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Ontario Energy Board

Filing Requirements For
Electricity Distribution Rate Applications
- 2023 Edition for 2024 Rate Applications-

Chapter 3

Incentive Rate-Setting Applications

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Chapter 3 Filing Requirements for Incentive Rate-Setting Applications subject to the Ontario Energy Board's Index Adjustments

3.1 Introduction

On October 13, 2016, the Ontario Energy Board (OEB) released its [Handbook for Utility Rate Applications](#) (Handbook) to provide guidance to utilities and stakeholders on applications to the OEB for approval of rates under the renewed regulatory framework (RRF). The Handbook outlines the key principles the OEB will apply, along with the OEB's expectations, when reviewing rate applications and is applicable to all rate regulated utilities, including electricity distributors, electricity transmitters, natural gas utilities and Ontario Power Generation. The OEB expects utilities to file rate applications consistent with the Handbook unless a utility can demonstrate a strong rationale for departing from it. The Handbook describes three incentive rate-setting (IR) methods established by the RRF: (1) Price Cap IR, (2) Annual IR Index and (3) Custom IR.

The Price Cap IR option consists of a cost of service (or rebasing)¹ followed by four years of incentive rate-setting mechanism (IRM) adjustments, set by a simple price cap index formula (i.e., I-X), where the X-factor is based on a combination of industry conditions (productivity component) and distributor-specific performance (stretch factor component). The Annual IR Index method also adjusts rates by a simple price cap index formula; however, the stretch factor is set at the highest applicable value. Accordingly, all distributors on the Annual IR Index will be subject to the same X-factor. In the Custom IR method, rates are set based on a five-year forecast of a distributor's revenue requirement and sales volumes. The key elements for the three rate-setting methods were set out in the [Report of the Board: Renewed Regulatory Framework for Electricity: A Performance-Based Approach](#).

These filing requirements set out the OEB's expectations for electricity distributors' annual rate adjustment applications in between cost of service (CoS) applications under Price Cap IR, or the Annual IR Index, also known as IRM applications.²

¹ The OEB considers cost of service and rebasing to be the same and therefore these terms are used interchangeably for the purposes of this chapter.

² These filing requirements replace the 2021 edition of the Chapter 3 Incentive Rate-Setting Filing Requirements for Electricity Distribution Rate Applications, dated June 24, 2021.

3.1.1 Grouping for Filings

IRM applications will be grouped into four tranches. As set out below, there is a specific application deadline for each tranche of applications. Staggering applications in tranches allows the OEB and stakeholders to schedule resources for adequate review of the applications.

Applications seeking rate adjustments effective January 1, 2024, will all be assigned to the first tranche of applications. The application deadline for applications in the first tranche is August 17, 2023.

Applications seeking rate adjustments effective May 1, 2024, will be assigned to one of three additional tranches, upon consideration of the potential or expected complexity of each application. The OEB conducts a survey each spring to identify expected elements of a distributor's IRM application and to facilitate consideration of the expected complexity of applications. Assignment of an application to one of the three tranches is based on its expected level of complexity.

If a distributor expects that its application will be significantly more complex than it disclosed during the survey, it should advise the OEB as soon as possible and is encouraged to file in an earlier tranche.

Regardless of the rate year, any distributor seeking a rate adjustment for an incremental capital module (ICM) or a Z-factor claim, for example, should reflect on the complexity of the application and file earlier than the posted dates, as the complexity warrants.

Staggering the applications allows the OEB and other stakeholders to schedule resources to allow for adequate review of the applications. The deadlines for filing an IRM application have been determined so that, in the normal course of events, a decision and order will be issued in time for a May 1 implementation date.

The application deadlines are as follows:

- October 11, 2023
- November 1, 2023
- November 22, 2023

The assignment of distributors to these filing dates will be communicated in a letter to all distributors following the OEB's annual survey of each distributor's expected content of their IRM application.

3.1.2 Components of the Application Filing

Whether filing under Price Cap IR or the Annual IR Index, each application must include:

A manager's summary thoroughly documenting and explaining all rate adjustments requested

The contact information for the application - the primary contact for the application may be a person within the distributor's organization other than the primary licence contact. The OEB will communicate with this person during the application.

A completed Rate Generator model³ and supplementary workforms⁴ as applicable, provided by the OEB, in Excel format

A PDF copy of the current tariff sheet

Supporting documentation cited within the application, as applicable (e.g. excerpt of relevant past decisions and/or settlement agreements; the Revenue Requirement Workform (RRWF)⁵, etc.)

A statement as to who will be affected by the application, including identification of any specific customer(s) or customer groups that are or will be affected by a particular request or proposal

The distributor's internet address for purposes of viewing the application and related documents

A statement confirming the accuracy of the billing determinants for pre-populated models

A text-searchable PDF format for all documents, other than those filed in Excel format

1. The 2024 IRM Checklist

³ The Rate Generator model is an Excel workbook that calculates a distributor's proposed tariff of rates and charges in a Price Cap IR or Annual IR Index application.

⁴ Includes the GA Analysis Workform, Revenue Cost Ratio Adjustment Workform and the Incremental Capital Module/Advanced Capital Module (ICM) (ACM) Workform, as applicable.

⁵ The Revenue Requirement Workform that was filed as part of the draft rate order in the distributor's last cost of service application.

Certifications

Applicants should also review Chapter 1 of the Filing Requirements. Chapter 1 contains, among other matters, the requirement that applicants include a certification by a senior officer that the evidence filed, including the models and appendices, is accurate, consistent and complete to the best of their knowledge, a certification that the distributor has processes and internal controls in place for the preparation, review, verification and oversight of account balances being disposed, as well as a certification regarding personal information.

3.1.3 Applications and Electronic Models

The models issued by the OEB are intended to assist the distributor in filing a rate application and to ensure formatting consistency across all applications.

The 2024 Rate Generator model is populated with a distributor's most recent tariff of rates and charges, load and customer data, and Group 1 Deferral and Variance Account (DVA) balances, as reported through RRR. Distributors will be required to confirm the accuracy of the data. If a distributor has revised any RRR data after the data has been incorporated into the model, this change should be disclosed in the application. The remaining inputs will be marked with green input cells.

The OEB will provide passwords to distributors filing a 2024 IRM application to access their distributor-specific Rate Generator model through the OEB's website. Any distributor that did not receive a password but wishes to file an IR application for the 2024 rate year, must notify the OEB as soon as possible.

The Rate Generator model will update base rates, retail transmission service rates and if applicable, shared tax-related adjustments. It will also calculate rate riders for the disposition of DVA balances.

The Rate Generator model includes a bill impact calculation for each rate class, in which commodity rates based on time-of-use and regulatory charges are held constant. These will be based on the regulated price plan (RPP) prices in effect at the time the Rate Generator model was published, subject to updates over the course of the proceeding. To determine bill impacts, a typical residential customer has been defined as consuming 750 kWh in accordance with the [Report of the Board – Defining Ontario's Typical Residential Customer](#).

In addition to the Rate Generator model, all distributors must file the Global Adjustment (GA) Analysis Workform.

