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Ontario Energy Board

Filing Requirements For
Electricity Distribution Rate Applications

Chapter 3

Incentive Rate-Setting Applications

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Chapter 3 Filing Requirements for Incentive Rate-Setting Applications

3.1 Application options

The Ontario Energy Board (OEB) expects incentive rate-setting applications to be consistent with the [Handbook for Utility Rate Applications](#) (Handbook) issued on October 13, 2016. The Handbook provides guidance to utilities and stakeholders. The Handbook outlines the key principles the OEB will apply, along with the OEB's expectations, when reviewing rate applications and is applicable to all rate regulated utilities, including electricity distributors, electricity transmitters, natural gas utilities and Ontario Power Generation Inc. The OEB expects utilities to file rate applications consistent with the Handbook unless a utility can demonstrate a strong rationale for departing from it.

The Handbook describes three incentive rate-setting (IR) options: (1) Price Cap IR, (2) Annual IR Index and (3) Custom IR. The key elements for these three rate-setting methods were set out in the [Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach](#).

The Price Cap IR option consists of a cost of service (or rebasing)¹ followed by four years of incentive rate-setting mechanism (IRM) adjustments, set by a simple price cap index formula (i.e., I-X), where the X-factor is based on a combination of industry conditions (productivity component) and distributor-specific performance (stretch factor component). The Annual IR Index option also adjusts rates by a simple price cap index formula; however, the stretch factor is set at the highest applicable value. Accordingly, all distributors on the Annual IR Index will be subject to the same X-factor. In the Custom IR method, rates are set based on a five-year forecast of a distributor's revenue requirement and sales volumes.

These filing requirements set out the OEB's expectations for the annual rate adjustment applications in between cost of service applications under Price Cap IR, or the Annual IR Index, also known as IRM applications.² There are no annual filing requirements for approved Custom IR applications. Any annual rate adjustments would have been established and specific to the approved Custom IR.

¹ The terms "cost of service" and "rebasing" are used interchangeably for the purposes of this chapter.

² These filing requirements replace the Chapter 3 Incentive Rate-Setting Filing Requirements for Electricity Distribution Rate Applications, dated June 18, 2024.

3.1.1 Filing Deadlines for annual IRM applications

The OEB establishes filing deadlines for annual IRM applications. The OEB groups IRM applications into “tranches” and establishes filing deadlines for each tranche based on the estimated processing time from receipt of application to the issuance of an OEB rate order. The estimated processing time is based on the type of application, potential complexity and the proposed effective date for the new rates. Processing applications in tranches also allows the OEB and stakeholders to plan and schedule resources for adequate and efficient review of applications.

To assess potential complexity, the OEB conducts a survey annually to identify expected elements of a distributor’s IRM application and the potential complexities. For example, an application that includes an incremental capital module (ICM) request or a Z-factor claim, is considered more complex and more processing time is expected. The OEB’s filing deadlines are set such that new rates may be approved before the proposed effective date. Failure to meet the OEB’s filing deadline may result in new rates being approved after the proposed effective date.

Application filing deadlines for each tranche will be communicated in an annual letter from the OEB, usually issued in June. The OEB’s letter will list all the distributors assigned to each tranche.

All distributors seeking an adjustment for rates effective January 1 will be assigned to tranche 1 of applications to be processed.

A distributor seeking an adjustment for rates effective May 1, will be assigned to tranche 2, 3, or 4.

After completing the survey, if a distributor expects that its application will be significantly more complex than it previously disclosed, it should advise the OEB as soon as possible and be prepared to file in an earlier tranche.

3.1.2 Administrative Documents to be Filed

Whether filing for new rates under the Price Cap IR or the Annual IR Index options, each application must include certain administrative documents:

- The Manager’s Summary that documents and explains all rate adjustments requested must be supported by a table of OEB Approval(s) Requested (see Appendix A). This table is a summary that enables the OEB to confirm the complexity of the application and assign the appropriate resources to review the application.

- The primary contact person for the application and their contact information. The OEB will communicate with this person during the proceeding and their contact information will be added to Procedural Order No. 1, as applicable. The primary contact may be a person within the distributor's organization other than the primary licence contact.
- A completed version of the OEB's Rate Generator model³ and any applicable supplementary workforms⁴
- A PDF copy of the current tariff sheet
- Supporting documentation cited within the application, such as relevant OEB directives or excerpts from approved settlement agreements
- A statement of those parties affected by the application, including identification of any new or specific customer(s) or customer groups potentially affected by a particular request. The OEB's Registrar will use this information to ensure that all parties potentially affected by the application are provided with adequate notice.
- The distributor's internet address for purposes of viewing the application, evidence updates, and related documents during the proceeding
- A text-searchable PDF format for all documents, other than those filed in Excel format
- The Annual IRM Checklist, which is available on the OEB's [Electricity Distribution Rates webpage](#) for the respective rate year and is to be filed in Excel format
- Three certifications are required to support the application as indicated in Chapter 1 of the Filing Requirements. The three certifications may be filed by the same senior officer.
 - A certification that the evidence filed, including the models and appendices, is accurate, consistent and complete to the best of their knowledge

³ The Rate Generator model is an Excel workbook that calculates a distributor's proposed tariff of rates and charges in a Price Cap IR or Annual IR Index application.

⁴ Includes the Commodity Accounts Analysis Workform, Revenue Cost Ratio Adjustment Workform, Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Workform, and the Incremental Capital Module/Advanced Capital Module (ICM) (ACM) Workform, as applicable.

- A certification that the distributor has processes and internal controls in place for the preparation, review, verification and oversight of account balances being disposed
- A certification confirming that the application does not include personal information in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#)

3.1.3 Standardized OEB Models Provided

The OEB will provide each distributor with a set of standardized models that are pre-populated with distributor-specific data. The models are intended to assist the distributor in filing an IRM application. The models ensure that all IRM applications provide the same standard information in a consistent format. It is imperative that distributors do not make changes to the OEB's models or alter any formulas without adequate disclosure to the OEB.

The Rate Generator model is pre-populated with a distributor's most recent tariff of rates and charges, load and customer data, and Group 1 Deferral and Variance Account (DVA) balances, as reported through Reporting and Record keeping Requirements (RRR). The OEB leverages the information already filed by the distributor. Distributors are required to confirm the accuracy of the data.

If a distributor needs to revise any RRR data previously filed, the revision(s) should be disclosed in the Manager's Summary within the application.

In the Rate Generator model, all the input cells that are required to be filled out by the distributor are marked in green cells.

The OEB will provide passwords to distributors filing an IRM application to access their distributor-specific Rate Generator model through the OEB's website. Any distributor that did not receive a password but wishes to file an IRM application, must notify the OEB as soon as possible.

The Rate Generator model will update base rates, retail transmission service rates (RTSR) and if applicable, shared tax-related adjustments. It will also calculate rate riders for the disposition of DVA balances.

The Rate Generator model includes a bill impact calculation for each rate class, in which commodity rates based on Time-of-Use and regulatory charges are held constant. These will be based on the Regulated Price Plan (RPP) prices in effect at the time the Rate Generator model was published, subject to updates over the course of the

proceeding. To determine bill impacts, a typical residential customer has been defined as consuming 750 kWh in accordance with the [Report of the Board – Defining Ontario's Typical Electricity Residential Customer](#).

