



Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario Energy Board

Filing Requirements For Electricity Transmission Applications

Chapter 2

Revenue Requirement Applications

~~February 11, 2016~~

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2.0 Chapter 2 Filing Requirements for Revenue Requirement Applications

2.0.1 2.0 Introduction

The

These Chapter 2 filing requirements contained in this chapter outline the minimum information necessary for to support a transmission revenue requirement application. Applicants should review Chapter 1 of this document first, which provides an overview of the OEB's expectations on certain generic matters, such as the completeness and accuracy of an application, the exploration of non-material items, and confidential filings.

~~On October 18, 2012, the OEB released its *Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the RRFE Report). While the RRFE Report related specifically to electricity distributors, the OEB stated that "[i]n due course, the OEB will provide further guidance regarding how the policies in this Report may be applied to transmitters." The changes to the filing requirements in this document provide the initial steps toward the integration of core RRFE concepts into the rate application process for transmitters.~~

~~In the RRFE Report the OEB provided electricity distributors with three rate-setting methods: 4th Generation Incentive Rate-setting (now called Price Cap IR), Custom Incentive Rate-setting and Annual Incentive Rate-setting Index. As a move toward greater adoption of an incentive- and performance-based rate-setting framework for transmitters, the OEB has created two new transmission revenue plan options:~~

2.0.2 A Revenue Requirement-Setting for Transmitters

The *Handbook for Utility Rate Applications* (Handbook) outlines key principles and expectations of the OEB when reviewing rate applications and is applicable to all rate regulated utilities, including transmitters. The OEB expects a transmitter to file rate applications consistent with the Handbook unless it can demonstrate a strong rationale for departing from it.

The Handbook describes two incentive rate-setting (IR) methods established by the *Renewed Regulatory Framework* (RRF): Custom IR and Revenue Cap IR.

- **Custom IR:** ~~a custom incentive-rate-based revenue requirement-setting plan, which will consist~~consists of a transmitter-specific revenue requirement trend for the a plan term, which shall be not less than of five or more years (Custom IR). As a Custom IR application enables flexible options to be proposed, no specific filing requirements have been established. Any transmitter filing a Custom IR application should be informed by the Handbook and these filing requirements. Transmitters with declining rate base should refer to section 2.0.3 for Custom IR guidance.
An
- **Revenue Cap IR:** ~~an incentive-based revenue~~ requirement index plan of five years, comprising ~~an initial application~~of a request to establish a revenue requirement based on a single test year cost of service application, ~~followed by.~~
The application should also request incentive-based and indexed adjustments to the test year revenue requirement for the balance of the plan term. Analogous to a Price Cap for distributors, this “This Revenue Cap index” IR approach includes expectations for the development of an OEB transmission industry-specific inflation index, as well as a productivity factor and stretch commitments. ~~The OEB invites transmitters to propose and substantiate the appropriate method and commitments for these elements.~~

~~The OEB will not require all existing electricity transmitters to apply under Custom IR or a Revenue Cap index immediately. Transmitters continue to have the option, for their first application after these filing requirements are issued, to apply to have their revenue requirement set for one or two years through a cost of service application for those applicants where significant adjustments to business processes and planning activities would be required prior to embarking on a new five year rate plan. New entrants will be expected to select either a Custom IR or Revenue Cap index plan.~~

~~The OEB will nevertheless expect two elements of the RRFE policy to begin to be incorporated into all applications for transmission revenue requirements: enhanced reporting on customer engagement, and a proposed scorecard to measure performance. Performance monitoring and reporting are key elements in moving towards an outcomes-based regulatory framework.~~

~~In addition, the OEB will require evidence on asset condition, planning and prioritization of capital expenditures to be presented in a Transmission System Plan, consolidated into a dedicated exhibit in the application. The OEB will assess the fit between the applicant's plan and its stated objectives, and consider how the plan contributes to positive outcomes for electricity customers, in particular those outcomes that arise from the asset management decisions reflected in the applicant's Transmission System Plan. The OEB will also consider the planning and pacing proposals of the applicant and whether the test year requests are appropriately aligned with the Transmission System Plan, while at the same time recognizing and taking into consideration the division of network planning responsibilities in Ontario, the OEB's statutory objectives and relevant provincial policies.~~

~~Benchmarking is a key component of rate setting for electricity distributors under the RRFE. Benchmarking evidence is required to support cost forecasts and system planning proposals, given the assistance it can provide in establishing the reasonableness of costs. However, the OEB recognizes that a transition period may better accommodate the gradual entrenchment of RRFE objectives and principles in transmission rate setting over time. Therefore, where a transmitter is filing based on cost of service or the Revenue Cap index, if benchmarking evidence is not currently available, the transmitter must file in its application a strategy to acquire such evidence for its subsequent application.~~

Transmitters are to provide rationale to support the choice made and explain why the IR option chosen is appropriate, given its utility structure and asset base. The OEB will consider the IR option selected in the context of the primary goals and principles set out in the RRF. The RRF focuses on providing incentives to increase effectiveness and

continuously improve performance in meeting customer needs, cost control, system reliability and quality objectives.

~~The amount and quality of the evidence filed to support an application should be sufficient to demonstrate to the OEB that the revenue requirement(s) sought are reasonable and provide value for customers. A transmitter seeking approval of revenue~~

~~requirements under Custom IR or Revenue Cap will be expected to demonstrate that its planning has been sufficiently robust that the utility will be able to manage within the revenue set, given that actual costs and revenues will vary from forecast.~~

~~In recognition of the forecasting uncertainty involved in longer terms, the OEB has included in section 2.8.12 a provision for a “Z-factor” claim, similar to that for electricity distributors operating under multi-year rate plans.~~

~~In addition, the OEB will consider requests for a mechanism to fund significant incremental capital during the rate term from applicants proposing a Revenue Cap index. This will enable review during the cost of service application of the need and prudence of any significant, discrete projects coming into service over the plan term that are part of a transmitter's Transmission System Plan and which transmitters cannot manage through the revenue established through the index. Applicants must propose all criteria and parameters for approval of any capital module.~~

The OEB will require from transmitters applying for approval of revenue requirements under a Custom IR or Revenue Cap application a proposal to mitigate the potential for any significant earning by the transmitter above the regulatory net income supported by the approved return on equity, (ROE), such as a capital variance account or an earnings sharing mechanism, (ESM).

To assist applicants in applying using Revenue Cap or Custom IR proposals, the following chart outlines the basic components of the revenue requirement-setting options:

<u>Category</u>	<u>Revenue Cap IR</u>	<u>Custom IR</u>
<u>Going-in rates</u>	<u>The single forward test-year in a cost of service application</u>	<u>Based on applicant's proposal</u>
<u>Form of rate adjustment</u>	<u>Revenue Cap Index</u>	<u>Custom Index</u>
<u>Annual adjustment – inflation</u>	<u>OEB provides annual inputs; any deviation from OEB inputs to be justified</u>	<u>Transmitter-specific revenue requirement trend for the plan term informed by: (1) the transmitter's forecasts (revenue and costs, inflation, productivity) and (2) the OEB's inflation analysis</u>
<u>Annual adjustment – productivity</u>	<u>Applicant proposes productivity and stretch factors</u>	
<u>Rate term</u>	<u>5 years (single test year plus 4 additional years)</u>	<u>A minimum of 5 years</u>

<u>Capital factor</u>	<u>Capital module available</u>	<u>Option for capital factor proposals</u>
<u>Unforeseen events</u>	<u>Z-factor available</u>	<u>Z-factor available</u>
<u>Deferral and Variance Accounts</u>	<u>Status quo</u>	<u>Status quo + case-by-case</u>
<u>Performance Reporting and Monitoring</u>	<u>Draft scorecard, RRR filings & case- by-case</u>	<u>Draft scorecard, RRR filings & case-by-case</u>

~~The use of the phrase “OEB-approved” in these filing requirements typically refers to the set of data used by the OEB as the basis for approving the most recent revenue requirements. It does not mean that the OEB, in fact, “approved” any of the data, but only that the final approved revenue requirement and~~

2.0.3 Custom IR Guidance for Transmitters with Declining Rate Base

Since the OEB released the Handbook in 2016, Ontario has seen significant growth in the number of transmitters. Many of these new transmitters do not incur material capital expenditures in the near to intermediate term after their transmission system is placed in service, and therefore experience a declining rate base. These transmitters were referred to as “single-asset transmitters” in the past, given that they usually operate one single transmission line.

Concerns have been raised in past proceedings about the appropriateness of a Revenue Cap IR for transmitters with a declining rate base. Specifically, the Revenue Cap IR inflates the entire revenue requirement annually, even if the capital components, namely, return on capital and capital depreciation, may not require an inflationary increase.

To address this gap, the OEB issued *Custom IR Guidance for Transmitters with a Declining Rate Base* in 2025 introducing a Custom IR option for transmitters with a declining rate base. This additional option is designed to offer greater clarity and reduce regulatory burden by offering a more appropriate framework for revenue requirement-setting in these circumstances.

While the guidance is optional, transmitters in this category are encouraged to file applications aligned with the Custom IR method, in accordance with the OEB’s Custom IR related requirements outlined in the OEB’s Rates Handbook and these updated Filing Requirements.

As outlined in the guidance, whether or not transmitters select the new option, the OEB expects transmitters with a declining rate base to proactively address return on capital, depreciation and related concerns within their selected revenue requirement framework to

assist the OEB in determining a just and reasonable revenue requirement. Applications must include a clear and well-supported rationale for the proposed revenue requirement structure, rate term and ESM.

General Requirements~~uniform transmission rates were based on those data.~~

2.1 General Requirements

2.1.1 Application Filing Schedule

The OEB approves the revenue requirement for each transmitter that is in turn used to set Uniform Transmission Rates (UTRs) that apply throughout the province.

The following filing schedule should be followed by transmitters when filing a revenue requirement application with the OEB:

- For a rebasing/cost of service application of an existing transmitter, the OEB asks that the application be filed by the last business day of April, for implementation on January 1 of the following year.
- For an annual update application of an existing transmitter, the OEB asks that the application to be filed by the last business day of June, for implementation on January 1 of the following year.

Depending on the complexity, some cases may require an application to be filed in advance of the timelines noted above.

2.1.2 Late Filing of Application

The OEB establishes deadlines for the filing of rebasing/cost of service applications each year. Transmitters who file applications by the required date set out by the OEB can generally expect to receive the requested effective date, unless delays occur due to the actions of the transmitter. The effective date of revenue requirements approved for proceedings in which the transmitter caused delays, or for applications filed after the required date, may be later than the effective date proposed.

Late applications filed after the commencement of the revenue requirement year for which the application is intended will not be accepted by the OEB. As an example, for an application to set revenue requirements on a rebasing/cost of service basis commencing January 1, 2027, an application filed after December 31, 2026 (the last business day before the commencement of the revenue requirement year) should be converted to a 2028 rate

application. This means that the 2027 test year would become the bridge year and the transmitter should provide a 2028 budget to underpin the updated test year. In this instance, the OEB expects that a transmitter would not seek any further revenue requirement adjustment for the 2027 revenue requirement year but would remain with the revenue requirements set for 2026.

2.1.3 Rebasing/Cost of Service Application in Advance of Scheduled Application

A transmitter planning to file a rebasing/cost of service application earlier than scheduled must justify, in its application, why an early rebasing is required. Transmitters are also advised that the OEB may disallow some or all of the regulatory costs associated with the preparation and hearing of that application if it determines that the early rebasing is not justified. This includes the OEB's and intervenor costs. In other words, the OEB may order that some or all of those costs be borne by the shareholder(s).

