



CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.
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June 27, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Renewed Regulatory Framework for Electricity Transmitters and Distributors – Defining and Measuring Performance of Distributors and Transmitters OEB File EB-2010-0379

Cambridge and North Dumfries Hydro Inc. (CND) appreciates the opportunity to make comments regarding the ongoing consultations in this matter.

CND believes that the information being used to determine cohorts and ultimately the stretch factors that apply to the rates of all distributors in the province is flawed.

Specifically, the financial information for both Toronto Hydro and Hydro One is included in the stretch factor calculations, despite numerous references throughout the consultation process that these two specific utilities are 'outliers'. In fact, both Toronto Hydro and Hydro One are excluded from the calculation of the Productivity Factors being considered in the same consultation process, because '...statistical tests show they are significantly and materially impacting the industry TFP trend...'¹.

If these two utilities are excluded from the Productivity Factor calculations because of their unique status, it stands to reason that their inclusion in the determination of cohorts and the subsequent determination of rankings to determine stretch factors and distribution rate increases is similarly not justified.

The following information is taken from the May 27, 2013 presentation provided by Mr. Larry Kaufman entitled '*Empirical Research in Support of Incentive Rate Setting in Ontario*'.

The cohort group of eleven utilities that includes Toronto Hydro and Hydro One, identified as Group A – Large Output, Extensive Area, compares their Unit Cost Averages for the period 2009-2011. The group average is determined to be 45,762,781.10. This average includes Toronto Hydro with a Unit Cost Average of 70,787,098.03 and Hydro One at 58,869,958.84. When the other utilities in the cohort group compare themselves to the average, the result is Benchmark Unit Cost Comparison and Efficiency Rankings that place them, as one would expect, among the best in the province. Of the top 10 utilities in the province ranked by Efficiency Ranking, three come from Group A. Efficiency Rankings are then used to place utilities into Stretch Factor groupings, the most efficient of which become eligible for a stretch factor of 0%. Those with a lower Efficiency Ranking are placed into Stretch Factor grouping that increase their factors to as high as 0.3%. This has a direct impact on the determination of distribution revenue as the stretch factors are used to reduce the price escalator. A stretch factor of 0% implies no reduction. It is CND's position that if Toronto Hydro and Hydro One were excluded from Group A, the Efficiency Rankings would change significantly, as would the ultimate distribution revenues for many utilities in the province.

CND recommends that Toronto Hydro and Hydro One be excluded from the determination of Unit Costs by Peer group because they 'significantly and materially impact' the resulting Stretch Factors and distribution revenues for utilities in the Province.

We would be pleased to provide any further information you may require in this matter.

Sincerely,

CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.



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¹ Taken from the May 27, 2013 Paper written by Larry Kaufman entitled 'Empirical Research in Support of Incentive Rate Setting in Ontario: Ontario Energy Board Stakeholder Conference' page 13.