All distributors are required to complete and submit the Commodity Accounts Analysis Workform for each year that has not previously been approved by the OEB for disposition, irrespective of whether they are seeking disposition of the Account 1588 and Account 1589 balances as part of their application. The Commodity Accounts Analysis Workform includes a Global Adjustment reasonability test.

The following list includes OEB models and workforms that may be required with IRM application requests:

- Revenue-to-Cost Ratio Adjustment Workform: A distributor seeking a revenue-to-cost ratio adjustment due to a previous OEB decision must continue to file the Revenue-to-Cost Ratio Adjustment Workform in addition to the Rate Generator model
- Incremental or Advanced Capital Module: A distributor seeking incremental funding for a capital project must file an Incremental or Advanced Capital Module (ICM/ACM) with the proposed cost recovery and associated rate rider(s)
- Lost Revenue Adjustment Mechanism Variance Account Workform: A distributor seeking to dispose of lost revenue amounts from conservation and demand management activities, during an IRM term, must file the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Workform
 - A distributor with a zero balance in the LRAMVA that is requesting a rate rider for previously approved LRAM-eligible amounts does not need to file the LRAMVA Workform but should provide the calculations used to generate the requested LRAM-eligible rate riders

3.2 Elements of the Price Cap IR and the Annual IR Index Plans

3.2.1 Annual Adjustment Mechanism

The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains.⁵ The components in the formula are approved by the OEB annually. The formula is a rate adjustment equal to the inflation factor minus the distributor's X-factor.

Inflation Factor

In its [Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors](#), the OEB adopted a two-factor industry-specific price index methodology. The inflation factor is based on two weighted price indicators (labour and non-labour) which provide an input price that reflects Ontario's electricity industry.

X-factor

The X-factor has two parts: a productivity factor and a stretch factor. The OEB determined that the appropriate value for the productivity factor (industry total factor productivity) for the Price Cap IR and Annual IR Index is zero as part of setting the parameters for this rate-setting framework.⁶ For the stretch factor, distributors will be assigned into one of five groups ranging from 0.0% to 0.6%. The most efficient distributors, based on the cost evaluation ranking, would be assigned the lowest stretch factor of 0.0%. Distributors filing an Annual IR Index application will be assigned the highest stretch factor of 0.6%.

Distributors shall use the prior rate year's rate-setting parameters as a placeholder until the stretch factor assignments and inflation factor for the current rate year are issued by the OEB (e.g., use 2024 rate-setting parameters as a placeholder until the stretch factor assignments and inflation factor for 2025 are updated). OEB staff will update each distributor's Rate Generator model with the updated parameters once they are available. Distributors will have an opportunity to comment on the accuracy of OEB staff's updates as part of the application process.

⁵ Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors, issued December 4, 2013

⁶ Ibid, p. 17

3.2.1.1 Application of the Annual Adjustment Mechanism

The annual adjustment mechanism applies to distribution rates (fixed and variable charges) uniformly across customer rate classes.

The annual adjustment mechanism is not applied to the following components of delivery rates:

- Rate Adders
- Rate Riders
- Low Voltage Service Rates
- Retail Transmission Service Rates
- Wholesale Market Service Rate
- Rural and Remote Rate Protection Benefit and Charge
- Standard Supply Service – Administrative Charge
- Capacity Based Recovery
- MicroFIT Service Charge
- Specific Service Charges
- Smart Metering Entity Charge
- Loss Factors
- Transformation and Primary Metering Allowances⁷

3.2.2 Revenue-to-Cost Ratio Adjustments

OEB decisions regarding cost of service rate applications may sometimes prescribe a phase-in period to adjust the revenue-to-cost ratios. The OEB's Revenue-to-Cost Ratio Adjustment model and Rate Generator model include schedules for a distributor to adjust the revenue-to-cost ratio if previously approved by the OEB. The models will

⁷ And any other allowances the OEB may determine.

adjust base distribution rates before the application of the annual adjustment mechanism.

3.2.3 Rate Design for Residential Electricity Customers

On April 2, 2015, the OEB released its [Board Policy: A New Distribution Rate Design for Residential Electricity Customers](#),⁸ which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers. The transition began in 2016 and has been completed by distributors. The OEB notes that some distributors are still in the process of transitioning seasonal rate class customers to residential rate classes, and those seasonal rate classes may be based on volumetric rates.

Beyond the issue of residential rate design specifically addressed in this section, distributors are reminded that they must file a mitigation plan if total bill increases for any customer class exceed 10%.

3.2.4 Electricity Distribution Retail Transmission Service Rates

In preparing its application, a distributor should refer to the OEB's [Guideline: Electricity Distribution Retail Transmission Service Rates and Low Voltage Charges](#), issued March 31, 2025, the Uniform Transmission Rates (UTRs), and any host distributor's rates.

The OEB's Rate Generator model will assist in calculating the distributor's class-specific RTSRs. The Rate Generator model will reflect the most recent UTRs approved by the OEB. Once the updated UTR adjustments have been determined, OEB staff will adjust each distributor's rate year RTSR section of the Rate Generator model to incorporate these changes, where applicable. The Rate Generator model will also reflect the most recent sub-transmission rates approved by the OEB. Likewise, OEB staff will update these rates as they become available, where applicable.

The OEB implemented an Electric Vehicle Charging (EVC) Rate applicable to certain Electric Vehicle (EV) charging facilities. The EVC Rate reduces the RTSR charges applied to these facilities to reflect their lower contribution to transmission costs.

EV charging is presented as a separate rate for each general service rate class from 50 to 4,999 kW. Distributors will need to identify the quantity of load (energy and demand) used by these facilities. For the initial rate setting, distributors should use an estimate of the last actual year of the amount of load used by customers expected to qualify for the

⁸ EB-2012-0410, Board Policy: A New Distribution Rate Design for Residential Electricity Customers, issued April 2, 2015

EVC Rate. The EV charging volume should only be counted in the rows pertaining to EV charging and not be included in the volume for the remainder of the applicable rate class.

3.2.5 Low Voltage Service Rates (optional)

An embedded distributor (whether fully or partially) has the option to update its Low Voltage service rate during the IRM term. A distributor requesting this update must provide the following information:

- Most recent Low Voltage costs charged by the host distributor to the applicant
- Actual Low Voltage costs for the last five historical years. The distributor must also provide the year-over-year variances and explanations for substantive changes in the costs over time
- Support for the updated Low Voltage costs: last actual volumes and host distributor(s) rates applicable to the distributor. For example, a distributor whose host distributor is Hydro One Networks Inc. would include the distributor's costs for sub-transmission lines, plus a sub-transmission service charge, plus any other charges, such as facility charges for connection to a shared distribution station, that apply to the embedded distributor's monthly bill from the host distributor, together with the applicable charge determinants.
- Allocation of Low Voltage costs to customer classes (generally in proportion to transmission connection rate revenues)
- Proposed Low Voltage rates by customer class to reflect these costs

Tabs 16.1 and 16.2 of the Rate Generator model allow the calculation of updated Low Voltage service rates based on actual Low Voltage cost. These are intended to capture the required information and perform the calculation of Low Voltage rates.

3.2.6 Review and Disposition of Group 1 Deferral and Variance Account Balances

[The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative](#) (EDDVAR)⁹ provides that under the Price Cap IR or the Annual IR Index, the distributor's Group 1 account balances will be reviewed and disposed if the pre-set disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance over the threshold should not be

⁹ EB-2008-0046, The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report, issued July 31, 2009

disposed. Consistent with a letter from the OEB issued July 25, 2014, distributors may elect to dispose of Group 1 account balances below the threshold. Distributors should assess the practicality of disposing what may be small balances for one or more classes; for further guidance on considerations relevant to rate riders, see Appendix B.