2.1.4 Structure of Application, Appendices, and Models

The basic format of an a rebasing/cost of service application for a revenue requirement must include the following exhibits:

- Exhibit 1 Application Overview and Administrative Documents
- Exhibit 2 Transmission System Plan
- Exhibit 3 Rate Base
- Exhibit 4 Service Quality and Reliability Performance and Reporting
- Exhibit 5 Operating Revenue
- Exhibit 6 Operating Costs
- Exhibit 7 Cost of Capital and Capital Structure
- Exhibit 8 Deferral and Variance Accounts
- Exhibit 9 Cost Allocation to Uniform Transmission Rate Pools: Charge Determinants
- Exhibit 10 Rate Design for Uniform Transmission Rates

Other

Additional exhibits may also be included in an application in support of, or to document, other proposals for which the applicant is seeking OEB review and approval.

Appendices have not been provided as part of the filing requirements contained in this chapter. The OEB has provided numerous appendices (~~Excel-based data spreadsheets~~) and models for electricity distributors, as part of the ~~Filing Requirements for Electricity Distributors.~~ Filing Requirements for Electricity Distribution Rate Applications. These appendices and models allow a consistent review of application information from the various distributors. ~~Appendices have not been provided as part of these filing requirements.~~

However, transmitters Transmitters may wish to review the appendices to Chapter 2 of the ~~Filing Requirements for Electricity Distributors~~ and models to further support their evidence by providing appendices and models that are applicable to their transmission applications.

The items outlined below are general requirements that are applicable throughout the application:

- Written direct evidence is to be included before data schedules.
- Average of the opening and closing fiscal year balances must be used for items in rate base, unless an alternative method is documented and justified.
- Total capitalization (debt and equity) must equate to total rate base.
- Data for the following years, at a minimum, must be provided, unless explicitly stated otherwise:
 - Test year = prospective year (year during which new rate year term commences).
 - Bridge year = current year (or the year immediately preceding the test year).
 - Four most recent historical years (or number of years necessary to provide actuals back to and including the most recent OEB-approved test year, but not less than four years).
 - Most recent OEB-approved test year.
- Custom IR applicants must include in their evidence forecasts for revenue, costs and inflation for each year of the proposed rate term, and benchmarking evidence supporting the cost forecasts.
- Documents ~~are to~~ must include page numbers and be provided in bookmarked and text-searchable Adobe PDF format.
- Tables must also be provided in working Microsoft Excel spreadsheet format where available and practical.

If a transmitter updates its evidence throughout the course of the proceeding, the transmitter must adhere to Rule 11 of the Rules of Practice and Procedure, and the transmitter must ensure that any appendices and models submitted in the original application are updated appropriately.

The use of the phrase “OEB-approved” in these filing requirements typically refers to the set of data used by the OEB as the basis for approving the most recent revenue requirements. It does not mean that the OEB, in fact, “approved” any of the data, but only that the final approved revenue requirement and UTRs were based on those data.
~~To assist applicants in applying using Revenue Cap or Custom IR proposals, the following chart outlines the basic components of the new revenue requirement setting options:~~

Category	Revenue Cap index	Custom IR
Going-in rates	Determined in single forward test-year cost of service review	Determined in multi-year application review
Form	Index: Revenue Cap option	Custom Index
Coverage	Comprehensive	Comprehensive
Annual adjustment – inflation	To be proposed; any deviation from OEB inputs to be justified	Transmitter-specific revenue requirement trend for the plan term to be determined by the OEB, informed by: (1) the transmitter's forecasts (revenue and costs, inflation, productivity); (2) the OEB's inflation analysis; and (3) internal and external benchmarking to assess the reasonableness of the transmitter's forecasts
Annual adjustment – productivity	Productivity and stretch factor expected	
Benchmarking	Both internal (against own cost performance over time to demonstrate continuous improvement) and external (against other transmitters), including rationale for selected comparators	
Sharing of benefits	Stretch and/or productivity factor to be proposed	Case-by-case
Term	5 years (rebased plus 4 years)	Minimum term of 5 years
Capital module	Option for capital factor proposals	N/A
Unforeseen events	Z-factor available	Z-factor available
Deferral and Variance Accounts	Status quo	Status quo + case-by-case
Performance Reporting and Monitoring	Draft scorecard, RRR filings & case-by-case	Draft scorecard, RRR filings & case-by-case

As indicated in the introduction, transmitters have the option, for their first application after these filing requirements are issued, to apply to have revenue requirement set for one or two years through a cost of service application.

2.0.2.1.5 Materiality Thresholds

The applicant must provide justification for changes from year to year to material amounts and material annual variances described in its rate base, capital expenditures, operations, maintenance and administration costs and other items above a materiality threshold application. The materiality thresholds differ for each applicant, depending on the magnitude of the a transmitter's revenue requirement.

Unless a different threshold applies to a The transmitter-specific section of these filing requirements, the default materiality thresholds are as follows:

- \$5065,000 for a transmitter with a transmission revenue requirement less than or equal to \$10 million
- 0.565% of transmission revenue requirement for a transmitter with a transmission revenue requirement greater than \$10 million and less than or equal to \$200 million
- \$34 million for a transmitter with a transmission revenue requirement of more than \$200 million

An explanation and/or supporting evidence (e.g., calculations, supporting rationale, etc.) is required for amounts exceeding the materiality threshold, and the threshold should be applied in the following ways:

<u>Cost of Service</u>	<u>Materiality Applied Against</u>
<u>Capital Expenditures</u>	<u>Capital expenditure and/or in-service addition amounts</u>
<u>Capital Variances</u>	<u>Change in rate base amounts</u>
<u>OM&A</u>	<u>OM&A amounts and/or change in OM&A amounts</u>
<u>Deferral and Variance Accounts (DVAs)</u>	<u>The account balance, unless there is other specific guidance</u>

An applicant may provide additional details of items below the threshold if it determines that this would assist the OEB with its review of the application. Applicants are reminded that the onus is on the applicant to make its case and ensure that the OEB has the information it needs to properly assess and deliberate on the application. may be helpful to the OEB.

2.1.2.2 Accounting Standards

This section provides information on the following accounting standards relevant to the filing of revenue requirement applications. The Canadian Accounting Standards Board has established a mandatory mandated the transition to International Financial Reporting Standards by January 1, 2015: unless the entity reports under United States Generally Accepted Accounting Principles (USGAAP) or Accounting Standards for Private Enterprises (ASPE). On this basis, the following accounting standards may be applicable to transmitters for 2015 and beyond:

- International Financial Reporting Standards (IFRS)
- United States Generally Accepted Accounting Principles (USGAAP)
- Accounting Standards for Not-for-Profit Organizations
- Accounting Standards for Private Enterprise (ASPE)

The accounting standard that is used as the basis of the application must be clearly stated. Regardless of the accounting standard used in the application, the applicant must provide a summary of changes to its accounting policies made since the applicant's last revenue requirement application (e.g. capitalization of overhead, capitalization of interest, depreciation, etc.). Revenue requirement impacts of any changes in accounting policies must be separately quantified.

Transmitters are responsible for staying informed about updates to accounting standards and OEB guidelines. Regular reviews of both international accounting standards and OEB-specific accounting guidance and procedures are required to ensure compliance with the most up-to-date standards.

2.1.12.0.1 Modified IFRS Application

~~Transmitters should refer to the following documents for guidance relating to the use of IFRS in application filings:~~

- ~~• Report of the Board: Transition to IFRS; dated July 28, 2009;~~
- ~~• Addendum to Report of the Board: Implementing IFRS in an Incentive Rate Mechanism Environment, dated June 13, 2011; and~~
- ~~• Asset Depreciation Study for the Ontario Energy Board, Kinectrics Inc. for distributors sponsored by the Board dated July 8, 2010.~~

~~For those applicants that have adopted IFRS for financial reporting purposes or will adopt IFRS for financial reporting purposes effective January 1, 2015 or earlier, revenue requirement applications must be filed on the basis of modified IFRS ("MIFRS").~~

~~2.1.22.0.1~~ **Application under Accounting Standards for Not-for-Profit Organizations**

~~For those transmitters that adopted Accounting Standards for Not-for-Profit Organizations for purposes of financial reporting, revenue requirement applications must be filed on the basis of this accounting standard.~~

~~2.1.3~~ **2.2.1 USGAAP or ASPE Application**

The OEB requires a utility that adopts USGAAP or ASPE, in its first revenue requirement application following the adoption of the new accounting standard, to provide the following:

- Evidence of the eligibility of the utility under the governing securities legislation to report financial information using that standard (if applicable)
- A copy of the authorization to use the standard from the corresponding Canadian securities regulator (if applicable)
- Evidence demonstrating the benefits and potential disadvantages to the utility and its ratepayers of using the alternate accounting standard for rate regulation

2.2.2 Modified IFRS Application

For those applicants that have adopted IFRS for financial reporting purposes, revenue requirement applications must be filed on the basis of modified IFRS (MIFRS). These transmitters are expected to comply with the most updated IFRS and identify in the rate applications the updates adopted by the transmitter and the associated rate impacts.

2.2.3 Application under Accounting Standards for Not-for-Profit Organizations

For those transmitters that adopted Accounting Standards for Not-for-Profit Organizations for purposes of financial reporting, revenue requirement applications must be filed on the basis of this accounting standard.

2.2.3 Exhibit 1 – Application Overview and Administrative Documents

The items identified in this Exhibit~~Exhibit~~ provide the background and summary to the application as filed and are grouped into ~~four~~six sections:

- 1) ~~Executive~~Application Summary and Business Plan
- 2) Transmission System Overview
- 3) Customer Engagement
- 4) Financial Information
- 5) Performance Measurement and Reporting
- 6) Administration

2.2.1 2.3.1 ~~Executive~~Application Summary and Business Plan

This section ~~is~~provides the opportunity for the applicant to provide an overview of key elements of its application and its overall business strategy. A transmitter should provide the OEB with a broad overview of the utility, past and expected performance, and its plans for the future. The overview should include information about the transmitter's objectives and business plan, how these relate to what is being sought in the application and, where applicable, how they align with the objectives of the ~~RRFE~~RRF. The application should also describe whether and how the transmitter's objectives reflect customer feedback.

The ~~Executive~~Application Summary must contain a brief summary of the following items in the application. Applicants must separately identify all proposed changes to revenue requirement that will have a material impact on customers, including any changes that may affect particular customer groups.

A. Revenue Requirement

- Revenue requirement requested for the test year(s)
- Increase/decrease (\$ and %) from ~~previously~~the most recent approved revenue requirement
- Schedule of main drivers of revenue requirement changes from the last OEB-approved year

B. ~~Budgeting~~Budget Assumptions

- Economic overview(such as growth and inflation)

C. Load Forecast Summary

- Load growth (~~percentage~~(% change from last OEB-approved application)
- Brief description of forecasting method(s) ~~used~~use

A. ~~Transmission System Plan~~

- ~~• Summary of the major drivers and elements of the transmitter's capital plan~~
- ~~• Details of the investment planning process, including asset condition assessment, identification and prioritization of capital investments, trade-offs with the operations, maintenance and administration expenditures~~
- ~~• Capital expenditures requested for the test year(s)~~

~~Change in capital expenditures from last OEB approved (\$ and %)~~

D. Rate Base and Capital Plan

- Summary of the main drivers of the capital plan and cost trends
- Rate base requested for the test year(s)
- Change in rate base from last OEB-approved (\$ and %)
- **Operations, Maintenance** Capital expenditures requested for the test year
- Change in capital expenditures from last OEB-approved (\$ and **Administration** (%))

~~Performance and Reporting~~

- ~~• A proposed scorecard that could be used to measure and monitor the transmitter's performance including measures for all of the key RRFE objectives of public policy responsiveness, financial performance, operational effectiveness and customer focus.~~
- ~~• Demonstration of how the applicant has addressed the performance standards for transmitters as set out in Chapter 4 of the Transmission System Code.~~
- ~~• Discussion of any outstanding areas of non-compliance and the effect they have had on the application, including any relief sought.~~

E. OM&A)Expense

- OM&A for the test year(s) and the change from last OEB-approved (\$ and %)
- Summary of overall drivers and cost trends
 - ~~• Inflation rates used for OM&A forecasts~~
- Total compensation for the test year(s) and the change from last OEB approved (\$ and %)
- Service Level Agreement (SLA) fee allocation structure and summary

F. Cost of Capital

- On March 27, 2025, the OEB issued its decision and order for its generic proceeding of the cost of capital and other matters (Cost of Capital Decision).¹ The Cost of Capital Decision determined the 2025 cost of capital parameters and

¹ EB-2024-0063

updated the methodology for future mechanistic updates.