One or all of the following models are required when applications involve additional requests:

- A distributor seeking a revenue-to-cost ratio adjustment due to a previous OEB decision must continue to file the OEB's Revenue-to-Cost Ratio Adjustment Workform in addition to the Rate Generator model
- For an Incremental or Advanced Capital Module (ICM/ACM) cost recovery and associated rate rider(s), a distributor must file the Capital Module applicable to ACM and ICM
- A distributor seeking to dispose of lost revenue amounts from conservation and demand management activities, during an IRM term, must file the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Workform
- A distributor with a zero balance in the LRAMVA that is requesting a rate rider for previously approved LRAM-eligible amounts does not need to file the LRAMVA Workform but should provide the calculations used to generate the requested LRAM-eligible rate riders

The models and workforms issued by the OEB are provided to assist the distributor in filing a rate application and to provide consistent formatting for all distributors for greater efficiency of the review process. A distributor is responsible for the completeness and accuracy of its application. The distributor bears the responsibility to ensure the accuracy and appropriateness of all inputs and outputs from the models that it uses in supporting its application. The use of an OEB model does not guarantee that the OEB will approve the results. The OEB expects all distributors to use the OEB's models and workforms. If a distributor makes any changes to OEB models or workforms to address its own circumstances, it must disclose and justify such changes in the manager's summary.

3.2 Elements of the Price Cap IR and the Annual IR Index Plans

3.2.1 Annual Adjustment Mechanism

The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains.⁶ The components in the formula are approved by the OEB annually. The formula is a rate adjustment equal to the inflation factor minus the distributor's X-factor.

Inflation Factor

In its [Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors](#), the OEB adopted a two-factor industry-specific price index methodology. The inflation factor is based on two weighted price indicators (labour and non-labour) which provide an input price that reflects Ontario's electricity industry.

X-factor

The X-factor has two parts: a productivity factor and a stretch factor. The OEB determined that the appropriate value for the productivity factor (industry total factor productivity) for the Price Cap IR and Annual IR Index is zero as part of setting the parameters for this rate-setting framework.⁷ For the stretch factor, distributors will be assigned into one of five groups ranging from 0.0% to 0.6%. The most efficient distributors, based on the cost evaluation ranking, would be assigned the lowest stretch factor of 0.0%. Distributors filing an Annual IR Index application will be assigned the highest stretch factor of 0.6%.

Distributors shall use the 2023 rate-setting parameters as a placeholder until the stretch factor assignments and inflation factor for 2024 are issued by the OEB. OEB staff will update each distributor's Rate Generator model with the 2024 parameters once they are available. Distributors will have an opportunity to comment on the accuracy of OEB staff's updates as part of the application process.

⁶ Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors, issued December 4, 2013

⁷ Ibid, p. 17

3.2.1.1 Application of the Annual Adjustment Mechanism

The annual adjustment mechanism applies to distribution rates (fixed and variable charges) uniformly across customer rate classes.

The annual adjustment mechanism is not applied to the following components of delivery rates:

Rate Adders

Rate Riders

Low Voltage Service Rates

Retail Transmission Service Rates

Wholesale Market Service Rate

Rural and Remote Rate Protection Benefit and Charge

Standard Supply Service – Administrative Charge

Capacity Based Recovery

MicroFIT Service Charge

Specific Service Charges

Smart Metering Entity Charge

Loss Factors

- Transformation and Primary Metering Allowances⁸

3.2.2 Revenue-to-Cost Ratio Adjustments

OEB decisions regarding cost of service rate applications may sometimes prescribe a phase-in period to adjust the revenue-to-cost ratios. The OEB's Revenue-to-Cost Ratio Adjustment model and Rate Generator model include schedules for a distributor to adjust the revenue-to-cost ratio if previously approved by the OEB. The model will

⁸ And any other allowances the OEB may determine.

adjust base distribution rates before the application of the annual adjustment mechanism.

3.2.3 Rate Design for Residential Electricity Customers

On April 2, 2015, the OEB released its [Board Policy: A New Distribution Rate Design for Residential Electricity Customers](#),⁹ which stated that electricity distributors will transition to a fully fixed monthly distribution service charge for residential customers. The transition began in 2016 and in most cases was implemented and completed over a period of four years. Those distributors that are still in the process of moving to fully fixed residential rates should refer to the approach to implementation of the policy, including mitigation expectations described in a [letter](#) from the OEB published on July 16, 2015. Distributors should also refer to their specific OEB decisions that approved the extended implementation of fully fixed residential rates.

Distributors are expected to propose a fully fixed rate design for new charges applicable to the residential class provided that those charges are specifically related to the distribution of electricity.¹⁰ Pass-through cost of power (e.g., transmission rates, low voltage charges, wholesale market service charges, and commodity costs) and LRAMVA amounts are to continue to be recovered as variable charges because the distributor's costs vary with electricity usage. Previously approved distribution-specific charges or rate riders on a distributor's tariff should remain unchanged until they expire, even if they were declared interim.

Beyond the issue of residential rate design specifically addressed in this section, distributors are reminded that they must file a mitigation plan if total bill increases for any customer class exceed 10%.

3.2.4 Electricity Distribution Retail Transmission Service Rates

In preparing its application, a distributor should refer to the OEB's [Guideline G-2008-0001: Electricity Distribution Retail Transmission Service Rates \(RTSR\), Revision 4.0](#), issued June 28, 2012,¹¹ subsequent updates to the uniform transmission rates (UTRs), and any host distributor's rates.

⁹ EB-2012-0410, Board Policy: A New Distribution Rate Design for Residential Electricity Customers, issued April 2, 2015

¹⁰ Examples of distribution-specific charges include Shared Tax Impacts, Z-Factors, and ACM/ICM rate riders

¹¹ Originally issued October 22, 2008

The OEB's Rate Generator model will assist in calculating the distributor's class-specific RTSRs. The Rate Generator model will reflect the most recent UTRs approved by the OEB. Once January 1, 2024 UTR adjustments have been determined, OEB staff will adjust each distributor's 2024 RTSR section of the Rate Generator model to incorporate these changes, where applicable. The Rate Generator model will also reflect the most recent sub-transmission rates approved by the OEB. Likewise, OEB staff will update these rates as they become available, where applicable.

3.2.5 Low Voltage Service Rates (optional)

An embedded distributor (whether fully or partially) has the option to update its Low Voltage service rate during the IRM term. A distributor requesting this update must provide the following information:

- Most recent Low Voltage costs charged by the host distributor to the applicant
- Actual Low Voltage costs for the last five historical years. The distributor must also provide the year-over-year variances and explanations for substantive changes in the costs over time
- Support for the updated Low Voltage costs: last actual volumes and host distributor(s) rates applicable to the distributor. For example, a distributor whose host distributor is Hydro One would include the distributor's costs for sub-transmission lines, plus a sub-transmission service charge, plus any other charges, such as facility charges for connection to a shared distribution station, that apply to the embedded distributor's monthly bill from the host distributor, together with the applicable charge determinants.
- Allocation of Low Voltage costs to customer classes (generally in proportion to transmission connection rate revenues)
- Proposed Low Voltage rates by customer class to reflect these costs

The Rate Generator model has been updated to include Tabs 17.1 and 17.2 which allow the calculation of updated Low Voltage service rates based on actual Low Voltage cost. These are intended to capture the required information and perform the calculation of Low Voltage rates.

3.2.6 Review and Disposition of Group 1 Deferral and Variance Account Balances

[The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative](#) (EDDVAR)¹² provides that under the Price Cap IR or the Annual IR Index, the distributor's Group 1 account balances will be reviewed and disposed if the pre-set disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance over the threshold should not be disposed. Consistent with a letter from the OEB issued July 25, 2014, distributors may elect to dispose of Group 1 account balances below the threshold. Distributors should assess the practicality of disposing what may be small balances for one or more classes; for further guidance on considerations relevant to rate riders, see Appendix A.

In its application, a distributor must include Group 1 balances as of December 31, 2022, to determine if the threshold has been exceeded. The continuity schedule, found on Tab 3 of the Rate Generator model, must be completed as part of the application.

