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December 15, 2008

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street 27th Floor
Toronto, ON
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Attention: Ms. Kirsten Walli, Board Secretary

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

Hydro Ottawa is providing the following comments with respect to the Board's consideration of electricity distributor efficiency ranking. For the most part, Hydro Ottawa's comments have been addressed by the submission from the Coalition for an Effective Incentive Rate Mechanism (CEIRM). However, Hydro Ottawa would like to emphasize the point made with respect to high voltage assets owned by distributers and highlight an additional issue.

<u>High Voltage Assets Owned in the LDC:</u>

The Board is contemplating whether costs related to low voltage ("LV") services should be included when benchmarking between LDCs. Hydro Ottawa is strongly in favour of this inclusion because this is the only basis on which a fair comparison can be made. The corollary to the inclusion of the costs for LV services is the exclusion of costs related to high voltage ("HV") services. PEG indicated "that further research on this, and on related issues, is warranted in the total cost benchmarking analysis to be undertaken".

Hydro Ottawa sees no reason why costs related to HV services that have been identified by an LDC should continue to be included when being benchmarked against LDCs that do not have HV costs. By providing some, or all of the transmission related services, an LDC is able to reduce the retail transmission line and connection rates to its customers. However, the costs related to these services are included in that LDC's operations, maintenance and administration ("OM&A") costs.

While more work is required to identify all HV costs, in the interim, costs related to Uniform System of Accounts 5014, 5015 and 5112 can and should be removed from the total OM&A. This may not have a material effect on the overall ranking at this time, but it is important that principles be established that result in fair comparisons.

LV Switchgear Assets Owned by Hydro Ottawa

Furthermore, there is a situation unique to both Hydro Ottawa and Toronto Hydro. Both LDCs own the LV switchgear assets in transformer stations owned by Hydro One Networks. In recognition of the costs of owning, operating and maintaining these assets, a monthly payment is made from Hydro One to both Hydro Ottawa and Toronto Hydro. For Hydro Ottawa, this payment has been $2.3 million per year.

We grant that this includes both capital and operating costs, but the proportionate split is available from the Hydro One evidence in proceeding EB-2006-0501 Exhibit G1, Tab 6, Schedule 1. Hydro Ottawa uses these payments to lower its retail transmission line and connection rates to customers. However, the operating costs for providing these services are part of Hydro Ottawa's distribution OM&A costs. It is therefore appropriate to remove these costs for the purposes of benchmarking with LDCs who do not own LV switchgear.

Yours truly,

Original Signed By

Lynne Anderson
Chief Regulatory Affairs and Government Relations Officer