



December 15, 2008

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street  
Suite 2700  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2007-0673 OEB Further Consultation on Stretch Factor Rankings for 3<sup>rd</sup> Generation Incentive Regulation for Electricity Distributors**

Whitby Hydro Electric Corporation (“Whitby Hydro”) is pleased to provide comments regarding the model used to assign stretch factors. Whitby Hydro appreciates the work done to-date by the Board in consultation with various stakeholders and trusts that the evolution of this process will continue to benefit from further discussions and development.

The following items have been identified for comment:

- Total Cost (Inclusion of Capital in benchmarking)
- Low Voltage Costs
- High Voltage
- Peer Groups

Total Cost Benchmarking

As we move into the early stages of Third Generation Incentive Rate Making (“IRM”), it is important to continue to highlight the need to move to total cost benchmarking. A clear case has been made for the inclusion of both capital and OM&A in the benchmarking exercise in order to ensure a more equitable comparison between distributors. Distributors who have made sound and reasonable business decisions should not be penalized through benchmarking which does not adequately address such things as:

- operating leases versus capital spending
- differences in capitalization policies
- variation in assets age/lifecycle

Priority should be given to this important issue to ensure that the required data collection and incorporation of total costs into the benchmarking exercise is prepared for future rates beginning in 2010.

#### Low Voltage Costs

Inclusion of Low Voltage (“LV”) costs for embedded distributors has been identified to the Board, and while some work was done in the fall of 2008 by Board Staff and Pacific Economics Group (“PEG”) to incorporate this data into the analysis, it appears that there may be some room for additional refinement.

Board Staff asked PEG to test two LV charge proxies based on 2007 data provided by Hydro One, and Board Staff has recommended a proxy which takes into account a 2.354 revenue to cost ratio for Hydro One’s sub-transmission class (which includes both embedded distributors and other customers). It has come to our attention that a revenue to cost ratio may be available which more closely reflects the LV customers within Hydro One’s sub-transmission class. Whitby Hydro requests that the Board review information provided by Hydro One which identifies a revenue to cost ratio of 1.3 for embedded distributors.

While some issues are more readily addressed for 2009 rates, it is important not to lose sight of others which require further investigation in the future to improve distributor cost comparisons. LV costs are significant for many embedded distributors and there should be some further review and understanding of how the “pooling” of LV costs impact embedded distributors. The “pooling” concept is utilized by Hydro One in calculating LV costs and it is important to note that embedded distributors have little if any control over the assigned LV charges. A more in depth review of how the pooling of LV costs impacts various embedded distributors should be part of the on-going process starting in 2009 so that results can be incorporated into 2010 rates moving forward.

Also, it is important for the Board to ensure that any process to determine adjustments for LV costs is consistently applied across embedded distributors (regardless of who the host distributor is).

#### High Voltage

In order to ensure that costs for distributors have improved comparability, the Board should undertake some additional review with regards to High Voltage and Supply Voltage. It is apparent that distributors who own Transformation Stations (TS) may incur OM&A costs to operate them, while other embedded distributors incur these related costs through retail transmission rates which are held in RSVA accounts. While the initial thought may be to remove these costs in an attempt to create a level playing field, it should be noted that additional factors should be considered before proceeding in this manner.

There are a number of embedded utilities that have significant OM&A expenses related to municipal substations. Host utilities supplied from their own transformation stations may not incur these costs. Distribution structure is dictated by the supply voltage which drives municipal substation requirements. We believe further studies in this area are required to better understand different distribution structures and the resulting cost drivers before any costs are adjusted. Related suggestions are also included under the Peers Group section of our submission.

#### Peer Groups

Whitby Hydro believes that there has been a lot of difficult work done to-date in determining peer groupings. While the efforts are certainly a good start, it is our belief that additional approaches should be considered for peer groupings:

- Density should be considered as a relevant cost driver for determining peer groups. Having both high density and low density distributors in the same peer group is a concern as it may distort results significantly.
- Service Area (square) kilometers should also be considered. A distributor with a large rural service area will likely be affected by circuit kilometers installed but also by the costs driven by the distance and time necessary to travel to provide reliable distribution assets and service to customers.
- Consideration should also be given to distribution structures which are dictated by the supply voltage and as such, drive municipal substation requirements. It may be appropriate to look at supply voltage in determining peering groupings.

Further work is required in this area to address some of the concerns which may not currently being addressed in the existing set of peer groupings. Given the importance of ensuring reasonable, and statistically robust peer groups, Whitby Hydro recommends that a revised peer group analysis be performed for the 2010 rate year.

If there are any questions with regards to this submission, please feel free to contact me directly.

Yours truly,

*Original Signed By*

Ramona Abi-Rashed  
Treasurer