Group 1 accounts consist of the following, from the Uniform System of Accounts (USoA) contained in the [Accounting Procedures Handbook \(APH\) for Electricity Distributors](#):

- 1550 Low Voltage Variance
- 1551 Smart Metering Entity Charge Variance
- 1580 RSVA Wholesale Market Service Charges
 - 1580 Variance WMS, Sub-Account CBR Class A
 - 1580 Variance WMS, Sub-Account CBR Class B
- 1584 RSVA Retail Transmission Network Charges
- 1586 RSVA Retail Transmission Connection Charges
- 1588 RSVA Power
- 1589 RSVA Global Adjustment
- 1595 Disposition and Recovery/Refund of Regulatory Balances

The opening principal amounts as well as the opening interest amounts for Group 1 balances, shown in the continuity schedule, must reconcile with the last applicable,

¹² EB-2008-0046, The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report, issued July 31, 2009

approved closing balances.¹³ Distributors must provide an explanation when the Group 1 account balances presented on the Tab 3 – Continuity Schedule of the Rate Generator model differ from the account balances in the trial balance as reported through the RRR (which have been pre-populated in the Tab 3 – Continuity Schedule of the Rate Generator model).

Refer to the IRM Rate Generator - DVA Tabs Instructions, which is a separate pdf of a Microsoft Word document on the OEB's website for instructions on completing the DVA Continuity Schedule, annual updates to the DVA Continuity Schedule, and discussions on default treatments and expectations for DVAs (e.g., balance allocation, disposition periods, rate rider calculations)

A distributor must make a statement as to whether it has made any adjustments to DVA balances that were previously approved by the OEB on a final basis. The OEB expects that distributors will not adjust any DVA balances that were previously approved by the OEB on a final basis. If any adjustments are made to previously approved final balances, the distributor must identify the nature of the adjustment as “retroactive”, provide explanations for the nature and the amount of the adjustment(s), and include appropriate supporting documentation, under a section titled “Adjustments to Deferral and Variance Accounts”. This expectation also applies to adjustments relating to previously approved balances that are proposed to be made to the current balances requested for disposition in the current application. In the case where an accounting or other error is discovered in Group 1 DVAs, the OEB expects distributors to disclose the errors as a part of their rate applications. The OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the circumstances of each case. Note that an asymmetrical approach to correction of the error may be appropriate in certain circumstances.¹⁴

The Rate Generator model will calculate the DVA disposition threshold using the last full year of actual load data as reported through the RRR. The default billing determinants used in the calculation of the Group 1 DVA rate riders will also be based on recent load data. The use of actual data should reduce residual variances by reflecting recent changes in customer class composition. A distributor may propose an alternative method with supporting rationale. In that case, revisions to the Rate Generator model may be required.

¹³ If balances were last approved on an interim basis, and adjustments have been made to the approved balances, a distributor must complete the continuity schedule starting from the last balances approved on a final basis.

¹⁴ Distributors should refer to the OEB's [letter](#), issued October 31, 2019, Regarding Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts after Disposition.

EDDVAR states that the default disposition period to clear the Group 1 account balances through a rate rider should be one year. However, a distributor may propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate. A distributor must justify any such proposal with supporting information.

3.2.6.3 Commodity Accounts 1588 and 1589

On February 21, 2019, the OEB issued accounting guidance related to Accounts 1588 Power and 1589 RSVA Global Adjustment (Accounting Guidance).¹⁵ This Accounting Guidance was to be implemented by August 31, 2019. Based on this, the OEB expects that all transactions recorded in these accounts during 2019, and each year thereafter, will have been accounted for in accordance with this guidance. Distributors should indicate the year in which Account 1588 and Account 1589 balances were last approved for disposition, whether the balances were approved on an interim or final basis, and if they were disposed on an interim basis, which year they were last disposed on a final basis.

Final Disposition Requests after Implementation of Accounting Guidance

A distributor that is requesting final disposition of balances for the first time, following implementation of the Accounting Guidance, must confirm that it has fully implemented the Accounting Guidance effective from January 1, 2019.

Distributors are also expected to consider this Accounting Guidance in the context of pre-2019 balances that have yet to be disposed on a final basis. To request final disposition of these balances as part of an application, distributors must confirm that these historical balances have been considered in the context of the Accounting Guidance and provide a summary of the review performed. Distributors must also discuss the results of the review, whether any systemic issues were noted, and whether any material adjustments to the account balances have been recorded. A summary and description of each adjustment made to the balances must be provided in the application.

¹⁵ Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment, issued February 21, 2019

GA Analysis Workform

All distributors are required to complete and submit the GA Analysis Workform for each year that has not previously been approved by the OEB for disposition, irrespective of whether they are seeking disposition of the Account 1589 balance as part of their application. If the distributor is adjusting the Account 1589 balance that was previously approved on an interim basis, the workform is required to be completed from the year after the distributor last received final disposition for Account 1589. The workform helps the OEB assess if the total annual variance that is recorded to Account 1589 is reasonable. The workform compares the actual general ledger transactions recorded during the year to an expected balance that is calculated based on monthly GA volumes, revenues, and costs.

Any unexplained discrepancy that is greater than +/- 1% of the total annual IESO GA charges is considered material and warrants further analysis and supporting evidence. To further support a conclusion that GA charges have been appropriately allocated between customer classes, distributors must also perform a reasonability test for Account 1588. The reasonability test is included in the GA Analysis Workform.

The workform, along with detailed instructions, is available on the OEB's website and is to be filed in Excel format.

3.2.6.4 Capacity Based Recovery (CBR)

Distributors that propose disposition of Account 1580 sub-account CBR Class B must do so in accordance with the OEB's Capacity Based Recovery ([CBR accounting guidance](#)). The balance in sub-account CBR Class B must be disposed over the default period of one year.. For the disposition of Account 1580, sub-account CBR Class A, distributors must follow the CBR accounting guidance, which results in balances disposed outside of a rates proceeding.

Refer to the IRM Rate Generator - DVA Tabs Instructions, which is a separate pdf of a Microsoft Word document on the OEB's website for instructions and for further details on the treatment of CBR related sub-accounts.

3.2.6.5 Disposition of Account 1595

When the OEB approves disposition of DVA balances, the approved amounts of principal and carrying charges are transferred to Account 1595 for that rate year.

Distributors are expected to request disposition of residual balances in Account 1595 Sub-accounts for each vintage year only once, on a final basis. Distributors only become eligible to seek disposition of these residual balances two years after the expiry of the rate rider. During the two years after the expiry of the rate rider, distributors may still make billing corrections as per the Retail Settlement Code and should record the related transactions in the associated Account 1595 sub-account. The eligibility criteria for disposition of Account 1595 sub-accounts depends on the distributor's rate year. For example:

- January 1 rate year – If 2020 rate riders expire on December 31, 2020, the balance of sub-account 1595 (2020) is eligible to be disposed after the account balance as of December 31, 2022 has been audited. Therefore, sub-account 1595 (2019) would be eligible for disposition in the 2024 rate year.
- May 1 rate year – If 2020 rate riders expire on April 30, 2021, the balance of sub-account 1595 (2020) is eligible to be disposed after the account balance as of December 31, 2023 has been audited. Therefore, sub-account 1595 (2020) would be eligible for disposition in the 2025 rate year.

No further transactions are expected to be recorded in the Account 1595 sub-accounts once the residual balance has been disposed of. Generally, after the rate riders associated with balances transferred to an Account 1595 sub-account have expired, the residual balance is expected to be relatively small, represented by the difference between the forecast billing determinants upon which the riders were derived and the actual billing determinants over that period.¹⁶ If there are material residual balances being proposed for disposition, applicants are expected to provide a detailed explanation, including quantifying any significant drivers of the residual balances.