In its application, a distributor must include Group 1 balances as of December 31 of the previous calendar year to determine if the threshold has been exceeded. For example, if the application was submitted this calendar year, then the threshold should be determined based on Group 1 balances as of December 31 of the prior year. The continuity schedule, found on Tab 3 of the Rate Generator model, must be completed as part of the application.

Group 1 accounts consist of the following, from the Uniform System of Accounts (USoA), contained in the [Accounting Procedures Handbook \(APH\) for Electricity Distributors](#):

- 1550 Low Voltage Variance
- 1551 Smart Metering Entity Charge Variance
- 1580 RSVA Wholesale Market Service Charges
 - 1580 Variance WMS, Sub-Account CBR Class A
 - 1580 Variance WMS, Sub-Account CBR Class B
- 1584 RSVA Retail Transmission Network Charges
- 1586 RSVA Retail Transmission Connection Charges
- 1588 RSVA Power
- 1589 RSVA Global Adjustment (GA)
- 1595 Disposition and Recovery/Refund of Regulatory Balances

The opening principal amounts as well as the opening interest amounts for Group 1 balances, shown in the continuity schedule, must reconcile with the last applicable, approved closing balances.¹⁰ Distributors must provide an explanation when the Group 1 account balances presented on the Tab 3 – Continuity Schedule of the Rate Generator model differ from the account balances in the trial balance as reported

¹⁰ If balances were last approved on an interim basis, and adjustments have been made to the approved balances, a distributor must complete the continuity schedule starting from the last balances approved on a final basis.

through the RRR (which have been pre-populated in the Tab 3 – Continuity Schedule of the Rate Generator model).

Refer to the IRM Rate Generator - DVA Tabs Instructions, which is located on the OEB's Electricity Distribution Rates website, for instructions on completing the DVA Continuity Schedule, annual updates to the DVA Continuity Schedule, and discussions on default treatments and expectations for DVAs (e.g., balance allocation, disposition periods, rate rider calculations).

A distributor must make a statement as to whether it has made any adjustments to DVA balances that were previously approved by the OEB on a final basis. The OEB expects that distributors will not adjust any DVA balances that were previously approved by the OEB on a final basis. If any adjustments are made to previously approved final balances, the distributor must identify the nature of the adjustment as “retroactive”, provide explanations for the nature and the amount of the adjustment(s), and include appropriate supporting documentation, under a section titled “Adjustments to Deferral and Variance Accounts”. This expectation also applies to adjustments relating to previously approved balances that are proposed to be made to the current balances requested for disposition in the current application. In the case where an accounting or other error is discovered in Group 1 DVAs, the OEB expects distributors to disclose the errors as a part of their rate applications. The OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the circumstances of each case. Note that an asymmetrical approach to correction of the error may be appropriate in certain circumstances.¹¹

The Rate Generator model will calculate the DVA disposition threshold using the last full year of actual load data as reported through the RRR. The default billing determinants used in the calculation of the Group 1 DVA rate riders will also be based on the recent load data. The use of actual data should reduce residual variances by reflecting recent changes in customer class composition. A distributor may propose an alternative method with supporting rationale. In that case, revisions to the Rate Generator model may be required.

EDDVAR states that the default disposition period to clear the Group 1 account balances through a rate rider should be one year. However, a distributor may propose a different disposition period to mitigate rate impacts or address any other applicable

¹¹ Distributors should refer to the OEB's [letter](#), issued October 31, 2019, Regarding Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts after Disposition.

considerations, where appropriate. A distributor must justify any such proposal with supporting information.

3.2.6.1 Commodity Accounts 1588 and 1589

On February 21, 2019, the OEB issued accounting guidance related to Accounts 1588 Power and 1589 RSVA Global Adjustment (Accounting Guidance).¹² This Accounting Guidance was to be implemented by August 31, 2019. Distributors should indicate the year in which Account 1588 and Account 1589 balances were last approved for disposition, whether the balances were approved on an interim or final basis, and if they were disposed on an interim basis, which year they were last disposed on a final basis.

On May 23, 2023, the OEB aligned the Ultra-Low Overnight (ULO) price plan¹³ with the Accounting Guidance, to support the implementation of ULO pricing.

On June 12, 2024, the OEB issued a draft update to the Accounting Guidance resulting from the Independent Electricity System Operator's (IESO) Market Renewal Program (MRP)¹⁴. This draft update was intended to assist distributors in preparing for changes under MRP. The OEB also issued a finalized Accounting Guidance for the commodity accounts under the MRP on April 28, 2025. The finalized Accounting Guidance takes effect on the effective date of MRP and will supersede the existing Accounting Guidance.

The OEB expects that all transactions recorded in Accounts 1588 and 1589 are accounted for in accordance with the respective versions of the Accounting Guidance issued in those years.

Commodity Accounts Analysis Workform (Formerly “GA Analysis Workform”)

All distributors are required to complete and submit the Commodity Accounts Analysis Workform for each year that has not previously been approved by the OEB for disposition, irrespective of whether they are seeking disposition of the Account 1588 and Account 1589 balances as part of their application.

If the distributor is adjusting the Account 1588 and Account 1589 balances that were previously approved on an interim basis, the workform is required to be completed from the year after the distributor last received final disposition for Account 1588 and Account 1589. If the distributor is proposing any retroactive adjustments on the final disposed

¹² Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment, issued [February 21, 2019](#)

¹³ Accounting Procedures Handbook Update – Accounting Guidance, May 23, 2023

¹⁴ Accounting Procedures Handbook Update – Accounting Guidance, June 12, 2024

balances of Account 1588 and Account 1589, the workform is required from the year(s) that contain(s) the error(s) and the associated adjustment(s) to the year that the balance is being requested.

The workform helps the OEB assess if the annual variances that are recorded to Account 1588 and Account 1589 are reasonable. The workform compares the actual general ledger transactions recorded during the year to an expected balance that is calculated based on monthly GA volumes, revenues, and costs.

Any unexplained discrepancy that is greater than +/- 1% of the total annual IESO GA charges is considered material and warrants further analysis and supporting evidence. To further support the conclusion that GA charges have been appropriately allocated between customer classes, distributors must also perform a reasonability test for Account 1588. The reasonability test is included in the workform.

The workform, along with detailed instructions, are available on the OEB's Electricity Distribution Rates [webpage](#) for the respective rate year and is to be filed in Excel format.

Two-year Limitation Period

On July 1, 2023, a Limitation Periods Regulation (O. Reg. 153/23) was made under the *Electricity Act* (Act). The regulation specifies the types of settlements that are subject to a two-year limitation period.

In addition, Section 36.1.1 of the Act sets out the two-year limitation period for certain IESO settlements. The limitation period only applies to settlements that have been prescribed by regulation. Under subsection (7) of section 36.1.1 of the Act, the OEB may require the resettlement of matters falling outside the two-year limitation period. More specifically, subsection 36.1.1(7) provides for an exception from the limitation period for a payment or adjustment that results from a decision or order of the OEB in respect of a variance account.

If a distributor is seeking OEB approval of an exception from the limitation period for a payment or adjustment, the distributor should provide detailed reasons for seeking approval of the exception in its application. The applicant should explain the actions taken to resolve the issue such that an exception to the limitation period would not be needed and why the applicant was not successful in its efforts to resolve the issue.

