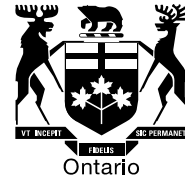


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January 15, 2004

**To: All Electricity Distribution Utilities**

**Re: Filing Guidelines: Applications for the Recovery of Regulatory Assets for April 1, 2004 Distribution Rate Adjustments**

On December 23, 2003, the Ontario Energy Board (the "Board") issued its preliminary filing guidelines regarding the rate recovery of Regulatory Assets effective March 1, 2004. These final guidelines are issued to provide further instruction and clarification on the rate application process and replace the preliminary guidelines.

On November 25, 2003, the Government announced, in conjunction with 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.

On December 19, 2003 the Ontario Energy Board (the "Board") received a letter from the Minister of Energy informing the Board that he would be writing to electricity distributors to grant them approval to make rate applications to the Board with regard to the rate recovery of Regulatory Assets. The Regulatory Asset accounts are:

- 1508 Other Regulatory Assets
- 1518 Retail Cost Variance Account - Retail
- 1548 Retail Cost Variance Account - STR
- 1525 Miscellaneous Deferred Debits - includes costs of rebate cheques
- 1562 Deferred Payments in Lieu of Taxes
- 1563 PILs contra account
- 1570 Qualifying Transition Costs
- 1571 Pre-Market Opening Energy Variances
- 1572 Extraordinary Event Losses
- 1574 Deferred Rate Impact Amounts
- 1580 Retail Settlement Variance Account - Wholesale Market Service Charges
- 1582 Retail Settlement Variance Account - One-time Wholesale Market Service
- 1584 Retail Settlement Variance Account - Retail Transmission Network Charges
- 1586 Retail Settlement Variance Account - Retail Transmission Connection Charges
- 1588 Retail Settlement Variance Account - Power
- 2425 Other Deferred Credits

LDCs will be required to file applications for the recovery of the audited December 31,

2002 year-end balances in the Regulatory Asset accounts no later than January 23, 2004. LDCs should file 6 hard copies and 1 electronic copy of their application with the Board.

- **Scope of Recovery (final and/or interim rates)**

The Board will be reviewing a large number of applications within a very short time frame. In keeping with the Government's intention that Regulatory Assets be recovered over a four year period, the Board will provide for recovery of 25% of the total Regulatory Asset balances as at December 31, 2002 so that rate schedules can be amended for the March 1, 2004 effective date.

To this end, the Board's plan is to allow final recovery of the four primary Retail Settlement Variance Accounts (RSVA), effective March 1, 2004, up to a limit of 25% of the total regulatory assets applied for by each LDC. These accounts are:

- 1580 RSVA - Wholesale Market Service Charges
- 1584 RSVA - Retail Transmission Network Charges
- 1586 RSVA - Retail Transmission Connection Charges
- 1588 RSVA - Power

The four RSVA accounts will be approved on a final basis, subject to audit by the Board to validate account balance reporting.

If the total of these four accounts does not represent 25% of the total Regulatory Asset accounts, the remaining amount to reach the 25% threshold will be approved and the new rates set on an interim basis.

The Board's plan is that all other Regulatory Asset accounts will be reviewed for prudence by the Board after the initial April 1, 2004 rate schedules are issued. When these other Regulatory Assets or portions thereof are approved as final, amounts already recovered will be subtracted from the final total approved. The remaining balances will be recovered in three equal increments in each rate year from 2005 to 2007. The equal increments will be adjusted to reflect the actual recovery experience of LDCs.

The examples below illustrate this plan:

Example (1):

(a) Total Regulatory Assets applied-for (all accounts):	\$ <u>1,000,000</u>
(b) Total in the 4 designated RSVA accounts (approved for <b>final</b> recovery)	\$ 500,000
(c) Amount recoverable [25% of (a)] for Mar.1, 2004 rates:	\$ <u>250,000</u>

(d) Subsequent final approval of non-RSVA accounts (reduced by \$150,000 as a result of prudency review):	\$ 350,000
(e) Total for recovery (b+d):	\$ 850,000
(f) Total for recovery over 2005, 2006, 2007: (e-c)	\$ 600,000

In Example 1, the LDC applied for \$1 million. Of that, \$500,000 is in the 4 designated RSVA accounts and receives final approval. However, only \$250,000 (25% of \$1 million) is allowed for recovery in rates as of March 1, 2004. After a full prudency review of all accounts later in 2004, the Board gives final approval of \$850,000 (\$150,000 is disallowed) of the original \$1 million (the \$500,000 + \$350,000 in other accounts). Therefore, the LDCs rates are adjusted to recover \$600,000 over the next 3 years and total recovery is \$850,000.