3.2.7 Lost Revenue Adjustment Mechanism Variance Account

The lost revenue adjustment mechanism variance account (LRAMVA) is a retrospective adjustment designed to account for differences between forecast revenue loss attributable to Conservation and Demand Management (CDM) activity embedded in rates and actual revenue loss due to the impacts of CDM programs. The OEB established Account 1568 as the LRAMVA to capture the difference between the OEB-approved CDM forecast and actual results at the customer rate class level.¹⁷ Treatment

¹⁶ There may also be instances where the residual balance also contains amounts associated with balances transferred to the vintage sub-accounts under Account 1595 (for example, shared tax impacts).

¹⁷ [EB-2012-0003, Guidelines for Electricity Distributor Conservation and Demand Management](#)

of the LRAMVA is documented in several versions of the CDM Guidelines (2012, 2015, 2021).

In May 2016, the OEB issued the [Report of the OEB on Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs](#) (the LRAMVA Report), in which the OEB updated its policy on how peak demand savings from energy efficiency and demand response programs should be treated for LRAMVA purposes.

In July 2016, the OEB developed a generic LRAMVA Workform to provide distributors with a consistent approach to calculate amounts to record in the LRAMVA. The LRAMVA Workform consolidates information that distributors have received from the IESO.

In December 2016, the OEB indicated, in various decisions,¹⁸ that changes to an approved LRAMVA amount were not permitted. This policy affects the treatment of verified savings adjustments that can be claimed by distributors. If an LRAMVA amount was approved and disposed, the persistence of the savings adjustment(s) can only be claimed on a “go-forward” basis.¹⁹ Distributors cannot seek recovery of LRAMVA amounts related to savings adjustments for a year in which the corresponding LRAMVA amount had been approved by the OEB on a final basis. For example, if a distributor received approval for final disposition of its 2014 LRAMVA balance, which excluded 2014 savings adjustments, the distributor must forgo any LRAMVA amounts related to the 2014 savings adjustments.

The [2021 CDM Guidelines](#)²⁰ indicated that distributors were not eligible for LRAM for other IESO programs funded through the Interim Framework, or for CDM activities funded by the IESO through the [2021-2024 CDM Framework](#).²¹ Distributors may request the use of the LRAMVA for distribution rate-funded CDM activities or Local Initiatives Program (LIP) activities on a case-by-case basis.

¹⁸ EB-2016-0075, Guelph Hydro Electric Systems Inc. Decision and Rate Order and EB-2016-0080 Hydro One Brampton Networks Inc., Decision and Rate Order

¹⁹ See EB-2016-0214, North Bay Hydro, Decision and Rate Order, for an example.

²⁰ EB-2021-0106, Conservation and Demand Management Guidelines for Electricity Distributors, December 20, 2021.

²¹ 2021-2024 Conservation and Demand Management Framework Program Plan, Independent Electricity System Operator.

3.2.7.1 Disposition of the LRAMVA and Rate Riders for Previously Approved LRAM-Eligible Amounts

The 2021 CDM Guidelines required distributors filing an application for 2023 rates to seek disposition of all outstanding LRAMVA balances related to previously established LRAMVA thresholds (i.e., thresholds established in a distributor's previous cost of service proceeding) if possible. Most distributors have completed this step and now have a zero balance in the LRAMVA. Some of these distributors also had LRAM-eligible amounts approved for future years (with the approved amounts to be adjusted mechanistically by the approved inflation minus X factor applicable to IRM applications in effect for a given year and recovered through a rate rider in the corresponding rate year).

Filing requirements differ depending on whether or not a distributor has already disposed of any balance in the LRAMVA as described below.

Distributors with zero balance in the LRAMVA (including those with previously approved LRAM-eligible amounts)

A distributor with a zero balance in the LRAMVA should indicate this fact in its application and advise that it is not requesting any disposition. If a distributor with zero balance in the LRAMVA is requesting rate rider(s) for 2024 rates to recover an LRAM-eligible amount approved in a previous proceeding, the distributor should reference the previous OEB decision where the base LRAM-eligible amount for 2024 (i.e., the amount prior to the mechanistic adjustment) was approved, and provide the calculations used to generate the requested LRAM-eligible rate riders (i.e., the mechanistic adjustment and the allocation to rate classes). Distributors are to input the resulting rate rider(s) in Tab 19 – Additional Rates of the IRM Rate Generator Model. Distributors in this circumstance do not need to file the LRAMVA workform or any additional documentation.

Distributors with non-zero balance in the LRAMVA

A distributor that does not have a confirmed zero balance in the LRAMVA should seek disposition as part of their 2024 IRM applications, with supporting information, or provide a rationale for not doing so. In addition, such distributors are eligible for LRAM for persisting impacts of CFF programs and Local Program Fund programs until their next rebasing. Such distributors not rebasing for 2024 rates who have complete information on eligible savings (i.e., needing only to account for persistence of savings

in future years) should calculate and request approval of LRAM-eligible amounts²² to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application, and request any rate rider(s) for 2024 rates for the 2024 LRAM-eligible amount.

For distributors with a non-zero balance in the LRAMVA seeking disposition of the balance, details on the information requirements for LRAMVA disposition requests are provided below.

Supporting Evidence for CFF Savings

The IESO has made monthly Participation and Cost Reports available to electricity distributors from January 1, 2018 to April 15, 2019. The monthly Participation and Cost Reports include, amongst other information, incremental first-year energy savings as well as information related to persistence. Results from the IESO's 2017 program evaluation have been applied to the January 1, 2018 to April 15, 2019 gross unverified savings values, including net-to-gross factors and gross realization rates.

To create the Participation and Cost Reports, each distributor submitted detailed project-level files to the IESO that contained project level savings and costs. The detailed project level savings files include all relevant information related to each project the distributor completed and submitted to the IESO.

To calculate net savings values at the project level, distributors should rely on results from the IESO's 2017 program evaluation (e.g., net-to-gross values and gross realization rates).

The OEB will rely on the Participation and Cost Reports and detailed project level savings files as supporting documentation when assessing applications for lost revenues in relation to energy and demand savings from programs delivered under the CFF where final verified results from the IESO are not available.

Additional Supporting Evidence for Disposition of the LRAMVA

Distributors should use the latest version of the LRAMVA Workform when making LRAMVA requests for remaining amounts related to CFF activity and from programs they delivered through the Local Program Fund that was part of the Interim Framework. An application for lost revenues should include the following:

²² More details are provided in the form: [Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2024 Rates](#).

- Final Verified Annual Reports if the distributor is claiming lost revenues from savings from CDM programs delivered in 2017 or earlier.
- Participation and Cost Reports and detailed project level savings files made available by the IESO to support the clearance of energy- and/or demand-related LRAMVA balances for the period of January 1, 2018 to April 15, 2019. These reports should be filed in Excel format, similar to the previous Final Verified Annual Reports from 2015 to 2017. To support savings claims for projects completed after April 15, 2019, distributors should provide similar supporting evidence.
- Other supporting evidence with an explanation and rationale should be provided to justify the eligibility of any other savings from a program delivered by a distributor through the Local Program Fund that was part of the Interim Framework after April 15, 2019.

In relation to the project level savings reports used to support LRAMVA claims, these documents may contain personal information (e.g., residential customers' names, addresses, postal codes, phone numbers, and email addresses) and/or business information that may be commercially sensitive (e.g., facility consumption information and production information). Personal information and commercially sensitive information is not needed to support LRAMVA claims and should not be filed. Distributors should delete any personal information or commercially sensitive information in the Excel spreadsheets or any other documentation that is filed with the OEB. This includes information that may be hidden within the Excel spreadsheets.