The application should have regard to the OEB's [October 31, 2019 letter](#) related to retroactive adjustments in the event such adjustments require retroactive accounting

adjustments for any year in which the related Accounts 1588 and 1589 were disposed on a final basis. The 2019 letter identified four factors to consider:

1. whether the error was within the control of the distributor
2. the frequency with which the distributor has made the same error
3. failure to follow guidance provided by the OEB
4. the degree to which other distributors are making similar errors

Furthermore, a distributor seeking such settlement adjustments should record the accounting adjustments in the continuity schedule of the related commodity variance accounts to eliminate the impacts from the IESO settlement adjustments and include these accounting adjustments in the Commodity Accounts Analysis Workform for the purpose of reasonability tests in Accounts 1588 and 1589.

3.2.6.2 Capacity Based Recovery (CBR)

Distributors that propose disposition of Account 1580 sub-account CBR Class B must do so in accordance with the OEB's Capacity Based Recovery [\(CBR\) accounting guidance](#). The balance in sub-account CBR Class B must be disposed over the default period of one year. For the disposition of Account 1580, sub-account CBR Class A, distributors must follow the CBR accounting guidance, which results in balances disposed outside of a rates proceeding.

Refer to the IRM Rate Generator model - DVA Tabs Instructions, which is a separate pdf of a Microsoft Word document on the [OEB's Electricity Distribution Rates webpage](#) for instructions for the respective rate year and for further details on the treatment of CBR related sub-accounts.

3.2.6.3 Disposition of Account 1595

When the OEB approves disposition of DVA balances, the approved amounts of principal and carrying charges are transferred to Account 1595 for that rate year.

Distributors are expected to request disposition of residual balances in Account 1595 sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider. During the two years after the expiry of the rate rider, distributors may still make billing corrections as per the Retail Settlement Code and should record the related transactions in the associated Account 1595 sub-account. The eligibility criteria for disposition of Account 1595 sub-accounts depends on the distributor's rate year. For example:

- For January 1 rate year – If 2021 rate riders expire the same year which is on December 31, 2021, the balance of sub-account 1595 (2021) is eligible to be disposed after the account balance as of December 31, 2023 which is two years after the rate riders' expiration has been audited. Therefore, sub-account 1595 (2021) would be eligible for disposition in the 2025 rate year.
- For May 1 rate year – If 2021 rate riders expire on the following year April 30, 2022, the balance of sub-account 1595 (2021) is eligible to be disposed after the account balance as of December 31, 2024 which is two years after the rate riders' expiration has been audited. Therefore, sub-account 1595 (2021) would be eligible for disposition in the 2026 rate year.

No further transactions are expected to be recorded in the Account 1595 sub-accounts once the residual balance has been disposed of. Generally, after the rate riders associated with balances transferred to an Account 1595 sub-account have expired, the residual balance is expected to be relatively small, represented by the difference between the forecast billing determinants upon which the riders were derived and the actual billing determinants over that period.¹⁵ If there are material residual balances being proposed for disposition, applicants are expected to provide a detailed explanation, including quantifying any significant drivers of the residual balances.

3.2.7 Lost Revenue Adjustment Mechanism Variance Account

The LRAMVA is a retrospective adjustment designed to account for differences between forecast revenue loss attributable to Conservation and Demand Management (CDM) activity embedded in rates and actual revenue loss due to the impacts of CDM programs. The OEB established Account 1568 as the LRAMVA to capture the difference between the OEB-approved CDM forecast and actual results at the customer rate class level.¹⁶ Treatment of the LRAMVA is documented in several versions of the CDM Guidelines (2012, 2015, 2021) and the 2024 Non-Wires Solutions Guidelines for Electricity Distributors (NWS Guidelines).¹⁷

In May 2016, the OEB issued the [Report of the OEB on Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs](#) (the LRAMVA

¹⁵ There may also be instances where the residual balance also contains amounts associated with balances transferred to the vintage sub-accounts under Account 1595 (for example, shared tax impacts).

¹⁶ [EB-2012-0003, Guidelines for Electricity Distributor Conservation and Demand Management](#)

¹⁷ In 2024, the OEB replaced the CDM Guidelines with the [NWS Guidelines](#). This reflects the fact that non-wires solutions to address system needs can encompass a broader range of solutions than traditional conservation and demand management, including, but not limited to, third-party distributed energy resources such as energy storage and distributed (embedded) generation.

Report), in which the OEB updated its policy on how peak demand savings from energy efficiency and demand response programs should be treated for LRAMVA purposes.

In July 2016, the OEB developed a generic LRAMVA Workform to provide distributors with a consistent approach to calculate amounts to record in the LRAMVA. The LRAMVA Workform consolidates information that distributors have received from the IESO.

In December 2016, the OEB indicated, in various decisions,¹⁸ that changes to an approved LRAMVA amount were not permitted. This policy affects the treatment of verified savings adjustments that can be claimed by distributors. If an LRAMVA amount was approved and disposed, the persistence of the savings adjustment(s) can only be claimed on a “go-forward” basis.¹⁹ Distributors cannot seek recovery of LRAMVA amounts related to savings adjustments for a year in which the corresponding LRAMVA amount had been approved by the OEB on a final basis. For example, if a distributor received approval for final disposition of its 2014 LRAMVA balance, which excluded 2014 savings adjustments, the distributor must forgo any LRAMVA amounts related to the 2014 savings adjustments.

The [2021 CDM Guidelines](#)²⁰ indicated that distributors were not eligible for LRAM for other IESO programs funded through the Interim Framework, or for CDM activities funded by the IESO through the [2021-2024 CDM Framework](#).²¹

In 2024, the OEB replaced the CDM Guidelines with the NWS Guidelines. Distributors may request the use of an LRAMVA for distribution rate-funded NWS activities or Local Initiatives Program (LIP) activities, with need to be determined on a case-by-case basis. Distributors should now refer to the [NWS Guidelines](#) for additional guidance relating to the LRAMVA.²²

3.2.7.1 Disposition of the LRAMVA and Rate Riders for Previously Approved LRAM-Eligible Amounts

The 2021 CDM Guidelines required distributors filing an application for 2023 rates to seek disposition of all outstanding LRAMVA balances related to previously established

¹⁸ EB-2016-0075, Guelph Hydro Electric Systems Inc. Decision and Rate Order and EB-2016-0080 Hydro One Brampton Networks Inc., Decision and Rate Order

¹⁹ See EB-2016-0214, North Bay Hydro, Decision and Rate Order, for an example.

²⁰ EB-2021-0106, Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021.

²¹ 2021-2024 Conservation and Demand Management Framework Program Plan, Independent Electricity System Operator.

²² EB-2024-0118, Non-Wires Solutions Guidelines for Electricity Distributors, Section 8.0, March 28, 2024

LRAMVA thresholds (i.e., thresholds established in a distributor's previous cost of service proceeding) if possible. Most distributors have completed this step and now have a zero balance in the LRAMVA. Some of these distributors also had LRAM-eligible amounts approved for future years (with the approved amounts to be adjusted mechanistically by the approved inflation minus X factor applicable to IRM applications in effect for a given year and recovered through a rate rider in the corresponding rate year).

Filing requirements differ depending on whether or not a distributor has already disposed of any balance in the LRAMVA as described below.

