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

Ontario

Ontario Energy Board

Filing Requirements For
Electricity Distribution Rate Applications
- ~~2021~~2022 Edition for ~~2022~~2023 Rate Applications -

Chapter 3

Incentive Rate-Setting Applications

~~June~~May 24, ~~2021~~2022

Table of Contents

Chapter 3 Filing Requirements for Incentive Rate-Setting Applications subject to the Ontario Energy Board's Index Adjustments

3.1 Introduction

On October 13, 2016, the Ontario Energy Board (OEB) released its Handbook for Utility Rate Applications (Handbook) to provide guidance to utilities and stakeholders on applications to the OEB for approval of rates under the renewed regulatory framework (RRF). The Handbook outlines the key principles and expectations the OEB will apply when reviewing rate applications and is applicable to all rate regulated utilities, including electricity distributors, electricity transmitters, natural gas utilities and Ontario Power Generation. 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) methods established by the RRF: (1) Price Cap IR, (2) ~~Custom IR and (3)~~ Annual IR Index and (3) Custom IR.

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 method 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. ~~The Annual IR Index method adjusts rates by a simple price cap index formula (i.e. I-X), where the X-factor will be the same as the highest X-factor. All distributors on the Annual IR Index will be subject to the same X-factor.~~

~~These filing requirements set out the OEB's expectations for electricity distributors' annual rate adjustment applications in between cost of service (CoS) applications under Price Cap IR, or the Annual IR Index, also known as IRM applications.[2]~~

[1] The OEB considers cost of service and rebasing to be the same and therefore these terms are used interchangeably for the purposes of this chapter.

~~[2] These filing requirements replace the 20202021 edition of the Chapter 3 Incentive Rate-Setting Filing Requirements for Electricity Distribution Rate Applications, dated May 14, 2020.June 24, 2021.~~

The key elements for the three rate-setting methods were set out in the Report of the Board: Renewed Regulatory Framework for Electricity: A Performance-Based Approach.

These filing requirements set out the OEB's expectations for electricity distributors' annual rate adjustment applications in between cost of service (CoS) applications under Price Cap IR, or the Annual IR Index, also known as IRM applications.[3]

[3] These filing requirements replace the 20202021 edition of the Chapter 3 Incentive Rate-Setting Filing Requirements for Electricity Distribution Rate Applications, dated May 14, 2020.June 24, 2021.

3.1.1 Grouping for Filings

Distributors that are seeking rate adjustments effective January 1, ~~2022~~2023 under IRM will be required to file their application by August ~~18, 2021~~3, 2022. The OEB will assign distributors seeking IRM rate adjustments effective May 1, ~~2022~~2023 to one of three application groupings noted below based on the expected level of complexity of the application. The length of time required to review an application is commensurate with its level of complexity. Applications of greater complexity will be expected to be filed first. The OEB conducts a survey each spring to identify the expected elements of a distributor's IRM application for the assignment of IRM filing deadlines. If a distributor expects that its application will be significantly more complex than it disclosed during the survey, it should advise the OEB and is encouraged to file in an earlier grouping.

Regardless of the rate year, any distributor seeking a rate adjustment for an incremental capital module (ICM) or a Z-factor ~~adjustment~~claim, for example, should reflect on the complexity of the application and file earlier than the posted dates, as the complexity warrants.

Staggering the applications allows the OEB and other stakeholders to schedule resources to allow for adequate review of the applications. The deadlines for filing an IRM application have been determined so that, in the normal course of events, a decision and order will be issued in time for a May 1 implementation date.

The application deadlines are as follows:

- October ~~13, 2021~~12, 2022
- November ~~3, 2021~~2, 2022
- November ~~24, 2021~~23, 2022

The assignment of distributors to these filing dates will be communicated following the OEB's annual survey of each distributor's expected content of their IRM application.

3.1.2 Components of the Application Filing

Whether filing under Price Cap IR or the Annual IR Index, each application must include:

1. A manager's summary thoroughly documenting and explaining all rate adjustments requested

2. The contact information for the application - the primary contact for the application may be a person within the distributor's organization other than the primary licence contact. The OEB will communicate with this person during the application. After completion of the application, the OEB will revert communication to the primary licence contact.

3. A completed Rate Generator model[4] and supplementary workforms[5] as applicable, provided by the OEB, ~~both~~ in Excel ~~and PDF~~ format

4. A PDF copy of the current tariff sheet

5. Supporting documentation cited within the application, as applicable (e.g. excerpt of relevant past decisions and/or settlement agreements; ~~validated reporting and record-keeping requirements (RRR) data pre-populated in the Rate Generator model; other RRR data referred to in the application; and,~~ the Revenue Requirement Workform (RRWF~~).~~)[6], etc).

6. A statement as to who will be affected by the application, including identification of any specific customer(s) or customer groups that are or will be affected by a particular request or proposal

7. ~~Confirmation of the~~The distributor's internet address for purposes of viewing the application and related documents

8. A statement confirming the accuracy of the billing determinants for pre-populated models.

9. A text-searchable PDF format for all documents, other than those filed in Excel format.

10. The ~~2022~~2023 IRM Checklist

Certifications

Applicants should also review Chapter 1 of the Filing Requirements. Chapter 1 contains, among other matters, the requirement that applicants include a certification by a senior

[4] 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.
[5] Includes the GA ~~Analysis Workform, 1595~~ Analysis Workform, Revenue Cost Ratio Adjustment Workform and the Incremental Capital Module/Advanced Capital Module (ICM) (ACM) Workform, as applicable.
[6] The Revenue Requirement Workform that was filed as part of the draft rate order in the distributor's last cost of service application.

officer that the evidence filed, including the models and appendices, is accurate, consistent and complete to the best of their knowledge, a certification that the distributor has processes and internal controls in place for the preparation, review, verification and oversight of account balances being disposed, as well as a certification regarding personal information.