- A summary table showing the proposed capital structure and cost of capital parameters resulting in the Weighted Average Cost of Capital (WACC)
- A statement as to whether or not the applicant is using the OEB's cost of capital parameters
- Summary and rationale of any deviations from the OEB's cost of capital methodology

G. Cost Allocation and Rate Design

- Summary of how costs are allocated to each of the three transmission rate pools

B. ~~Deferral and Variance Accounts~~**H. DVAs**

- Accounts requested for disposition
- Total disposition (\$) and disposition period(s)
 - ~~New deferral and variance accounts requested~~
- Any new DVAs requested and any requested discontinuation of existing DVAs

H.I. Bill Impacts

- Summary of total bill impacts (\$ and %) at the wholesale level (ie, i.e., change in the three uniform transmission rates, including an illustration of the impact on a typical customer connected directly to the transmission system that is not a distributor) and for typical retail customers (Residential at 800 750 kWh per month and General Service <50 kWh at 2000 kWh per month)

2.3.2 Transmission System Overview

The following information must be filed:

- Description of transmitter's service area, including a general description and map(s) showing where the transmitter operates within the province and the communities (if any) serviced by the transmitter
- Details of the investment planning process, including asset condition assessment, identification and prioritization of capital investments, trade-offs with the operations, maintenance and administration expenditures
- Transmission System Plan and relevant policy context and changes, including current issues identified through Ontario's Regional Planning exercise
- Summary of the major drivers and elements of the transmitter's capital plan
- Capital expenditures requested for the test year(s)
- Change in capital expenditures from last OEB-approved (\$ and %)

2.2.2.3.3 Customer Engagement

The RRFE ~~contemplates an active role by distributors in~~ purpose of customer engagement. The OEB ~~expects that transmitters will initiate or continue~~ evidence is to explain how customer engagement activities and ~~provide a summary of those activities~~ feedback has been used by the transmitter as part of an input to the application planning process.

~~The Transmission System Code~~ The Transmission System Code (TSC) defines customer as a generator, consumer, distributor or unlicensed transmitter whose facilities are connected to or are intended to be connected to the transmission system. If a transmitter does not serve any customers, the customer engagement requirements below are not applicable.

The TSC requires some communications and discussions with customers related to matters such as regional planning, connection procedures, testing and inspections, system performance, and outages.

~~The applicant's report~~ Transmitters should describe these and any other activities designed to engage all customers connected to the transmission system, including discussions related to investment planning and transmission rates and charges.

Transmitters should ~~specifically~~ also discuss how their customers were engaged in order to determine their needs, what their needs are, and how the application has responded to any identified needs. Applicants must ~~separately~~ report on the needs of end-use load customers (as distinct from regulated distributors) served directly from the transmission system, and explain how the transmitter's application responds to the needs of these customers. Similarly, any discussion of the needs of generator customers should be presented ~~separately~~.

A report of customer ~~satisfaction surveys~~ engagement activities undertaken and ~~results of these surveys~~ should be provided. Information on planned future customer engagement activities should also be detailed in this section. ~~Transmitters may find Appendix 2AC in the Distribution Filing Requirements helpful in structuring this evidence~~ Transmitters may use Appendix 2-AC – Customer Engagement Worksheet in the Filing Requirements for Electricity Distribution Rate Applications to assist in listing its customer engagement activities.

Transmitters

Finally, transmitters are expected to file with the OEB their response to the matters raised in any letters of comment sent to the OEB related to the transmitter's application.

~~2.2.3~~ **2.3.4 Financial Information**

This section must include the following:

- Non-consolidated audited financial statements of the utility (excluding operations of affiliated companies that are not rate-regulated) for which the application has been made, for the most recent three historical years (i.e. two years' statements must be filed).
 - Where the regulated entity conducts more than one activity regulated by the OEB, the transmitter shall disclose information separately about each of its operating segments in accordance with the Segment Disclosure provisions which corporate entities are encouraged to adopt by the ~~Canadian Institute of Chartered Accountants~~ CPA Canada Handbook.
 - If the most recent final audited financial statements are not available at the time of filing the application, the draft financial statements must be filed and the final audited financial statements together with a summary of the main changes from the draft statements (if there are any) must be provided as soon as they are available. Alternatively, if the transmitter publishes its financial statements publicly, a link to the website may be provided.
- Detailed A detailed reconciliation of the financial results shown in the ~~Annual Reports/Audited Financial Statements~~ audited financial statements with the regulatory financial results filed in the application. The reconciliation must include:
 - The separation of non-utility businesses, for example the fixed assets.
 - The identification of any deviations that are being proposed between the ~~Annual Reports/Audited Financial Statements~~ audited financial statements and the regulatory financial statements including the identification of any prior OEB approvals for such deviations ~~that may exist.~~
- Annual Report and ~~management's discussion and analysis~~ Management's Discussion and Analysis for the most recent year of the parent company, if as available and applicable. If a transmitter also files an Annual Information Form publicly, a link to this Form should be provided.
- Rating agency report(s), if available.

- Prospectuses, information circulars, etc. for recent and planned public debt and/or equity offerings.
- Any change in tax status (e.g., from a corporation to a limited partnership).
- A description of existing accounting orders and list of any departures from these orders.
- Any departures from the Uniform System of Accounts (USoA).
- The accounting standards used for general purpose financial statements and when those standards were adopted.

2.3.5 Performance Measurement and Reporting

The following information must be filed:

- A proposed scorecard that could be used to measure and monitor the transmitter's performance including measures for all of the key **RRF objectives of public policy responsiveness, financial performance, operational effectiveness and customer focus.**
- Demonstration of how the proposed scorecard meets the requirements for performance standards set out in section 4.5.1 of the TSC.
- Discussion of any outstanding areas of non-compliance and the effect they have had on the application, including any relief sought.

2.2.42.3.6 Administration

This section must include the following:

- Table of Contents.
- Statement as to who will be affected by the application, including identification of any specific customer or customer groups that may be significantly affected by a particular request or proposal.
- Confirmation of the applicant's internet address for purposes of viewing the application and related documents, and any social media accounts (with addresses) used by the applicant to communicate with its customers.
- Contact information. The primary contact for the application may be a person within the applicant's organization other than the primary licence contact ~~(the~~ The primary contact's name, address, phone number, ~~fax~~ and email address must all be provided). ~~The OEB will communicate with this person during the course of the application. After completion of the application, the OEB will revert to communication with the primary licence contact.~~
- Identification of any legal or other representation for the application.
- The requested effective date(s).

- A statement of where the notice of hearing should be published and the rationale for why the stated publication(s) is/are appropriate. The OEB has implemented a publication process that no longer requires that the applicant publish the notice of hearing. However, the OEB still requires the applicant's recommendation(s) regarding publication media.
- Bill impacts for each year of the term for a typical Ontario residential customer using ~~800~~750 kWh per month and for an Ontario General Service <50kW customer using 2000 kWh per month, or as applicable.
- Statement as to the form of hearing requested (i.e. written or oral) and an explanation ~~as to the reasons for~~ the applicant's preference.
- ~~List~~A list of specific approvals requested and relevant section(s) of ~~the~~ legislation. All approvals, including accounting orders (deferral ~~or~~and variance accounts) which the applicant is seeking, must be separately identified in this exhibit and clearly documented in the appropriate section of the application.
- A statement of the proposed length of the term, and brief description of the proposed method for establishing revenue requirement for each year of the term.
- ~~Changes in tax status (e.g. a change from a corporation to a limited partnership) must be disclosed~~
- ~~Existing Accounting Orders~~
- A map of the applicant's assets and operations, showing where the utility operates within the province, and the communities serviced by the utility. A utility may provide more detailed geographic and/or engineering maps where these may be useful to understand parts of the application, such as a capital expansion or replacement program.
- Corporate and utility organizational structure, showing the main units and executive and senior management positions within the utility. Include any planned changes in corporate or operational structure (including any changes in legal organization and control) and rationale for organizational change and the estimated cost impact, including the following:
 - Corporate entities relationship chart, showing the extent to which the parent company is represented on the utility company board
 - The reporting relationships between utility management and parent company officials

- ~~• The Accounting Standard used and when it was adopted~~
- A statement identifying all deviations from the filing requirements, if any.
- A statement identifying and describing any changes to the methodologies as used in previous applications ~~and a description and rationale for the changes.~~
- If an applicant is conducting non-utility businesses, it must confirm that the accounting treatment it has used has segregated all of these activities from its rate-regulated activities.
- A clear indication Identification of the way the applicant has satisfied OEB directions from any prior previous OEB Decisions and/or Orders ~~and the impact on~~, this includes any commitments made as part of an approved settlement. The applicant must clearly indicate how these are being addressed in the current application ~~(e.g. filing of a study as directed in a previous decision).~~
- All responses to matters raised in letters of comment filed with the OEB during the course of the proceeding.

~~2.3~~ **2.4 Exhibit 2 - Transmission System Plan (TSP)**

Exhibit 2 consists of a consolidated transmission system plan TSP, including an asset management plan ~~and regional planning considerations.~~

- 1) Asset Management Plan
- 2) Regional Planning Considerations
- 3) Capital Expenditures

Transmitters may wish to refer to Chapter 5 of the ~~(Distribution Filing Requirements~~ System Plan) of the Filing Requirements for Electricity Distribution Rate Applications for further guidance on the content and structure of a Transmission System Plan TSP.

2.4.1 TSP Overview

The ~~Transmission System Plan~~ TSP Overview must include a high-level summary of the investment planning process which includes:

- The strategic plan for the utility
- The overall strategy for investments
- The longer term economic and planning assumptions
- The asset management plan
- A description of how investments are prioritized and selected
- A discussion of transmission investments identified in a regional planning process
- Highlights of recent and proposed investments and their fit with the strategic plan

- A description of how the needs of customers and overall system planning policy objectives are being reflected, including any commitments stemming from ~~the Long-Term Energy Plan or the Conservation First policy~~, and consideration for the OEB's statutory objectives, including facilitating a smart grid and the connection of renewables
- The linkages and trade-offs between certain capital projects and ongoing OM&A spending

spending

A transmitter's investment projects and programs must be grouped for filing purposes into one of the four investment categories listed below:

- **System access** investments are modifications (including asset relocation) to a transmission system that a transmitter is obligated to perform to provide a customer (including a generator customer) or group of customers with access to electricity services via the transmission system.
- **System renewal** investments involve replacing and/or refurbishing system assets to extend the original service life of the assets and thereby maintain the ability of the transmitter's system to provide customers with electricity services.
- **System service** investments encompass modifications to ensure that a transmitter's system continues to meet operational objectives while addressing anticipated future customer electricity service requirements.
- **General plant** investments encompass modifications, replacements or additions to a transmitter's assets that are not part of its transmission system including land and buildings, tools and equipment, rolling stock and electronic devices and software used to support day to day business and operations activities.

