility Criteria

Criteria	Description
Causation	Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
Materiality	The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
Prudence	The amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

2.2.2 Materiality Threshold

For IRM2 applicants the Board has limited Z-factor claims to changes in tax rules and to natural disasters. Recovery is reserved for amounts that have a significant influence on the operation of the distributor. An expense will be considered material if it exceeds 0.2% of total distribution expenses before taxes, and a capital cost will be considered material if it exceeds 0.2% of net fixed assets. This materiality threshold must be met on an individual event basis in order for the relevant costs to be eligible for potential recovery.

For IRM3 applicants the Board has determined that the following materiality thresholds will apply:

- \$50,000 for a distributor with a distribution revenue requirement less than or equal to \$10 million;
- 0.5% of distribution revenue requirement for a distributor with a revenue requirement greater than \$10 million and less than or equal to \$200 million; and
- \$1 million for a distributor with a distribution revenue requirement of more than \$200 million.

As with the IRM2 claims, the IRM3 threshold must be met on an individual event basis in order for costs to be eligible for potential recovery.

2.2.3 Z-factor Filing Guidelines

A distributor must submit evidence that the costs which were incurred meet the three eligibility criteria outlined above.

- A distributor must notify the Board by letter to the Board Secretary of all Z-factor events. Failure to notify the Board within six months of the event may result in disallowance of the claim.
- A distributor must apply to the Board for any cost recovery of amounts recorded in the Board-approved deferral account claimed under Z-factor treatment. This will allow the Board and any affected distributor the flexibility to address extraordinary events in a timely manner. Subsequently, the Board may review and prospectively adjust the amounts for which Z-factor treatment is claimed.
- The Board requires that any request for a Z-factor will be accompanied by a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by the event is genuinely incremental to its experience or reasonable expectations.
- The costs must be incremental to those already being recovered in rates as part of ongoing business exposure risk.

2.2.4 Other Matters in Relation to Z-Factors

As part of its claim, a distributor must outline the manner in which it intends to allocate the incremental revenue requirement to the various customer rate classes, the rationale for the selected approach and a discussion of the merits of alternative allocation methods.

Recovery will be through a rate rider. The request must specify whether the rate rider(s) will apply on a fixed or variable basis or a combination thereof, and the length of the disposition period. A detailed calculation of the rate rider(s) must be provided.

2.2.5 Z-factor Accounting Treatment

The distributor will record eligible Z-factor cost amounts in Account 1572, Extraordinary Event Costs, of the Board's Uniform System of Accounts (the "USoA") contained in the *Accounting Procedures Handbook* ("APH") for electricity distributors.

Monthly carrying charges shall be recorded in Account 1572. Carrying charges are calculated using simple interest applied to the monthly opening balances in the account and recorded in a separate sub-account of this account. The rate of interest shall be the rate prescribed by the Board for deferral and variance accounts for the respective quarterly period published on the Board's web site.

2.3 Smart Meter Funding Adder

The Smart Meter Funding adder is currently applied to all metered customers in accordance with the Board's Decision RP-2005-0020/EB-2005-0529 and as subsequently revised in Board Decisions and Rate Orders for each distributor. This funding adder is not subject to the price cap adjustment.

Requests for changes to smart meter funding adders should comply with the latest version of the Board Guideline G-2008-0002 Smart Meter Funding and Cost Recovery. The Rate Generator Model will also include a schedule for a distributor to include the rate adder on the proposed Tariff of Rates and Charges.

The rate adder will be explicitly shown on the distributors' Tariff of Rates and Charges, identified as the "Smart Meter Funding Adder".

2.4 Low Voltage Service Charges

Prior to the 2010 rate year, the costs associated with the recovery of low voltage charges were included in the Distribution Volumetric rate in accordance with the 2006 *Electricity Distribution Rate Handbook* and as revised in the Board's subsequent Decisions and Rate Orders. Because these costs had been included in the determination of the volumetric rate, the amount had been adjusted by the annual price-cap adjustments.

In the 2010 rate applications, the Board determined that, where applicable, the rate to recover the low voltage costs would be explicitly shown separately on the distributor's Tariff of Rates and Charges, identified as the "Low Voltage Services Charge".

As was the case for the 2010 applications, the Board has determined that for 2011 the level of the current Low Voltage Services Charges will not be subject to the price-cap adjustment.

2.5 Lost Revenue Adjustment Mechanism (LRAM) and/or Shared Savings Mechanism (SSM) Cost Claims

A distributor filing for LRAM and/or SSM cost claims must comply with the *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2008-0037) issued March 28, 2008.