3.1.3 Applications and Electronic Models

The models issued by the OEB are intended to assist the distributor in filing a rate application and to ensure formatting consistency across all applications.

The ~~2022~~2023 Rate Generator model ~~will be~~is populated with a distributor's most recent tariff of rates and charges, load and customer data, and Group 1 balances, as reported through RRR. Distributors will be required to confirm the accuracy of the data. If a distributor has revised any RRR data after it has been incorporated into the model, this change should be disclosed in the application. The remaining inputs will be marked with green input cells.

The OEB will provide passwords to distributors filing a ~~2022~~2023 IRM application to access their distributor-specific Rate Generator model through the OEB's website. Any distributor that did not receive an individual password, but wishes to file an IR application for the ~~2022~~2023 rate year, must notify the OEB as soon as possible.

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

The Rate Generator model includes a bill impact calculation by 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 be updated over the course of the proceeding. A typical residential customer has been defined as consuming 750 kWh in accordance with the Report of the Board – Defining Ontario's Typical Residential Customer.

In addition to the Rate Generator model, all distributors must file the GA Analysis Workform ~~and the Account 1595 Analysis Workform.~~.

One or all of the following models are required when applications involve additional requests:

- A distributor seeking a revenue-to-cost ratio adjustment due to a previous OEB decision must continue to file the OEB's Revenue-to-Cost Ratio Adjustment Workform in addition to the Rate Generator model.
- For an ~~incremental or pre-approved~~Incremental or Advanced Capital Module (ICM/ACM) cost recovery and associated rate rider(s), a distributor must file the Capital Module applicable to ACM and ICM.
- 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.

The models and workforms issued by the OEB are provided to assist the distributor in filing a rate application and to provide consistent formatting for all distributors for greater efficiency of the review process. A distributor is responsible for the completeness and accuracy of its application. The distributor bears the responsibility to ensure the accuracy and appropriateness of all inputs and outputs from the models that it uses in supporting its application. The use of an OEB model does not guarantee that the OEB will approve the results. The OEB expects that the models and workforms be used by all distributors. If a distributor makes any changes to OEB models or workforms to address its own circumstances, it must justify such changes in the manager's summary.

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.[7] The components in the formula are also 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.

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

X-factor

The X-factor has two parts: a productivity factor and a stretch factor. The OEB has determined that the appropriate value for the productivity factor (industry total factor productivity) for the Price Cap IR and Annual IR Index is zero. For the stretch factor, distributors will be assigned into one of five groups ranging from 0.0% to 0.6%. The most efficient ~~distributor~~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 ~~a~~the highest stretch factor of 0.6%.

Distributors shall use the ~~2021~~2022 rate-setting parameters as a placeholder until the stretch factor assignments and inflation factor for ~~2022~~2023 are issued by the OEB. OEB staff will update each distributor's Rate Generator model with the ~~2022~~2023 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.

3.2.1.1 Application of the Annual Adjustment Mechanism

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

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

- Rate Adders
- Rate Riders
- Low Voltage Service ~~Charges~~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 Allowances[8]

[8] And any other allowances the OEB may determine.

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 model will 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,[9] which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers. The transition began in 2016 and in most cases was implemented and completed over a period of four years. Those distributors that are still in the process of moving to fully fixed residential rates should refer to the approach to implementation of the policy, including mitigation expectations described in a letter from the OEB published on July 16, 2015. Distributors should also refer to the ~~OEB's previous~~OEB decision ~~approving~~that approved the extended implementation of fully fixed residential rates.

Distributors are expected to propose a fully fixed rate design for new charges applicable to the residential class provided that those charges are specifically related to the distribution of electricity.[10] Pass-through costs (e.g. transmission rates, ~~Low Voltage~~low voltage charges, wholesale market service charges, and ~~Group 1 deferral and variance accounts~~commodity costs) and LRAMVA amounts are to continue to be recovered as variable charges because the distributor's costs vary with electricity usage. Previously approved distribution-specific charges or rate riders on a distributor's tariff should remain unchanged until they expire, even if they were declared interim.

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

---

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

[10] Examples of distribution-specific charges include Shared Tax ~~Savings~~Impacts, Z-Factors, ~~ACM~~ and ACM/ICM rate riders

In preparing its application, ~~the~~a distributor should refer to the OEB's Guideline G-2008-0001: Electricity Distribution Retail Transmission Service Rates (RTSR), Revision 4.0, issued June 28, 2012,[11] subsequent updates to 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.~~[12]~~ Once any January 1, ~~2022~~2023 UTR adjustments have been determined, OEB staff will adjust each distributor's ~~2022~~2023 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.~~[13]~~ Likewise, OEB staff will update these rates as they become available, where applicable.

3.2.5 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)[14] provides that under the Price Cap IR or the Annual IR Index, the distributor's Group 1 ~~audited~~ 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 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 A.

In ~~their~~its application, ~~distributors~~a distributor must include Group 1 balances as of December 31, ~~2020~~2021, to determine if the threshold has been exceeded. The continuity schedule, found on Tab 3 of the Rate Generator model, must be completed as part of the application.

[11] Originally issued October 22, 2008

~~[12] EB-2020-0225, Decision and Rate Order, issued December 17, 2020~~

~~[13] EB-2020-0251, Hydro One Networks Inc., Decision and Rate Order, issued December 17, 2020. Other distributors' sub-transmission rates are approved in their respective decisions and rate orders.~~

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

Group 1 ~~consists~~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 ~~Account~~Variance
- 1551 Smart Metering Entity Charge Variance
- 1580 RSVA Wholesale Market Service ~~Charge Account~~Charges
    - 1580 Variance WMS, Sub-Account CBR Class A
    - 1580 Variance WMS, Sub-Account CBR Class B
- 1584 RSVA Retail Transmission Network Charges ~~Account~~
- 1586 RSVA Retail Transmission Connection ~~Charge Account~~Charges
- 1588 RSVA Power ~~Account~~
- 1589 RSVA Global Adjustment ~~Account~~
- 1595 Disposition and Recovery/Refund of Regulatory Balances ~~Account~~

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

~~The OEB expects that no~~ A distributor must make a statement as to whether or not it has made any adjustments ~~will be made to any deferral and variance account (~~to DVA~~)~~ balances that were previously approved by the OEB on a final basis. ~~Distributors must make a statement in their application as to whether or not any such adjustments were~~ The OEB expects that no adjustments are made~~. On October 31, 2019, the OEB issued a letter[16]~~ to ~~all electricity distributors discussing its approach to address accounting or other errors, in respect of Group 1 DVAs that have~~ any DVA balances previously ~~been disposed of~~approved by the OEB on a final basis.