Example (2):

(a) Total Regulatory Assets applied-for (all accounts):	\$ <u>1,000,000</u>
(b) Total in the 4 designated RSVA accounts (approved for <b>final</b> recovery)	\$ 200,000
(c) <b>Interim</b> amount approved to meet 25% threshold: (c-b)	\$ 50,000
(d) Amount recoverable [25% of (a)] for Mar.1, 2004 rates:	\$ <u>250,000</u>
(e) Subsequent final approval of non-RSVA accounts (reduced by \$150,000 as a result of prudency review):	\$ 650,000
(f) Total for recovery (e+b):	\$ 850,000
(g) Total for recovery over 2005, 2006, 2007: (f-d)	\$ 600,000

In Example 2, the LDC applied for \$1 million. Of that, \$200,000 is in the 4 designated RSVA accounts and receives final approval. However, \$250,000 (25% of \$1 million) is allowed for recovery in rates as of March 1, 2004; therefore another \$50,000 in interim recoveries is granted. After a full prudency review of all accounts later in 2004, the Board gives final approval of \$850,000 of the original \$1 million (the \$200,000 + \$650,000 in other accounts). Therefore, the LDCs rates are adjusted to recover \$600,000 over the next 3 years and total recovery is \$850,000.

- **Evidence and Existing Regulatory Asset Filing Guidelines**

Utilities will not, at this time, be required to provide evidence justifying Regulatory Asset amounts. After the rate orders are issued effective March 1, 2004 and implemented on April 1, 2004, the Board will provide additional instructions for the filing of evidence to facilitate the prudency review of specific Regulatory Asset accounts. Utilities should have evidence prepared by the end of February, 2004.

Filing Guidelines regarding the Regulatory Asset accounts were released by the Board on September 15, 2003. In addition, specific Transition Cost filing guidelines were released on January 15, 2003. Both these documents are available from the Board's website at ([www.oeb.gov.on.ca](http://www.oeb.gov.on.ca)). LDCs are expected to review these guidelines and

make any adjustment necessary to the balances reported to the Board in the Reporting and Record Keeping filings.

- **Reporting and Record-Keeping Requirements (RRR)**

The Regulatory Asset evidence submitted by the LDC will be compared to the electronic RRR filings previously made to the Board (Requirement 2.1.1 due March 2003 and 2.1.7 due April 2003). Any discrepancies between the rate recovery filing and the RRR filing will require justification. If the LDC has not yet submitted the electronic RRR filing it should make this filing in January 2004.

- **Previously Denied Amounts**

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

- **Recovery on Variable Rate**

The Board has determined that the Regulatory Assets approved for recovery on March 1, 2004 will be recovered through the variable rate only. The variable rate will be adjusted using the 2002 year end total kWh and kW by class, as submitted by the LDC.

- **Recovery to be added to 2002 Base Rates**

At the time distribution rates were last adjusted on March 1, 2002, the previous RUD Model-determined rates were adjusted in most cases for IPI-X and the second 1/3 MARR increment. These adjusted rates appeared on Sheet 4 of the 2002 Rate Adjustment Model as Base Rates. The Board intends that these rates shall provide the base on which the approved Regulatory Asset rate recovery will be added.

- **Monthly Service Charges to remain constant**

The Monthly Service Charge for each LDC should remain the same as in current rates. The Rate Adjustment Model is designed to accommodate this adjustment to achieve rate stability in the Monthly Service Charge for each class.

In addition, in the interests of rate stability, if the removal of 2001 Q4 PILs, interim transition costs and/or Z-factors from current rates and the addition of 25% of

Regulatory Assets results in an overall rate decrease, the LDC may apply to recover a higher percentage of Regulatory Assets.

- **PILs Proxy for 2004**

The 2002 PILs proxy approved for the March 1, 2002 rate adjustment will be used as the PILs proxy for 2004.

- **Rate Adjustment Model**

In order to assist the LDCs in their applications to recover Regulatory Assets and to provide for revised rate schedules, the Board has issued the 2004 Rate Adjustment Model (similar to the 2002 RA Model). It can now be downloaded from the Board's website. Page by page documentation of the model is found in the attached Appendix A.

