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**VIA E-MAIL AND WEB POSTING**

July 16, 2015

**To: Licensed Electricity Distributors**

**Re: I. Updated Filing Requirements  
II. Process for 2016 Incentive Regulation Mechanism (“IRM”) Distribution Rate Applications**

On October 18, 2012, the Ontario Energy Board issued its report, entitled *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the RRFE Report). The RRFE Report provides a comprehensive performance-based approach to regulation and sets out three rate-setting methods: 4<sup>th</sup> Generation Incentive Rate-setting (Price Cap IR), Custom Incentive Rate-setting (Custom IR) and the Annual Incentive Rate-setting Index (Annual IR Index).

Today, the OEB issued an [update](#) of its *Filing Requirements for Electricity Distribution Rate Applications: Chapter 1 – Overview, Chapter 2 – Cost of Service and Chapter 3 – Incentive Rate-Setting*. These filing requirements outline the information that the OEB requires an electricity distributor to file when it makes an application under the rate-setting methods set out in the RRFE Report. Draft versions of the models and schedules to Chapter 2 were issued on July 7, 2015 and these files should now be considered final. An updated cost allocation model was posted today. The Rate Generator, which accompanies a Price Cap IR or Annual IR index application under Chapter 3 of the filing requirements, will be published later in July.

## **I. Significant Changes to the Filing Requirements**

No substantive changes have been made to Chapter 1 as a result of this year's update. Updates to Chapters 2 and 3 are as follows:

### *Updates to filing requirements as a result of policy developments*

- *Residential rate design:* On April 2, 2015, the OEB released *New Distribution Rate Design for Residential Electricity Customers* (EB-2012-0410) which stated that all distributors are to transition to a fully fixed charge for the residential class using a standard method. The OEB issued further guidance on this implementation earlier today. This rate design will be implemented over a period of four years, beginning in 2016, with requirements for mitigation in certain circumstances. See sections 2.8.2 and 2.8.13 in Chapter 2 and section 3.2.3 of Chapter 3.
- *Working capital allowance:* On June 3, 2015, the OEB issued a letter announcing a new default working capital allowance of 7.5% in place of the previous 13%. Distributors who do not wish to use the default value can request approval for a distributor-specific working capital allowance supported by the appropriate evidence from a lead-lag study or equivalent analysis (section 2.2.1.3).
- *Advanced capital module:* On September 18, 2014, the OEB issued *New Policy Options for the Funding of Capital Investments* (EB-2014-0129) which outlined the new Advanced Capital Module. While work on considering the use of the half-year rule is still ongoing, distributors can propose an alternative approach within their applications as applicable, for the OEB's consideration (section 2.2.2.6).
- *Allocation of costs to streetlighting class:* On June 12, 2015, the OEB released a letter announcing a new cost allocation policy for the streetlighting rate class. The cost allocation section of Chapter 2 has been updated to reflect this new policy (section 2.7.1).

### *Other Significant Changes to Chapter 2: Cost of Service*

- The Executive Summary section (2.1.2) now requires separate identification of all proposed changes that will have a material impact on customers including any changes to rates and charges that may affect discrete customers or groups of customers as well as changes to reflect the new notice process.
- The Scorecard Performance Evaluation section (2.0.5) has been revised to incorporate a requirement to explain the drivers for a distributor's performance. In addition, the Service Quality and Reliability Performance section contains revised wording to reflect the OEB's new policy on targets.

- The adoption of the International Financial Reporting Standards (“IFRS”) on January 1, 2015 is mandatory for most rate regulated distributors in Ontario. As a result, the Filing Requirements reflect only the transition from CGAAP to IFRS. The OEB will no longer accept applications filed by distributors under CGAAP (section 2.0.4).
- The Filing Requirements provide information on the interrelationship between the requirements outlined in Chapter 2 and those contained in Chapter 5 (the *Consolidated Distribution System Plan Filing Requirements*), which was issued by the OEB on March 28, 2013. There are no further updates to Chapter 5 at this time. The consolidated distribution system plan must be contained in one integrated and cohesive stand-alone document incorporating all elements of the plan (section 2.2.2.2).
- Section 2.9.7 Disposition of Deferral and Variance Accounts has been updated to enhance filing requirements for the Global Adjustment (GA) variance account (Account 1589) to support a more in-depth review.
- The 2016 Filing Requirements incorporate two new sections: Notional Debt, (2.5.2) which provides clarification of this area and Stand-by Rates (2.7.1) which allows applicants to seek the final approval of the interim charge conditional on confirmation that all affected customers have been advised.

#### *Other Significant Changes to Chapter 3: Incentive Rate-Setting*

- To streamline the filing process and make better use of data already filed with the OEB, the IRM rate generator models will now be prepopulated with customized tariff sheets for each distributor. The consumption and customer data fields contain RRR data and the models now use the most recent year-end data as the default basis for calculating deferral and variance account rates. Each distributor must confirm the accuracy of all pre-populated data and make changes where necessary and justified.
- Similarly to Chapter 2, the section on Global Adjustment (3.2.5.2 of the Filing Requirements) has been updated.