---

[15] 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.

~~[16] OEB Letter: "Adjustments to Correct for Errors in Electricity Distributor "Pass-Through" Variance Accounts After Disposition", issued October 31, 2019~~

~~Where an accounting or other error is discovered after the balance in one of the Group 1 accounts has been cleared by a final order of the OEB, a distributor shall refer to this letter for further guidance. The OEB expects distributors to disclose errors that have been discovered in their accounting records as part of their rate applications and to record correcting~~ If any adjustments ~~to the affected account(s) in the year in which the error is discovered. If adjustments have taken place, a~~ have been made, the distributor must provide explanations ~~in its application as to~~for the nature and ~~amounts~~the amount of the ~~adjustments~~adjustment(s), and include appropriate supporting documentation, under a section titled "Adjustments to Deferral and Variance Accounts". 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 particular circumstances of each case. Note that an asymmetrical approach to correction of the error may be appropriate in certain circumstances.[17]

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 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 ~~could~~may propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate. A distributor must justify any such proposal with ~~proper~~ supporting information.

3.2.5.1 Wholesale Market Participants

A wholesale market participant (WMP) refers to any entity that participates directly in any of the Independent Electricity System Operator (IESO) administered markets. These participants settle commodity and market-related charges with the IESO even if they are embedded in another distributor's distribution system. Accordingly, a distributor

[17] 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.

must not allocate any balances to WMP customers from Account 1580 RSVA — Wholesale Market Services Charge, Account 1580 Variance WMS, Sub-Account CBR Class B, Account 1588 RSVA — Power, and Account 1589 RSVA — Global Adjustment. The Rate Generator model allocates these balances accordingly.

A distributor must also ensure that rate riders are calculated appropriately for WMP customers for ~~-~~Account 1584 RSVA – Retail Transmission Network Charge, Account 1586 RSVA – Retail Transmission Connection Charge and Account 1595 – Disposition/Refund of Regulatory Balances. The Rate Generator model ~~allocates these balances~~calculates the rate riders accordingly.

3.2.5.2 ~~Global Adjustment~~

Class A and Class B Customers

Customers who participate in the Industrial Conservation Initiative (ICI) are referred to as “Class A”. These customers pay ~~GA~~Global Adjustment (GA) and Capacity Based Recovery (CBR) charges based on their percentage contribution to the top five peak Ontario demand hours (i.e. peak demand factor) over a year-long period.[18] Distributors that settle GA costs with Class A customers based on actual GA prices shall allocate no GA variance balance to these customers for the period that customers were designated Class A.

Most customers pay ~~the~~ GA ~~charge~~and CBR charges based on the amount of electricity they consume in a month (kWh). These customers are referred to as “Class B”.

~~For non-RPP Class B customers, the GA variance account (Account 1589) captures the difference between the amounts billed (or accrued billings) by the distributor and the actual amount paid by the distributor to the IESO (or host distributor) for those customers.~~

~~When clearing balances from the GA variance account, distributors must establish a separate rate rider included in the delivery component of the bill that would apply prospectively to non-RPP Class B customers. The billing determinants and all the rate riders for the GA are calculated on an energy basis (kWh) regardless of the billing determinant used for distribution rates for the particular class. The Rate Generator Model will calculate the GA rate riders on an energy basis (i.e. kWh).~~

[18] Distributors should consult the IESO’s website for details on Class A eligibility under the ~~Industrial Conservation Initiative.~~ ICI.

~~The Rate Generator model will allocate the portion of the GA variance account to customers who transitioned between Class A and Class B, during the period in which the balance requested for disposition has accumulated, based on customer-specific consumption levels. Each transition customer will only be responsible for the customer-specific amount allocated to them. They will not be charged/refunded the general GA rate rider associated with these balances. Customers should be charged in a consistent manner for the entire rate rider period until the sunset date, regardless of whether customers transition between Class A and Class B during the disposition period.~~

~~GA Analysis Workform~~

~~All distributors are required to complete and submit the GA 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 1589 balance as part of their current application. If the distributor is adjusting the Account 1589 balance that was previously approved on an interim basis, the GA Analysis Workform is required to be completed from the year after the distributor last received final disposition for Account 1589. The GA Analysis Workform helps the OEB to assess if the total annual variance that is recorded to Account 1589 is 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.~~

~~As part of Note 5 in the GA Analysis Workform, distributors are required to reconcile any discrepancy between the actual and expected balance by quantifying differences pertaining to factors such as true-ups between estimated and actual costs and/or revenues. Any remaining, unexplained discrepancy will be assessed for materiality and could prompt further analysis before disposition of the balance is approved. Any unexplained discrepancy that is greater than +/- 1% of the total annual IESO GA charges will be considered material and warrant further investigation. To further support a 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 GA Analysis Workform~~

~~The GA Analysis Workform, along with detailed instructions, is available on the OEB's website and is to be filed in live Excel format.~~

3.2.5.3 Commodity Accounts 1588 and 1589

On February 21, 2019, the OEB issued ~~a letter providing~~ accounting guidance related to Accounts 1588 Power and 1589 RSVA Global Adjustment (Accounting Guidance).[19] This Accounting Guidance is effective January 1, 2019 and was to be implemented by August 31, 2019. Based on this, the OEB expects that all transactions recorded in these accounts during 2019, and each year thereafter, will have been accounted for in accordance with this guidance. 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.