A project or program involving two or more drivers associated with different categories should be placed in the category corresponding to the trigger driver. For example, a project triggered by the need to replace end of service life components in a transmission station should be considered a system renewal investment, even if in anticipation of future system requirements (a system service driver) the project includes assets rated for a higher voltage.

2.3.12.4.2 Asset Management Plan

The transmitter must file a detailed asset management plan for its transmission assets. The plan should include the utility's asset management policy, strategy and objectives; an inventory and assessment of the condition of all capital assets whose net book value is material to the transmitter; and how this inventory informs the transmitter's plan for capital expenditures and plan for maintenance expenditures.

2.4.2.1 Planning Process

A transmitter should provide the processes used to identify, select, prioritize (including

reprioritizing investments over the five-year term), optimize and pace the execution of investments over the term of the TSP. A transmitter should also demonstrate that it has considered the potential risks of proceeding/not proceeding with individual capital expenditures. Transmitters that have connected customers should be able to demonstrate that they have considered the correlation between their capital plan and customer feedback and needs.

A transmitter should demonstrate how it undertakes system optimization using an approach that considers the transmitter's whole system. This should include, where applicable, assessing the use of non-wires solutions, cost-effective implementation of transmission improvements, and other innovative technologies.

A transmitter must also demonstrate that it has a planning process for future capacity needs of its system. Transmitters should consider the guidance provided in the OEB's publication "Load Forecast Guideline for Ontario"² provided by the Regional Planning Process Advisory Group (RPPAG).

Alternatively, single-asset transmitters may utilize another transmitter's asset management process, rather than develop their own. In these cases, the applicant should explain how it is ensuring that the other transmitter's asset management process is cost-effective, and provide a summary of how the applicant's assets were considered in the other transmitter's most recent investment planning activities.

A transmitter should identify, describe, and summarize the data used in the processes above.

2.4.2.2 Overview of Assets Managed

A transmitter should provide an overview of its service area (e.g., system configuration; urban/rural; temperate/extreme weather; pertinent for supporting its capital expenditures over the forecast period. A transmitter should provide asset information (e.g., asset capacity and utilization; asset condition; asset failures/performance; asset risks; and asset demographics), by major asset type, that may help explain the specific need for the capital expenditures and demonstrate that a transmitter has considered all economic alternatives.

The inventory should also identify in which pool each class of asset belongs, and identify which of these are part of the bulk electricity system as defined by applicable

² The objective of the Load Forecast Guideline for Ontario is to provide guidance to the IESO, transmitters and electricity LDCs in the development of the demand forecasts used in the various phases of the regional planning process with a focus on the Needs Assessment and the Integrated Regional Resource Plan.

North American Electric Reliability Corporation (NERC) standards. The transmitter shall identify any exemptions received from NERC, including any such requests that are planned or in progress, and a discussion of any associated costs in the event that the exemption is denied.

2.4.2.3 Asset Lifecycle Optimization Policies and Practices

~~The asset management plan should demonstrate how these elements produce an integrated capital investment, asset maintenance and asset retirement plan that will drive the development of investment and maintenance for the test year(s) and beyond.~~

An understanding of a transmitter's asset lifecycle optimization policies and practices will support the regulatory assessment of system renewal investments and decisions to refurbish rather than replace system assets. The information provided should be sufficient to show the trade-off between spending on new capital (i.e. replacement) and life-extending refurbishment. A transmitter should also be able to demonstrate that it has carried out cost-effective system operations and maintenance (O&M) activities to sustain an asset to the end of its service life (and can include references to the TSC).

A transmitter should explain the processes and tools it uses to forecast, prioritize, and optimize system renewal spending and how it intends to operate within budget envelopes. For prioritizing capital expenditures, a transmitter should help the audience understand the approaches it uses to balance a customer's need for reliability and capital expenditure costs.

A transmitter should also be able to demonstrate that in planning the lifecycle of an asset, it has considered the future capacity requirements of the asset such that it does not need to be replaced prematurely due to capacity constraints.

A transmitter should provide a summary of any important changes to its asset life optimization policies, processes, and tools since the last TSP filing.

~~2.3.~~2.4.3 **Regional Planning Considerations**

Planning transmission infrastructure in a regional context helps promote the cost-effective development of electricity infrastructure in Ontario. Accordingly, these filing requirements provide that, where applicable, a transmitter shall file information on the regional planning process(es) in which it is a participant and information demonstrating that regional considerations have been appropriately considered and addressed in the

development of the transmitter's plans.

For all applicable regions, the applicant shall therefore submit lead transmitter documentation in support of the application as contemplated in the TSC and the Distribution System Code.

- 1) Where a regional infrastructure planning process has been completed, the applicant shall submit a copy of the final Regional Infrastructure Plan that describes the investments in transmission and/or distribution facilities set out in the Plan. The applicant shall specifically identify any such investment(s), for which the applicant will be seeking approval. The applicant shall also provide a copy of the final Integrated Regional Resource Plan, where applicable.
- 2) Where regional planning is underway, but a Regional Infrastructure Plan has not yet been completed for the applicable region, the applicant shall submit a letter from the Independent Electricity System Operator (IESO), identifying the status of the regional planning process, and the potential impacts on the applicant's investment plans.
- 3) Where the applicant's participation in a regional planning process is not required at this time, the applicant shall submit its needs assessment report documenting that regional planning is not required.

A transmitter may have infrastructure investments that span more than one region. The applicant should identify in the application where that occurs and the relationship between the applicable regional planning processes (including where the investment involves another lead transmitter).

~~2.3.2.1~~ 2.4.3.1 ~~2.4.2.1~~ Coordinated planning Planning with third parties Third Parties

For each region, to demonstrate that a transmitter has met the OEB's expectations in relation to coordinating infrastructure planning with customers, the lead transmitter, other transmitters or distributors, and the IESO (or other third parties where appropriate), a transmitter must provide a description of the consultation(s), including:

- The purpose of the consultation (e.g. regional planning process)
- Whether the transmitter initiated the consultation or was invited to participate in it
- The other participants in the consultation process (e.g. customers; distributors; other transmitters; IESO; municipalities)
- The nature and prospective timing of the final deliverables (if any) that are expected

to result from or otherwise be informed by the consultation(s) (e.g. Regional Infrastructure Plan; Integrated Regional Resource Plan)

- An indication of whether and how the consultation(s) have or are expected to affect the transmitter's plans as filed

Where a final deliverable of the regional planning process is expected but not available at the time of filing, the transmitter must provide information indicating:

- The role of the transmitter in the consultation
- The status of the consultation process
- Where applicable, the expected date(s) on which final deliverables are expected to be issued

~~2.3.3~~ **2.4.4 Capital Expenditures**

The capital expenditure plan should set out and comprehensively justify a transmitter's proposed capital expenditures over a five-year planning period, including investment and asset-related O&M expenditures.

A transmitter's TSP details the system investment decisions developed on the basis of information derived from its planning process. It is critical that investments be justified in whole or in part by reference to specific aspects of that process.

2.4.4.1 Capital Expenditure Summary

The transmission applicant must provide ~~an overall summary:~~

-
- An analysis of capital expenditures ~~expenditure performance~~ over the past five ~~four~~ historical years, which would include ~~plus~~ the bridge year, and. The analysis should include an explanation of variances between actual and OEB-approved/planned costs and volume of work for each material investment.
- An analysis of capital expenditures for the five future years if electing a five-year term, including the test year(s), ~~showing~~. The analysis should show capital expenditures, treatment of contributed capital and additions and deductions from Construction Work in Progress ("CWIP").
- A comparison of capital expenditures in the five future years versus the five historical years.
- A summary of any important modifications to typical capital programs since the last TSP (e.g., changes to individual asset strategies).
- The proposed accounting treatment, including the treatment of the cost of funds, for investments spanning more than one year.
- A description of the impacts of capital expenditures on O&M for each year, or a statement that the capital plans did not impact O&M costs.

2.4.4.2 Justifying Capital Expenditures

Filings must enable the OEB to assess whether and how a transmitter's TSP delivers value to customers, including by controlling costs in relation to its proposed investments through appropriate identification, optimization, prioritization, pacing of capital-related expenditures,

and how it developed its overall capital budget envelope. Transmitters should also discuss how their application keeps pace with technological changes and integrates cost-effective innovative investments and traditional planning needs such as load growth, asset condition and reliability.

A transmitter must provide information to justify each material investment and the total amount of its proposed capital expenditures, and provide context on how its overall capital expenditures, over the next five years, will achieve its objectives. Transmitters should comment on lumpy investment years and rate impacts of capital investments in the long-term.

The applicant must provide

The ~~the~~ following capital expenditure information should be provided by the applicant on a project specific basis, grouped appropriately. Where a program or initiative includes numerous-similar projects across a portfolio of similar assets, the evidence can be presented on a program or portfolio basis.

- Drivers of capital expenditure increases for the test year(s)
- The basis for the estimated budget for the project or program (e.g. historical cost, preliminary engineering estimates, request for proposals)
- Identification of any project that has been undertaken in compliance with a condition included in the transmitter's licence as a result of a directive issued by the Minister of Energy to the OEB or has been declared a priority project by the Lieutenant Governor in Council
- For projects or programs with a value greater than the materiality threshold and not subject to a leave to construct application:
- ~~For projects or programs with a value greater than the materiality threshold and not subject to a leave to construct application:~~
 - Need, scope, and purpose of project or program, related customer attachments, load and capital costs, ~~as well as~~ and any applicable cost-benefit analysis
 - A discussion of other capital and non-capital alternatives which were considered and rejected in favour of the proposed project or program
 - Detailed information on the priority of the project or program relative to other investments and risks of not proceeding with the project or program
 - For any sustainment or renewal investment, details on the condition or life expectancy of the asset(s) being improved through reinvestment
 - Detailed breakdown of starting dates and in-service dates for each project

or program

~~Drivers of capital expenditure increases for the test year(s) The basis for the estimated budget for the project or program (e.g. historical cost, preliminary engineering estimates, request for proposals)~~

- ~~A summary of the evidence for~~ **For** ~~any project~~ **projects** ~~that requires~~ **require** leave to construct approval under the OEB Act, where construction is to commence in a test year
 - ~~Identification of any project that has been undertaken in compliance with a condition included in the transmitter's licence as a result of a directive issued by the Minister of Energy to the OEB or has been declared a priority project by the Lieutenant Governor in Council~~ **A summary of the evidence for the leave to construct application**
 - **If a leave to construct application has been filed with the OEB, the OEB case number**

For all

- ~~The following information about other capital expenditures should also be provided:~~ **(those not already addressed above):**
 - Components of all other capital expenditures (those not already addressed above), including a reconciliation of all capital components to the transmitter's total capital budget

~~Written explanation of variances, including that of actuals versus the OEB-approved amounts for the applicant's last OEB-approved revenue requirement application~~

~~The proposed accounting treatment, including the treatment of the cost of funds, for investments spanning more than one year~~ The applicant must also include in the Transmission System Plan TSP:

- Any cost benchmarking studies (internal and external) or utility cost comparisons conducted by or for the applicant to support the applicant's proposed expenditures. This requirement is mandatory for Custom IR applications. For other applicants, ~~as a transitional measure~~, where no benchmarking studies are available, transmitters must detail their strategy to prepare or acquire benchmarking studies or cost comparisons for their subsequent rebasing application.
- For applicants filing a Custom IR or Revenue Cap application:
 - A description of quantifiable continuous improvement or efficiency gains that will be achieved over the term
 - The means by which those gains and savings will be achieved and the benefits assured for customers
 - A proposal to mitigate the potential for any significant earning by the transmitter above the regulatory net income supported by the approved ~~return on equity~~ ROE, using such tools as a capital variance account or an ~~earnings sharing mechanism~~ ESM

2.4 2.5 Exhibit 3 - Rate Base

This section must include the following:

- ~~1) Overview~~
- ~~2) Gross Assets—Property, Plant and Equipment and Accumulated Depreciation~~
- 1) Rate Base
- 2) Fixed Asset Continuity Schedule
- 3) Depreciation, Amortization and Depletion
- 4) Allowance for Working Capital
- 5) Customer Connection and Cost Recovery Agreements
- 6) Capitalization Policy

2.5.1 Rate Base

~~1) Allowance for Working Capital~~

~~2) 1) Capitalization Policy~~

~~2.2.1 Overview~~

~~For rate base, the applicant must include the opening and closing balances, and the average of the opening and closing balances for gross assets and accumulated depreciation. Alternatively, if an applicant uses a similar method such as calculating~~

~~the average in-service balance based on the average of monthly values, it must document the methodology used. Rate base shall also include an allowance for working capital.~~

At a minimum, the filed material in support of the requested rate base must include data for the historical actuals, bridge year (actuals to date and balance of year as budgeted), and test year(s).

