

Ontario Energy Board
P.O. Box 2319
26th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
C.P. 2319
26e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



December 20, 2004

To: All Electricity Distribution Utilities

**Re: Filing Guidelines: 2005 Distribution Rate Adjustments including:
Last Third of MARR (with approved C&DM Plan)
Recovery of Regulatory Assets (second tranche or final rate rider)
PILs 2005**

In November 2003 the Ontario government announced that it would, "...permit local distribution companies to proceed to the Board to apply for the next installment of their allowable return on equity beginning March 1, 2005." The government also indicated that the Board's approval would be conditional on a financial commitment to reinvest in conservation and demand management initiatives, an amount equal to one year 's incremental returns.

Also in November 2003, the Government announced, in conjunction with the introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing), 2003*, that Local Electricity Distribution Companies ("LDCs") could start recovering Regulatory Assets in their rates, beginning March 1, 2004, over a four year period.

In February and March, 2004, the Board approved the applications of distributors to recover 25% of their December 31, 2002 Regulatory Asset balances (or additional amounts for rate stability) in their distribution rates effective March 1, 2004 and implemented on April 1, 2004.

No later than January 17, 2005, electricity distributors will be permitted to file applications for the last installment of their Market Adjusted Revenue Requirement (MARR), the second installment of their four year recovery of Regulatory Assets and the 2005 Payments in Lieu of Taxes (PILs). Distributors should file 6 hard copies and 1 electronic copy of their application with the Board.

The Board intends to implement 2005 distribution rate changes in conjunction with the implementation of the Regulated Price Plan, currently planned for April 1, 2005. Should this date change, the Board will issue a revised implementation schedule.

Recoveries to be added to 2002 Base Rates

As was the case in 2004, the Board intends to use the 2002 Base Rates, as the base on which the final increment of MARR, the Regulatory Asset rate recovery and 2005 PILs will be added. These base rates appeared on Sheet 4 of the 2002 Rate Adjustment Model (as well as on Sheet 2 of the 2004 RAM).

Final Increment of MARR

Most distributors have a clearly defined amount of the third and final increment of revenue that will bring them to their Market Adjusted Revenue Requirement. As directed by the government, this last increment will only be approved in conjunction with a financial commitment to Conservation and Demand Management (C&DM) initiatives.

In its RP-2004-0203 Procedural Order No. 1, issued on October 5, 2004, the Board provided for a review process for conservation and demand management programs. Many distributors have already applied for program approval, however, those that have not made an application for approval of their C&DM program and wish to receive approval should apply no later than January 17, 2005 as part of their 2005 rates application.

If a C&DM application has not been received by the Board by that time, the third installment of MARR revenue will not be approved in the April 1, 2005 rate adjustment. In addition, if the C&DM program approval is for funds that are less than the remaining MARR for a distributor, only the approved C&DM amount will be allowed into rates.

The final installment of MARR will be applied to rates using 1999 data from the 2001 Rate Unbundling and Design (RUD) model. Allocations to classes will be based on distribution revenue calculated in the distributor's RUD model as will the fixed revenue/variable revenue split.

The approved rates will be implemented in conjunction with the Regulated Price Plan on April 1, 2005, and the distributors will be permitted to gross-up the approved MARR amount in rates by a factor of 14/13 to ensure an effective date of March 1, 2005. The approved rates will be valid until April 30, 2006 as distributors will implement their re-based 2006 rates on May 1, 2006.

Second Installment of Regulatory Asset Recoveries

Distributors that would have received final approval of their Regulatory Asset rate riders will be permitted to implement these riders in this process.

Distributors that would not have received their Regulatory Asset rate riders will be permitted to recover the second installment of the four year recovery of Regulatory Assets on an interim basis. These distributors will be required to update Regulatory Asset account balances to December 31, 2003. A new increment of Regulatory Asset recovery will be calculated for 2005 rates.

- The amount for interim rate recovery will be determined by reducing 2003 balances by the amount approved for rate recovery for 2004 and taking one third of the remaining net balance for inclusion in 2005 rates. This recovery will again be applied only on the variable rate.

As was the case in 2004, these distributors will not be required to provide evidence justifying Regulatory Asset amounts. However, the amounts that will be submitted will be compared to the electronic RRR filings previously made to the Board. Any discrepancies must be identified and explained. If the distributor has not yet submitted the electronic RRR filing for 2003 it must make this filing by end of January 2005.

The Regulatory Assets rate riders shall be applied to the variable component of the rate only. The variable rate will be adjusted using the 2003 year end total kWh and kW by class, as submitted by the distributor.

Previously Denied Amounts

Any amounts previously denied by the Board in another proceeding shall not be included in any account balances for this application.

2005 Rate Adjustment Model

In order to assist distributors in their applications to recover Regulatory Assets and to provide for revised rate schedules, the Board will issue a 2005 Rate Adjustment Model (similar to the 2004 RA Model). The 2005 RAM will be available from the Board's website shortly. Detailed instructions for the model will also be provided.

PILs Proxy for 2005

As regulatory income will change due to the last installment of MARR, a new 2005 PILs model will also be made available shortly. It will be largely based on the previous PILs model and documentation will also be provided.

Notice

The Board will publish a generic notice in major Ontario newspapers after the filing deadline to notify ratepayers that distributors have applied for an increase in rates. The notice will include details as appropriate and will indicate that further information is available from the distributor's office in their particular service area. The notice will invite ratepayer submissions with respect to the distributors' proposals.

Bill Impacts

The 2005 RA Model will calculate estimated bill impacts for customers at various consumption levels. As other regulated rates and loss factors differ for each distributor, the bill impacts should be viewed as estimates.

As the Board's generic notice will refer ratepayers to the individual distributors for further information on the rate applications, utilities should brief customer service staff on the details of the application and bill impacts. The common bill impacts usually quoted are Residential Customers using 1000 kWh per month and General Service <50kW customers using 2000 kWh per month. The Board's call center will use the submitted bill impact sheets to compile a list of bill impacts for all utilities to address concerns of ratepayers that call the Board.

Manager's Summary

Each application should include a manager's summary which should summarize the application, note any significant issues or departures from these filing guidelines and include an authorization by the distributor's chief executive officer.

Distributors should also provide the method of rate change implementation, ie, consumption will be pro-rated, with pre-April 1 consumption at the old rates and post-April 1 consumption at the new rates; or proration is not possible and rates will be adjusted at the beginning of each customer's applicable billing cycle so that no pre-April 1 consumption is charged at the new rates.

Board File Numbers

The Board will provide on its website, a listing of file numbers for each distributor so Applications can be submitted with appropriate file numbers. Distributors are urged to check the Board's website for these file numbers which will be posted by January 10, 2005.

For More Information

Should a distributor have any questions or concerns regarding the 2005 distribution rate adjustment application process, please contact Harold Thiessen, 416-440-7637, e-mail: harold.thiessen@oeb.gov.on.ca

Yours truly,

original signed by

John Zych
Board Secretary