Final Disposition Requests *after Implementation of Accounting Guidance*

A distributor that is requesting final disposition of balances for the first time following implementation of the Accounting Guidance must confirm that it has fully implemented the Accounting Guidance effective from January 1, 2019.

Distributors are also expected to consider this Accounting Guidance in the context of pre-2019 balances that have yet to be disposed on a final basis. To request final disposition of these balances as part of an application, distributors must confirm that these historical balances have been considered in the context of the Accounting Guidance and provide a summary of the review performed. Distributors must also discuss the results of the review, whether any systemic issues were noted, and whether any material adjustments to the account balances have been recorded. A summary and description of each adjustment made to the balances must be provided in the application.

~~The expectations for final disposition requests of commodity pass-through account balances are as follows:~~

~~1. Interim disposition of historical balances or no disposition requested~~

~~Some distributors may have received approval for interim disposition of historical account balances, or prior to the implementation of the Accounting Guidance, did not request disposition of account balances in a prior year rate application due to~~

[19] ~~OEB Letter: "~~Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment~~",~~, issued February 21, 2019

~~the threshold test. If these distributors have now reviewed these balances in the context of the Accounting Guidance and are confident that there are no systemic issues with their RPP settlement and related accounting processes, such distributors may explain those circumstances and request final disposition of these account balances. If these distributors identified errors or discrepancies that materially affect the ending account balances, distributors should adjust their account balances prior to requesting final disposition.~~

~~2. No disposition of historical balances and concerns noted~~

~~Distributors that did not receive approval for disposition of historical account balances due to concerns noted by the OEB should apply the Accounting Guidance to those balances and adjust them as necessary, prior to requesting final disposition.~~

~~If a distributor has yet to fully implement the Accounting Guidance effective from January 1, 2019, the distributor must provide explanation as to why this guidance has not been implemented, the status of the implementation process, and the expected implementation date.~~

~~Certification of Evidence~~

~~Given issues that have arisen with commodity accounts 1588 RSVA Power and 1589 RSVA GA balances, the OEB now requires a certification by the Chief Executive Officer, or Chief Financial Officer, or equivalent that the distributor has robust processes and internal controls in place for the preparation, review, verification and oversight of the account balances being disposed. This is consistent with the certification requirements in Chapter 1 of the filing requirements.~~

GA Analysis Workform

All distributors are required to complete and submit the GA 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 1589 balance as part of their application. If the distributor is adjusting the Account 1589 balance that was 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 1589. The workform helps the OEB assess if the total annual variance that is recorded to Account 1589 is 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.

As part of the workform, distributors are required to reconcile any discrepancy between the actual and expected balance by quantifying differences pertaining to factors such as true-ups between estimated and actual costs and/or revenues. 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 a 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, is available on the OEB's website and is to be filed in Excel format.

Account 1589 Balance Allocation and Disposition

The Rate Generator model establishes separate rate riders on an energy basis (kWh), that apply only to non-RPP Class B customers, when disposing of Account 1589 RSVA – Global Adjustment. This account captures the difference between the amounts billed to non-RPP Class B customers by the distributor and the actual amount paid by the distributor to the IESO (or host distributor) on behalf of those customers.

Distributors that settle GA costs with Class A customers that participate in the ICI, based on actual GA prices, should allocate no portion of the balance in Account 1589 to these customers for the period that they were designated as Class A. The Rate Generator model will also allocate the portion of Account 1589 to customers who transitioned between Class A and Class B during the period in which the balance requested for disposition has accumulated, based on customer-specific consumption levels. Each transitioning customer will only be responsible for the customer-specific amount allocated to them and are not to be charged/refunded the general GA rate rider associated with these balances. Customers should be charged in a consistent manner for the entire rate rider period until the rider's expiration date, regardless of whether customers transitioned between Class A and Class B during the disposition period.

3.2.5.4 Capacity Based Recovery (CBR)

Distributors should follow the OEB's CBR accounting guidance on the disposition of CBR variances. In Tab 1 of the Rate Generator model, a distributor must indicate whether it had any Class A customers during the period where the Account 1580, Sub-account CBR Class B balance accumulated. If so, a separate rate rider will be calculated in Tab 6.2 – CBR B in the Rate Generator model. However, if the allocated amount results in a volumetric rate rider that rounds to zero at the fourth decimal place in at least one rate class, the entire Sub-account CBR Class B balance will be added to the Account 1580 WMS control account to be disposed through the general-purpose Group 1 DVA rate riders.[20] The balance in Account 1580, Sub-Account CBR Class B must be disposed over the default period of one year. If the distributor did not have any Class A customers during the period where the Account 1580, Sub-account CBR Class B balance accumulated, the Rate Generator model will transfer the sub-account balance to the Account 1580 WMS control account and include the CBR amounts as part of the general-purpose Group 1 DVA rate riders. For the disposition of Account 1580, Sub-account CBR Class A, distributors must follow the OEB's CBR accounting guidance, which results in balances disposed outside of a rate proceeding.

The Rate Generator model will also allocate the portion of Account 1580, Sub-account CBR Class B to customers who transitioned between Class A and Class B based on customer-specific consumption levels. Each transition customer will only be responsible for the customer-specific amount allocated to them. They will not be charged/refunded the general CBR Class B rider. Customers should be charged in a consistent manner for the entire rate rider period until the sunset date, regardless of whether customers transition between Class A and Class B during the disposition period.