Applicants should indicate whether capital expenditures are equivalent to in-service additions. If so, variance explanations are only required once.³ If not, the applicant should specify whether it is explaining variances based on capital expenditures or in-service additions. In this case, both variance explanations are not required to be provided.

For rate base, the applicant must include the opening and closing balances for each year, and the average of the opening and closing balances for gross fixed assets and accumulated depreciation. Alternatively, if an applicant uses a similar method such as calculating the average in-service balance based on the average of monthly values, it must document the methodology used. Rate base may also include an allowance for working capital.

This section must include a table showing the components of the last OEB-approved rate base, the proposed test year rate base and the variances.

2.5.2 Fixed Asset Continuity Schedule

Continuity statements and year-over-year variance analyses must be provided.

Continuity statements must provide year-end balances and include any capitalized interest during construction, and all overheads. Variance analyses must provide a written explanation for rate base related materialany capitalized overhead costs. Written explanations must be provided when there is a year-over-year variance greater than the applicable materiality threshold.

If continuity statements have been re-stated for the purposes of the application, the utility must provide a thorough explanation for the restatement and ~~also~~ provide reconciliation to the original statements.

The following comparisons must be provided:

³ Capital in-service additions in year X = (Capital expenditures in year X) + (closing Construction Work in Progress (CWIP) in year X-1) – (closing CWIP in year X)

- Historical OEB-approved vs. historical actual (for the most recent historical OEB- approved ~~years~~year)
- Historical actual vs. preceding historical actual (for the relevant number of years)
- Historical actual vs. bridge
- Bridge vs. test year(s)

The opening and closing balances of gross assets and accumulated depreciation that are used to calculate the fixed asset component of rate base must correspond to the respective balances in the fixed asset continuity statements. In the event that the balances do not correspond, the applicant must provide an explanation and reconciliation. This reconciliation must be between or among the last actual year, bridge year and any test year(s) net book value balances reported on a fixed asset continuity schedule and the balances included in the rate base calculation. Examples of adjustments that would be made to the fixed asset continuity schedule balances for rate base calculation purposes are the removal of the amounts for work in progress and asset retirement obligations- (AROs).

Continuity statements must be reconcilable to the calculated depreciation expenses and presented by asset account.

The information outlined in the fixed asset continuity schedule must be provided for each year, in both the application material and in working Microsoft Excel format.

2.4.12.5.3 Gross Assets – Property, Plant and Equipment and Accumulated Depreciation, Amortization and Depletion

The applicant must provide demonstrate that the following information:

- ~~Breakdown by function (transmission plant, general plant, other plant) for required statements and analyses~~
- ~~Detailed breakdown by major plant account for each functionalized plant item~~
 - ~~For the test year(s), each plant item must be accompanied by a description.~~
- ~~Detailed breakdown proposed levels of the in-service capital additions for the test year(s)~~

~~Continuity statements reconcilable to the calculated depreciation expenses (under Exhibit 4 – Operating Costs) and presented by asset account~~ amortization expense appropriately reflect the useful lives of the applicant's assets and the OEB's policies.

The information outlined below is required for depreciation, amortization and depletion:

- Details for depreciation, amortization and depletion by asset group for the historical, bridge and test years, including asset amounts and rates of depreciation or amortization.
- The applicant must identify any Asset Retirement Obligations (AROs) and any associated depreciation or accretion expenses related to the AROs, including the basis for and calculation of these amounts.
- The OEB's general policy for electricity distribution rate-setting has been that capital additions would normally attract six months of depreciation expense when they enter service in the test year. This is commonly referred to as the "half-year" rule. Applicants may propose a different approach in their applications for the OEB's consideration but must identify their historical practices and must support any variance from the half-year rule whether that variance applies to just the test year, subsequent years, or both.
- The applicant must provide a copy of its depreciation/amortization policy, if available. If not, the applicant must provide a written description of the depreciation practices followed and used in preparing the application. The applicant must provide a summary of changes to its depreciation/amortization policy made since the last rebasing application filing.
- If the applicant is filing an application under MIFRS accounting standards, it must ensure that the significant components of each capital asset are being depreciated separately. Any deviations from this practice must be explained.

A transmitter that has not made any changes to its depreciation policy or asset service lives since its last rebasing application must state that this is the case. For a transmitter that has made any changes to its depreciation/amortization policy or asset service lives since its last rebasing application, the following is required:

- Identification of the changes and a detailed explanation for the causes of the changes.
- The transmitter to provide its own study to justify changes in useful lives, if applicable.
- The transmitter must provide a list detailing all asset service lives and reconcile this list to the USoA.

2.5.4 Allowance for Working Capital

If a transmitter is proposing to include an allowance for working capital in its rate base, it must support this with a lead/lag analysis. A lead/lag study analysis for two time periods is required; namely:

The time between the date customers receive service and the date that the customers'

payments are available to the transmitter (the lag).

2.4.22.0.1 Allowance for Working Capital

~~If a transmitter is proposing to include an allowance for working capital in its rate base, it must support this with a lead/lag analysis. A lead/lag study analysis for two time periods is required; namely:~~

- ~~• The time between the date customers receive service and the date that the customers' payments are available to the transmitter (the lag)~~
- ~~•).~~
- The time between the date when the transmitter receives goods and services from its suppliers and vendors and the date that it pays for them (the lead).
- Leads and lags are measured in days and are generally dollar-weighted. The dollar-weighted net lag (i.e. lag minus lead) days is then divided by 365 (366 in a leap year) and then multiplied by the annual test year cash expenses to determine the amount of working capital required for operations. This amount is included in the applicant's rate base determination.
- For transmitters in Ontario, the lead/lag study should reflect the fact that the IESO provides the bulk of the revenue to the transmitter, with minimal contributions from other sources.
- ~~○ The dollar-weighted net lag (i.e. lag minus lead) days is then divided by 365 (366 in a leap year) and then multiplied by the annual test year cash expenses to determine the amount of working capital required for operations. This amount is included in the applicant's rate base determination.~~
- ~~○ For transmitters in Ontario, the lead/lag study should reflect the fact that the IESO provides the bulk of the revenue to the transmitter, with minimal contributions from other sources.~~

2.4.32.5.5 Customer Connection and Cost Recovery Agreements

When proposed capital expenditures are related to projects which require a contribution from a customer, the transmitter should show these amounts separately as an offset to rate base.

For any Customer Connection and Cost Recovery Agreements executed by transmitters with Ontario rate-regulated distributors that are due to be reviewed during the term as a result of reaching a fifth anniversary (or a 10th or 15th etc.) the applicant shall provide the number of agreements being reviewed and provide an aggregated estimate of the total expected true-up contributions, as well as any proceeds from a bypass agreement.

Applicants shall also provide detail on the financial and regulatory accounting treatment of these proceeds.

~~2.4.4~~ **2.5.6 Capitalization Policy**

The transmitter must provide its capitalization policy, including changes to that policy since the last revenue requirement application filed with the OEB.

Regardless of the accounting standard used, if the transmitter has changed its capitalization policy since the last revenue requirement application, the transmitter must explain the reason for these changes and whether they are a result of adhering to an accounting requirement. The changes must be identified, (e.g. capitalization of indirect costs, etc.) and the causes of the changes must also be identified.

~~2.4.4.1~~ **2.5.6.1** ~~2.5.5.1~~ *Capitalization of Overhead*

Regardless of whether the applicant has filed the application under MIFRS, USGAAP, or ASPE, ~~or CGAAP~~, the applicant must provide information, depending on the accounting basis on which the application has been filed, regarding overhead costs on self-constructed assets.

~~2.4.4.2~~ **2.5.6.2** ~~2.5.5.2~~ *Burden Rates*

The transmitter must identify the burden rates related to the capitalization of costs of self-constructed assets. If the burden rates were changed since the last rebasing application, the applicant must identify the burden rates prior to and after the change.

~~2.4.5~~ **2.5.7 Capital Module**

Applicants proposing a Revenue Cap ~~index~~ **IR** may request a capital increment for discrete projects being placed in service after the rebasing year that:

- Are part of the ~~Transmission System Plan~~ **TSP**
- Are intended to come into service during the ~~index~~ **rate plan** period
- Involve costs that the transmitter cannot manage through the revenue established through the ~~index~~ **rate plan period**

The request must address proposed approval criteria (materiality, need, prudence) and the process for implementation of the recovery of the capital increment.

~~2.5~~ **2.6 Exhibit 4 – Service Quality and Reliability Performance and**

Reporting

Under the RRF, a transmitter is expected to continuously improve its understanding of the needs and expectations of its customers and its delivery of services. This exhibit outlines the OEB's requirements for service quality and reliability performance. The Proposed Scorecard section is intended to define a common reporting structure while allowing for flexibility where transmitters have unique operating circumstances. Reporting on Reliability Performance and Compliance Matters is required, however, and filing requirements for these categories are explicitly stated.

~~2.5.1~~ **2.6.1 Proposed Scorecard**

The OEB initiated the use of scorecards to facilitate performance monitoring and benchmarking of electricity distributors in 2013. Each transmitter must, ~~in its first revenue requirement application following the issuance of these revised filing requirements,~~ propose a scorecard that could be used to measure and monitor the performance of the ~~electricity~~ transmitter and, where appropriate, enable comparison between transmitters.

The format should be similar to the scorecard developed for distributors (available on the OEB's website) and include measures for ~~public~~:

- 1) Public policy responsiveness, ~~operational~~
- 2) Operational effectiveness, ~~customer~~
- 3) Customer focus and financial (as applicable)
- 4) Financial performance, ~~but the applicant may propose other~~ and
- 1)5) Other performance categories and measures that ~~it~~ the applicant believes would be meaningful for their operations as an Ontario transmitter.

The proposed scorecard should provide for the inclusion of data for at least a five-year period. Transmitters may propose measures for which five years of data are not yet available conditional on a plan and commitment to collect such data through the course of the plan.

In creating the scorecard, applicants may wish to consider the data they are already required to file under the TSC ~~and the Reporting and Record Keeping Requirements (RRR).~~

Applicants may also choose to propose in their applications other performance measures to be reported annually that are applicable to their individual business. The OEB will expect transmitters to report on performance metrics, such as cost control and project completion, if a multi-year term is approved.

Some examples of metrics proposed by transmitters in previous applications are as follows:

- Average System Availability
- System Average Interruption Frequency Contribution
- System Average Interruption Duration Contribution
- NERC Vegetation Compliance
- OM&A Cost (\$K) per circuit kilometer

2.5.2.6.2 Reliability Performance

~~All~~ While these filing requirements allow flexibility with respect to the proposed scorecard metrics, all applicants, whether proposing a single or multi-year term, must document in their applications achieved reliability performance, using measures developed by the Canadian Electricity Association Canada including, transmission frequency of delivery point interruptions and transmission duration of delivery point interruptions, unsupplied energy in minutes and transmission system unavailability (percentage of system unavailable). The applicant must also document how it has addressed the performance standards for transmitters as set out in Chapter 4 of the TSC.

