Ontario Energy Board **Commission de l'énergie de l'Ontario**

Chapter 3 of the Filing Requirements for Transmission and Distribution Applications

July 22, 2009

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

1.0 Introduction

The Ontario Energy Board regulates the rates of electricity distribution companies using a combination of annual incentive rate mechanism adjustments and periodic cost of service reviews.

The examination of 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 in any given case, 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.

These filing requirements consolidate and update previous IRM filing guidelines, requirements, and practices. These 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 incentive regulation mechanisms ("IRM") plans. Electricity distributors that are not filing on this basis will need to file on the basis of cost of service rate application as outlined in Chapter 2.

Electricity distributors that have completed a cost of service application for the annual rate adjustment date of May 1, 2008 and beyond are eligible to file a 3rd Generation IRM rate application ("IRM3"). Electricity distributors that have not re-based but that have completed a 2006 EDR application for the rate adjustment date of May 1, 2006 and subsequent 2nd Generation IRM rate applications are eligible to file a 2nd Generation IRM ("IRM2").

In the event that future policy initiatives require certain issues to be addressed in a rate case application, the Board will implement required changes.

1.1 Key References

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

- Final Board Report and 2006 Electricity Distribution Rate Handbook - May 11, 2005
- 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 – July 14, 2008
- Supplemental Report of the Board on 3rd generation incentive regulation – September 17, 2008
- Addendum to the Supplemental Report of the Board – January 28, 2009
- Guideline (G-2008-0001) on Retail Transmission Service Rates – October 22, 2008 (Revision 1.0 July 15, 2009)
- Guideline (G-2008-0002) on Smart Meter Funding and Cost Recovery – October 22, 2008
- Deemed Conditions of Licence: Distribution System Planning - June 16, 2009

1.2 Rate Adder versus Rate Rider

1.2.1 Rate Adder

A rate adder (or funding adder) is designed to provide advance funding for investments or expenses to address regulatory undertakings or utility operational matters. Its core purpose is to help a distributor on an interim basis with needed cash flow and also mitigate or smooth anticipated impacts when the Board approves recovery of costs on a final basis. A rate adder does not constitute regulatory approval of any costs actually incurred for which the rate adder was approved. 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 for regulatory review.

A rate adder normally is granted to a distributor because of a Board-initiated process. The rate adder amount and allocation for collection is dependent on the nature of the process. For purposes of transparency, the Board has determined that rate adders shall be identified and listed separately in distribution monthly rates and charges, without an explicit sunset or termination date.

1.2.2 Rate Rider

A rate rider is designed to recover from or return to ratepayers final costs of investments or expenses to address regulatory undertakings or utility operational matters. The prudence of such costs is examined and the costs are approved in whole or in part, at the time at which the distributor applies to recover them. The Board normally reviews such costs in a combined hearing on behalf of some or all distributors or in a cost of service hearing for an individual distributor's rate application.

The distributor is responsible for maintaining accounting control of the rate rider in a Board directed variance account. Simple interest is to be applied to the monthly opening balance in accordance with the Board's prescribed interest rates.

For purposes of transparency, the Board has determined that rate riders shall be identified and listed separately in distribution monthly rates and charges, with an explicit sunset or termination date.

1.3 Grouping for Filings

The proposed filing groups intend to stagger applications according to their complexity, based on the premise that the length of time required to review an application is commensurate upon the level of complexity. Those applications of greater complexity and hence likely requiring more time to review are scheduled to be filed first. Staggering also allows the Board and other stakeholders to appropriately schedule resources (panels, staff, hearings, etc.) to allow for adequate review of all applications. The deadlines for filing will be determined so that, in normal course of events, the Decisions and Rate Orders can be issued in time for a May 1 implementation date.

Greater Complexity	**Group 1**	A straightforward IRM2 application with no additional complexities.	Later filing date
	Group 2	A straightforward IRM3 application with no additional complexities.	
	Group 3	An IRM2 or IRM3 application that includes the implementation of an LRAM/SSM rate rider and/or the continuation of a directive from a previous Board Decision, such as a Revenue Cost Ratio Adjustment, disposition of select deferral/variance accounts (subject to a Report of the Board to be issued by the fall of 2009) or the continuation of rate harmonization implementation.	
	Group 4	An IRM2 or IRM3 application that possibly includes the components in Group 3 but also includes an application for a Z Factor.	
	Group 5	An IRM3 application that possibly includes the components in Groups 3 and 4 but also includes an Incremental Capital Module.	

When a distributor considers that its application could fall into two or more of the above groupings, it should file its application based on the most complex grouping applicable to allow for sufficient time to adequately review the application.

The filing schedule will be provided as part of a separate filing guideline letter.

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 Generator[1] with supplemental filing modules[2] or work forms, provided by the Board, both in electronic (i.e. Excel) and PDF form.
- A copy of the current Tariff Sheet.
- A PDF copy of the facsimile tariff sheet generated by the Rate Generator.
- A PDF copy of the bill impacts generated by the Rate Generator.