3.2.5.5 Disposition of Account 1595

When ~~approval for~~the OEB approves disposition of DVA balances ~~is received from the OEB~~, 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 record the related transactions in the associated Account 1595 sub-account. ~~For example:~~ The eligibility criteria for disposition of Account 1595 sub-accounts depends on the distributor's rate year. For example:

  - January 1 rate year – If 2019 rate riders ~~end~~expire on December 31, 2019, the balance of sub-account 1595 (2019) ~~could~~is eligible to be disposed ~~of once~~after

[20] This approach is an update to the original CBR accounting guidance

the account balance as of December 31, 2021~~ account balance~~ has been audited. Therefore, sub-account 1595 (2019) would be eligible for disposition in the 2023 rate year.

- May 1 rate year – If 2019 rate riders ~~end~~expire on April 30, 2020, the balance of sub-account 1595 (2019) ~~could~~is eligible to be disposed ~~of once~~after the account balance as of December 31, 2022~~ account balance~~ has been audited. Therefore, sub-account 1595 (2019) would be eligible for disposition in the 2024 rate year.

No further transactions are expected to ~~flow through~~be recorded in the Account 1595 sub-accounts once the residual balance has been disposed of.

~~1595 Analysis Workform~~

Generally,

~~Distributors who meet the eligibility requirements for disposition of residual balances of Account 1595 Sub-accounts must file the Account 1595 Analysis Workform. The workform will help the OEB assess if the residual balances in Account 1595 Sub-accounts for each vintage year are reasonable.~~

~~The workform compares principal and interest amounts previously approved for disposition to the residual balances remaining~~ after ~~accounting for the amounts that have been recovered/refunded to customers through~~ the rate riders~~. Initially, residual balances will be assessed for materiality and could prompt further review before disposition is approved. Balances in Account 1595 will first be assessed in two groups of accounts: one being the amounts attributable to GA, and the other being the remainder of Group 1 and Group 2 accounts (if applicable). A residual balance in either of the two groups of accounts exceeding +/- 10% of the original amounts previously approved for disposition would be considered material. Distributors are also required to reconcile the 1595 residual balance with any amounts that have no~~ associated ~~rate riders (for example, shared tax savings amounts that were previously approved to be~~ with balances transferred to an Account 1595 ~~for disposition at a later date).~~

~~Material~~ sub-account have expired, the residual ~~balances will require further analysis, consisting of separating the components of the residual balances~~balance is expected to be relatively small, represented by ~~each applicable rate rider[21] and by customer rate class. Distributors~~the difference between the forecasted billing determinants upon which

~~[21] Residual account balances will be made up of amounts relating to at least two rate riders, i.e. the GA Rate Rider and the DVA Rate Rider.~~

the riders were derived and the actual billing determinants over that period.[22] If there are material residual balances being proposed for disposition, applicants are expected to provide a detailed ~~explanations for~~explanation, including quantifying any significant ~~residual balances attributable to specific rate riders for each customer rate class. Explanations must include, for example, volume differences between forecast volumes (used to calculate the rate riders) as compared to actual volumes at which the rate riders were billed.~~

~~The 1595 Analysis Workform is available on the OEB's website and is to be filed in live Excel format~~drivers of the residual balance.

3.2.6 Lost Revenue Adjustment Mechanism Variance Account

The lost revenue adjustment mechanism variance account (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.[23] Treatment of the LRAMVA is documented in several versions of the CDM Guidelines (2012, 2015, 2021).

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 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.

[22] 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).
[23] EB-2012-0003, Guidelines for Electricity Distributor Conservation and Demand Management

In December 2016, the OEB indicated, in various decisions,[24] 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.[25] Distributors cannot seek recovery of LRAMVA amounts related to savings adjustments for a year in which the corresponding LRAMVA amount has been approved by the OEB on a final basis. For example, if a distributor has 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[26]s. Distributors are 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.[27] Distributors may request the use of the LRAMVA for distribution rate-funded CDM activities or Local Initiatives Program (LIP) activities on a case-by-case basis.

3.2.6.1 Disposition of the LRAMVA

~~Background~~

~~On March 20, 2019, the Minister of Energy, Northern Development and Mines (the Minister) issued separate directives to the OEB and the IESO. The directive to the IESO concluded the Conservation First Framework (CFF) effective immediately and replaced it with an Interim Framework that ran through December 31, 2020. The Minister issued subsequent directives on July 22, 2020 and June 10, 2021 to the IESO, the latter of which indicated that some in-service deadlines for CFF projects may be extended until December 31, 2021, due to delays caused by the COVID-19 emergency, and that any electricity savings or demand reductions achieved during this extended time period would continue to be attributable to the CFF.~~

~~A new CDM Framework has been established by the IESO for the 2021-2024 period. The OEB intends to provide more direction regarding LRAM treatment for savings from the 2021-2024 CDM Framework in a future update to the CDM Guidelines.~~

---

[24] 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
[25] See EB-2016-0214, North Bay Hydro, Decision and Rate Order, for an example.
[26] EB-2021-0106, Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021.
[27] 2021-2024 Conservation and Demand Management Framework Program Plan, Independent Electricity System Operator.

The 2021 CDM Guidelines require distributors filing an application for 2023 rates to seek disposition of all outstanding LRAMVA balances related to previously established LRAMVA thresholds (i.e, thresholds established in a distributor's previous cost of service proceeding).

Distributors are eligible for LRAM for persisting impacts of CFF programs and Local Program Fund programs until their next rebasing. Distributors not rebasing for 2023 rates who have complete information on eligible savings (i.e., needing only to account for persistence of savings in future years) may seek a rate adjustment on a prospective basis[28] to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application. Some distributors filing for 2023 rates may have CDM projects subject to the CFF extension directive that have not come into service at the time of filing.[29] In this circumstance, a distributor may delay disposition of the LRAMVA balance for 2022 and future years, but must dispose of the balances for all previous years. Alternatively, if a distributor is of the view that the additional project savings from projects not yet in service will not be significant, it may seek final disposition of the LRAMVA balance for all years until the next rebasing, based only on the CDM savings from completed projects.