2.6 Electricity Distribution Retail Transmission Service Rates

Electricity distributors are charged the Ontario Uniform Transmission Rates (“UTRs”) at the wholesale level and subsequently pass these charges on to their distribution customers through the Retail Transmission Service Rates (“RTSRs”). The UTRs are charges for network, line connection and transformation connection services.

For 2011, distributors shall adjust their RTSRs based on a comparison of historical transmission costs adjusted for new UTR levels and revenues generated from existing RTSRs. This approach is expected to minimize variances in USoA Account 1584 and 1586. A Board staff prepared filing module will be provided to distributors at the time of the release of the Rate Generator to assist in calculating the distributor’s and rate class specific RTSRs.

The G-2008-0001 Guideline *Electricity Distribution Retail Transmission Service Rates* has been amended, as of July 8, 2010 to reflect this approach.

2.7 Electricity Distribution Deferral and Variance Accounts

The *Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”) provides that during the IRM plan term, the distributor’s Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

Group 1 consist of the following USoA accounts:

- 1550 Low Voltage Account;
- 1580 RSVA Wholesale Market Service Charge Account;

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

The EDDVAR Report states that the disposition period to clear the Group 1 account balances by means of a rate rider should be one year. However, a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

Subsequent to the release of the EDDVAR Report, exogenous events resulted in significant increased balances in the USoA Account 1588 global adjustment sub-account for most electricity distributors. The global adjustment sub-account captures the difference between the IESO's estimated value billed to non-RPP customers by the distributor and the actual amount paid by the distributor to the IESO. During the 2010 EDR process, the Board determined in most cases that a separate rate rider that would apply prospectively to non-RPP customers should be established to dispose of the global adjustment sub-account.

2.8 Distribution System Plans - Filing under Deemed Conditions of Licence

The *Filing Requirements: Distribution System Plans - Filing under Deemed Conditions of Licence* (EB-2009-0397) issued on March 25, 2010 recognized that distributors may need additional funding for expenditures proposed in a GEA Plan between cost-of-service applications. For 2011 IRM applications, distributors may request the following:

- Renewable Generation Connection Funding Adder; and
- Smart Grid Funding Adder.

Where a distributor seeks a funding adder (i.e. the prudence of the expenditures will not be determined by the Board), sufficient information must be provided to allow the Board to assess the need for the mechanism and the nature and quantum of the costs to be collected from ratepayers and the basis for calculating the funding adder.

In the distribution system plan filing requirements, the Board created two additional deferral accounts to record the amounts collected from ratepayers through the funding adders:

- Account 1533: Renewable Generation Connection Funding Adder Deferral Account

This account will record the revenues collected through a funding adder approved by the Board related to renewable generation connection projects. Separate sub-accounts shall be used to record any amounts collected from a distributor's ratepayers and any amounts received from the IESO (pursuant to the provincial pooling mechanism set out in 79.1 of the OEB Act) in respect of the projects.

- Account 1536: Smart Grid Funding Adder Deferral Account

This account will record the revenue collected through a funding adder approved by the Board related to smart grid development.

2.9 Other Rate Adjustments

The Rate Generator will be made available on the Board's web site and is designed to facilitate multiple forms of adjustments. The model will include only generic types of base rate adjustments, rate adders and rate riders common to most applicants. Where a distributor has continuing adjustments, and/or rate adders and/or rate riders from previous decisions not shown in the generic model (such as the phased implementation of a rate harmonization process) the distributor should contact the Board for specific guidance.

3.0 IRM2-Specific Adjustments

3.1 Tax Changes

The Board has determined that currently known legislated tax changes, other than that related to the implementation of the Harmonized Sales Tax⁴, from the level reflected in the Board-approved base rates for a distributor will be reflected in the IRM adjustments. The calculated annual tax adjustment rates will be allocated to customer rate classes on the basis of the 2006 EDR Board-approved base year revenue requirement.

The Rate Generator will include a schedule for a distributor to complete, which will calculate the amount to be adjusted from base rates.

4.0 IRM3 Specific Adjustments

4.1 Incremental Capital Module

The incremental capital module (ICM) is intended to address the treatment of new capital investment needs that arise during the IRM plan term which are incremental to the materiality threshold defined below.

The eligibility criteria for applications to recover amounts through rates related to incremental capital investment needs are included in section 2.5 of the Board's July 14, 2008 Report and are reproduced below.

⁴ With respect to the July 1, 2010 introduction of the Harmonized Sales Tax ("HST"), the Board will issue guidance with respect to the treatment of the impacts arising out of the implementation of the HST in the future.

Criteria	Description
Materiality	The amounts must exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.
Need	Amounts should be directly related to the claimed driver, which must be clearly non-discretionary. The amounts must be clearly outside of the base upon which rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

4.1.1 ICM Threshold

The materiality threshold for requests to recover amounts through rates to fund incremental capital investment needs is discussed in section 2.3 of the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* EB-2007-0673.

