

Custom IR Guidance for Transmitters with a Declining Rate Base

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INTRODUCTION

The Ontario Energy Board (OEB) has developed this document to provide guidance to transmitters with a declining rate base who are considering the Custom incentive rate-setting (IR) methodology. The new option is intended to offer greater flexibility and transparency in revenue requirement-setting, while also reducing regulatory burden in such circumstances.

This document is consistent with the principles and expectations set out in the OEB's [*Handbook for Utility Rate Applications*](#) (Handbook). The Handbook outlines the available IR methodologies, including Custom IR and Revenue Cap IR, and sets expectations for transparency, performance, and accountability.

Transmitters with a declining rate base are encouraged to consider the OEB's new option under the Custom IR methodology, designed specifically for their circumstances. Regardless of the selected approach, applications must proactively address and support the rationale for return on capital, depreciation over the proposed rate term, and any related concerns within their selected revenue requirement framework to assist the OEB in determining a just and reasonable revenue requirement.

The development of this document has been informed by the stakeholder consultation process conducted as part of the 2025 update to the OEB's *Filing Requirements for Electricity Transmission Applications* - Chapter 1 and Chapter 2.¹

¹ EB-2025-0149

1. Background

Since the Handbook was issued in 2016, Ontario has seen significant growth in the number of transmitters. Many of these new transmitters do not incur material capital expenditures over the course of a five to ten years rate term after their transmission system is placed in service, and therefore experience a decline in the net book value of their transmission assets, and a declining rate base. These transmitters were referred to as “single-asset transmitters” in the past, given that they usually operate a single transmission line.

The Handbook provides that transmitters may choose either Custom IR or Revenue Cap IR to set their revenue requirement. 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 depreciation, may not require an inflationary increase.

2. Applicability

This guidance applies to transmitters with a declining rate base over the course of a five to ten years rate term. The OEB will not establish any dollar or percentage thresholds to categorize transmitters. Transmitters shall evaluate their own capital investment needs and transmission system plan over the proposed rate term to select the appropriate rate-setting option. The suitability of the option selected given the transmitter’s proposals will be assessed during the course of proceeding.

As a practical guidance, transmitters may choose to assess their average annual capital additions as a percentage of their gross capital asset balance, and compare it with their overall annual asset depreciation rate. For example, if a transmitter has an average annual depreciation rate at 2% on its capital assets overall and annual capital additions of 2% or less of its gross capital asset balance, this may indicate a declining rate base.

3. Handbook Principles Considered

The guidance outlined in this document aligns with the principles outlined in the Handbook. To ensure consistency and support continuous improvement, all transmitters following the Custom IR option should include the following elements:

- Productivity stretch factor
- One or more mechanisms to protect customers from utility earnings that become excessive
- Performance monitoring and reporting for the rate term

4. Revenue Requirement Formation

The table below defines the three main components of the transmission revenue requirement, for the rebasing year and throughout the rate term.

	Return on capital	Depreciation	Operations, maintenance and administration (OM&A) expense and others
1st year	Costs forecast	Costs forecast	Costs forecast
Remaining rate term	Costs forecast, no annual inflation adjustments over the rate term.	Costs forecast, no annual inflation adjustments over the rate term.	Either of the two methods: a) Costs forecast over the rate term. b) Annual inflation adjustments through an inflationary factor, offset by a productivity stretch factor.

5. Rate Term

Consistent with the Handbook, transmitters following this guidance shall have a minimum rate term of 5 years. However, transmitters are encouraged to consider an extended rate term of up to 10 years, particularly where long-term planning considerations warrant it. A clear justification should accompany any proposal for a longer term.

6. Earnings Sharing Mechanism (ESM)

Any proposed ESM should be based on overall earnings at the end of the term, not an assessment of earnings in each year of the term. Structuring the ESM in this manner avoids the need to file mid-term updates with the OEB.

To support monitoring, transmitters may propose:

- A performance scorecard reporting on annual return on equity, or
- A variance account to track cumulative ESM balances over the term

7. Performance Reporting

Consistent with the Handbook, annual update applications are not required for transmitters under a Custom IR framework during the rate term.

However, to support ongoing oversight, transmitters must propose a performance scorecard and commit to annual reporting. The proposed reporting method and timeline should be included in the application for the OEB's consideration.