Distributors with zero balance in the LRAMVA (including those with previously approved LRAM-eligible amounts)

A distributor with a zero balance in the LRAMVA should indicate this fact in its application and advise that it is not requesting any disposition. If a distributor with zero balance in the LRAMVA is requesting rate rider(s) for current rate year rates to recover an LRAM-eligible amount approved in a previous proceeding, the distributor should reference the previous OEB decision where the base LRAM-eligible amount for the current rate year (i.e., the amount prior to the mechanistic adjustment) was approved, and provide the calculations used to generate the requested LRAM-eligible rate riders (i.e., the mechanistic adjustment and the allocation to rate classes). Distributors are to input the resulting rate rider(s) in Tab 19 – Additional Rates of the IRM Rate Generator model. Distributors in this circumstance do not need to file the LRAMVA Workform or any additional documentation.

Distributors with non-zero balance in the LRAMVA

A distributor that does not have a confirmed zero balance in the LRAMVA should seek disposition as part of their IRM application, with supporting information, or provide a rationale for not doing so. In addition, such distributors are eligible for LRAM for persisting impacts of Conservation First Framework programs and Local Program Fund programs until their next rebasing. Such distributors not rebasing who have complete information on eligible savings (i.e., needing only to account for persistence of savings in future years) should calculate and request approval of LRAM-eligible amounts to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application, and request any rate rider(s) for the LRAM-eligible amount.

Distributors are to refer to Section 3.2.7.1 of the [2023 edition of the Chapter 3 Filing Requirements](#) for specific directions and filing requirements related to the disposition of any balance in the LRAMVA. When using the 2023 edition of the Chapter 3 Filing

Requirements for the purposes of the LRAMVA, any reference to 2024 rates, applications or amounts is to be interpreted as rates, applications, or amounts pertaining to the rate year for which OEB approval is being sought.

An application to dispose of the balance in the LRAMVA may only be filed as part of an Annual IR Index application if the OEB's decision (or settlement agreement approved by the OEB) for the distributor's last cost of service application has a clear description of class-specific CDM adjustments made to the load forecast to be used in the calculation of the LRAMVA balance. Any applications for LRAMVA dispositions determined by the OEB to be more complex than is appropriate for an Annual IR Index application will be bifurcated and heard separately from the Annual IR Index application.

3.2.7.2 Continuing Use of the LRAMVA for New NWS Activities

The NWS Guidelines indicate that distributors may request the use of an LRAMVA for distribution-rate funded NWS activities or LIP activities, with need to be determined on a case-by-case basis.²³ If such a request is granted, the distributor may propose to make use of the existing generic LRAMVA (Account 1568), or propose to establish a new account, with appropriate rationale and accounting details to support their proposed approach.

A distributor should indicate whether it is requesting an LRAMVA for one or more of these activities if this request has not been addressed in a previous application.

In all cases where a distributor is requesting funding for an NWS activity outside of rebasing or access to, and the use of, an LRAMVA for a distribution rate-funded NWS activity or a LIP activity, the distributor should refer to the NWS Guidelines for the nature of the evidence the OEB requires to assess such a proposal. While the OEB generally expects that distributors would bring forward any such requests as part of a rebasing application, they are not precluded from doing so in an IRM proceeding. An application requesting funding for NWS activities would be heard by a panel of Commissioners, not by an employee of the OEB under delegated authority.

3.2.8 Tax Changes

The OEB's policy, as described in the OEB's 2008 [Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#) (the Supplemental Report),²⁴ prescribes a 50/50 sharing of impacts of legislated tax changes

²³ EB-2024-0118, Non-Wires Solutions Guidelines for Electricity Distributors, Section 8.0, March 28, 2024

²⁴ EB-2007-0673, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, issued September 17, 2008

from a distributor's tax rates embedded in its OEB-approved base rates known at the time of the application. These amounts will be refunded to, or recovered from, customers over a 12-month period. If applicable, distributors must complete Tabs 8 and 9 of the Rate Generator model for these impacts. The Rate Generator model will calculate applicable rate riders using the appropriate customer class data underlying the OEB-approved rates. A rate rider to four decimal places must be generated for all applicable customer classes to dispose of the amounts. If a rate rider to the fourth decimal place is not generated for one or more customer class, the entire sharing amount will be transferred to the associated sub-account for that rate year under Account 1595 for disposition at a future date.

As stated in its 2022 Fall Economic Statement, the Province of Ontario plans to parallel the federal change in the Small Business Deduction (SBD) phase-out that was first announced in the 2022 federal budget.²⁵ The SBD will not be reduced to nil until a Canadian-Controlled Private Corporation (CCPC) and its associated corporations have a combined taxable capital of \$50 million. This change is effective for tax years beginning after April 6, 2022. For regulatory purposes, rate base is the proxy for taxable capital.²⁶ The Rate Generator model reflects the change in SBD phase-out for 2025 rates. Account 1592 – PILs and Tax Variances was established to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the OEB Tax Model that is used to determine the tax amount that underpins rates.²⁷ Distributors are reminded to record the full impact of the SBD phase-out for 2022, 2023, and 2024, if applicable, in Account 1592.

On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent. Included in Bill C-97 were various changes to the federal income tax regime. One of the changes introduced by Bill C-97 is the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in Capital Cost Allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. The AIIP is being phased out from 2024 to 2027 and fully phased out in 2028. The impacts of changes in CCA rules are to be considered in distributor rebasing applications, and are excluded from the tax changes (such as changes in corporate tax rates) typically addressed in an IRM application.²⁸

²⁵ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/provincial-territorial-corporation-tax/ontario-provincial-corporation-tax/ontario-small-business-deduction.html>

²⁶ 2006 Electricity Distribution Rate Handbook, May 11, 2005, p. 64

²⁷ Accounting Procedures Handbook, Article 220, p.38

²⁸ OEB [letter](#): Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, issued July 25, 2019

3.2.9 Z-factor Claims

Distributors under a Price Cap IR or Annual IR Index rate-setting plan may request cost recovery associated with unforeseen events that are outside the control of a distributor's ability to manage. This is referred to as a claim for a "Z-factor" event. The cost to a distributor must be material and its causation clear. Costs are to be recorded in Account 1572, Extraordinary Events Costs. Carrying charges apply to the account at the OEB-prescribed rates. To recover these amounts, a distributor must follow the guidelines discussed in section 2.6 of the [Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#), issued July 14, 2008. The materiality thresholds, described in the above noted OEB report, must be met on an individual event basis for the distributor to apply for recovery of the relevant costs.

To be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates.

3.2.9.1 Z-factor Filing Guidelines

A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence. A distributor must also:

- Notify the OEB promptly by letter to the Registrar of all Z-factor events. Failure to notify the OEB within six months of the event may result in the disallowance of the claim.
- Apply to the OEB to recover costs recorded in the OEB-approved deferral account claimed under Z-factor treatment. This will allow the OEB and any affected distributor the flexibility to address extraordinary events promptly. Subsequently, the OEB may review and prospectively adjust the amounts for which Z-factor treatment is claimed.
- Provide 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 extraordinary events is genuinely incremental to their experience or reasonable expectations.
- Demonstrate that the costs were incurred within a 12-month period and are incremental to those already being recovered in rates as part of ongoing business risk.

- Provide the distributor's achieved and deemed regulatory ROE for the most recently completed fiscal year.

3.2.9.2 Recovery of Z-factor Costs

As part of its claim, a distributor must outline how 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 and a rationale for this proposal. As discussed in section 3.2.3, any new rate riders that apply to residential classes must only be applied on a fixed basis. A detailed calculation of the incremental revenue requirement and resulting rate rider(s) must be provided.