The Board has determined that the following formula is to be used by a distributor to calculate the materiality threshold that will apply to it:

$$\text{Threshold Value} = 1 + \left(\frac{\text{RB}}{\text{d}}\right) * (\text{g} + \text{PCI} * (1 + \text{g})) + 20\%$$

Where:

- RB = rate base included in base rates (\$);
- d = depreciation expense included in base rates (\$);
- g = distribution revenue change from load growth (%); and
- PCI = price cap index (% inflation less productivity factor less stretch factor).

The values for "RB" and "d" are the Board-approved amounts in the distributor's base year rate decision.

The value for "g" is the % difference in distribution revenues between the most current complete year and the base year.

An Illustration:

Assumptions: RB = \$100 million;
d = \$5 million;
g = 1.5% (0.015); and
PCI = 0.75% (0.0075).

Calculation: $1 + \left(\frac{100,000,000}{5,000,000}\right) * (0.015 + .0075 * (1 + 0.015)) + 0.20 = 1.65$

Result: The materiality threshold (CAPEX/Depreciation) is 1.65 or 165%. That is, given the assumptions in this example, the Board expects the distributor to manage a CAPEX level of up to \$8.26 million (\$5 million * 1.65) before being eligible to apply to recover incremental amounts.

4.1.2 ICM Filing Guidelines

The Board requires that a distributor requesting relief for incremental capital during the IRM3 plan term must include comprehensive evidence to support the claimed need, that should include the following:

- 1) Details by project for the proposed capital spending plan for the test year segregated between discretionary and non-discretionary;
- 2) Demonstration that the distributor's non-discretionary spending exceeds the threshold test;
- 3) A description of the proposed non-discretionary capital projects and expected in-service dates;
- 4) Demonstration that the proposed non-discretionary capital projects are unusual and unanticipated;
- 5) Calculation of the revenue requirement associated with each proposed incremental non-discretionary capital project (i.e. the cost of capital, incremental depreciation, and PILs);
- 6) Calculation of revenue requirement offsets associated with each incremental non-discretionary projects due to revenue to be generated through other means (e.g. customer contributions in aid of construction, load growth); and

- 7) Calculation of a rate adder to recover the incremental revenue from each class and the rationale for the proposed approach.

4.1.3 ICM Reporting Requirements

A distributor that receives rate relief through this module will be required to report to the Board annually on the actual amounts spent. At the time of the next rebasing, the distributor will file a calculation of the amounts to be incorporated in rate base. At that time the Board will make a determination on the treatment of any difference between forecast and actual capital spending during the IRM plan term. Overspending and underspending will be reviewed at the time of rebasing.

4.1.4 ICM Accounting Treatment

The distributor will record eligible ICM amounts in Account 1508, Other Regulatory Asset, sub-account Incremental Capital Expenditures, subject to the assets being used and useful. For incremental capital assets under construction, the normal accounting treatment will continue in the construction work in progress (“CWIP”) prior to these assets going into service and hence eligible for recording in the 1508 sub-account. The amortization of capital assets for the relevant accounting period will be recorded in a separate amortization account of the sub-account, Incremental Capital Expenditures. In addition, the revenues collected from the rate adder will be recorded in Account 1508, Other Regulatory Asset, sub-account, Incremental Capital Expenditures rate adder.

The distributor shall also record monthly carrying charges in sub-accounts Incremental Capital Expenditures and Incremental Capital Expenditures rate adder. Carrying charges amounts are calculated using simple interest applied to the monthly opening balances in the account and recorded in a separate sub-account of account 1508. The rate of interest shall be the rate prescribed by the Board for deferral and variance accounts for the respective quarterly period published in the Board’s web site.

4.1.5 Rate Generator and Supplemental Filing Module for ICM

The supplemental filing module supporting Board staff's IRM3 Rate Generator will assist the distributor in calculating the distributor's threshold. The distributor will then tabulate the value of its eligible non-discretionary investments and compare this to the threshold. Severable calculation work forms will be provided to calculate the revenue requirement for each project proposed for inclusion in the ICM request in the supplemental filing module. Once all work forms are completed and listed in the supplemental module, the tabulated revenue requirement result will be translated into a rate rider.

4.2 Tax Changes in Relation to the Z-factor

The Board has determined that a 50/50 sharing⁵ of the impact of currently known legislated tax changes, other than that related to the implementation of the Harmonized Sales Tax⁶, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate. The calculated annual tax changes over the plan term will be allocated to customer rate classes on the basis of the most recent Board-approved base-year distribution revenue. These amounts will be collected from or refunded to customers each year of the plan term, over a 12-month period, through an explicit volumetric rate rider derived using annualized consumption by customer class underlying the Board-approved base rates.