1.5 Bill Impacts

The Rate Generator includes a bill impact analysis and will produce bill impacts for the rate changes proposed in the application, net of Regulated Price Plan (RPP), Debt Retirement Charge (DRC) and/or sales tax changes. This analysis is similar to that used in assessing rate applications in recent years. The Board acknowledges that while RPP, DRC and/or sales tax changes may occur during the application processing period, the latest Board-approved 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.

[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.

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.

1.6 Applications and Electronic Models

An application to the Board is the distributor's responsibility and the Board expects that the application will be complete and accurate. While the Board may issue electronic filing models for use in IRM rate applications, the distributor shares responsibility to ensure the accuracy and appropriateness of any models that it uses in the preparation of its applications. The distributor is responsible for advising the Board of any concerns it may have of calculations in any Board-issued model.

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. The IRM Model will include the preceding year's GDP-IPI value as a reasonable estimate of the inflationary adjustment to input prices (i.e. costs) for the rate year. Statistics Canada publishes the prior year's data around the end of February (i.e. two months after the calendar year). Upon publication by Statistics Canada, the Board will use the GDP-IPI index and adjustments for expected productivity in each distributor's rate application model to calculate the price cap adjustment for distribution rates for all applicable distributors.

The price cap adjustment 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 this 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 stretch factor might not be available before the application is filed. To accommodate such circumstances, the IRM Model will include a proxy stretch factor of 0.4%. Once 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, net of other existing rate adders and rate rebalancing adjustments as determined necessary by the Board. The price cap adjustment will not be applied to specifically identified Rate Adders, Rate Riders, Retail Transmission Service Rates, the Wholesale Market Service Rate, the Rural Rate Protection Charge, the Standard Supply Service – Administrative Charge, Specific Service Charges, Allowances[3], Retail Service Charges or Loss Factors.

2.2 K-factor Adjustments

2010 is the final adjustment year for the three year capital structure transition to a deemed 60 % Debt and 40 % Equity, as determined in *Report of the Board on Cost of Capital* and *2nd Generation Incentive Regulation for Ontario's Electricity Distributors* issued December 20, 2006. The K-factor adjustment for 2010 will affect only small distributors with a 2006 rate base of $100 million or less.

The Rate Generator Model or supplemental filing module will include a schedule that will calculate the amount to be adjusted.

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

2.3 Z-factor Claims

A Z-factor is intended to provide for an unexpected material event that is not within the distributor's control. A distributor must follow the guidelines listed below when applying to the Board to recover from ratepayers the amounts that the distributor has recorded in a Board-approved deferral account related to a Z-factor claim.

2.3.1 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. In order for amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy all three 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.

2.3.2 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 involves 0.2% or greater of total distribution expenses before taxes, and a capital cost will be considered material if it involves 0.2% or greater 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.

2.3.3 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 will 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.

2.3.4 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 allocations considered.

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 time period for collection or refund. A detailed calculation of the rate rider(s) must be provided.

2.3.5 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.

2.4 Smart Meter Funding Adder

The Smart Meter Funding adder is currently embedded in the Monthly Service Charge for metered customers in accordance with the Board's Decision RP-2005-0020/EB-2005-0529 and as subsequently approved in Board Decisions and Rate Orders for each distributor. This funding adder is not subject to the price cap adjustment. The Rate Generator will include a schedule to remove the current rate adder prior to base rate adjustments being made.

The amount of the funding adder may be changed as a result of the Board's review of an applicant-specific smart meter funding adder request. Requests for changes to smart meter funding adders should comply with 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 schedule.

For all 2010 rate applications and going forward, the Board has determined that the smart meter funding rate adder will be explicitly shown on the distributors' Tariff of rates and Charges, identified as the Smart Meter Funding Adder.

2.5 Low Voltage Cost Recovery

In previous IRM-based rate adjustments, the costs associated with the recovery of low voltage charges associated with the supply through the low voltage facilities of a host distributor has been included in the Distribution Volumetric rate in accordance with the 2006 *Electricity Distribution Rate Handbook* and as approved in the Board's subsequent Decisions and Rate Orders. Because these costs have been included in the determination of the volumetric rate, the amount has been adjusted by the annual price cap adjustments.

For all 2010 rate applications and going forward, the Board has determined that the rate to recover the low voltage costs will be explicitly shown on the distributor's Tariff of Rates and Charges, identified as the Low Voltage Cost Rate Adder.

A few distributors currently have Board approved specific Low Voltage Charges identified separately on their Tariff of Rates and Charges. For consistency with the other distributors, the current charge will not be adjusted by the price cap adjustment.

For all other distributors, the supplemental models supporting the IRM2 and IRM3 2010 Rate Generator will include a schedule to calculate the current rate adder prior to base rate adjustments being made.