If, in the distributor's view, it needs to file the Excel spreadsheets or any other documentation with all of the information included, then the documents must be filed in accordance with the OEB's Rules of Practice and Procedure (Rules). For personal information, the documents must be filed in accordance with Rule 9A of the Rules (and the Practice Direction on Confidential Filings, as applicable). For commercially sensitive information, a distributor should use Rule 10 of the Rules and request confidentiality for that information.

The distributor shall compare any OEB-approved LRAMVA threshold to actual CDM results at a rate class level. The variances calculated from this comparison shall be recorded in separate Sub-Accounts for the applicable customer rate classes.

The following information should be provided in the application:

- A statement identifying the year(s) of new lost revenues and prior year savings persistence claimed in the LRAMVA disposition.
- A statement confirming that the LRAMVA balances are based on verified savings

results that are supported by the distributor's Final Verified Annual Report(s) (which include a Persistence Savings Report) issued by the IESO, where available. Reports must be filed in Excel format.

- A statement indicating that the distributor has relied on the most recent input assumptions available at the time of program evaluation.
- A summary table showing the principal and carrying charges amounts by rate class and the resultant rate riders for each rate class. Projected carrying charges related to the disposition should be calculated in the LRAMVA workform.
- A statement confirming the period of rate recovery.
- Rationale must be provided for disposing the balance in the LRAMVA if, upon disposition, a significant rate rider is not generated for one or more rate classes.
- Details related to the approved CDM forecast savings from the distributor's last rebasing application.
- A statement explaining how the rate class allocations for actual CDM savings are determined by customer class and program for each year.
- A statement confirming whether additional documentation or data is being provided in support of projects that were not included in the distributor's Final Verified Annual Reports and Participation and Cost reports (e.g., street lighting projects). Distributors' billing data by project must be included in Tab 8 of the LRAMVA workform, as applicable.
- If not already filed in support of a previous LRAMVA application, distributors should provide Participation and Cost Reports and detailed project level savings files made available by the IESO and/or other supporting evidence to support the clearance of energy- and/or demand-related LRAMVA balances where final verified results from the IESO are not available. These reports should be filed in Excel format, similar to the previous Final Verified Annual Reports from 2015 to 2017.
- For a distributor's street lighting project(s) which may have been completed in collaboration with local municipalities, the following must be provided:
 - Explanation of the methodology used to calculate street lighting savings
 - Confirmation of whether the street lighting project(s) received funding from the IESO and the appropriate net-to-gross assumptions used to calculate streetlighting savings
- For the recovery of lost revenues related to demand savings from streetlight upgrades, distributors should provide the following information:
 - Explanation of the forecast demand savings from streetlights, including assumptions built into the load forecast from the last cost of service application.
 - Confirmation that the streetlight upgrades represent incremental savings attributable to participation in the IESO program, and that any savings not

- attributable to the IESO program have been removed (for example, other upgrades under normal asset management plans).
- Confirmation that the associated energy savings from the applicable IESO program have been removed from the LRAMVA Workform so as not to double count savings (for example, if requesting lost revenue recovery for the demand savings from a streetlight upgrade program, the associated energy savings from the Retrofit program have been subtracted from the Retrofit total).
 - Confirmation that the distributor has received reports from the participating municipality that validate the number and type of bulbs replaced or retrofitted through the IESO program.
 - A table, in live Excel format, that shows the monthly breakdown of billed demand over the period of the streetlight upgrade project, and the detailed calculations of the change in billed demand due to the streetlight upgrade project (including data on number of bulbs, type of bulb replaced or retrofitted, average demand per bulb).
- For the recovery of lost revenues related to energy and demand savings from other programs that are not included in the Final Verified Annual Reports and Participation and Cost Reports (for example Combined Heat and Power projects), distributors should provide the following information:
 - The third party evaluation report that describes the methodology to calculate the demand savings achieved for the program year. In particular, if the proposed methodology is different from the evaluation approaches used by the IESO, an explanation must be provided explaining why the proposed approach is more appropriate.
 - Rationale for net-to-gross assumptions used.
 - Breakdown of billed demand and detailed level calculations in live Excel format.
 - For program savings for projects completed after April 15, 2019, distributors should provide the following:
 - Related to CFF programs: an explanation must be provided as to how savings have been estimated based on the available data (i.e., IESO's Participation and Cost Reports) and/or rationale to justify the eligibility of the program savings.
 - Related to programs delivered by the distributor through the Local Program Fund under the Interim CDM Framework: an explanation and rationale should be provided to justify the eligibility of the additional program savings.

An application to dispose of the balance in the LRAMVA may only be filed as part of an Annual IR Index application if the OEB's decision (or settlement agreement approved by the OEB) for the distributor's last cost of service application has a clear description of class-specific CDM adjustments made to the load forecast to be used in the calculation of the LRAMVA balance. Any applications for LRAMVA dispositions determined by the OEB to be more complex than is appropriate for an Annual IR Index application will be bifurcated and heard separately from the Annual IR Index application.

3.2.7.2 Continuing Use of the LRAMVA for New CDM Activities

The 2021 CDM Guidelines indicate that distributors may request the use of the LRAMVA for distribution-rate funded CDM activities or LIP activities on a case-by-case basis.

A distributor should indicate whether it is requesting an LRAMVA for one or more of these activities, if this request has not been addressed in a previous application.

In all cases where a distributor is requesting funding for a CDM activity outside of rebasing, or access to, and the use of, an LRAMVA for a distribution rate-funded CDM activity or a LIP activity, the distributor should refer to the 2021 CDM Guidelines for the nature of the evidence the OEB requires to assess such a proposal. While the OEB generally expects that distributors would bring forward any such requests as part of a rebasing application, they are not precluded from doing so in an IRM proceeding. An application requesting funding for CDM activities would be heard by a panel of Commissioners, not by an employee of the OEB under delegated authority.

3.2.8 Tax Changes

The OEB's policy, as described in the OEB's 2008 [Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#) (the Supplemental Report),²³ prescribes a 50/50 sharing of impacts of legislated tax changes from a distributor's tax rates embedded in its OEB-approved base rates known at the time of the application. These amounts will be refunded to, or recovered from, customers over a 12-month period. If applicable, distributors must complete Tabs 8 and 9 of the Rate Generator model for these impacts. The Rate Generator model will calculate applicable rate riders using the appropriate customer class data underlying the OEB-approved rates. A rate rider to four decimal places must be generated for all applicable customer classes to dispose of the amounts. If a rate rider to the fourth

²³ EB-2007-0673, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, issued September 17, 2008

decimal place is not generated for one or more customer class, the entire sharing amount will be transferred to the associated sub-account for that rate year under Account 1595 for disposition at a future date.

As stated in its 2022 Fall Economic Statement, the Province of Ontario plans to parallel the federal change in the Small Business Deduction (SBD) phase-out that was first announced in the 2022 federal budget.²⁴ The SBD will not be reduced to nil until a Canadian-Controlled Private Corporation (CCPC) and its associated corporations have a combined taxable capital of \$50 million. This change is effective for tax years beginning after April 6, 2022. For regulatory purposes, rate base is the proxy for taxable capital.²⁵ The Rate Generator Model reflects the change in SBD phase-out for 2024 rates. Account 1592 – PILs and Tax Variances was established to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the OEB Tax Model that is used to determine the tax amount that underpins rates.²⁶ Distributors are reminded to record the full impact of the SBD phase-out for 2022 and 2023, if applicable, in Account 1592.

