

Undertaking No. J1.3

To provide Company's position with respect to comparison of what it is requesting to what Professor Yatchew put forward in the Third Generation IRM Process, p. 179

Response:

Professor Yatchew prepared a document entitled "3rd Generation Incentive Regulation for Electricity Distributors: EB-2007-0673" (the "Yatchew Document"). The Yatchew Document was filed by the EDA under cover of a letter dated May 16, 2008.

The Yatchew Document commented upon a Board staff proposal with respect to the treatment of capital investment. It states the following with respect to capital investment:

"Given diverse capital requirements across utilities, it is essential that utilities be afforded the opportunity to submit multi-year capital plans. The Board Staff proposal incorporates a capital module. Arguments in relation to price-caps and the capital module have been made extensively in prior submissions by the EDA and other stakeholders and will not be repeated here.

There is one additional element of the updated Staff proposal which bears on the capital investment issue. Previous Staff proposals allowed utilities to select a 3 to 5 year term. Under this approach, utilities having concerns about future capital expenditures or facing irregular investment requirements could choose the 3 year term. The present proposal recommends a fixed 4 year term as part of the core plan. This in turn strengthens the arguments favouring the submission of multi-year capital plans and increases the importance of an effective intra-term capital module."

In addition, Professor Yatchew prepared a power point presentation which included slides that contained a proposal with respect to capital that contained the following bullet points:

- "Utilities should be able to submit multiyear capital expenditure plans
- The most appropriate approach would seem to be the direct inclusion of a utility-specific "K-factor" within the price cap formula.
- Evaluation of a "comprehensive price-cap index with a K-factor" using the four criteria set out in the Staff Discussion Paper indicates that this approach is superior to the others that were considered."

Enersource's ICR proposal is described in Exhibit 1 Tab 2 Schedule 1, p. 2 as follows:

"2014 revenue requirements and resultant rates based on:

- Board-approved OM&A expenses for 2013, held unchanged for 2014;
- Board-approved return on rate base, held unchanged from 2013, including capital expenditure budgets for 2014;
- depreciation expense for 2014; and
- PILs for 2014 relating to incremental capital and return.”

Enersource is not proposing that the Board adopt Professor Yatchew’s May, 2008 proposal as a model for 3rd GIRM. However, Enersource does agree with Professor Yatchew’s statement that utilities be able to submit multi-year capital plans. Enersource also notes that, subsequent to the adoption of the current 3rd GIRM, the OEB has entertained multiple year rate proposals filed by Hydro One Distribution and Toronto Hydro Electric System Ltd. It also entertains multiple year rate applications by Ontario Power Generation and Hydro One Transmission.