3.2.10 Off-Ramps

For the Price Cap IR and Annual IR index rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved ROE. The OEB monitors results filed by distributors as part of their RRR (specifically, RRR 2.1.5.6) and determines if a regulatory review is warranted. Any such review will be prospective, and may result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index method for that distributor.

A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index method. If a distributor whose earnings are in excess of the dead band nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so. A distributor is expected to file its regulated ROE, as was filed for RRR 2.1.5.6. However, if in the distributor's view this ROE has been affected by out-of-period or other items (e.g., revenues or costs that pertain to a prior period but recognized in a subsequent one), it may also file a proposal to normalize its achieved regulated ROE for those impacts, for consideration by the OEB. The distributor should anticipate that the level of earnings will be raised as an issue in the application.

A distributor may choose to file only for disposition of Group 1 DVA balances, adjustments to its RTSRs, or any other adjustment typically processed in an IRM application, in accordance with OEB policies, without applying for adjustments to its base rates.

3.3 Elements Specific only to the Price Cap IR Plan

3.3.1 Advanced Capital Module

On September 18, 2014, the OEB issued the [Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module](#) (ACM Report).²⁹ The Advanced Capital Module (ACM) reflects an evolution of the ICM adopted by the OEB in 2008. The ACM approach seeks to increase regulatory efficiency during the Price Cap IR term and provides a distributor with the opportunity to smooth out its capital program over the five-year period between cost of service applications.

A distributor must make any ACM requests as part of a cost of service application. At that time, the need for, and prudence of, any such requests will be determined. Cost recovery (i.e., rate riders) for qualifying ACM projects will be determined in the subsequent Price Cap IR application for the year in which the capital investment will come into service.

While an ACM request must be made in a cost of service application, a Price Cap IR application is the vehicle in which a distributor may calculate the rate rider to recover the amounts approved in a cost of service application. A distributor seeking cost recovery through a Price Cap IR application should carefully review the ACM Report before making such a request.

A Means Test applies to ACM funding. A distributor approved for an ACM in its most recent cost of service application must file its most recent calculation of its regulated return³⁰ at the time of the applicable Price Cap IR application in which funding for the project, and recovery through rate riders, would commence. If the achieved regulated ROE for the most recently completed fiscal year exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, that distributor does not qualify for funding for an incremental capital project. Therefore, any approvals provided for an ACM in a cost of service application will be subject to the distributor passing the Means Test to receive its funding during the IR term. The same Means Test shall also apply going forward for new projects proposed under the ICM during the Price Cap IR term.

A distributor meeting this requirement must provide the relevant project's (or projects') updated cost projections, confirm that the project or projects are on schedule to be completed as planned, and file an updated ACM/ICM module in Excel format. If the

²⁹ EB-2014-0219, Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, issued September 18, 2014

³⁰ RRR 2.1.5.6

proposed cost recovery differs significantly from the pre-approved amount, the distributor must provide a detailed explanation. Any changes in the scope or timing of the project must be clearly explained and justified.

If the updated cost projections are greater than the pre-approved amount by 30% or more, the distributor must treat the project as a new ICM project and re-file the business case and other relevant material in the applicable IR year.

As part of the distributor's subsequent rebasing application, the OEB will carry out a prudence review of the actual costs to determine the amounts to be incorporated in rate base. At that time, the OEB will also determine the treatment of differences between forecast and actual spending during the remainder of the IRM plan term (i.e., if any true-up is required).

On January 22, 2016, the OEB issued the [Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report](#) (Supplemental Report).³¹ This report made changes to the materiality threshold on which ACM and ICM proposals are assessed, but otherwise does not alter the requirements for ACM and ICM proposals by a distributor. The Supplemental Report also reaffirms the applicability of the half-year rule for determining the return of and return on capital in the first year that assets enter service.

An associated and updated Capital Funding Module to reflect the changes to the materiality threshold was also issued along with the Supplemental Report and is available on the OEB's website. A distributor filing for ACM/ICM rate riders must use the current model.

3.3.2 Incremental Capital Module

The ICM is available to distributors under the Price Cap IR plan. The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold defined below. The ICM is available for discretionary and non-discretionary projects. The ICM is also available for capital projects that were not included in the distributor's last filed Distribution System Plan (DSP). Even for approved ACM projects, an ICM is available if an updated ACM budget exceeds the approved ACM budget by 30%. Distributors with multiple capital projects should consider the Custom IR option to address capital needs in the context of their DSP, rather than submit multiple ICM applications or ICM applications that consistently

³¹ EB-2014-0219, Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report, issued January 22, 2016

use up a substantial amount of the eligible available capital amount. As discussed in section 3.3.1., a Means Test applies to ICM funding.

Distributors are not permitted to access the ICM during cost of service deferral periods except in those instances where a distributor is in a deferral period arising from a utility consolidation.³² For distributors that are in an extended deferral period following consolidation (i.e., years six to ten of their deferral period), incremental capital funding for an annual capital program may be requested, under certain conditions.³³ Distributors who were subject to a consolidation should also refer to the *Handbook to Electricity Distributor and Transmitter Consolidations: Rate-making Considerations and Filing Requirements for Consolidation Applications*.

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the ACM Report.

Criteria	Description
Materiality	<p>A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.</p> <p>Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.</p>
Need	<p>The distributor must pass the Means Test (as defined in the ACM Report).</p> <p>Amounts must be based on discrete projects and should be directly related to the claimed driver.</p>

³² [OEB Letter](#), issued December 1, 2021

³³ [OEB Letter](#), issued February 10, 2022

Criteria	Description
	The amounts must be clearly outside of the base upon which the 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.

3.3.2.1 ICM Filing Requirements

The OEB requires that a distributor requesting relief for incremental capital during the IRM plan term include comprehensive evidence to support the need, which should include the following:

- An analysis demonstrating that the materiality threshold test has been met and that the amounts will have a significant influence on the operation of the distributor.
- Justification that the amounts to be incurred will be prudent. This means that the distributor's decision to incur the amounts represents the most cost-effective option (but not necessarily the least initial cost) for ratepayers.
- Justification that amounts being sought are directly related to the cause, which must be clearly outside of the base upon which current rates were derived.
- Evidence that the incremental revenue requested will not be recovered through other means (e.g., it is not, in full or in part, included in base rates or being funded by customer contributions in aid of construction, or by the expansion of service to include new customers and other load growth). The applicant is required to quantify all incremental revenues associated with the completion of the proposed project.
- Details by project for the proposed capital spending plan for the expected in-service year.
- A description of the proposed capital projects and expected in-service dates.
- Calculation of the revenue requirement (i.e., the cost of capital, depreciation, and PILs) associated with each proposed incremental capital project.
- A description of the actions the distributor would take in the event that the OEB does not approve the application.

- Calculation of a rate rider to recover the incremental revenue from each applicable customer class. The distributor must identify and provide a rationale for its proposed rider design, whether variable, fixed or a combination of fixed and variable riders. As discussed in section 3.2.3, any new rate rider for the residential class must be applied on a fixed basis.
- For each project with an expected capital cost of \$2 million or more, excluding general plant investments: documentation of the consideration of non-wires solutions (NWSs) to meet the identified system need that will be addressed by the project(s) as articulated in the OEB's *Benefit-Cost Analysis Framework for Addressing Electricity System Needs* (BCA Framework) to assess the economic feasibility of NWSs.³⁴ Should a NWS be the preferred solution, distributors using any rate-setting methodology may request funding under the NWS Guidelines.³⁵

3.3.2.2 ACM/ICM Materiality Threshold

The ACM/ICM materiality threshold is discussed in section 4.5 of the Supplemental Report.