- **Notice**

The Board will publish a generic notice in major Ontario newspapers after the filing deadline to notify ratepayers that LDCs have applied for an increase in rates. The notice will indicate that application details and bill impacts will be available from the LDC office in their particular service area. The notice will invite ratepayer submissions to the proceedings including submissions with respect to the proposed April 1, 2004 rate increase.

- **Bill Impacts**

The last two sheets of the 2004 RA Model calculate estimated bill impacts for customers at various consumption levels. As other regulated rates and loss factors differ for each utility, the bill impacts should be viewed as estimates.

The model provides for the calculation of two bill impact estimates: The bill impact as a result of the change in distribution rates only; and, the bill impact of the distribution rate change as well as the Bill 4 change to the electricity commodity price from 4.3 cents/kWh to a tiered price (4.7 cents/kWh for the first 750 kWh and 5.5 cents/kWh for the balance of monthly consumption).

As the Board's generic notice will refer ratepayers to the individual utilities 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.

- **Account 1571: Pre-Market Opening Energy Variance**

This account was established to capture the difference in the seasonal wholesale rates paid by the LDCs to Ontario Power Generation and the non-seasonal rates that ratepayers were subject to before the market opened. The Board expects LDCs that apply for recovery of these amounts will file evidence for separate amounts: 1) the January 1 to December 31, 2001 period; and, 2) the January 1 to April 30, 2002 period.

Disclosure requirements will be TOU, non-TOU and total power variances for each period. The balancing total will be the difference between the total amount the LDC incurred for power purchases and the total amount recovered from customers (including the unbilled revenue accruals). Rate recovery of any approved amounts will be from non-TOU customer classes only.

If an LDC's methodology differs from that noted above, a description of the methodology used is required at the time of filing.

- **Rate Changes on April 1, 2004**

The government has announced that LDCs can recover Regulatory Assets starting March 1, 2004. In addition, Bill 4 stipulates that the LDCs will introduce an inclining block structure pricing scheme for the electricity commodity on April 1, 2004. In order to minimize ratepayer concern and confusion regarding two electricity price increases in two months, the Board intends to approve the 25% Regulatory Asset amount for each LDC effective March 1, 2004 but for implementation on April 1, 2004. The approved amounts will be adjusted (grossed up) to allow recovery over 11 months. The approved distribution rates will be effective until February 28, 2005.

- **Implementation of New Rates**

In the Manager's Summary, utilities should provide the method of rate change implementation, ie, consumption will be pro-rated, with pre-April 1 consumption at the old distribution and commodity rates and post-April 1 consumption at the new distribution and tiered commodity 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.

- **Accounting for Recovered Amounts**

Any Regulatory Asset amounts recovered in rates after April 1, 2004 should be entered in a special-purpose balancing account to be used for disposition later when final Regulatory Assets are approved. The Board's Audit and Compliance Section will issue accounting instructions before April 1, 2004.

- **Manager's Summary**

Each application should include a manager's summary which should summarize the application, note any exceptions to the account balances and include an authorization by the utility's chief executive officer.

- **RP and EB File Numbers**

The Board will provide on its website, a listing of RP and EB file numbers for each LDC so Applications can be submitted with appropriate file numbers. Utilities are urged to check the Board's website for these file numbers which will be posted by January 19, 2004.

### **For More Information**

Should a utility have any questions or concerns regarding the Regulatory Asset application process, please contact Harold Thiessen, 416-440-7637, e-mail: [harold.thiessen@oeb.gov.on.ca](mailto:harold.thiessen@oeb.gov.on.ca)

Yours truly,

original signed by

Paul B. Pudge  
Assistant Secretary

## **Appendix A**

### **2004 Rate Adjustment Model Documentation**

#### **Sheet 1 – December 31, 2002 Regulatory Assets**

This sheet allows utilities to input their Regulatory Asset totals, as of December 31, 2002. It will also compute the 25% threshold and allow the LDC to complete either Section 1 (RSVA totals greater than 25% of the Regulatory Asset total) or Section 2 (RSVA totals less than 25% of the Regulatory Asset total) with additional interim approval to achieve the 25% level.

Each amount is grossed up by 12/11 to allow recovery of the amount over an 11 month period (April 1, 2004 to February 28, 2005).

Regulatory Asset amounts should agree with those filed with the Board under the Reporting and Record Keeping Requirements. If there are exceptions they should be noted and explained in the Manager's Summary.

