



BY EMAIL AND WEB POSTING

February 10, 2022

**To: All Rate-regulated Licensed Electricity Distributors
All Intervenors in 2022 and 2023 Electricity Distributor Cost of Service
Proceedings
All Other Interested Stakeholders**

Re: Incremental Capital Modules During Extended Deferred Rebasing Periods

The Ontario Energy Board (OEB) is providing an update to its Incremental Capital Module (ICM) policy for electricity distributors during extended rebasing deferral periods arising from utility consolidations (i.e., where utilities are in years six to ten of their deferral period).

The ICM is a mechanism that allows for funding of significant capital investments for discrete projects that are not part of typical annual capital programs during the period of incentive regulation between the cost of service applications to rebase rates.¹ In order to qualify for an ICM, the capital project must satisfy a materiality threshold to demonstrate that the incremental capital amounts are beyond the normal level of capital expenditures expected to be funded by existing rates, including the effect of customer and load growth.

Currently, electricity distributors are eligible to apply for ICMs if they are on:

1. Price Cap Incentive Rate-setting plans² or
2. Annual Incentive Rate-setting plans, *and* are in a MAADs³ deferred rebasing period.

¹ [Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module](#) and [Report of the OEB - New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016](#).

² The OEB's [December 1, 2021 letter](#) establishing the list of electricity distributors scheduled to rebase for 2023 rates noted that the ICM is no longer available to electricity distributors on Price Cap Incentive Rate-setting for any deferral period not associated with a utility consolidation.

³ Mergers, Acquisitions, Amalgamations and Divestitures

To further enhance the efficiency of the regulatory process and to provide a further incentive for distributors considering consolidation, the OEB is updating the existing ICM policy for responding to capital investment needs of electricity distributors that select an extended deferred rebasing period (beyond five years) under the OEB's current MAADs policy. Specifically, the OEB is providing additional flexibility for these electricity distributors to apply for incremental capital funding for an annual capital program during the extended rebasing period (i.e., years six to ten of their deferral period) if they can demonstrate the following:

- An urgent need for such additional funding that is based on new information that has arisen since the utility's most recent rebasing application related to the management of risk associated with asset condition, reliability and quality of service and public safety
- History of good utility practice in capital planning, capital program management and asset maintenance
- How this ICM investment addresses customer needs and preferences and delivers benefits to customers
- Exhaustion of other available options to manage its costs within the envelope provided by the existing price cap or another applicable formula

In addition, electricity distributors that are in an extended MAADs deferred rebasing period would still have to meet the remaining ICM requirements, including the maximum eligible incremental capital envelope calculation, the tests of prudence, causation and materiality, and the use of the existing ICM Excel template will continue to apply for any ICM requests.

Any questions relating to this letter should be directed to industryrelations@oeb.ca and should include the header "ICM Policy Update". The OEB's toll-free number is 1-888-632-6273.

Yours truly,

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Acting Registrar