Supporting Evidence for CFF Savings

The IESO has made monthly Participation and Cost Reports available to electricity distributors from January 1, 2018 to April 15, 2019. The monthly Participation and Cost Reports include, amongst other information, incremental first-year energy savings as well as information related to persistence. Results from the IESO's 2017 program evaluation have been applied to the January 1, 2018 to April 15, 2019 gross unverified savings values, including net-to-gross factors and gross realization rates.

To create the Participation and Cost Reports, each distributor submitted detailed project-level files to the IESO that contain project level savings and costs. The detailed project level savings files include all relevant information related to each project the distributor has completed and submitted to the IESO.

[28] For example, through a rate rider that remains in effect until the effective date of the distributor's next cost-based rate order.

[29] While new program activity under the CFF ceased as of March 31, 2019, projects initiated under the CFF prior to this date may come into service at a later date. The wind-down period has been extended several times, due to the COVID-19 outbreak, by Ministerial directives to the IESO, to as late as December 31, 2022. In such case, savings are attributable to the CFF and eligible for LRAM.

To calculate net savings values at the project level, distributors should rely on results from the IESO's 2017 program evaluation (e.g., net-to-gross values and gross realization rates).

~~Distributors should strive to dispose of all CFF-related LRAMVA balances as part of their respective 2022 rate applications.~~ The OEB will rely on the Participation and Cost Reports and detailed project level savings files as supporting documentation when assessing applications for lost revenues in relation to energy and demand savings from programs delivered under the CFF where final verified results from the IESO are not available.

Disposition of the LRAMVA

Distributors should use the latest version ~~6~~ of the LRAMVA Workform when making LRAMVA requests for remaining amounts related to CFF activity and from programs they delivered through the Local Program Fund that was part of the Interim Framework. An application for lost revenues should include the following:

- Final Verified Annual Reports if the distributor is claiming lost revenues from savings from CDM programs delivered in 2017 or earlier.
- Participation and Cost Reports and detailed project level savings files made available by the IESO to support the clearance of energy- and/or demand-related LRAMVA balances for the period of January 1, 2018 to April 15, 2019. These reports should be filed in Excel format, similar to the previous Final Verified Annual Reports from 2015 to 2017. To support savings claims for projects completed after April 15, 2019, distributors should provide similar supporting evidence.
- Other supporting evidence with an explanation and rationale should be provided to justify the eligibility of any other savings from a program delivered by a distributor through the Local Program Fund that was part of the Interim Framework after April 15, 2019.

In relation to the project level savings reports used to support LRAMVA claims, these documents may contain personal information (e.g., residential customers' names, addresses, postal codes, phone numbers, and email addresses) and/or business information that may be commercially sensitive (e.g., facility consumption information and production information). Personal information and commercially sensitive information is not needed to support LRAMVA claims and should not be filed. Distributors should delete any personal information or commercially sensitive information in the Excel spreadsheets or any other documentation that is filed with the OEB. This includes information that may be hidden within the Excel spreadsheets.

In the event that a distributor is of the view that it needs to file the Excel spreadsheets or any other documentation with all of the information included, then the documents must be filed in accordance with the OEB's Rules of Practice and Procedure (Rules). For personal information, the documents must be filed in accordance with Rule 9A of the Rules (and the Practice Direction on Confidential Filings, as applicable). For the commercially sensitive information, a distributor should use Rule 10 of the Rules and request confidentiality for the information.

~~At a minimum, distributors must apply for the clearance of its energy and/or demand related LRAMVA balances attributable to energy efficiency programs in a cost of service application. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their IRM rate applications, if the balance is deemed significant by the distributor.~~

The distributor shall compare any OEB-approved LRAMVA threshold to actual CDM results at a rate class level. The variances calculated from this comparison shall be recorded in separate Sub-Accounts for the applicable customer rate classes. ~~Distributors must continue to track the variances between any OEB-approved LRAMVA threshold and actual CDM results in the LRAMVA for the 2015-2020 period.~~[30]

~~As documented in the LRAMVA Report, DR3 (Demand Response 3) savings should generally not be included in the LRAM savings unless supported by empirical evidence being reviewed in the cost of service application. Any requests for approval of lost revenues related to peak demand savings from demand response programs can only be part of a rebasing application due to the complexity and unique nature of the calculation of lost revenues from peak demand savings.~~

~~As a result, lost revenues related to peak demand savings from demand response programs will not be evaluated in an IRM rate application. Those distributors who are planning to seek recovery of lost revenue associated with DR3 and have recorded amounts to the end of December 31, 2014 in Account 1568 may transfer the accumulated amounts to Sub-Account 1568-0001 LRAMVA Demand Response, or forego recovery, in accordance with the OEB's updated accounting guidance issued on July 18, 2017. However, if a distributor has already received OEB approval for disposition of Account 1568 as of December 31, 2014 on a final basis, no such amounts are to be recorded in Account 1568 Sub-Account 1568 LRAMVA Demand Response. This Sub-Account is only available to distributors for transferring amounts from Account 1568 LRAMVA with respect to savings for period from 2011-2014, and only if they have not already received OEB approval for disposition of Account 1568 on a final basis, for amounts recorded for 2011-2014.~~

The following information should be provided in the application:

- A statement identifying the year(s) of new lost revenues and prior year savings

[30] ~~EB-2014-0278, Conservation and Demand Management Requirement Guidelines for Electricity Distributors, originally issued on December 19, 2014, updated on August 11, 2016~~

persistence claimed in the LRAMVA disposition.

