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VIA E-MAIL AND WEB POSTING

January 22, 2016

To: All licensed Electricity Distributors
All Registered Intervenors in Electricity Distribution Rate Applications

**Re: Report of the OEB, New Policy Options for the Funding of Capital Investments: Supplemental Report
Board File Number EB-2014-0219**

Today, the Ontario Energy Board (OEB) has issued a Supplemental Report of the OEB on the consultation on *New Policy Options for the Funding of Capital Investments*: (EB-2014-0219). Within this Supplemental Report, the OEB is making modifications to the formula used for the incremental capital module (ICM) and advanced capital module (ACM) used to fund capital during an incentive rate-setting (IR) term. The revised policy is effective immediately.

On June 20, 2014 the OEB initiated a consultation on New Policy Options for the Funding of Capital Investments including consideration of two new policies:

- The elimination of the effect of the half year rule on test year capital additions for the intervening years between rebasing applications.
- The introduction of a new funding mechanism that would enable review during a cost of service application for the need and prudence of any incremental capital funding requests for discrete projects that are part of a distributor's Distribution System Plan, and that are planned to come into service during the IRM period (the Advanced Capital Module or ACM).

On September 18, 2014, following work by OEB staff in a consultation with a working group of utility and stakeholder representatives, the OEB issued its Report of the Board, *New Policy Options for the Funding of Capital Investments: The Advanced Capital*

Module (the ACM Report). In the ACM Report, the OEB introduced the new ACM but did not make a determination with respect to the elimination of the effect of the half year rule on test year capital additions for incentive rate-setting years. There were other matters on the ACM/ICM approach which were considered during the initial work, particularly related to the materiality threshold formula, which remained unresolved as well. At that time, the OEB indicated that it would continue to review these matters.

For this supplemental phase of the consultation, a new working group was formed and KPMG was retained to assist. KPMG's final report, **New Policy Options for the Funding of Capital Investments: EB-2014-0219**, supporting this supplemental work can be found on the OEB's website, at http://www.ontarioenergyboard.ca/oeb/Documents/EB-2014-0219/KPMG_Report_EB-2014-0219_20150626.pdf.

The OEB has considered the work of KPMG and OEB staff, and the feedback provided by working group participants. In this Supplemental Report the OEB has determined that:

- No changes will be made to the manner in which the OEB applies the half-year rule in a test year and its persistence over the incentive rate-setting term.
- The materiality threshold formula will be modified as follows:
 - A multi-year formula
 - An annualized growth factor
 - A dead band of 10% (down from the previous 20%)
 - Use of the stretch factor assigned to the middle cohort (currently 0.3%) for every distributor for the determination of the materiality threshold, irrespective of the actual stretch factor at any one point in time

This Supplemental Report augments the policies adopted in the September 2014 ACM Report, and must be read in conjunction with that report. The changes adopted herein will be reflected in the Filing Requirements applicable to cost of service and IR applications when the Filing Requirements are next updated by the OEB. The ACM excel model used by the OEB has been updated to reflect the changes adopted in this Supplemental Report.

The OEB wishes to thank the working group members and KPMG for their efforts in providing their views.

Cost Awards

In the letter initiating this consultation, the OEB indicated that cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for participation in cost eligible activities as set out in the June 20, 2014 letter. Eligible parties may file any outstanding cost claims for their activities by February 5, 2016.

Sincerely,

Original Signed By

Kirsten Walli
Board Secretary