The applicant should compare the results for its system performance to those of other systems both nationally and internationally, where available.

2.5.3.2.6.3 Compliance Matters

While ~~most~~ compliance matters are normally resolved outside of the revenue requirement application process, transmitters must discuss any outstanding areas of non-compliance which have had an effect on the application, including any relief sought through this application to resolve the non-compliance.

2.6.2.7 Exhibit 5 - Operating Revenue

This exhibit includes evidence on the applicant's forecast of customers, energy and load, service revenue and other revenue, and variance analyses related to these items.

The applicant must provide its customer, volume and revenue forecast, weather normalization methodology, and other sources of revenue in this exhibit. The applicant must include a detailed description of the methodologies and the

assumptions used. Estimates must be presented excluding commodity revenues.

The information presented must include:

- 1) Load and ~~revenue forecasts~~ Revenue Forecasts
- 2) Accuracy of load forecast Load Forecast and ~~variance analyses~~ Variance Analysis
- 3) Other ~~revenue~~ Revenue

If a transmitter's assets are allocated entirely to the Network transmission rate pool, and no customers are directly connected to the transmitter's system, load and revenue forecasts are not required.

~~2.6.1~~ 2.7.1 Load and Revenue Forecasts

The transmission load forecast is used to support the charge determinant load forecast for the three transmission rate pools: Network, Line Connection and Transformation Connection. The applicant must provide an explanation of the causes, assumptions and adjustments for the volume forecast. All economic assumptions and data sources used in the preparation of the load and customer count forecast, including the impact of conservation, must be included in this section, including when the forecast was prepared.

The applicant must also provide an explanation of the weather normalization methodology used. All economic models, econometric models, end-use models, customer forecast surveys and load shape analyses analysis must also be described and documented.

The applicant must provide a detailed ~~CDM~~ electricity demand side management (eDSM) forecast, with impact of ~~CDM~~ eDSM shown on the load forecast for each of the three rate pools. The applicant must also indicate how the forecast reflects IESO ~~CDM~~ eDSM forecasts and targets in the load forecast.

The applicant's load forecast must also take into account the impact of forecast embedded generation on the transmission system load. The applicant must explain its assumptions and methodology.

~~2.6.2~~ 2.7.2 Accuracy of Load Forecast and Variance Analyses Analysis

The applicant must demonstrate the historical accuracy of the load forecast for at least the past 5 years by providing the following, as applicable:

- Schedule of volumes (in kW for those rate pools that use this charge

determinant), revenues, customer/connections count by rate pool and total system load in kWh) for:

- Historical OEB-approved
- Historical actual for the past 5 years
- Historical actual for the past 5 years – weather normalized
- Bridge year
- Bridge year – weather normalized
- Test year(s)

The applicant must provide the following variance analyses~~analysis~~ and relevant discussion for volumes, revenues, customer/connections count and total system load:

- Comparison with the latest applicable provincial forecast(s) from the IESO, including a discussion of significant differences
- Historical OEB-approved vs. historical actual
- Historical OEB-approved vs. historical actual – weather normalized
- Historical actual – weather-normalized vs. preceding year's historical actual – weather-normalized (for the necessary number of years)
- Historical actual – weather normalized vs. bridge year – weather-normalized
- Bridge year – weather-normalized vs. test year(s)

All data used to determine the forecasts must be presented and filed in ~~live-~~ MS~~Microsoft~~ Excel spreadsheet format.

~~2.6.3~~ **2.7.3 Other Revenue**

The applicant must provide the following information:

- Comparison of actual revenues for historical years to forecast revenue for bridge and test year(s), including explanations for significant variances in year-over-year comparisons
- How costing and pricing for other revenues is determined, any new proposed service charges, and/or changes to rates or new rules for applying existing charges
- Any revenue from affiliate transactions, shared services or corporate cost allocations. For each affiliate transaction the applicant must provide identification of the service, the nature of the service provided to affiliated entities, accounts used to record the revenue and the associated costs to provide the service.

Revenues or costs (including interest) associated with deferral and variance accounts must not be included in other revenue.

~~2.7~~2.8 Exhibit 6 - Operating Costs

~~Exhibit 6 includes information that summarizes the OM&A costs, depreciation expense~~

and taxes.

OM&A costs should be presented on an output/program focused basis. This The exhibit must include the following sections:

- 1) Overview
- 2) Summary and cost driver tables Cost Driver Tables
- 3) Program delivery costs Delivery Costs with variance analysis Variance Analysis
- 4) Workforce Planning and Employee Compensation
- 5) Shared Services and Corporate Cost Allocation
- 6) Purchases of Non-Affiliate Services
- 4) ~~Depreciation/amortization/depletion~~
- 5) ~~Taxes, if applicable~~
- 7) Regulatory and One-time Costs
- 8) Charitable and Political Donations
- 9) Taxes or Payments In Lieu of Taxes (PILs) and Property Taxes

~~2.7.1~~ 2.8.1 Overview

The overview should provide a brief explanation (quantitative and qualitative) of the following:

- OM&A levels for the test year(s) .
- How the transmitter develops its OM&A budget (e.g., zero based budgeting, inflationary increase or some combination), and the transmitter's internal approval process.
- Associated cost drivers and significant changes that have occurred relative to historical and bridge years .
- ~~Overall trends in costs~~
- Overall trends in costs, and relevant metrics such as OM&A per customer and OM&A per kilometre of transmission line (and its components), for the historical, bridge and test years, as discussed above.
- Business environment changes .
- Any cost benchmarking studies (internal and external) or utility cost comparisons conducted by or for the applicant. ~~This requirement is mandatory for Custom IR applications.~~
- For applicants filing a Custom IR or Revenue Cap IR application, a description of the continuous improvement or efficiency gains that will be achieved over the term, and the means by which those gains and savings will be achieved and the benefits assured for customers.
- Inflation rate assumed: ~~Each~~ each year the OEB will determine an a sector-specific

inflation factor that applies to ~~electricity distributors for Incentive Rate Setting (IRM) applications~~ transmitters. If the transmitter has used an inflation factor different than this in forecasting its costs, it should provide a full explanation as to why the proposed inflation factor is more appropriate.

~~2.7.2~~ **2.8.2 Summary and Cost Driver Tables**

The applicant must include the following tables as part of its evidence:

- Summary of recoverable OM&A expenses
- OM&A cost drivers
- OM&A by programs or OM&A by Use of Assets
- If applicable, OM&A cost per customer and per Full Time Equivalent (FTE)

Regardless of whether the applicant has filed accounting standards followed in the application under MIFRS, USGAAP, Accounting Standards for Not for Profit Organizations, or ASPE, the applicant must identify the overall change in OM&A expense in the test year(s) that is attributable to a change in capitalized overhead. The applicant must provide a variance analysis for the change in OM&A expense for the test year(s) in respect to each of the bridge year and historical years.

~~2.7.3~~ **2.8.3 Program Delivery Costs with Variance Analysis**

The applicant should provide details of costs in the following categories:

1. ~~Employee~~ Workforce planning and employee compensation
2. Shared services and corporate cost allocation
3. Purchase of non-affiliate services
4. ~~One~~ Regulatory and one-time costs
4. ~~OEB costs~~
5. Charitable and political donations
6. PILs and Property Taxes

The variance analysis will apply the 2.1.5. Materiality Thresholds and include the following:

- Test year vs historical OEB-approved
- Historical OEB-approved vs historical actuals (for the 5 most recent historical OEB-approved years including the bridge year)
- Test year vs most recent historical actuals

~~2.7.4~~ **2.8.4 Workforce Planning and Employee Compensation**

The applicant must provide information on employee complement, compensation, and benefits for both management and union/ and/or non-union employees. Information on labour and compensation must include the total amount, whether expensed or capitalized.

Applicants may wish to review Appendix ~~2K2-K~~ 2-K – Employee Costs to the ~~Filing Requirements for Distributors~~ Filing Requirements for Electricity Distribution Rate Applications as a guide as to how this information should be presented.

~~Applicants must~~ The OEB expects that transmitters will provide a description of their proposed workforce plans, including compensation strategy, ~~and clearly explain~~ and any changes from the previous plan. Transmitters must discuss the outcomes of previous plans and how those outcomes have impacted their proposed plans including an explanation of the reasons for all material changes to head-count FTE numbers and compensation ~~and the outcomes expected from these changes.~~ A complete explanation for all years includes:

- ~~Year over year variances~~ Variances with an explanation of contributing factors, inflation rates used for forecasts, and the plan hiring plans for any new employees.
- Basis for performance pay, eligible employee groups, goals, measures, and review processes for any pay-for-performance plans, ~~including evidence of rational linkages between individual performance goals, company objectives and intended regulatory outcomes for the sector.~~
- Any relevant studies conducted by or for the applicant (e.g., compensation benchmarking).

Applicants who are virtual utilities (i.e. utilities that have outsourced the majority of functions, including employees to affiliates) must also provide these details in relation to the employees who are doing the work of the regulated utility. The status of pension funding and all assumptions used in the analysis must be provided.

Where there are three or fewer employees in any category, the applicant must aggregate this category with the category to which it is most closely related. This higher level of aggregation must be continued, if required, to ensure that no category contains three or fewer employees.

The applicant must provide details of employee benefit programs, including pensions, other post-employment retirement benefits (OPEBs), and other costs charged to OM&A. A breakdown of the pension and OPEBs amounts included in OM&A and capital must be provided for the last OEB-approved rebasing application, and for historical, bridge and test years. The most recent actuary report(s) must be included in the pre-

~~filed evidence. What is disclosed in the tax section of the pre-filed evidence must agree with this analysis.~~ and be reconciled with the pension and OPEBs amounts (as applicable). The basis on which pension and OPEBs amounts are forecast for the bridge and test years must also be explained. What is documented in the tax section of the evidence must agree with this analysis.

On September 14, 2017, the OEB issued its report on Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs. A transmitter is to be guided by this report in determining its pension and OPEB costs that it is requesting be recovered through rates in its application. The transmitter must clearly indicate if pension and OPEB costs are proposed to be recovered using the default accrual basis or the cash basis. If a transmitter is proposing to calculate pension and OPEB expenses based on the cash method, it must provide sufficient supporting rationale and evidence for doing so. If a transmitter is proposing to change the basis in which pension and OPEB costs are included in OM&A from its last rebasing application (e.g., from cash to accrual), it must quantify the impact of the change. For all circumstances, the transmitter must file the evidence required by the OEB to support the quantum of pension and OPEB costs in the test year.

~~2.7.5~~ **2.8.5 Shared Services and Corporate Cost Allocation**

~~Shared services is defined as the concentration of a company's resources performing activities (typically spread across the organization) in order to service affiliates (including a parent company) with the intention of achieving lower costs and higher service levels.~~

Shared services are 'shared corporate services' as defined in the Affiliate Relationships Code (ARC). The applicant must identify all shared services among the affiliated entities, including the extent to which the applicant is a "virtual" utility and justify its proposed shared services and corporate allocation in detail.

For shared services among affiliated entities, a transmitter must provide at a minimum:

- The type of service provided or received.
- The fee allocation structure and the pricing methodology (e.g., cost-base, market-base, tendering, etc.).

Corporate cost allocation is an allocation of costs for corporate and miscellaneous shared services from the parent company to the utility (and vice versa). The transmitter

must provide the allocation methodology, a list of costs and allocators, and any third-party review of the corporate cost allocation methodology used.