- A statement confirming that the LRAMVA balances ~~were~~are based on verified savings results that are supported by the distributor's Final ~~CDM~~Verified Annual Report(s) ~~and~~(which include a Persistence Savings Report) issued by the IESO, where available. Reports must be filed in Excel format.
- A statement indicating that the distributor has relied on the most recent input assumptions available at the time of program evaluation.
- A summary table showing the principal and carrying charges amounts by rate class and the resultant rate riders for each rate class. Projected carrying charges related to the disposition should be calculated in the LRAMVA workform.
- A statement confirming the period of rate recovery.
- Rationale must be provided for disposing the balance in the LRAMVA if, upon disposition, a significant rate rider is not generated for one or more rate classes.
- Details ~~for~~related to the ~~forecasted~~approved CDM forecast savings ~~included in~~from the ~~LRAMVA calculation including reference to the OEB's approval, or an explanation if there are no forecast CDM savings~~distributor's last rebasing application.
- A statement explaining how the rate class allocations for actual CDM savings are determined by customer class and program for each year.
- A statement confirming whether additional documentation or data ~~was~~is being provided in support of projects that were not included in the distributor's Final ~~CDM~~Verified Annual ~~Report~~Reports and Participation and Cost reports (e.g. street lighting projects). Distributors billing data by project must be included in Tab 8 of the LRAMVA workform, as applicable.
- If not already filed in support of a previous LRAMVA application, distributors should provide Participation and Cost Reports and detailed project level savings files made available by the IESO and/or other supporting evidence to support the clearance of energy- and/or demand-related LRAMVA balances where final verified results from the IESO are not available. These reports should be filed in Excel format, similar to the previous Final Verified Annual Reports from 2015 to 2017.
- For a distributor's street lighting project(s) which may have been completed in collaboration with local municipalities, the following must be provided:
  - Explanation of the methodology used to calculate street lighting savings
  - Confirmation of whether the street lighting project(s) received funding from the IESO and the appropriate net-to-gross assumption used to calculate street lighting savings
  - For the recovery of lost revenues related to demand savings from street light upgrades, distributors should provide the following information:

  - Explanation of the forecast demand savings from street lights, including assumptions built into the load forecast from the last cost of service application.
  - Confirmation that the street light upgrades represent incremental savings attributable to participation in the IESO program, and that any savings not attributable to the IESO program have been removed (for example, other upgrades under normal asset management plans).
  - Confirmation that the associated energy savings from the applicable IESO program have been removed from the LRAMVA Workform so as not to double count savings (for example, if requesting lost revenue recovery for the demand savings from a street light upgrade program, the associated energy savings from the Retrofit program have been subtracted from the Retrofit total).
  - Confirmation that the distributor has received reports from the participating municipality that validate the number and type of bulbs replaced or retrofitted through the IESO program.
  - A table, in live Excel format, that shows the monthly breakdown of billed demand over the period of the street light upgrade project, and the detailed calculations of the change in billed demand due to the street light upgrade project (including data on number of bulbs, type of bulb replaced or retrofitted, average demand per bulb).
- For the recovery of lost revenues related to energy and demand savings from other programs that are not included in the ~~monthly~~ Final Verified Annual Reports and Participation and Cost Reports ~~of the IESO~~ (for example Combined Heat and Power projects), distributors should provide the following information:
  - The third party evaluation report that describes the methodology to calculate the demand savings achieved for the program year. In particular, if the proposed methodology is different from the evaluation approaches used by the IESO, an explanation must be provided explaining why the proposed approach is more appropriate.
  - Rationale for net-to-gross assumptions used.
  - Breakdown of billed demand and detailed level calculations in live Excel format.
- ~~If not already filed in support of a previous LRAMVA application, distributors should provide Participation and Cost Reports and detailed project level savings files made available by the IESO and/or other supporting evidence to support the clearance of energy- and/or demand-related LRAMVA balances where final verified results from the IESO are not available. These reports should be filed in Excel format, similar to the previous Final Verified Annual Reports from 2015 to 2017.~~

- ~~If a distributor seeks to claim~~For program savings ~~to December 31, 2020:~~for projects completed after April 15, 2019, distributors should provide the following:
    - ~~related~~Related to CFF programs: an explanation must be provided as to how savings have been estimated based on the available data (i.e. IESO's Participation ~~&~~and Cost Reports) and/or rationale to justify the eligibility of the program savings.
    - ~~related to other programs delivered by a distributor, including~~Related to programs delivered by the distributor through the Local Program Fund under the Interim CDM Framework: an explanation and rationale should be provided to justify the eligibility of the additional program savings.

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.

3.2.6.2 Continuing Use of the LRAMVA for New CDM Activities

The 2021 CDM Guidelines indicate that distributors may request the use of the LRAMVA for distribution-rate funded CDM activities or LIP activities on a case-by-case basis.

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 a CDM activity outside of rebasing, or access to, and the use of, an LRAMVA for a distribution rate-funded CDM activity or a LIP activity, the distributor should refer to the 2021 CDM Guidelines for the nature of the evidence the OEB would require 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 CDM activities would be heard by a panel of Commissioners, not by an employee of the OEB under delegated authority.

3.2.7 Tax Changes

The OEB's policy, as described in the OEB's 2008 ~~report entitled~~ Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (the Supplemental Report),[31] prescribes a 50/50 sharing of impacts of legislated tax changes 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 Account 1595 for disposition at a future date.

On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent. Included in Bill C-97 are 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 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.[32]

~~As per the OEB's July 25, 2019 letter, the OEB expects distributors to record the impacts of CCA rule changes in Account 1592 - PILs and Tax Variances – CCA Changes for the period November 21, 2018 until the effective date of the distributor's next cost-based rate order.[33] The OEB expects distributors to bring forward any amounts tracked in this account for review and disposition at a distributor's next cost-based rate application.~~

~~Distributors should not expect that the OEB's practice of sharing the impacts, on a 50/50 basis, of regulatory or legislated tax changes arising during an incentive rate-setting period will necessarily apply in respect of CCA rule changes. Determinations as to the appropriate disposition methodology will be made at the time of each distributor's cost-based application.~~

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

[32] 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

~~[33] Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, issued July 25, 2019~~

3.2.8 Z-factor Claims

Distributors under a Price Cap IR ~~distributors have the ability to include a~~or Annual IR Index rate-setting plan may request to recover costs 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.