On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent. Included in Bill C-97 were various changes to the federal income tax regime. One of the changes introduced by Bill C-97 is the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in Capital Cost Allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. The AIIP is being phased out from 2024 to 2027, and fully phased out in 2028. The impacts of changes in CCA rules are to be considered in distributor rebasing applications, and are excluded from the tax changes (such as changes in corporate tax rates) typically addressed in an IRM application.²⁷

3.2.9 Z-factor Claims

Distributors under a Price Cap IR or Annual IR Index rate-setting plan may request cost recovery associated with unforeseen events that are outside the control of a distributor's ability to manage. This is referred to as a claim for a "Z-factor" event. The cost to a distributor must be material and its causation clear. Costs are to be recorded in Account 1572, Extraordinary Events Costs. Carrying charges apply to the account at the OEB-prescribed rates. To recover these amounts, a distributor must follow the guidelines

²⁴ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/provincial-territorial-corporation-tax/ontario-provincial-corporation-tax/ontario-small-business-deduction.html>

²⁵ 2006 Electricity Distribution Rate Handbook, May 11, 2005, p.64

²⁶ Accounting Procedures Handbook, Article 220, p.38

²⁷ OEB [letter](#): Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, issued July 25, 2019

discussed in section 2.6 of the [Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#), issued July 14, 2008. The materiality thresholds, described in the above noted OEB report, must be met on an individual event basis for the distributor to apply for recovery of the relevant costs.

To be eligible for a Z-factor claim, a distributor must demonstrate that its achieved regulatory return on equity (ROE), during its most recently completed fiscal year, does not exceed 300 basis points above its deemed ROE embedded in its base rates.

3.2.9.1 Z-factor Filing Guidelines

A distributor must submit evidence that the costs incurred meet the three eligibility criteria of causation, materiality, and prudence. A distributor must also:

Notify the OEB promptly by letter to the Registrar of all Z-factor events. Failure to notify the OEB within six months of the event may result in the disallowance of the claim.

Apply to the OEB to recover costs recorded in the OEB-approved deferral account claimed under Z-factor treatment. This will allow the OEB and any affected distributor the flexibility to address extraordinary events promptly. Subsequently, the OEB may review and prospectively adjust the amounts for which Z-factor treatment is claimed.

Provide a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations.

Demonstrate that the costs were incurred within a 12-month period and are incremental to those already being recovered in rates as part of ongoing business risk.

Provide the distributor's achieved and deemed regulatory ROE for the most recently completed fiscal year.

3.2.9.2 Recovery of Z-Factor Costs

As part of its claim, a distributor must outline how it intends to allocate the incremental revenue requirement to the various customer rate classes, the rationale for the selected approach and a discussion of the merits of alternative allocation methods. Recovery will be through a rate rider. The request must specify whether the rate rider(s) will apply on a fixed or variable basis or a combination thereof, and the length of the disposition period and a rationale for this proposal. As discussed in section 3.2.3, any new rate riders that apply to residential classes must only be applied on a fixed basis. A detailed calculation of the incremental revenue requirement and resulting rate rider(s) must be provided.

3.2.10 Off-Ramps

For the Price Cap IR and Annual IR index rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved ROE. The OEB monitors results filed by distributors as part of their RRR (specifically, RRR 2.1.5.6) and determines if a regulatory review is warranted. Any such review will be prospective, and may result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor whose earnings are in excess of the dead band nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so. A distributor is expected to file its regulated ROE, as was filed for RRR 2.1.5.6. However, if in the distributor's view this ROE has been affected by out-of-period or other items (for example, revenues or costs that pertain to a prior period but recognized in a subsequent one), it may also file a proposal to normalize its achieved regulated ROE for those impacts, for consideration by the OEB. The distributor should anticipate that the level of earnings will be raised as an issue in the application.

A distributor may choose to file only for disposition of Group 1 DVA balances, adjustments to its RTSRs, or any other adjustment typically processed in an IRM application, in accordance with OEB policies, without applying for adjustments to its base rates.

3.3 Elements Specific only to the Price Cap IR Plan

3.3.1 Advanced Capital Module

On September 18, 2014, the OEB issued the [Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module](#) (ACM Report).²⁸ The Advanced Capital Module (ACM) reflects an evolution of the Incremental Capital Module (ICM) adopted by the OEB in 2008. The ACM approach seeks to increase regulatory efficiency during the Price Cap IR term and provides a distributor with the opportunity to smooth out its capital program over the five-year period between cost of service applications.

²⁸ EB-2014-0219, Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, issued September 18, 2014

A distributor must make any ACM requests as part of a cost of service application. At that time, the need for, and prudence of, any such requests will be determined. Cost recovery (i.e. rate riders) for qualifying ACM projects will be determined in the subsequent Price Cap IR application for the year in which the capital investment will come into service.

While an ACM request must be made in a cost of service application, a Price Cap IR application is the vehicle in which a distributor may calculate the rate rider to recover the amounts approved in a cost of service application. A distributor seeking cost recovery through a Price Cap IR application should carefully review the ACM Report before making such a request.

A means test applies to ACM funding. A distributor approved for an ACM in its most recent cost of service application must file its most recent calculation of its regulated return²⁹ at the time of the applicable Price Cap IR application in which funding for the project, and recovery through rate riders, would commence. If the achieved regulated ROE for the most recently completed fiscal year exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, that distributor does not qualify for funding for an incremental capital project. Therefore, any approvals provided for an ACM in a cost of service application will be subject to the distributor passing the means test to receive its funding during the IR term. The same means test shall also apply going forward for new projects proposed under the ICM during the Price Cap IR term.

A distributor meeting this requirement must provide the relevant project's (or projects') updated cost projections, confirm that the project or projects are on schedule to be completed as planned, and file an updated ACM/ICM module in Excel format. If the proposed cost recovery differs significantly from the pre-approved amount, the distributor must provide a detailed explanation. Any changes in the scope or timing of the project must be clearly explained and justified.

If the updated cost projections are greater than the pre-approved amount by 30% or more, the distributor must treat the project as a new ICM project and re-file the business case and other relevant material in the applicable IR year.

²⁹ RRR 2.1.5.6

As part of the distributor's subsequent rebasing application, the OEB will carry out a prudence review of the actual costs to determine the amounts to be incorporated in rate base. At that time, the OEB will also determine the treatment of differences between forecast and actual spending during the remainder of the IRM plan term (i.e., if any true-up is required).

On January 22, 2016, the OEB issued the [Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report](#) (Supplemental Report).³⁰ This report made changes to the materiality threshold on which ACM and ICM proposals are assessed, but otherwise does not alter the requirements for ACM and ICM proposals by a distributor. The Supplemental Report also reaffirms the applicability of the half-year rule for determining the return of and return on capital in the first year that assets enter service.

An associated and updated Capital Funding Module to reflect the changes to the materiality threshold was also issued along with the Supplemental Report and is available on the OEB's website. A distributor filing for ACM/ICM rate riders must use the current model.

3.3.2 Incremental Capital Module

The ICM is available to electricity distributors under the Price Cap IR plan. The ICM is intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold defined below. The ICM is available for discretionary and non-discretionary projects. The ICM is also available for capital projects that were not included in the distributor's last filed Distribution System Plan (DSP). Even for approved ACM projects, an ICM is available if an updated ACM budget exceeds the approved ACM budget by 30%. Distributors with multiple capital projects should consider the Custom IR option to address capital needs in the context of their DSP, rather than submit multiple ICM applications or ICM applications that consistently use up a substantial amount of the eligible available capital amount. As discussed in section 3.3.1., a means test applies to ICM funding.

