OSHAWA PUC NETWORKS INC.

Undertaking J1.4

To provide example of weather normalization process to be applied to ROE, with respect to the carryover incentive.

Response:

The following methodology is proposed for weather normalizing revenues for the purposes of calculating OPUCN's ROE in each year of the rate plan period for application to the proposed Total Cost Efficiency Earnings Carryover Mechanism (TCECM). It is important to note that the Board is moving towards fixed billing for residential customers and has introduced a new initiative for designing rates for commercial and industrial customers. Decoupled rates for residential customers has already been implemented and there is relatively new initiative underway for commercial and industrial customers - *Rate Design for Electricity Commercial and Industrial Customers* [Board File No. EB-2015-0043]. These initiatives will reduce the impact of weather on revenue and therefore simplify the weather normalizing process described below.

A. Applying the prediction formula from the load forecast model, use all actual dependent variables including heating degree days ("HDD") and cooling degrees days ("CDD") for the actual year and determine a ***prediction*** of actual sales.

B. Applying the prediction formula from the load forecast model, use a trended value for HDD and CDD (i.e. the trending will be based on actual HDD and CDD from 2003 to actual rate year in question) to determine OPUCN's weather normal HDD and CDD along with actual data for the other dependent variables used in the load forecast model and calculate a ***prediction*** of actual sales that are weather normalized.

C. The weather normalization factor can be determined by dividing B by A.

D. Apply the weather normalization factor from Part C to actual sales volumes to estimate weather normalized sales volumes.

E. Adjust actual revenue for weather normal revenue and calculate the resulting weather normalized earnings.