3.2.8.1 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 for any cost recovery of amounts 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 exposure risk.

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

3.2.8.2 ~~Z-factor Accounting Treatment~~

~~The distributor will record eligible Z-factor cost amounts in Account 1572, Extraordinary Event Costs, of the OEB's USoA contained in the Accounting Procedures Handbook 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 separate sub-accounts of this account. The rate of interest shall be the rate prescribed by the OEB for deferral and variance accounts for the respective quarterly period published on the OEB's website.~~

~~3.2.8.3~~ 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.

3.2.9 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 and determines if a regulatory review is warranted. Any such review will be prospective, and ~~could~~may result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan 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 plan. 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 2.1.5.6 of the

RRR. However, if in the distributor's view this ROE has been affected by out-of-period or other items (for example, 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 deferral and variance account balances ~~and~~, 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[~~34~~] (ACM Report).[35] The Advanced Capital Module (ACM) reflects an evolution of the Incremental Capital Module (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 an 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.

~~[34] EB-2014-0219, Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, issued September 18, 2014~~

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

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 return[36] 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 ~~as ICMs~~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, confirmation that the project or projects are on schedule to be completed as planned, and an updated ACM/ICM module in Excel format. If the 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 make a determination regarding 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~~[37]~~ (Supplemental Report).[38] 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

[36] RRR 2.1.5.6

~~[37] EB-2014-0219, Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report, issued January 22, 2016~~

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

ICM proposals by an 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 ~~remains~~is available to electricity distributors ~~opting for~~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 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.

~~The ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed ROE embedded in the distributor's rates.~~ 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.[39] 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.[40]

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.

[39] OEB Letter, issued December 1, 2021
[40] OEB letter, issued February 10, 2022

Criteria	Description
Materiality	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. 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.
Need	The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects and should be directly related to the claimed driver. 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.
- ~~Calculation of each incremental project's revenue requirement that will be offset by revenue generated through other means (e.g. customer contributions in aid of construction).~~
- 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.

~~The OEB has required distributors to file a DSP, consistent with Chapter 5 of the filing requirements, since 2013. The OEB will generally require an updated DSP with any ICM request that is filed beyond the five-year horizon of the distributor's current DSP. Any ICM request that involves a significant increase to a capital budget may need to be supported by a DSP along with customer engagement analysis.~~

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:

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

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 PCI will be the factor assigned to the middle cohort (currently 0.3%) for all distributors

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 forecasted 2022 total capital expenditures and the ACM/ICM materiality threshold.

For individual projects included within an ACM/ICM request, it is not appropriate to apply the materiality thresholds established in the Chapter 2 Filing Requirements[41] 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,[42] the OEB adopted an approach establishing the following three principles with respect to the eligibility of a capital project for ACM/ICM treatment:

---

[41] Section 2.0.8

[42] 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

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

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.[43]

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 Accelerated Investment Incentive program, which provides for a first-year increase in CCA deduction on eligible capital assets acquired after November 20, 2018.

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

---

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

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. ~~The use of this sub-account is outlined in the OEB's CCA Guidance.~~ 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.

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 listed below~~sub-accounts.

Distributors ~~shall~~should record actual amounts in the ~~following Sub-Accounts~~appropriate sub-accounts of Account 1508 – Other Regulatory Assets in accordance with the OEB's ~~March 2015 Accounting Procedures Handbook~~APH Guidance~~:~~.[44]

- ~~Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures~~
- ~~Account 1508 – Other Regulatory Assets, Sub-Account Depreciation Expense~~
- ~~Account 1508 – Other Regulatory Assets, Sub-Account Accumulated Depreciation~~
- ~~Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures Rate Rider Revenues~~

~~The distributor shall also record monthly carrying charges in the following sub-accounts. Carrying charge amounts are calculated by applying simple interest to the monthly opening balances:~~

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

- ~~Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures, Carrying charges~~
- ~~Account 1508 – Other Regulatory Assets, Sub-Account Incremental Capital Expenditures Rate Rider Revenues, Carrying Charges~~

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.

~~All sub-accounts should be used for both approved ACM and ICM projects. If the OEB approves~~ At the time of the ~~true-up of any variances for ACM/ICM projects at the next cost of service~~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 ~~actual~~OEB-approved ACM/ICM ~~capital expenditures should be compared~~project(s) to the rate rider revenues collected in the same period~~, plus the carrying charges~~. Distributors should note assumptions used in the ~~respective sub-accounts. These variances would then~~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 ~~riders~~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 18 – Additional Rates – of the Rate Generator model in order for them to be displayed on the Tariff of Rates and Charges.

3.3.3 Treatment of Costs for 'eligible investments'

During a rebasing application, a distributor may seek approval for costs incurred to make investments that are eligible for rate protection as per Subsection 79.1 (1) of the Ontario Energy Board Act, 1998 (the Act) and O.Reg. 330/09 (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 Independent Electricity System Operator (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 ~~Price Cap IR or Annual IR Index~~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

- ~~Disposition of the balance of Account 1555 – Smart Meter Capital Costs, Sub-Account Stranded Meter Net Book Value~~
- Changes to revenue-to-cost ratios, other than pursuant to a prior OEB decision
- Loss Factor Changes
- Establishing or changing Specific Service Charges
- ~~Loss Carry Forward Adjustments to PILs/Taxes~~
- 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 (OPEB) 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 next cost of service application. ~~The exclusions above also apply to the Annual IR Index plan.~~ 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 plan must file a separate, stand-alone application for the review and disposition of any Group 2 ~~Deferral and Variance Accounts~~DVAs.

Appendix A: 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 are 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.

~~Rate adders are~~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 or refund 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 are identified and listed separately on a distributor's tariff of rates and charges, with an explicit termination date.

~~Rate riders~~A rate rider may not be collected past ~~their~~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 B: Key References

The documents listed in Appendix B 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
- 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:

- 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)