Distributors are not permitted to access the ICM during cost of service deferral periods except in those instances where a distributor is in a deferral period arising from a utility consolidation.³¹ For distributors that are in an extended deferral period following

³⁰ EB-2014-0219, Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report, issued January 22, 2016

³¹ [OEB Letter](#), issued December 1, 2021

consolidation (i.e., years six to ten of their deferral period), incremental capital funding for an annual capital program may be requested, under certain conditions.³²

The requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates and satisfy the eligibility criteria of materiality, need and prudence set out in section 4.1.5 of the ACM Report.

Criteria	Description
Materiality	<p>A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.</p> <p>Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.</p>
Need	<p>The distributor must pass the Means Test (as defined in the ACM Report).</p> <p>Amounts must be based on discrete projects and should be directly related to the claimed driver.</p> <p>The amounts must be clearly outside of the base upon which the rates were derived.</p>
Prudence	<p>The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.</p>

³² [OEB letter](#), issued February 10, 2022

3.3.2.1 ICM Filing Requirements

The OEB requires that a distributor requesting relief for incremental capital during the IRM plan term include comprehensive evidence to support the need, which should include the following:

- An analysis demonstrating that the materiality threshold test has been met and that the amounts will have a significant influence on the operation of the distributor.
- Justification that the amounts to be incurred will be prudent. This means that the distributor's decision to incur the amounts represents the most cost-effective option (but not necessarily the least initial cost) for ratepayers.
- Justification that amounts being sought are directly related to the cause, which must be clearly outside of the base upon which current rates were derived.
- Evidence that the incremental revenue requested will not be recovered through other means (e.g., it is not, in full or in part, included in base rates or being funded by customer contributions in aid of construction, or by the expansion of service to include new customers and other load growth). The applicant is required to quantify all incremental revenues associated with the completion of the proposed project.
- Details by project for the proposed capital spending plan for the expected in-service year.
- A description of the proposed capital projects and expected in-service dates.
- Calculation of the revenue requirement (i.e., the cost of capital, depreciation, and PILs) associated with each proposed incremental capital project.
- A description of the actions the distributor would take in the event that the OEB does not approve the application.
- Calculation of a rate rider to recover the incremental revenue from each applicable customer class. The distributor must identify and provide a rationale for its proposed rider design, whether variable, fixed or a combination of fixed and variable riders. As discussed in section 3.2.3, any new rate rider for the residential class must be applied on a fixed basis.

3.3.2.2 ACM/ICM Materiality Threshold

The ACM/ICM materiality threshold is discussed in section 4.5 of the Supplemental Report.

The OEB determined that the following formula is to be used by a distributor to calculate the materiality threshold:

$$\text{Threshold Value (\%)} = \left(1 + \left[\left(\frac{RB}{d} \right) \times (g + PCI \times (1 + g)) \right] \right) \times ((1 + g) \times (1 + PCI))^{n-1} + X\%$$

where n is the number of years since rebasing. Many of the parameters remain unchanged from the original formula except for the following:

- the growth factor g is annualized
- the dead band X has been reduced to 10%
- the stretch factor used in the PCI will be the factor assigned to the middle cohort (currently 0.3%) for all distributors

3.3.2.3 Assessment of Materiality

In the ACM report, the OEB mentioned that the eligible incremental capital amount sought for recovery should be capital in excess of the ACM/ICM materiality threshold defined in section 3.3.2.2. This threshold level of capital expenditures is the amount that a distributor should be able to manage with its current rates, growth in demand and normal volatility in business conditions. Accordingly, the materiality threshold value, as calculated using the formula discussed in section 4 of the ACM report, marks the base from which to calculate the maximum amount eligible for recovery. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital amount by taking the difference between the forecast 2024 total capital expenditures and the ACM/ICM materiality threshold.

For individual projects included within an ACM/ICM request, it is not appropriate to apply the materiality thresholds established in the Chapter 2 Filing Requirements³³ for the purpose of evaluating the materiality of an individual project. These materiality thresholds are for the purpose of variance explanations for annual changes to rate base, capital expenditures and operations, maintenance and administration costs as part of a cost of service rate application.

In the ACM Report,³⁴ the OEB adopted an approach establishing the following three principles with respect to the eligibility of a capital project for ACM/ICM treatment:

³³ Section 2.0.8

³⁴ EB-2014-0219, Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p.17

- (1) minor expenditures in comparison to the overall capital budget should not be considered eligible for ICM treatment
- (2) a certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget
- (3) the project amount being proposed for recovery should be significant within the context of the distributor's overall capital budget

For merged distributors, the above principles are applicable to the merged entity, not the individual rate zones.

3.3.2.4 Application of the Half-Year Rule

The OEB's general guidance on the application of the half-year rule was originally provided in the Supplemental Report. In that report the OEB determined that the half-year rule should not apply so as not to build a deficiency for the subsequent years of the IRM plan term. This approach is unchanged in the new ACM/ICM policy. However, the OEB's approach in decisions has been to apply the half-year rule in cases in which the ICM request coincides with the final year of a distributor's IRM plan term.³⁵

3.3.2.5 Changes in Tax Rules for Capital Cost Allowance (CCA)

As discussed in section 3.2.7, Bill C-97 introduced the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in CCA deduction on eligible capital assets acquired after November 20, 2018. The AIIP is being phased out from 2024 to 2027 and will be fully phased out in 2028.

In the letter [Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance](#), the OEB provided accounting guidance on the impacts from accelerated CCA (CCA Guidance). The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances – CCA Changes to record the full revenue requirement impact of any changes in CCA rules that are not reflected in base rates.

The accelerated CCA should not be reflected in the ICM revenue requirement proposal associated with eligible assets/projects that are acquired after November 20, 2018. The OEB will assess the impact of the accelerated CCA on all capital investments at the time of rebasing to minimize the complexity of the review. Distributors should include the impact of the CCA rule change associated with any ICM project(s) that are approved for ICM treatment in Account 1592 – PILs and Tax Variances – CCA Changes.

³⁵ EB-2010-0130, Guelph Hydro Electric Systems Inc., Decision and Order, p. 15

Disposition of amounts tracked in the applicable CCA sub-account should be brought forward at the time of a distributor's next rebasing.

The materiality criteria for an ICM includes a requirement that any incremental capital amounts must clearly have a significant influence on the operation of the distributor. The OEB may take the accelerated CCA into consideration in assessing the impact of the proposed capital project(s) on the operations of the distributor in determining if ICM funding is warranted. As noted above, accelerated CCA should not be reflected in the ICM revenue requirement. Distributors are to provide the ICM revenue requirement reflecting the exclusion of accelerated CCA. In addition, to assist the OEB with its assessment of the impact of accelerated CCA on whether ICM funding is warranted, distributors are also to provide the ICM revenue requirement reflecting the inclusion of accelerated CCA.

3.3.2.6 ACM/ICM Accounting Treatment

The distributor will record eligible ICM amounts in Account 1508 – Other Regulatory Asset, Sub-Account Incremental Capital Expenditures, subject to the assets being used and useful. For incremental capital assets under construction, the normal construction work in progress accounting treatment will apply until these assets go into service and are eligible to be recorded in the applicable Account 1508 sub-accounts.

Distributors should record actual amounts in the appropriate sub-accounts of Account 1508 – Other Regulatory Assets in accordance with the OEB's [APH Guidance](#).³⁶

The applicable rate of interest for deferral and variance accounts for the respective quarterly period is prescribed by the OEB and published on the [OEB's website](#).

At the time of the subsequent rebasing application, a distributor is required to provide the funding true-up calculation, if material, comparing the recalculated revenue requirement based on actual capital spending relating to the OEB-approved ACM/ICM project(s) to the rate rider revenues collected in the same period. Distributors should note assumptions used in the calculation (e.g., half-year rule). If the OEB determines that a true-up of variances is required, the variance will be refunded to (or collected from) customers through a rate rider.