The OEB determined that the following formula is to be used by a distributor to calculate the materiality threshold:

Threshold Value (%)

$$= \left(1 + \left[\left(\frac{RB}{d} \right) \times (g + PCI \times (1 + g)) \right] \right) \times ((1 + g) \times (1 + PCI))^{n-1} + X\%$$

where n is the number of years since rebasing. Many of the parameters remain unchanged from the original formula except for the following:

- the growth factor g is annualized
- the dead band X has been reduced to 10%
- the stretch factor used in the price cap index will be the factor assigned to the middle cohort (currently 0.3%) for all distributors

³⁴ Distributors should use the BCA Framework for all project planning activities going forward, this includes new projects and projects in early stages. The OEB's expectation is that all rate applications filed in 2026 should be fully consistent with the BCA Framework.

³⁵ Section 3 of the NWS Guidelines provides more details on the OEB's expectations and evidentiary requirements for consideration of NWSs and applications for NWS funding.

3.3.2.3 Assessment of Materiality

In the ACM report, the OEB mentioned that the eligible incremental capital amount sought for recovery should be capital in excess of the ACM/ICM materiality threshold defined in section 3.3.2.2. This threshold level of capital expenditures is the amount that a distributor should be able to manage with its current rates, growth in demand and normal volatility in business conditions. Accordingly, the materiality threshold value, as calculated using the formula discussed in section 4 of the ACM report, marks the base from which to calculate the maximum amount eligible for recovery. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital amount by taking the difference between the forecast total capital expenditures and the ACM/ICM materiality threshold. For example, if current year's capital expenditures are forecast to be \$1.0 million and the ICM request is for \$0.5 million, the total capital expenditures for the materiality calculation would be for the amount \$1.5 million for the current year's application,.

For individual projects included within an ACM/ICM request, it is not appropriate to apply the materiality thresholds established in the Chapter 2 Filing Requirements³⁶ for the purpose of evaluating the materiality of an individual project. These materiality thresholds are for the purpose of variance explanations for annual changes to rate base, capital expenditures and operations, maintenance and administration costs as part of a cost of service rate application.

In the ACM Report,³⁷ the OEB adopted an approach establishing the following three principles with respect to the eligibility of a capital project for ACM/ICM treatment:

- (1) minor expenditures in comparison to the overall capital budget should not be considered eligible for ICM treatment
- (2) a certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget
- (3) the project amount being proposed for recovery should be significant within the context of the distributor's overall capital budget

For recently merged distributors, the above principles are applicable to the merged entity, not the individual rate zones.

³⁶ Section 2.0.8

³⁷ EB-2014-0219, Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p. 17

3.3.2.4 Application of the Half-Year Rule

The OEB's general guidance on the application of the half-year rule was originally provided in the Supplemental Report. In that report the OEB determined that the half-year rule should not apply so as not to build a deficiency for the subsequent years of the IRM plan term. This approach is unchanged in the new ACM/ICM policy. However, the OEB's approach in decisions has been to apply the half-year rule in cases in which the ICM request coincides with the final year of a distributor's IRM plan term.³⁸

3.3.2.5 Changes in Tax Rules for Capital Cost Allowance (CCA)

As discussed in section 3.2.7, Bill C-97 introduced the AIIP, which provides for a first-year increase in CCA deduction on eligible capital assets acquired after November 20, 2018. The AIIP is being phased out from 2024 to 2027 and will be fully phased out in 2028.

In the letter [Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance](#), the OEB provided accounting guidance on the impacts from accelerated CCA (CCA Guidance). The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances – CCA Changes to record the full revenue requirement impact of any changes in CCA rules that are not reflected in base rates.

The accelerated CCA should not be reflected in the ICM revenue requirement proposal associated with eligible assets/projects that are acquired after November 20, 2018. The OEB will assess the impact of the accelerated CCA on all capital investments at the time of rebasing to minimize the complexity of the review. Distributors should include the impact of the CCA rule change associated with any ICM project(s) that are approved for ICM treatment in Account 1592 – PILs and Tax Variances – CCA Changes. Disposition of amounts tracked in the applicable CCA sub-account should be brought forward at the time of a distributor's next rebasing.

The materiality criteria for an ICM includes a requirement that any incremental capital amounts must clearly have a significant influence on the operation of the distributor. The OEB may take the accelerated CCA into consideration in assessing the impact of the proposed capital project(s) on the operations of the distributor in determining if ICM funding is warranted. As noted above, accelerated CCA should not be reflected in the ICM revenue requirement. Distributors are to provide the ICM revenue requirement reflecting the exclusion of accelerated CCA. In addition, to assist the OEB with its

³⁸ EB-2010-0130, Guelph Hydro Electric Systems Inc., Decision and Order, p. 15

assessment of the impact of accelerated CCA on whether ICM funding is warranted, distributors are also to provide the ICM revenue requirement reflecting the inclusion of accelerated CCA.

3.3.2.6 ACM/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 construction work in progress accounting treatment will apply until these assets go into service and are eligible to be recorded in the applicable Account 1508 sub-accounts.

Distributors should record actual amounts in the appropriate sub-accounts of Account 1508 – Other Regulatory Assets in accordance with the OEB's [APH Guidance](#).³⁹

The applicable rate of interest for deferral and variance accounts for the respective quarterly period is prescribed by the OEB and published on the [OEB's website](#).

At the time of the subsequent rebasing application, a distributor is required to provide the funding true-up calculation, if material, comparing the recalculated revenue requirement based on actual capital spending relating to the OEB-approved ACM/ICM project(s) to the rate rider revenues collected in the same period. Distributors should note assumptions used in the calculation (e.g., half-year rule). If the OEB determines that a true-up of variances is required, the variance will be refunded to (or collected from) customers through a rate rider.

3.3.2.7 Rate Generator and Supplemental Filing Module for ACM/ICM

The filing module for ACM/ICM will assist the distributor in calculating the distributor's threshold. The distributor will then tabulate the value of its eligible investments and compare this to the threshold result to determine the amount that would be eligible for recovery. Once all tabs are completed and listed in the filing module for ACM/ICM, the tabulated revenue requirement will be converted into class-specific rate riders. The rate riders will need to be added to Tab 19 – Additional Rates – of the Rate Generator model for them to be displayed on the Tariff of Rates and Charges.

³⁹ See Accounting Procedures Handbook, March 2015 Guidance #13, 14 for details on accounts and related journal entries.

3.3.3 Treatment of Costs for ‘eligible investments’

In a rebasing application, a distributor may seek approval for costs incurred to make investments that are eligible for rate protection as per section 79.1 (1) of the *Ontario Energy Board Act, 1998* and O.Reg. 330/09, Cost Recovery re Section 79.1 of the Act (the Regulation) made under the Act, which includes facilities forecast to enter service beyond the test year.

Typically, a distributor would receive approval for renewable investments in a cost of service application, calculate the revenue requirement for eligible investments and the amounts for which rate protection are requested for the test year and the Price Cap term. The OEB annually confirms these amounts and orders the IESO to collect and disburse specific amounts as per the Regulation.

