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This is a working document that has not been endorsed or approved by the OEB**

Draft

**Minimum Filing Requirements for
Natural Gas Distribution Cost of Service
Applications**

Ontario Energy Board
November 1, 2005

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Introduction

The Ontario Energy Board's report from the Natural Gas Forum outlines proposals for change to the regulatory framework for the natural gas sector and lays the groundwork for improved efficiency and effectiveness. As part of the findings of the report, the Board committed to review the gas utility filing guidelines for the rate hearing process. These minimum filing requirements are to be used for filing a cost of service application for 2007 rates. The rates developed will form the basis for incentive rates to be applied in 2008 and beyond. Utilities are advised that if any significant element of these minimum filing requirements is not included in the filing, the application will be deemed incomplete and will not be processed until completed.

As part of 2007 Cost of Service filing, the Board urges utilities to minimize the issues that require a policy review and where possible to minimize proposals to alter previously approved methodologies.

Secondly, the applicant must include a detailed variance analysis between the Test Year and Bridge Year and the last Board Approved Year. The variance analysis should also be made between the test year and the last year for which actual costs are available. This analysis must explain the reasons for the variance, the drivers of the variance and the contribution of each towards the total year over year variance.

Thirdly, utilities should provide revenue sufficiency or deficiency calculations excluding the cost of gas. Also where gas costs are used the applicant must use the prices approved in the last Quarterly Rate Adjustment Mechanism (QRAM).

Finally, the Board remains cognizant of the large number of interrogatories (IRs) that the existing has process generated. The requirement of a large number of IRs suggests failure of the parties to have a common understanding of the information needs. The Board advises applicants to consider those commonly asked questions and include the information that is the subject of those questions in their initial filings.

Key Planning Parameters

The key planning parameters listed below form the basis of how the detailed requirements provided in this document should be interpreted. They are:

- Weather Normalized Data
- Compliance with Uniform System of Accounts
- Used or useful rate base
- GARP (Generally Accepted Regulatory Principles)
- Metric Units (also heat content conversion factors)
- Average of monthly averages valuation method for items in rate base and capital base
- Total Capitalization equates to Total Rate Base
- At a minimum there must be three years of data, Historic, Bridge and Test Year. Typically there is no need to present historical beyond the limit identified, unless explicitly stated in the filing requirements. The three years are defined as:
 - Test Year = Forecast (Rate) Year
 - Bridge Year = Current Year
 - Historical Year = Last Board Approved
- Multi-year data showing the Historical Actual, Historical Board Approved, Bridge Year and Test Year data must be presented on the same sheet for the summary/main schedules

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- All calculation of revenue sufficiency/deficiency should be done based on proposed methodology, and the resultant impacts of the methodology change must also be provided
- Written Direct Evidence should be included after the data schedules
- Commodity costs should not be included in the filing unless explicitly stated in the filing requirements
- When filing, the commodity cost will be that available from the most recent Board approved QRAM
- A complete filing includes all documentation detailed in the Minimum Filing Requirement document.

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Exhibit I. Standard Documents

The standard documents indicated in this section provide the background and summary to the case as filed. There are three sections 1) Administration, 2) an overview of the filing and 3) the background financial information. The detailed requirements for each section are shown below.

Utilities should treat this as an administrative exhibit and exclude all other information from it, which deals with Volume & Revenue Forecast, Gas Supply evidence, Cost of Capital Summary, Rate Base Evidence and the O&M budget. These topics should be addressed in the relevant exhibits.

1. Administration

- Index
- Application
- List of specific approvals requested
- Draft issues list
- List of non-compliance with Uniform System of Accounts and reference to Accounting Orders
- Map of System or provide link to webpage
- List of Affiliate Transactions in Historic Year, Bridge Year and planned or anticipated during Test Year including shared services and subsidiaries
- LDC Organizational charts – down to manager level
- Corporate Organization Chart (breakout subsidiaries into holding and exploration and development groupings)
- Planned changes in corporate or operational structure
- Status of Board Directives from previous Board Decisions and/or Orders
- Policies and Regulations of Company with respect to gas services and schedules of service charges
- List of Witnesses
- Corresponding C.V.'s

2. Overview

- Summary of Application (nature of request and typical customer impact)
- Budget Directives (Capital & Operating)
 - Budget Process
 - Flow charts of approval process
 - Correspondence regarding Budget levels – goals, strategies and guidelines
 - Economic assumptions used
- Changes in Methodology (Accounting, normalization etc.)
- Schedule of overall revenue sufficiency/deficiency (Weather Normalized)

3. Finance

- Financial Statements – Most recent financial statements
 - Utility
 - Parent Company
- Subsidiaries in each group are to be identified (name, nature of business and capitalization of the subsidiary)
- Annual Reports or Audited Financial Statements (Historical) & Interim Reports (Bridge)

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- Rating Agency Report
- Prospectuses, information circulars etc. for planned and recent shares issues

Exhibit II. Rate Base

This exhibit includes information on Rate Base, Capital Budgets, System Expansion, Transportation facilities and Storage Facilities. Items used in the computations or derived in this statement must include beginning and closing balances of the rate base, working capital, accumulated depreciation, and accumulated deferred income taxes, accumulated deferred income taxes, changes in working capital, accrued deferred earnings, and annual amortization of accrued deferred earnings. The information presented here should cover three areas: 1) List of Gross Assets, 2) Accumulated Depreciation, and 3) Allowance for Working Capital.

