

STIKEMAN ELLIOTT

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BY EMAIL

October 24, 2012
File No. 1019261050

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

Dear Ms. Walli:

**Re: Approval of the SME/LDC Agreement
EB-2012-0100/EB-2012-0211**

We write to address the issue of the allocation of service level credits that arose during the Board's hearing on the approval of the SME/LDC Agreement on September 20, 2012.

As stated in my letter of October 2, 2012, the SME acknowledges that the Board has the authority to approve any disbursement to distributors of service credits received from the Operational Service Provider. The SME has been working with the EDA on a mutually agreeable mechanism to allocate any service level credits received amongst distributors in the event that the Board decides to exercise its rate-making authority over the credits.

After consulting with the EDA, the SME proposes the following process for disbursing service level credits:

1. Any service level credits received from the Operational Service Provider will be accumulated by the SME in a separate variance account.
2. The amounts of any service level credits received would be reported to the SME Steering Committee, which would allocate credits amongst the province's distributors as contemplated by section 7.6 of the SMC/LDC Agreement.

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3. The SME will apply to the Board to clear the variance account on the earlier of (i) the date on which the balance in the variance account meets or exceeds \$2 million, or (ii) the date on which the SME licence expires (January 26, 2016). As part of its application, the SME will ask the Board to approve the allocation of service level credits amongst distributors as determined by the SME Steering Committee.
4. Once the allocation has been approved by the Board, the service level credits will be paid to distributors as a rebate to the Smart Metering Charge.

If the Board approves this mechanism, the SME proposes that it be implemented through amendments to section 7.6 of the SME/LDC Agreement presented to the Board for approval.

Yours truly,


Patrick G. Duffy

PGD/mas

cc: Registered Intervenors
Brian Rivard, IESO
Paula Lukan, IESO