The supplemental filing module will include a schedule for a distributor to complete that will calculate the volumetric rate rider.

⁵ Supplemental Report of the Board on 3rd generation incentive regulation – September 17, 2008

⁶ With respect to the July 1, 2010 introduction of the Harmonized Sales Tax ("HST"), the Board will issue guidance with respect to the treatment of the impacts arising out of the implementation of the HST in the future.

4.3 Revenue-to-Cost Ratio Adjustments

The Board's Decisions for some distributors' 2008, 2009 and 2010 cost of service rate applications prescribed a phase-in period to adjust the revenue-to-cost ratios. The Supplemental Filing Module and Rate Generator will include schedules for a distributor to complete to address this matter. The process will adjust base distribution rates before the application of the price cap adjustment.

5.0 Specific Exclusions from IRM Applications

The IRM application process is intended to streamline the processing of a large volume of rate adjustment applications, and is therefore mechanistic in nature. For this reason, the Board has determined that the IRM process is not the appropriate venue by which a distributor should seek relief on issues which are substantially unique to an individual distributor or more complicated and potentially contentious. The following are examples of specific exclusions from the IRM rate application process:

- Smart Meter Cost Recovery Rate Rider;
- Rate Harmonization, other than that pursuant to a prior Board decision;
- Loss Factor Changes;
- Loss Carry Forward Adjustments to PILs/taxes; and
- Loss of Customer Load.

Exclusions from the IRM process are to be addressed in the distributor's next cost of service application.

6.0 Off-ramps

An off-ramp is based on a pre-defined set of conditions under which the IRM plan would be terminated or modified before its normal end-of-term date. This usually occurs because of extreme events that cannot be effectively addressed, or that should not be addressed, through Z-factor treatment or some other IRM mechanism such as earnings sharing or ICM.

For IRM2, there are limited adjustments available to a distributor. An off-ramp is available where these adjustments proved insufficient for specific cost pressures (e.g. additional capital investment). Where this is the case, a distributor must file a comprehensive cost of service application and not rely on the simplified filing requirements in the IRM2 process.

For IRM3, the Board has determined that the plan will include a trigger mechanism with an annual ROE dead band of ± 300 basis points. When a distributor performs outside of this earnings dead band, a regulatory review may be initiated. As such, a distributor will be required to report to the Board no later than 60 days after the company's receipt of its annual audited financial statements, in the event that the distributor's earnings falls short of or exceeds its ROE by 300 basis points. A review of the report will be carried out by the Board to determine if further action by the Board is warranted. Any such review would be prospective in nature, and could result in modifications to the IRM3 plan, a termination of the IRM3 plan or the continuation of the IRM3 plan for that distributor.

Appendix A: Disposition of Residual Balance to USoA Account 1590 or 1595

The 2006 Regulatory Assets process disposed of all balances in the regulatory asset accounts as of December 31, 2004. The decisions for each distributor resulted in the disposition of the approved amounts by way of final rate riders and the transfer of the approved amounts to account 1590. Likewise, any deferral and variance account balances post December 31, 2004 that have been approved by the Board for disposition as part of the 2008, 2009 or 2010 cost of service or IRM decisions were disposed on a final basis, unless otherwise noted and should have been transferred to account 1595.

The opening balances for all accounts cleared in any proceeding must be \$0 from January 1 of the subsequent year. For subsequent applications, any reconciliation of differences arising from actual versus estimated recoveries, actual versus estimated interest calculations, errors, omissions or adjustments related to the previous decisions should not be included in the balances sought for recovery unless the distributor has received Board approval to do so.

Appendix B: Application of recoveries to principal and interest carrying charges amounts in accounts 1590 and 1595

When final approval for disposition of deferral and variance account balances is received from the Board, the final approved amounts of principal and interest carrying charges is transferred to account 1590 or 1595 (as applicable).

The cumulative principal balance transferred to account 1590 or 1595 (as applicable) is drawn down first by the rate rider recoveries, and interest carrying charges is applied to the principal balance net of recoveries.

The following approach is used for the application of recoveries (via rate riders) to the transferred amounts under two scenarios.

Scenario 1: Rate Rider ceases with Principal amount remaining

If the rate rider ends before the principal is fully drawn down, the principal balance is held static and interest carrying charges is applied to the remaining principal balance. The approved rate rider flowing from the next application to dispose of deferral and variance accounts should include the remaining principal and interest carrying charges.

Scenario 2: Rate Rider ceases with no Principal amount remaining but with Interest Carrying Charges remaining

The approved rate rider flowing from the next application to dispose of deferral and variance accounts should include the cumulative interest carrying charge amounts.