³⁶ See Accounting Procedures Handbook, March 2015 Guidance #13, 14 for details on accounts and related journal entries.

3.3.2.7 Rate Generator and Supplemental Filing Module for ACM/ICM

The filing module for ACM/ICM will assist the distributor in calculating the distributor's threshold. The distributor will then tabulate the value of its eligible investments and compare this to the threshold result to determine the amount that would be eligible for recovery. Once all tabs are completed and listed in the filing module for ACM/ICM, the tabulated revenue requirement will be converted into class-specific rate riders. The rate riders will need to be added to Tab 18 – Additional Rates – of the Rate Generator model for them to be displayed on the Tariff of Rates and Charges.

3.3.3 Treatment of Costs for 'eligible investments'

During a rebasing application, a distributor may seek approval for costs incurred to make investments that are eligible for rate protection as per Subsection 79.1 (1) of the Ontario Energy Board Act, 1998 (the Act) and O.Reg. 330/09 (the Regulation) made under the Act, which includes facilities forecast to enter service beyond the test year. Typically, a distributor would receive approval for renewable investments in a cost of service application, calculate the revenue requirement for eligible investments and the amounts for which rate protection are requested for the test year and the Price Cap term. The OEB annually confirms these amounts and orders the Independent Electricity System Operator (IESO) to collect and disburse specific amounts as per the Regulation. Distributors that are already receiving rate protection as a result of a previous application and approval (in many cases based on forecast capital expenditures on qualifying connection assets), will include updated actual costs incurred for the investments as well as updates to the useful lives of capital put into service, and updates to parameters of the revenue requirement calculations as applicable by completing Appendix 2-FA through 2-FC, at the time of its next rebasing application. This will then generate new up-to-date rate protection amounts for the next Price Cap term.

Distributors that are not rebasing due to an Annual IR Index rate setting methodology or deferrals (due to mergers or otherwise) that no longer have approved amounts to be collected from the IESO due to the expiry of the previous Price Cap term, should file updated Appendix 2-FA through 2-FC as part of their IRM application in order for the OEB to be able to update the amounts to be disbursed by the IESO.

3.4 Specific Exclusions from IRM Applications

The IRM application process is intended to be mechanistic in nature. For this reason, the OEB has determined that the IRM process is not the appropriate way for a distributor to seek relief on issues which are specific to only one or a few distributors, more complicated relative to issues typical of an IRM application, or potentially

contentious. The following are examples of specific exclusions from the IRM rate application process:

- Rate Harmonization, other than that pursuant to a prior OEB decision
- Changes to revenue-to-cost ratios, other than pursuant to a prior OEB decision
- Loss Factor Changes
- Establishing or changing Specific Service Charges
- Any requests for approval that require a new or further prudence review for a cost component of an approved revenue requirement such as long-term debt rates, pension and other post-employment benefit (OPEB) costs, or PILs/Taxes
- Disposition of Group 2 Deferral and Variance Accounts
- Loss of Customer Load

These items are expected to be addressed, if applicable, in the distributor's cost of service application. Distributors seeking adjustments that are inconsistent with OEB policy should consider whether one of the other rate-setting options is more appropriate. As indicated in the Handbook, distributors filing under the Annual IR Index plan must file a separate, stand-alone application for the review and disposition of any Group 2 DVAs.

Appendix A: Rate Adder versus Rate Rider

Rate Adder

A rate adder (or funding adder) is a tool designed to provide advance funding on an interim basis to distributors for certain investments or expenses as prescribed by the OEB and to mitigate or smooth the anticipated rate impact when recovery of these costs is approved by the OEB. Approval of a rate adder does not constitute regulatory approval of any costs actually incurred. The prudence of incurring such costs is examined, and the costs may be approved in whole or in part, at the time at which the distributor brings the matter forward for regulatory review.

A rate adder is identified and listed separately on a distributor's tariff of rates and charges and may have a termination date.

Rate Rider

A rate rider differs from a rate adder in that it is designed to recover OEB-approved amounts following a review of the proposed costs to determine that it is reasonable for the distributor to incur and recover them. Rate riders may also be used to recover or refund amounts that were over or under-collected in prior periods, following a review of DVA account balances. Rate riders are identified and listed separately on a distributor's tariff of rates and charges, with an explicit termination date.

A rate rider may not be collected past its expiry date, even if a distributor's rates are declared interim or charges have been ordered to continue into an interim rate period.

Treatment of Negligible Rate Adders and Rate Riders

Rate adders and rate riders normally apply to one or more select rate classes on a fixed basis, a volumetric basis or a combination of both. A rate adder or rate rider is usually determined by dividing the OEB-approved allocated amounts by the OEB-approved forecast or historical energy use or demand.

Occasionally, the calculated rate adders or rate riders for one or more rate classes may be negligible. In the event where the calculation of any rate adder or rate rider results in a volumetric rate rider that rounds to zero at five significant digits (i.e., the fourth decimal place) per kWh or per kW, the entire OEB-approved amount for recovery or refund will typically be recorded in a USoA account to be determined by the OEB for disposition in a future rate-setting proceeding. Distributors may propose alternatives to this approach if there is a significant discrepancy in the size of the riders among classes (e.g., if a rider is of a non-negligible size for one or more classes, but negligible or insignificant for another class).

Appendix B: Key References

The documents listed in Appendix B are key to understanding these Filing Requirements. Incentive Rate-setting applications filed by distributors must be consistent with the key references listed.

General:

[Guideline \(G-2008-0001\) on Retail Transmission Service Rates - October 22, 2008 \(Revision 3.0 June 22, 2011 and any subsequent updates\)](#)

[Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - July 14, 2008](#)

[Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - September 17, 2008](#)

[Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors - January 28, 2009](#)

[Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative \(EDDVAR\) - July 31, 2009](#)

[Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach - October 18, 2012](#)

[Report of the Board: Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors - corrected December 4, 2013](#)

[Board Policy \(EB-2012-0410\) - A New Distribution Rate Design for Residential Electricity Customers - April 2, 2015](#)

[Report of the Ontario Energy Board - Defining Ontario's Typical Electricity Customer – April 14, 2016](#)

Incremental/Advanced Capital Funding:

[Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module - September 18, 2014](#)

[Report of the Ontario Energy Board - New Policy Options for the Funding of Capital Investments: Supplemental Report – January 22, 2016](#)

[OEB Letter: Applications for 2023 Electricity Distribution Rates – December 1, 2021](#)

[OEB Letter: Incremental Capital Modules During Extended Deferred Rebasing Periods – February 10, 2022](#)

Accounting:

[Guidance on Wholesale Market Service Accounting for Capacity Based Demand Response \(CBDR\) and new IESO Charge Type 9920 – March 29, 2016](#)

[Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment – February 21, 2019](#)

[OEB Letter: Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance – July 25, 2019](#)

[OEB Letter: Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition – October 31, 2019](#)

LRAM/CDM:

[Guidelines for Electricity Distributors' Conservation and Demand Management - April 26, 2012 \(2012 CDM Guidelines\)](#)

[Report of the Ontario Energy Board - Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs – May 19, 2016](#)

[Guidelines for Electricity Distributors' Conservation and Demand Management - December 19, 2014 \(2014 CDM Guidelines\) – Updated August 11, 2016](#)

[Updated Guidance on LRAM Variance Account 1568 – New Sub-Account 1568-0001 LRAMVA Demand Response – July 18, 2017](#)

[Conservation and Demand Management Guidelines for Electricity Distributors – December 20, 2021 \(2021 CDM Guidelines\)](#)

[Guidance on Prospective Lost Revenue Adjustment Mechanism \(LRAM\) Amounts – 2024 Rates](#)