Distributors that are already receiving rate protection as a result of a previous application and approval (in many cases based on forecast capital expenditures on qualifying connection assets), will include updated actual costs incurred for the investments as well as updates to the useful lives of capital put into service, and updates to parameters of the revenue requirement calculations as applicable by completing Appendix 2-FA through 2-FC, at the time of its next rebasing application. This will then generate new up-to-date rate protection amounts for the next Price Cap term.

Distributors that are not rebasing due to an Annual IR Index rate setting methodology or deferrals (due to mergers or otherwise) that no longer have approved amounts to be collected from the IESO due to the expiry of the previous Price Cap term, should file updated Appendix 2-FA through 2-FC as part of their IRM application in order for the OEB to be able to update the amounts to be disbursed by the IESO.

3.4 Specific Exclusions from IRM Applications

The IRM application process is intended to be mechanistic in nature. For this reason, the OEB has determined that the IRM process is not the appropriate way for a distributor to seek relief on issues which are specific to only one or a few distributors, more complicated relative to issues typical of an IRM application, or potentially contentious. The following are examples of specific exclusions from the IRM rate application process:

- Rate Harmonization, other than that pursuant to a prior OEB decision
- Changes to revenue-to-cost ratios, other than pursuant to a prior OEB decision
- Loss Factor Changes
- Establishing or changing Specific Service Charges
- Any requests for approval that require a new or further prudence review for a cost component of an approved revenue requirement such as long-term debt rates, pension and other post-employment benefit costs, or PILs/Taxes
- Disposition of Group 2 Deferral and Variance Accounts
- Loss of Customer Load

These items are expected to be addressed, if applicable, in the distributor's cost of service application. Distributors seeking adjustments that are inconsistent with OEB policy should consider whether one of the other rate-setting options is more appropriate. As indicated in the Handbook, distributors filing under the Annual IR Index method must file a separate, stand-alone application for the review and disposition of any Group 2 DVAs.

Appendix A: Executive Summary Table

The table below is an example of a summary table that should be completed and filed by distributors. Where a distributor operates multiple rate zones, additional columns can be added to detail requests that are specific to each rate zone.

Description / Item	Summary of Request
Annual Adjustment Mechanism	Yes/No
Revenue-to-Cost Ratio Adjustments	Yes/No
Shared Tax Adjustments	Yes/No
Retail Transmission Service Rates	Yes/No
Low Voltage Service Rates	Yes/No
Group 1 Deferral and Variance Accounts Disposition/Recovery	Yes/No
Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)	Yes/No
Group 2 Deferral and Variance Accounts Disposition/Recovery	Yes/No
Residential Rate Design (i.e., transitioning to fully fixed rates)	Yes/No
Z-factor claims	Yes/No
Incremental Capital Module / Advanced Capital Module	Yes/No
Rate Year Alignment	Yes/No
Requests for new utility-specific DVAs	Yes/No
Renewable Generation and/or Smart Grid Funding Adder	Yes/No
Correction to Previously Disposed DVA Balances	Yes/No
Non-mechanistic changes (e.g., creation or addition of a new rate class)	Yes/No
Rate design where bill mitigation plans need consideration	Yes/No
Other Items/Requests of Note	Provide Short Description

Appendix B: Rate Adder versus Rate Rider

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 OEB and to mitigate or smooth the anticipated rate impact when recovery of these costs is approved by the OEB. Approval of a rate adder does not constitute regulatory approval of any costs actually incurred. The prudence of incurring such costs is examined, and the costs may be approved in whole or in part, at the time at which the distributor brings the matter forward for regulatory review.

A rate adder is identified and listed separately on a distributor's tariff of rates and charges and may have a termination date.

Rate Rider

A rate rider differs from a rate adder in that it is designed to recover OEB-approved amounts following a review of the proposed costs to determine that it is reasonable for the distributor to incur and recover them. Rate riders may also be used to recover or refund amounts that were over or under-collected in prior periods, following a review of DVA account balances. Rate riders are identified and listed separately on a distributor's tariff of rates and charges, with an explicit termination date.

A rate rider may not be collected past its expiry date, even if a distributor's rates are declared interim or charges have been ordered to continue into an interim rate period.

Treatment of Negligible 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 OEB-approved allocated amounts by the OEB-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. In the event where the calculation of any rate adder or rate rider results in a volumetric rate rider that rounds to zero at five significant digits (i.e., the fourth decimal place) per kWh or per kW, the entire OEB-approved amount for recovery or refund will typically be recorded in a USoA account to be determined by the OEB for disposition in a future rate-setting proceeding. Distributors may propose alternatives to this approach if there is a significant discrepancy in the size of the riders among classes (e.g., if a rider is of a non-negligible size for one or more classes, but negligible or insignificant for another class).

Appendix C: Key References

The documents listed in Appendix C are key to understanding these Filing Requirements. Incentive Rate-setting applications filed by distributors must be consistent with the key references listed.

General:

[Guideline \(G-2008-0001\) on Retail Transmission Service Rates - October 22, 2008 \(Revision 3.0 June 22, 2011 and any subsequent updates\)](#)

[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](#)

[Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative \(EDDVAR\) - July 31, 2009](#)

[Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach - October 18, 2012](#)

[Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors - corrected December 4, 2013](#)

[Board Policy \(EB-2012-0410\) - A New Distribution Rate Design for Residential Electricity Customers - April 2, 2015](#)

[Report of the Ontario Energy Board - Defining Ontario's Typical Electricity Customer – April 14, 2016](#)

Incremental/Advanced Capital Funding:

[Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module - September 18, 2014](#)

[Report of the Ontario Energy Board - New Policy Options for the Funding of Capital Investments: Supplemental Report – January 22, 2016](#)

[OEB Letter: Applications for 2023 Electricity Distribution Rates – December 1, 2021](#)

[OEB Letter: Incremental Capital Modules During Extended Deferred Rebasing Periods – February 10, 2022](#)

Accounting:

[Guidance on Wholesale Market Service Accounting for Capacity Based Demand Response \(CBDR\) and new IESO Charge Type 9920 – March 29, 2016](#)

[Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment – February 21, 2019](#)

[Accounting Procedures Handbook Update – Accounting Guidance – April 28, 2025](#)

[OEB Letter: Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance – July 25, 2019](#)

[OEB Letter: Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition – October 31, 2019](#)

LRAM/CDM/NWS:

[Guidelines for Electricity Distributors' Conservation and Demand Management - April 26, 2012 \(2012 CDM Guidelines\)](#)

[Report of the Ontario Energy Board - Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs – May 19, 2016](#)

[Guidelines for Electricity Distributors' Conservation and Demand Management - December 19, 2014 \(2014 CDM Guidelines\) – Updated August 11, 2016](#)

[Updated Guidance on LRAM Variance Account 1568 – New Sub-Account 1568-0001 LRAMVA Demand Response – July 18, 2017](#)

[Conservation and Demand Management Guidelines for Electricity Distributors – December 20, 2021 \(2021 CDM Guidelines\)](#)

[Non-Wires Solutions Guidelines for Electricity Distributors \(2024 NWS Guidelines\) – March 28, 2024](#)

[Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2025 Rates](#)⁴⁰

⁴⁰ When using the 2025 edition of the Guidance on Prospective Lost Revenue Adjustment Mechanism (LRAM) Amounts for IRM applications, any reference to 2025 rates, or amounts is to be interpreted as rates, or amounts pertaining to the rate year for which OEB approval is being sought. Corresponding adjustments to the LRAM-Eligible Amount calculations may be required, while maintaining the intention and essence of the guidance.