For each of these areas there will be some common statements required summarizing the rate base. The schedules for rate base should include Historic Board approved, Historic Actual, and Bridge and Test years. Additional required statements for 1 and 2 include:

Continuity Statements (Year-end - To include Interest during Construction & All overheads)

- Historical Actual to Bridge
- Bridge to Test Year

Variance Analysis

A written explanation of significant variance. 'Significant' means variance greater than or equal to 10% or \$500,000

- Historical Board Approved v/s Historical Actual
- Historical Actual v/s Bridge
- Bridge v/s Test Year

1. Gross Assets – Property Plant and Equipment

(Summary and Continuity statements must be provided)

- Breakdown by function (underground storage plant, distribution plant, general plant, other plant) for required statements and analysis
- Detailed breakdown by major plant account for each functionalized plant item for Historical Actual. Bridge and Test Year, For Test year each plant item should be accumulated by a written description.
- Customer Additions and System Expansion with PI values

Capital Budget- Historic Year, Bridge Year & Test Year

- Capital Budget by project
 - Projects over \$500,000 listing related attachments, volumes and capital costs. Provide a detailed breakdown of starting dates and in-service dates; and for
 - Other Capital Expenditures by function (Reconcile above components to Total Capital Budget)
 - Written explanation of significant variances. 'Significant' means variances greater than or equal to 10% or \$500,000

2. Accumulated Depreciation

Summary and Continuity statements must be provided for Historic, Bridge and Test years

- Accumulated depreciation to gross assets

3. Allowance for Working Capital

Historic, Bridge Year & Test Year (except as otherwise noted) on a single schedule

- A. Inventory gas
 - Calculation of average of monthly averages (\$ and volume figures)
 - Dollar Values and Volumes of Gas in Storage by month
- B. Supplies and Materials
 - Calculation of average of monthly averages (\$)
- C. Prepaid Expenses
 - Calculation of average of monthly averages (\$)
- D. Miscellaneous Accounts Receivable
 - Calculation of average of monthly averages (\$)
- E. Working Cash Allowance (Test Year)
 - Particulars of calculation
- F. Security Deposits
 - Calculation of average of monthly averages (\$)
- G. Other Items of Working Capital (itemized individually)
 - Calculation of average of monthly averages (\$) if applicable

Exhibit 3. Operating Revenue

The volume and revenue forecast, the weather forecast methodology and the topics of storage & transportation and other sales activities are included here. Utilities must provide in detail the description of the methodology and the assumptions used. The information presented here should include (estimates must be presented excluding commodity revenues): 1) Throughput Revenue, 2) Transactional Services / Storage & Transportation, and 3) Other Revenue

1. Throughput Revenues

- Explanation of demand forecast and weather forecasting methodology
- Explanation of Weather Normalization methodology and how the normalization is done.
- All historical data should be weather normalized to the Test Year weather normal.
- All data used to determine the weather forecasts should be presented in electronic format.
- Schedule of throughput details showing volumes, revenues, unit revenues and customer count by rate class. (Including T-Service, storage & load balancing) for:
 - Historical Actual
 - Historical Board Approved
 - Historical Actual – normalized
 - Bridge Year
 - Bridge – normalized
 - Test Year

Variance Analysis

- Historical Board Approved v/s Historical Actual- normalized
- Historical Actual- normalized v/s Bridge – normalized
- Bridge – normalized v/s Test Year
- For residential, commercial and industrial customers, normalized average consumption historic actual and forecasted, per customer by month for past 10 years and forecasted average consumption by month for the Test Year.
- Explanation of large volume (contract) customer throughput forecast for Test Year and comparison of 5- Years of forecast v/s actual normalized, to evaluate accuracy of previous forecast.
- Explanation of net change in customers per rate class from last Board Approved and actual for Historical and Bridge years

2. Transactional Service/Storage and Transportation

- Present only 5-Years of actual data
- Gross Margin for 5-Years of actual data

3. Other Revenues

- Details and breakout of Other Revenues
- Comparison of Actual revenues to Board Approved for Historical and Bridge years
- Detailed calculation of Rate of return on non-core delivery activities –NGV

Exhibit 4. Operating Costs

The operating cost exhibit must include information that summarize the total cost of service as proposed including 1) Operating & Maintenance and Other Costs, 2) Income Taxes, 3) Status of Non-Gas Supply Deferral Accounts and Variance Accounts, and 4) Demand Side Management

1. Operating, Maintenance and Other Costs

The required statements for each of the components of this section include trend data for Operating costs (Board Approved v/s. Actual) by major item, excluding gas costs.