Results are entered at Sheet 3 and Sheet 5 (if necessary).

#### **Sheet 2 – 2002 Base Rate Schedule**

2002 Base Rates from Sheet 4 of the utility's 2002 RAM model should be entered on this sheet. Base Rates are defined as 2001 RUD model determined rates adjusted for IPI-X and second increment of MARR only. (2001 Q4 PILs, 2002 PILS, any interim recovery of transition costs and any approved Z-factors removed.)

Utilities should also enter all approved specific service charges on this sheet.

#### **Sheet 3 – 2002 Data and 4 RSVA Account Regulatory Assets**

On this sheet the utility should enter year end totals for kW sales, kWh sales, customer numbers and distribution revenue by class. Entries on this sheet transfer automatically to Sheets 5 and 7. The total of the 4 major RSVA accounts are also entered here (whether 25% of the total Regulatory Assets or not) and distributed to the rate classes according to the proportion of kWh sales.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.



#### **Sheet 4 – Rates Calculated including 4 RSVA account Regulatory Assets**

This sheet shows the new rates when the increment from Sheet 3 is added to rates shown on Sheet 2.

#### **Sheet 5 – 2002 Data and remaining Regulatory Assets to meet 25%**

The total of the remaining Regulatory Asset amounts are entered here (if necessary to meet the 25% threshold of the total Regulatory Assets) and distributed to the rate classes according to the proportion of distribution revenue per class. If the amount entered on Sheet 3 is already at the 25% level, no entry is made on this sheet.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.

#### **Sheet 6 – Rates Calculated including the remaining Regulatory Assets to meet 25%**

This sheet shows the new rates when the increment from Sheet 5 is added to rates shown on Sheet 4.

#### **Sheet 7 – 2002 Data and 2004 PILs proxy**

The 2004 PILs proxy is entered on this sheet. This proxy is the same as the proxy used in the 2002 RA Model entered at Sheet 8 of that model. The 2004 PILs proxy is allocated to classes according to the proportion of distribution revenue per class, as it was in 2002.

This sheet will also allocate class revenues to the variable rate only and calculate the increment to be added to the variable rates in each class.

#### **Sheet 8 – Rates Calculated including the 2004 PILs proxy**

This sheet shows the new rates when the increment from Sheet 7 is added to rates shown on Sheet 6.

#### **Sheet 9 – Service Charge Adjustment**

This sheet provides the mechanism to adjust the rates in Sheet 8 to keep the Monthly Service at the same level as in current rates, while maintaining class revenue neutrality.

LDCs must enter their current fixed charges for each class class.

### **Sheet 10 – April 1, 2004 Rate Schedule**

This is the rate schedule which will be printed and attached to your rate order. Please ensure that the name of utility is entered accurately and that the RP and EB file numbers are correct.

Also ensure that all specific service charges are transposed from Sheet 2.

### **Sheet 11 – Estimated Bill Impacts (no commodity increase)**

This sheet will allow utilities to calculate the bill impact of this change in distribution rates. (without the impact of the commodity price change on April 1, 2004.) Please note that these impacts are estimates as the table does not adjust consumption for line losses and uses other regulated charges that may not apply to all utilities. In addition, for the General Service >50kW classes and the Large User class, a general estimate has been used for the commodity price. Individual customers in these classes will face varying commodity prices depending on their individual circumstances.

Utilities should enter their existing rates (not those from Sheet 2) to determine the appropriate bill impact. The Monthly Service Charge from Sheet 9 will automatically appear, however the current kWh rate will still have to be entered.

The Residential 1000 kWh per month customer and the General Service <50kW 2000 kWh per month customer should be used as common benchmarks by utilities to indicate estimated bill impact to ratepayers.

### **Sheet 12 – Estimated Bill Impacts (commodity increase included)**

This sheet will allow utilities to calculate the bill impact of this change in distribution rates with the impact of the commodity price change on April 1, 2004. Again, please note that these impacts are estimates as the table does not adjust consumption for line losses and uses other regulated charges that may not apply to all utilities. Again, for the General Service >50kW classes and the Large User class, a general estimate has been used for the commodity price. Individual customers in these classes will face varying commodity prices depending on their individual circumstances.

The Residential 1000 kWh per month customer and the General Service <50kW 2000 kWh per month customer should be used as common benchmarks by utilities to indicate estimated bill impact to ratepayers.