~~The applicant must provide the allocation methodology, a list of costs and allocators, and any third party review of the corporate cost allocation methodology used.~~

The applicant must provide details about each service provided or received for the historical (actuals), bridge and test years. If applicable, the same service provider who provides services to multiple transmitters, including new entrants, needs to provide evidence that there is no double-accounting on the service fee allocation to the various service receivers, given the different timing that these transmitters (service receivers) are either placed in-service and/or when they file revenue requirement applications individually.

Applicants must provide a reconciliation of the revenue arising from these transactions with the amounts included in other revenue in section 2.7.3.

Variance analyses analysis, with explanations, are required for the following:

- Test year(s) vs. last OEB-approved
- Test year(s) vs. most current actuals

The applicant must identify any Board of Director-related costs for affiliates that are included in its own costs.

~~2.7.6~~ 2.8.6 Purchase of Non-Affiliate Services

Utility expenses incurred through the purchase of services from non-affiliated firms must be documented and justified. An applicant must provide a copy of its procurement policy including information on such areas as the level of signing authority, a description of its competitive tendering process and confirmation that its non-affiliate services purchases ~~are in compliance~~ comply with ~~it~~ the policy.

For any such transactions above the materiality threshold that were procured without a competitive tender, or are not in compliance with the procurement policy, the applicant must provide an explanation as to why this was the case, as well as the following information for ~~historical (actuals):~~ these transactions:

- Summary of the nature of the product or service that is the subject of the transaction (note that if there are concerns regarding disclosing the cost then confidentiality procedures should be followed).
- A description of the specific methodology used in ~~determining~~ selecting the vendor (including a summary of the tendering process/cost approach, etc.).

~~2.7.7~~ 2.8.7 One-time Costs

The applicant must identify one-time costs in the historical, bridge and test years and provide an explanation as to whether and how the costs included in the test year(s)

~~will be to be recovered. An explanation must also be provided if a transmitter is not-~~
~~result in an over recovery of~~
proposing to recover the one-time ~~costs in future years.~~

~~2.7.8~~ **2.8.8 Regulatory Costs**

The applicant must provide a breakdown of the actual and anticipated regulatory costs, including OEB cost assessments and expenses for the current application such as legal fees, consultant fees, costs awards, etc. The applicant must provide information supporting the level of the costs associated with the preparation and review of the current application. In addition, the applicant must identify over what period the costs are proposed to be recovered. For transmitters, the recovery period would normally be the duration of the expected rate term. If the applicant is proposing a different recovery period, it must explain why it believes this is appropriate. Costs that are being claimed on an amortized basis should not be included in historic/bridge years.

~~7)1) Charitable and Political Donations~~

2.8.9 The applicant must file the amounts paid in charitable donations (per year) from the last OEB-approved rebasing application up to and including the test year(s). Charitable and Political Donations

The recovery of charitable donations will generally not be allowed for the purpose of setting the revenue requirement. If the applicant wishes to recover such contributions, it must provide detailed information for such claims.

The applicant must review the amounts filed to ensure that all other non-recoverable contributions are identified, disclosed and removed from the revenue requirement calculation. ~~The applicant must also confirm that no political contributions have been included for recovery.~~

~~3)1) Depreciation, Amortization and Depletion~~

~~The applicant must provide details for depreciation, amortization and depletion by asset group for the historical, bridge and test years, including asset amount and rate of depreciation or amortization. This must tie back to the accumulated depreciation balances in the continuity schedule under rate base.~~

~~The applicant must identify any asset retirement obligations (AROs) and any associated depreciation or accretion expenses in relation to the AROs, including the basis and calculation of how these amounts were derived.~~

~~The OEB's general policy for rate setting is that capital additions would normally attract~~

~~six months of depreciation expense when they enter service in the test year. This is commonly referred to as the “half-year” rule. The applicant must identify its historical practice and its proposal for the test year. Variances from this “half-year” rule, such as calculating depreciation based on the month that an asset enters service, must be documented with explanation.~~

~~The applicant must provide a copy of its depreciation/amortization policy, if available. If not, the applicant must provide a written description of the depreciation practices followed and used in preparing the application. Regardless of the accounting standard used in the application, the applicant must provide a summary of changes to its depreciation/amortization policy made since the applicant’s last cost of service filing.~~

The applicant must ensure also confirm that practice no political contributions have been included for recovery. ~~the significant parts or components of each item of Property, Plant and Equipment are being depreciated separately. The applicant must~~

~~explain if it departs from this~~

~~2.7.9~~ **2.8.10 Taxes or Payments In Lieu of Taxes (PILs) and Property Taxes**

The applicant must provide the information outlined below:

- Detailed calculations of income tax or PILs, as applicable, including derivation of adjustments (e.g., tax credits, CCA adjustments) for the historical, bridge and test years. Note: regulatory assets (and regulatory liabilities) must generally be excluded from PILs calculations both when they were created, and when they were collected, regardless of the actual tax treatment accorded those amounts.
- Supporting schedules and calculations identifying reconciling items.
- Copies of most recent federal and provincial tax returns (non-utility tax items, if material, must be separated).
- Financial statements included with tax returns, if different from the financial statements filed in support of the application.
- A calculation of tax credits (e.g., apprenticeship training tax credits, education tax credits). A Scientific Research and Experimental Development return, if filed, may contain confidential personal information of apprentices such as social insurance number, address, hourly rate, etc. which must be excluded from the filing.
- Supporting schedules, calculations and explanations for “other additions” and “other deductions” in the applicant’s PILs/tax model.

Taxes other than PILs (e.g. property taxes) should be clearly identified where included.

~~2.7.9.1~~ **2.8.10.1** ~~2.8.11.1~~ *Non-recoverable and Disallowed Expenses*

There may be some expenses incurred by a transmitter that are deductible for general tax purposes, but for which recovery is partially or fully disallowed.

Where an expense incurred by a transmitter is non-recoverable in the revenue requirement (e.g. certain charitable donations) or disallowed for regulatory purposes, such amounts are generally excluded from the regulatory tax calculation.

~~2.7.9.2~~ **2.8.10.2** ~~2.8.11.2~~ *Integrity Checks*

The applicant must ensure the following integrity checks have been completed in its application and provide a statement to this effect, or an explanation if this is not the case:

the case:

- The depreciation and amortization added back in the application's PILs/tax model agree with the numbers disclosed in the rate base section of the application.
- The capital additions and deductions in the UCC/CCA Schedule 8 agree with the rate base section for historic, bridge and test years.
- Schedule 8 of the most recent federal T2 tax return filed with the application has a closing December 31st historic year UCC that agrees with the opening bridge year UCC at January 1st. If the amounts do not agree, then the applicant must provide a reconciliation with explanations for the reasons.
- The CCA deductions in the application's PILs/tax model for historic, bridge and test years agree with the numbers in the UCC schedules for the same years filed in the application.
- Loss carry-forwards, if any, from the tax returns (Schedule 4) agree with those disclosed in the application.
- CCA is maximized even if there are tax loss carry-forwards.
- A statement is included in the application as to when the losses, if any, will be fully utilized.
- Accounting OPEB and pension amounts added back on Schedule 1 reconciliation of accounting income to net income for tax purposes, must agree with the OM&A analysis for compensation. The amounts deducted must be reasonable when compared with the notes in the audited financial statements, Financial Services Commission Ontario reports, and the actuarial valuations.
- The income tax rate used to calculate the tax expense must be consistent with the utility's actual tax facts and evidence filed in the proceeding.

~~2.7.10~~ 2.8.11 Z-Factor Claims

Transmitters who are operating under a Revenue Cap ~~index~~ IR or Custom IR may apply to recover material costs associated with unforeseen events that are outside the control of a transmitter's ability to manage, such as damage that is the result of a storm.

As with the policy applicable to distributors, transmitters must submit evidence that the costs incurred meet certain eligibility criteria:

- Causation: amounts must be clearly related to the Z-factor event, and outside of the base upon which revenue requirements were set. The application must demonstrate that the management of the transmitter could not have been able to plan and budget for the event and that the harm caused by the extraordinary event

is genuinely incremental to their experience or reasonable expectations.

- Materiality: the event must have a significant influence on the operations of the transmitter.
- Prudence: the amounts must have been prudently incurred. The transmitter's decisions to incur the amounts must represent the most cost-effective option for ratepayers.

To enable this process, a transmitter must also propose in its revenue requirement application a materiality threshold and explain the basis for it. At minimum, the threshold should exceed the OEB-defined materiality threshold set out in section 2.1.5 on a revenue requirement basis. Transmitters must also make the case that failure to recover the proposed threshold amount would have a significant influence on the operations of the transmitter.

As with the Z-factor policy applicable to distributors, a transmitter must also:

- Notify the OEB promptly of all Z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim.
- Record costs for which recovery will be sought.
- Apply to the OEB for any cost recovery of amounts recorded in the deferral account. This will allow the OEB and any affected transmitter the flexibility to address extraordinary events in a timely manner. Subsequently, the OEB may review and prospectively adjust the amounts for which Z-factor treatment is claimed.
- Outline the manner in which it intends to allocate the incremental revenue requirement to the various rate pools, the proposed disposition period, the rationale for the selected approach and a discussion of the merits of alternative allocation methods.
- Provide a detailed calculation of the incremental revenue requirement. ~~Costs are to be recorded in Account 1572.~~

~~2.8~~2.9 Exhibit 7 - Cost of Capital and Capital Structure

The OEB's general guidelines for cost of capital in rate regulation are currently provided in the ~~Report of the Board on Cost of Capital for Ontario's Regulated Utilities~~, issued December 11, 2009 (2009 Report). Decision.

As per the 2009 Report, the

The OEB issues the cost of capital parameter updates for cost of service-based rate applications. Transmitters should use the most recent parameters issued by the OEB as a placeholder, subject to an update if new parameters are available prior to the issuance of the OEB's decision for a specific transmitter's application. The Cost of Capital Decision stated that a risk premium differential can be proposed in the context of utility-specific rates applications, with respect to the allowed ROE and equity ratio. The OEB will continue to apply the same capital structure methodology to all transmitters, irrespective of asset count.

If Based on the Cost of Capital Decision, the applicant wishes to adopt the OEB's guidelines for or intervenors can do the cost of capital, the following in its application must clearly state this and confirm that the:

- file evidence in individual rate hearings to support different cost of capital parameters will due to their specific circumstances. However, this evidence must provide a strong rationale for departing from the OEB's policy and why the Fair Return Standard cannot be updated in accordance with the OEB's guidelines at the time of the OEB's decision met.⁴ In addition, the applicant is strongly encouraged to hold a stakeholder session in advance of filing an application to explain its planned approach.

~~Alternatively, the applicant may apply for a utility specific cost of capital and/or capital structure. If the applicant wishes to take such an approach, it must provide appropriate justification and supporting evidence for its proposal.~~

Applicants requesting multi-year revenue requirement approvals must indicate whether they are proposing that the cost of capital be updated annually or fixed for all test years, and the reasons for that proposal.

2.8.12.9.1 Capital Structure

In the Cost of Capital Decision, the OEB found that no changes are required to the treatment of variances from the deemed capital structure. The deemed capital structure will continue to apply for all transmitters.