For IRM2 applications, the distributor will be required to retrieve the 2006 EDR low voltage rate adder as found on sheet "8-2 RATES - LV-Wheeling" of the 2006 EDR Model. The schedule will then apply the subsequent three years' price cap adjustments (i.e., for 2007, 2008 and 2009) as applicable to determine the value of the current low voltage rate adder.

For the IRM3 application of a distributor that had its rates based on a 2008 Cost of Service based application, the distributor will be required to retrieve the low voltage rate adder identified in its 2008 application. The schedule will then apply the 2009 price cap adjustment to determine the value of the current low voltage rate adder.

For the IRM3 application of a distributor that had its rates based on a 2009 Cost of Service based application, the distributor will be required to retrieve the low voltage rate adder identified in its 2009 application. This becomes the current low voltage rate adder without further adjustment.

The level of the current low voltage rate adder will not be adjusted by the price cap adjustment.

2.6 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.

2.7 Retail Transmission Service Rates

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charged for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs are effective July 1, 2009 and have been approved as follows:

- Network Service Rate has increased from $2.57 to $2.66 per kW per month, a 3.5% increase.
- Line Connection Service Rate remains unchanged at $0.70 per kW per month, and
- Transformation Connection Service Rate has decreased from $1.62 to $1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

The Board's Rate Generator Model will include the ability to adjust Retail Transmission Service Rates (RTSR). The above UTR percentage changes will be used as a proxy adjustment to a distributor's current RTSR pending finalization of anticipated 2010 UTR adjustments, expected to be effective January 1, 2010. Once the UTR for 2010 have been determined, the Board will adjust the RTSR in each distributor's rate application model, if necessary.

The G-2008-0001 Guideline *Electricity Distribution Retail Transmission Service Rates* has been amended, as of July 15, 2009 to reflect this approach.

2.8 Electricity Distribution Deferral and Variance Accounts

The Board has initiated a process to determine how the Board can effectively clear a distributors various deferral and variance accounts. The *Electricity Distribution Deferral and Variance Accounts Review* (EDDVAR) – EB-2008-0046 Report of the Board is expected to be released by the fall of 2009.

A Board-prepared filing module will be provided to distributors at the time of the release of the Report of the Board should the report authorize that a specified list of accounts could be cleared in the IRM2 and IRM3 processes.

2.9 Other Rate Adjustments

The Rate Generator will be made available on the Board's web site is designed to facilitate multiple forms of adjustments. The model will include only the more generic type 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, as applied to the tax level reflected in the Board-approved 2006 EDR base rates for an IRM2 distributor, should be reflected in the IRM adjustments. The calculated annual tax adjustment from rates will be allocated to customer rate classes on the basis of the 2006 EDR Board-approved base year revenue requirement from rates.

The Rate Generator Model 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 inclusion of the incremental capital module (ICM) as part of the IRM3 process is intended to provide regulatory flexibility in order to accommodate non-discretionary and/or unusual and/or unanticipated events that may occur during an extended IRM term.

The ICM has been incorporated into the IRM3 mechanism to address, in a prospective manner, the treatment of new unusual capital investment resulting from needs that arise during the IRM plan term and which are beyond the expected level of annual capital investment factored into base rates at the time that the distributor had rate set through a cost of service review. To qualify for ICM treatment, new incremental capital investments must satisfy the threshold defined below. The end result of the inclusion of the ICM will be an explicit rate adder in effect until the distributor’s next Cost of Service based rate application.

4.1.1 ICM Threshold

The 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 threshold that will apply to it:

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

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:	$1+(\frac{100,000,000}{5,000,000})*(0.015+.0075*(1+0.015))+0.20=1.65$		
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 appropriate evidence to support the claimed need. At a minimum, supporting evidence 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 forecasted and actual capital spending during the IRM plan term.

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 the Board-prepared 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 adder.

4.2 Tax Changes in Relation to the Z-factor

The Board has determined that a 50/50 sharing[4] of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate. An approach similar to that adopted in the gas Incentive Regulation plans will be used to calculate the tax changes for this purpose. The calculated annual tax changes over the plan term will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue and cost allocation. 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 Rate Generator Model will include a schedule for a distributor to complete that will calculate the amount to be shared and the resulting rate rider.

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

4.3 Revenue-to-Cost Ratio Adjustments

The Board's Decisions for some distributors' 2008 and 2009 cost of service rate applications prescribed a phase-in period to adjust the cost allocation of distribution rates, referred to as the revenue-to-cost ratio adjustments. The Supplemental Filing Module and Rate Generator Model 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 IRM rate applications:

- Smart Meter Cost Recovery Rate Rider;
- Rate Harmonization, other than being pursuant to a prior Board decision;
- Loss Factor Changes;
- Loss Carry Forward Adjustments to PILs/taxes;
- Loss of Customer Load; and
- Renewable Connection/Smart Grid Funding Adder

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 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 must make a 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.