A. Operating & Maintenance

(Include Administration & General, Sales promotion & Customer Accounting)
Written Direct Evidence to give further details of the budgets

Required Statements for O & M:

Historical Actual

Historical Board Approved

Bridge Year

Test Year

- Breakdown of each on a departmental basis
- Breakdown of total Employee Numbers, Total Salaries & Wages, Salaries & Wages and Benefits charged to O&M
 - By employee type (i.e. executive, management, supervision, technical, weekly
 - Total compensation by group and average level per group
 - Incentive program

Variance Analysis:

Historical Board Approved v/s Historical Actual

Historical Actual- normalized v/s Bridge Year

Bridge Year – normalized v/s Test Year

Explanation of significant variances – ‘Significant’ means variances greater than or equal to 10% or \$250,000 by cost element

B. Depreciation/Amortization/Depletion

- Depreciation Study – Only if depreciation rates are to change
- Details of provision for Depreciation, Amortization and Depletion by asset group for Test Year including asset amount and rate of depreciation

C. Property & Capital Taxes

- Detailed Breakdown

D. Corporate Cost Allocation

- Detailed description of the assumptions underlying the allocation of these services
- Document the overall policy

E. Cost of Gas (Historical, Bridge and Test Years)

- Status of contracts, forecasts, cost of upstream and transportation costs
- Lost and Unaccounted for Gas
 - Forecast v/s Actual for 5 years
 - Methodology for Test Year Forecast
- Gas supply/demand balance sheet

2. Income Taxes

- Detailed calculation (provincial and federal) including derivation of interest and CCA adjustments

3. Status of Gas Supply and Non-Gas Supply Related Deferral and Variance Accounts

- List of Deferral and Variance accounts for the Historic and Bridge Year
- List of new proposed accounts for the Test Year
- Balance and detailed method of recovery of existing accounts including bill impacts and rate design implications.

4. Demand Side Management

- DSM plan – if required
- Evaluation reports
- Shared Savings Mechanism and Lost Revenue Adjustment Mechanism

Exhibit 5. Cost of Capital and Rate of Return

If the applicant is proposing any changes to its Board Approved capital structure then the utility should provide a detailed filing supporting that change.

1. Capital Structure – Amounts & Ratios

The elements of the capital structure required are shown below and must be detailed with the required schedules of 1) Historical Year Board Approved, 2) Historical Year Actual, 3) Bridge Year, and 4) Test Year:

- Unfunded Debt
- Short-Term Debt
- Long-Term Debt
- Preference Shares
- Common equity

Justification for proposed capital structure is required. Explanation of changes including:

- Non-scheduled retirement of debt or preference shares and buy back of common shares
- LTD, preference shares and common shares offering
- Continuity of retained earnings

2. Component Costs

Historic Year, Bridge Year & Test Year

- Calculation of cost of each item from Test Year
- Justification of forecast costs by item including key economic assumptions
- Profit or loss on redemption of debt and or preference shares
- Actual utility return on rate base

3. Calculation of Return on Equity – Per Board Guidelines

- Refer Board Guidelines on calculating Return of Equity

Exhibit 6. Calculation of Revenue Deficiency or Surplus

This exhibit should include the following:

- Determination of Net Utility Income
- Statement of Rate Base
- Indicated Rate of Return
- Requested Rate of Return
- Deficiency or Sufficiency in Revenue
- Gross Deficiency or Sufficiency in Revenues

Exhibit 7. Cost Allocation

The cost allocation and rate design sections contain approximately 90 schedules. The existing schedules are comprehensive and exhaustive and are tailored to address the utility's specific needs. In order to meet the minimum filing requirements a cost of service application must include a description for the test year of the proposed cost allocation methodology, schedules showing the step by step cost allocation methodology, revenue to cost ratio, a comparison of previous ratio and proposed ratio and schedules that clearly show the allocation of revenue sufficiency/deficiency.

1. Cost Allocation Study

- Present Method
- Proposed Method

A. Functionalization

- rate base
- cost

B. Classification

- rate base
- cost

C. Allocation

- rate base
- cost

- D. Summary of current methodology, changes, rationale, and resulting impact for A, B and C and an explanation of the factors employed in A, B and C

Exhibit 8. Rate Design

The Rate Design Exhibit, in addition to the existing schedules must show the revenue deficiency recovery, a summary of proposed changes to rates, proposed volume and revenue recovery, changes to the rate handbook and detailed annual bill impacts. Utilities should not file any adjustments to rate design or cost allocation structure or methodology.

1. Existing Rate Schedules

2. Proposed Rate Schedules

- Proposed Rate and Revenue Adjustments
- Detailed calculations of revenue per rate class under current rates and proposed rates by customer
- Detailed reconciliation of rate class revenue and other revenue to total revenue requirement (i.e. breakout volumes, rates and revenues by rate blocks, seasons, zones etc.)
- Calculation of differences between revenue allocated cost under current rates and proposed rates by customer class
- Explanation and application of non-cost factors to rate design
- Revenue/Cost Ratios for Historic Year, Bridge Year and Test Year
- Impact of changes on representative samples of end-users, i.e. volume, % rate change, revenue.
- Explanation of proposed changes to terms and conditions of service and rationale behind those changes.