## **II. Scope and Timing of the IRM Process**

As a means of managing the Price Cap and Annual Index applications, the OEB has established four filing dates for distributors. The application filing deadlines for each

group were determined so that, in the normal course of events, a decision would be issued in time for a January 1 or May 1 implementation date. The application groupings are as follows:

<b>Stream</b>	<b>Application Filing Deadline</b>
1	August 17, 2015
2	September 28, 2015
3	October 19, 2015
4	November 2, 2015

Stream 1 is for those distributors applying for a January 1, 2016 effective date for rates. Applicants for May 1 rates have been assigned to one of three filing dates based on the expected level of complexity of the application. The assignments were based on the results of a survey of distributors circulated June 9, 2015. The attached table lists the assignment of each electricity distributor to one of the streams.

Distributors are reminded that the IRM application process is intended to be mechanistic in nature and therefore the filing requirements include certain exclusions. Furthermore, if a distributor contemplates a material increase to the complexity of its application relative to the information it provided in the survey, it should advise the OEB and is encouraged to file in an earlier stream.

As outlined in RRFE Report, the OEB will establish the final inflation factor and stretch factor to apply to distributors for the 2016 rate year in due course. The Rate Generator will initially include rate-setting parameters from the 2015 rate year as a placeholder. OEB staff will adjust the Rate Generator once updated rate-setting parameters and RTSRs are available.

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary

Encl.

**Schedule : IRM Stream Assignment for 2016**

<b>Company</b>	<b>EB - Number</b>	<b>Stream</b>	<b>Filing Date</b>
Algoma Power Inc.	EB-2015-0051	1	Aug. 17
Brantford Power Inc.	EB-2015-0055	1	Aug. 17
Canadian Niagara Power Inc.	EB-2015-0058	1	Aug. 17
Cooperative Hydro Embrun Inc.	EB-2015-0063	1	Aug. 17
Enersource Hydro Mississauga Inc.	EB-2015-0065	1	Aug. 17
Festival Hydro Inc.	EB-2015-0069	1	Aug. 17
Hydro Hawkesbury Inc.	EB-2015-0077	1	Aug. 17
Hydro One Brampton Networks Inc.	EB-2015-0078	1	Aug. 17
Innpower Corporation	EB-2015-0081	1	Aug. 17
Kitchener-Wilmot Hydro Inc.	EB-2015-0084	1	Aug. 17
Lakeland Power Distribution Limited	EB-2015-0086	1	Aug. 17
Oakville Hydro Electricity Distribution Inc.	EB-2015-0094	1	Aug. 17
St. Thomas Energy Inc.	EB-2015-0102	1	Aug. 17
Atikokan Hydro Inc.	EB-2015-0052	2	Sept. 28
Centre Wellington Hydro Ltd.	EB-2015-0059	2	Sept. 28
Collus PowerStream Corp.	EB-2015-0062	2	Sept. 28
E.L.K. Energy Inc.	EB-2015-0064	2	Sept. 28
Newmarket-Tay Power Distribution Ltd.	EB-2015-0213	2	Sept. 28
Niagara Peninsula Energy Inc.	EB-2015-0090	2	Sept. 28
Niagara-on-the-Lake Hydro Inc.	EB-2015-0091	2	Sept. 28
North Bay Hydro Distribution Limited	EB-2015-0092	2	Sept. 28
Peterborough Distribution Incorporated	EB-2015-0097	2	Sept. 28
Thunder Bay Hydro Electricity Dist.Inc.	EB-2015-0103	2	Sept. 28
Veridian Connections Inc.	EB-2015-0106	2	Sept. 28
Welland Hydro-Electric System Corp.	EB-2015-0109	2	Sept. 28
Brant County Power Inc.	EB-2015-0054	3	Oct. 19
EnWin Utilities Ltd.	EB-2015-0066	3	Oct. 19
Erie Thames Powerlines Corporation	EB-2015-0067	3	Oct. 19
Hydro 2000 Inc.	EB-2015-0076	3	Oct. 19
Lakefront Utilities Inc.	EB-2015-0085	3	Oct. 19
London Hydro Inc.	EB-2015-0087	3	Oct. 19
Midland Power Utility Corporation	EB-2015-0088	3	Oct. 19
Northern Ontario Wires Inc.	EB-2015-0093	3	Oct. 19
Orillia Power Distribution Corporation	EB-2015-0024	3	Oct. 19
PUC Distribution Inc.	EB-2015-0098	3	Oct. 19
Westario Power Inc.	EB-2015-0112	3	Oct. 19

**Schedule : IRM Stream Assignment for 2016**

<b>Company</b>	<b>EB - Number</b>	<b>Stream</b>	<b>Filing Date</b>
Bluewater Power Distribution Corporation	EB-2015-0053	4	Nov. 2
Burlington Hydro Inc.	EB-2015-0056	4	Nov. 2
Cambridge and North Dumfries Hydro Inc.	EB-2015-0057	4	Nov. 2
Fort Frances Power Corporation	EB-2015-0070	4	Nov. 2
Greater Sudbury Hydro Inc.	EB-2015-0071	4	Nov. 2
Hydro One Remote Communities Inc.	EB-2015-0080	4	Nov. 2
Kenora Hydro Electric Corporation Ltd.	EB-2015-0082	4	Nov. 2
Orangeville Hydro Limited	EB-2015-0095	4	Nov. 2
Sioux Lookout Hydro Inc.	EB-2015-0101	4	Nov. 2
Tillsonburg Hydro Inc.	EB-2015-0104	4	Nov. 2
West Coast Huron Energy Inc.	EB-2015-0111	4	Nov. 2