

December 15th, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Further Consultation on Stretch Factor Rankings for 3rd Generation Incentive Regulation for Electricity Distributors (EB-2007-0673)

PowerStream Inc ('PowerStream') is pleased to provide comments on the *Sensitivity Analysis on Efficiency Ranking and Cohorts for the 2009 Rate Year* ('Sensitivity Analysis') prepared by Pacific Economics Group LLC ('PEG') and the Overview by Board staff that were issued for comment on November 21st, 2008.

PowerStream appreciates the work that has gone into the development of 3rd Generation IRM. We recognize that IRM is an evolving process and that the Board will improve the regime as we all develop more knowledge, expertise and data accuracy. This includes the work that has been undertaken on the cost comparison analysis that is used for the rankings to determine the stretch factor assignments. PowerStream welcomes the further work that has been undertaken to address the issues outlined in the Sensitivity Analysis and believes that the Board is in a position to implement 3rd GIRM with the additions of the information learned in that Analysis. However, PowerStream then recommends that work begins on the other identified issues including those raised in previous comments on the cost comparison work performed by the Board and its consultants, as well as those issues identified in the report prepared by Horizon, for the 2010 rate adjustments. PowerStream supports the Horizon submission as a starting point for consultations for the next round of stretch factor calculations.

Sensitivity Analysis:

Without independent verification of the analysis, at this time, PowerStream finds it difficult to comment on the empirical work that has gone into the Board and PEG's overview and analysis. However, we are concerned that the sensitivity results are minimal, when compared with the work that Horizon has completed on various factors in the sensitivity analysis and the original PEG report. For example, whereas the PEG analysis provides minimal changes to the rankings with inclusion of O&M for LV charges, Horizon goes further with the inclusion of a proxy for the 'administration' in the LV charges.

This concern is also evident with the work PEG performed in the sensitivity analysis on the high voltage charges that resulted in the statement that the high voltage costs were insignificant. For PowerStream, it seems counter intuitive to include the OM&A of high voltage transmission assets since the comparison of the unadjusted OM&A costs with other distributors does not reflect a true comparison of a distributor's performance.

Although the further discussion of the need for adjustments to the high voltage OM&A may not be solved in time for the May 1st, 2009 rate adjustments, it is an issue that needs to be addressed further as we move towards the 2010 rate adjustments under IRM. A review of the USoA for the classification of high voltage costs would be a good starting point.

The need for the sensitivity analysis on Renfrew Hydro, when it was incorrectly identified as being on the Canadian Shield, demonstrates an issue with the data/classifications used in the benchmarking study, and therefore the results in the performance rankings. The misclassification of Renfrew Hydro, and as demonstrated by Horizon, the potential misclassification of Ottawa River Corp, highlight the need to build a check into the benchmarking process.

This check, perhaps classified as more of a 'sanity check', could evaluate the rankings to ensure the proper factors are being used. By improving the data sets and the benchmarking methodology, the Board will not only provide for more appropriate classifications of electric utilities, but they will also avert other implications including those associated with consolidation. At a time when the government is encouraging consolidation among the electric utilities in the province, including the transfer tax holiday deadline, misclassification of a ranking may affect a potential merger or acquisition. The performance rankings, when public, have policy implications other than the stretch factor assignments.

PowerStream therefore recommends that the Board review the work that has been undertaken by both PEG and Horizon to see where the discrepancies are. This could be done in the form of a day long technical conference which could take place in time for the May 1st, 2009 rate adjustments.

Inclusion of Capital Data:

PowerStream also believes that capital costs need to be included in the benchmarking analysis as we look towards 2010. The omission of capital costs – which represent on average 64% of total costs based on PEG's own analysis of 2002-2006 Ontario data¹ - ignores a major component of costs, as well as the variability of these costs across distributors. The need for proper capital data has been an issue since the beginning of the discussions on 1st Generation PBR in 2000. Therefore, in order for capital data to be

¹ Ontario Energy Board. Staff Discussion Paper on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors. February 28, 2008: pg.52.

incorporated in the next round, PowerStream recommends that the Board start a working group to develop this database. Distributors recognize the key role we play in the gathering of this information and perhaps we, as a sector, should take a more proactive approach in starting this process.

Next Steps

PowerStream is appreciative of the work completed by both PEG and the other distributors. The papers highlight the areas in the PEG Report and analysis that need further attention, as well as additional considerations including the inclusion of capital costs in the cost comparisons. We encourage the Board to use the Horizon report as a stepping stone to further refine the cost comparison work. Taken together, these points should yield a more rigorous cost comparison regime that will provide stakeholders with confidence in the results and the rates that flow from them.

Yours truly,

[original signed by]

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