The elements of the deemed capital structure are shown below and must be presented with the appropriate schedules for current OEB-approved, historical

⁴ All three requirements of the Fair Return Standard – comparable investment, financial integrity and capital attraction – must be met and none ranks in priority to the others.

actuals, bridge and test years: year(s):

- Long-term debt
- Short-term debt
- Preference shares
- Common equity

~~Any explanations~~ Explanations of material changes in actual capital structure or material differences between actual and deemed capital structure are required including:

- Retirements of debt or preference shares and buy-back of common shares
- Short-term debt, long-term debt, preference shares and common share offerings

The Cost of Capital Decision stated the following regarding debt:

- The deemed long-term debt rate at the time of issuance will apply as a ceiling for transmitters in certain circumstances.
- With respect to affiliated debt, the deemed long-term debt rate will apply as a ceiling for transmitters for all debt held with a municipal government shareholder at the time of issuance.
- For affiliated debt held by the holding company, other affiliated company or related party of a rate regulated utility, the utility must explain how the debt rate is no higher than it would have been if funds were borrowed directly by the utility through the external markets. Rate regulated utilities are expected to demonstrate that they have been prudent in their management of debt. Utilities are required to file evidence to explain how they manage their long-term debt, including actual debt and the forecast for future debt.
- For utilities incurring transactions/issuance costs to secure financing from the market, the transaction/issuance costs should be incorporated into the debt interest rate used to set rates, so that the transaction costs are amortized over the term of the debt instrument using the effective interest rate methodology.

~~2.8.2~~ **2.9.2 Cost of Capital (Return on Equity and Cost of Debt)**

~~These requirements are outlined in the 2009 Report.~~ The applicant must provide the following information for each year:

- Calculation of the cost for each capital component.
- Profit or loss on redemption of debt and/or preference shares, if applicable.
- Copies of any current promissory or demand notes or other debt arrangements with affiliates. Note that this is not required for third party debt, e.g., with commercial

banks.

- Explanation of the applicable debt rate for each existing debt instrument, including an explanation on how the debt rate was determined and is in compliance with the policies documented in the 2009 Report Cost of Capital Decision or the transmitter's proposed approach.
- Forecasts of new debt anticipated in the bridge and test years, including estimates of the applicable rate and any pertinent information on each new debt instrument (e.g. whether the debt is affiliated or with a third party, expected term/maturity, any capital project(s) that the debt funding is for, etc.).
- If the applicant is proposing any rate that is different from the OEB-guidelines requirements of the Cost of Capital Decision, a justification of forecast costs by item, the proposed rate(s), including key assumptions.
- Historical ROE achieved.

Notional debt is that portion of the deemed debt capitalization that results from differences between the transmitter's actual debt and the deemed debt thickness of 60% (56% long-term debt and 4% short-term debt). In the Cost of Capital Decision, the OEB found that the rate for notional debt will be at the lower of the deemed long-term debt rate at the time of issuance and the weighted average cost of actual long-term debt, but only when there are material variances relating to the notional debt (i.e., with material impacts on the revenue requirement).

An applicant should provide an overview of its financing strategy.

~~2.8.3~~ **2.9.3 Not-for-Profit Corporations**

In prior decisions, the OEB has determined that applicants which are not-for-profit corporations may apply using the OEB's deemed capital structure and cost of capital to the extent that the excess revenue is to be used for the purpose of meeting the applicant's need to build up or accumulate appropriate operating and capital reserves. The OEB has further stated that once the appropriate limits for these reserves have been achieved, it would expect such applicants to submit an application seeking an adjustment to revenue requirement.

An applicant that is a not-for-profit corporation must document and provide the following as part of its application, in addition to adhering to the OEB's general guidelines for cost of capital in rate regulation that are currently provided in the Cost of Capital Decision, as noted above:

- The requested capital structure.
- The requested cost of capital (including the proposed cost of long-term and

- short-term debt and the proposed ROE).
- A statement as to whether the revenues derived from the ROE component of the cost of capital will be used to fund reserves (operating, capital, insurance, etc.) or will be used for other purposes.
- If the revenues derived from the ROE component of the cost of capital will be used to fund reserves, provide the specifications for each proposed reserve fund and a description of the governance (policies, procedures, sign-off authority, etc.) that will be applied.
- If the revenues derived from the ROE component of the cost of capital will be used for other purposes, provide a statement as to whether these revenues will be used for non-transmission activities (in the situation where the excess revenues are greater than the amounts needed to fund transmission activities). Provide rationale supporting the use of the revenues in this manner. Also provide the governance (policies, procedures, sign-off authority, etc.) that will be applied to the funding of non-transmission activities.

If the applicant has approved reserves from previous OEB decisions, the applicant must also document the following:

- The limits of any capital and/or operating reserves as approved by the OEB and identifying the decisions establishing these reserve accounts and their limits.
- The current balances of any established capital and/or operating reserves.

2.92.10 Exhibit 8 - Deferral and Variance Accounts (DVAs)

The information outlined below is required whether or not the applicant is seeking disposition of any ~~deferral and variance accounts~~ DVAs:

- List of all outstanding deferral and variance accounts and sub-accounts. The applicant must provide a brief description of any account.
- A continuity schedule in Excel format for the period following the last disposition to the present, showing separate itemization of opening balances, annual adjustments, transactions, interest and closing balances.
- Interest rates applied to calculate the carrying charges for each regulatory deferral and variance account. OEB prescribed interest rates are updated quarterly and available on the OEB's website.⁵ The applicant must provide the rates by month or by quarter for each year.

⁵ Prescribed interest rates | Ontario Energy Board

- ~~Explanation if the account balances in the continuity schedule differ from the account balances reported through the RRR and the audited financial statements.~~
- A proposal for an allocator based on the proposed cost driver(s) and included in the continuity schedule.
- A statement as to any new accounts or sub-accounts that the applicant is requesting, and justification for each requested account or sub-account. This must correspond with information provided in Exhibit 1.
- A statement as to whether or not the applicant has made any adjustments to deferral and variance account balances that were previously approved by the OEB on a final basis. If this is the case, the applicant must provide explanations for the nature and amounts of the adjustments and include supporting documentation; under a section titled "Adjustments to Deferral and Variance Accounts".
- A proposal of a different carrying charge on a DVA involving long-term expenditures, if any, with evidence to justify the departure from standard DVA carrying charges.
- Any additional mechanisms proposed for rate-regulated infrastructure investment by Indigenous business ventures in the transmission sector.⁶
- Utilities can make applications for consideration by the OEB on a case-by-case basis for alternative cost recovery mechanisms for significant new infrastructure investments.

In the event an applicant seeks an accounting order to establish a new deferral or variance account, the following eligibility criteria must be met:

- Causation - The forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived.
- Materiality — The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter. Otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
- Prudence - The nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial

⁶ The Cost of Capital Decision referenced the EB-2009-0152, *Report of the Board: The Regulatory Treatment of Infrastructure Investment in connection with the Rate-regulated Activities of Distributors and Transmitters in Ontario*, January 15, 2010

cost) for ratepayers.

In addition, applicants must include a draft accounting order ~~with a~~ This should include a detailed description of the mechanics of the account, including examples of general ledger entries, and the ~~manner in which the applicant proposes to dispose of the account at the appropriate time~~ proposed method for future disposition.

~~2.9.1~~ 2.10.1 Disposition of Deferral and Variance Accounts DVAs

The applicant must:

- Identify all accounts for which it is seeking disposition.
- Identify any accounts for which the applicant is not proposing disposition and the reasons why.
- Propose the method to be used for recovery or refund of balances that are proposed for disposition through an adjustment to its revenue requirement.
- Provide a statement that the balances proposed for disposition before forecasted interest are consistent with the last Audited Financial Statements and provide explanations for any variances.
 - ~~• Provide an explanation for any variances greater than 5% between amounts proposed for disposition before forecasted interest and the amounts reported in the applicant's quarterly and annual RRR filings for each account~~
 - ~~• Provide explanations even if such variances are below the 5% threshold if the variances in question relate to: (1) matters of principle (i.e. prior OEB decisions, and prior period adjustments); and/or, (2) the cumulative effect of immaterial differences over several accounts totaling to a material difference between what is proposed for disposition in total before forecasted interest and what is recorded in applicable filings~~
- Show all relevant calculations, including the rationale for the allocation of each account, the proposed billing determinants and the length of the disposition period.

2.10.2 ESM

The ESM is designed to ensure that excess earnings beyond an approved threshold are equitably shared between transmitters and ratepayers. While most Ontario transmitters maintain a deferral and variance account to track ESM balances, the methodologies and thresholds applied across transmitters vary.

2.10.2.1 Disposition of ESM

The transmitter must provide supporting evidence showing how the balance is

derived. The calculation and disposition of the ESM should follow the transmitter's approved accounting order.

Transmitters should include a description of the methodology to calculate excess earnings. At a minimum, the actual ROE shall be based on:

- Regulatory net income derived from regulated transmission operations, excluding non-regulated revenues and costs
- Adjustments for extraordinary, non-recurring items. A description of these adjustments should be included or excluded.
- Regulatory earnings determined in accordance with OEB-approved principles

The approved ROE from the transmitter's most recent OEB rate decision shall be used as the baseline unless otherwise approved.

In addition to the above, the applicant must include:

- Amount recorded in the ESM – a reconciliation of the balance recorded in the deferral account, including the interest applied.
- Proposed disposition methodology – the proposed method for refunding excess earnings to ratepayers.

2.10 2.11 Exhibit 9 - Cost Allocation to Uniform Transmission Rate Pools: Charge Determinants

The applicant should identify the cost allocation methodology that is proposed to allocate costs to the three transmission rate pools: Network, Line Connection and Transformation Connection.

The applicant must outline the key steps taken to functionalize the assets in the functional categories including the criteria used to define each asset category and, how costs are apportioned to the functional categories and rate pools. Allocation factors for dual function assets must be explained. If a transmitter's assets fall under only one transmission rate pool, an explanation of the allocation should still be provided.

The applicant must describe how the revenue requirement is allocated to the rate pools including allocation factors applied to each asset or groups of assets. The applicant must show how depreciation, return on capital, taxes and OM&A costs are assigned to the rate pools.

In some cases, another rate pool may be created (such as the Wholesale Meter Pool,

established by Hydro One Networks Inc.). Similar information must be provided for any assigning of costs to non-standard rate pools.

2.11.2.12 Exhibit 10 - Rate Design for Uniform Transmission Rates (UTRs)

2.11.2.12.1 Bill Impact Information

Each applicant must provide bill impact information including information on the dollar and percentage impact of the application on the average customer's total bill as well as the percentage impact on transmission rates.

The bill comparisons must be provided for typical customers and consumption levels. At a minimum, bill impacts must be provided for typical Ontario residential customers consuming 800 ~~800~~ 750 kWh per month and typical Ontario General Service customers consuming 2,000 kWh per month and having a monthly demand of less than 50 kW. Transmitters must also include bill impacts for a typical directly connected non-LDC customer.

2.11.2.12.2 Setting the Uniform Transmission Rates UTRs

~~Hydro One Networks Inc., or another~~ If asked by the OEB, a transmitter designated by the OEB, shall, at the request of the OEB, provide information to allow the OEB to establish uniform transmission rates (UTR) for the province. ~~The information filed must include the following:~~

- ~~• An overview of how the UTR are established in Ontario and how these rates are determined~~
- ~~• The revenue requirement and load forecast data (from each transmitter) that is used to compile the transmission charge determinants for each rate pool~~
- ~~• If applicable, the determination of the Export Transmission Service rates and the treatment of revenues generated through these rates~~

A table explaining and documenting the determination of the UTR UTRs, including:

- The previously approved revenue requirements and load forecast charge determinants for all other transmitters in the pool
- The OEB file number of each decision approving each revenue requirement and charge determinant
- The applicant's proposed revenue requirements and charge determinants as proposed in

~~the application~~

- The calculation of the ~~UTR~~UTRs for each pool
- The transmission revenue allocator for each of the Ontario transmitters in the pool
- An explanation of any changes to terms and conditions of service and the rationale behind those changes if the changes affect the application of the rates
- If applicable, the determination of the Export Transmission Service rates and the treatment of revenues generated through these rates

-End-