PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

December 15, 2008

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: 3rd Generation Incentive Regulation for Electricity Distributors
Board File No.: EB-2007-0673
November 21, 2008 Request for Further Comments

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I am writing to provide comments on PEG's recent Sensitivity Analysis and the Board Staff's Overview regarding the selection of efficiency cohorts for the 3rd Generation Incentive Regulation Mechanism (3GIRM) for Electricity Distributors.

Canadian Shield

In its update PEG notes that "there was some uncertainty about whether Renfrew should or should not be categorized as serving territory on the Canadian Shield". In the final efficiency cohort/stretch factor assignments provided by PEG (Table 12) Renfrew Hydro is classified as being "on" the Canadian Shield. However there is no discussion in either PEG's Update or Staff's Overview as to what is the appropriate classification for Renfrew Hydro. VECC is not in a position to recommend which classification is more appropriate but is of the view that Board Staff and PEG need to make an explicit determination on this matter.

LV (Low Voltage) Charges

VECC agrees that that embedded distributors (i.e., those served at distribution voltages by another distributor) have a different cost structure. However, in VECC's view the adjustment proposed by Board Staff/PEG is not the appropriate way to address the issue.

First, it would be useful if PEG were to determine if service at LV was a significant factor in explaining the level of distributor's OM&A costs. This could be undertaken by including LV service as an "explanatory variable" in the econometric research much the same way ownership of high voltage transmission assets was tested. This would help establish whether any efforts should be made to adjust for LV service.

Second, while some distributors do receive service at LV, in many cases their system configuration is similar to that of other distributors – they own substations and distribution systems that operate at primary and secondary voltages. While the substations and primary distribution systems may operate at lower voltages they must still be maintained. The more material distinction may be in the case of distributors who – by virtue of being served at LV – do not own or operate any substations. This latter group may be a more appropriate one to focus on.

Finally, there are a number of issues with the specific way the LV costs have been incorporated into the analyses:

- Hydro One Networks is not the only "host distributor" in the province.
- The LV class includes direct end-users and previous retail ST customers as well as embedded distributors. The 2.354 revenue to cost ratio is a average based on the past rates paid by all of these customers and is not reflective of the historic revenue to cost ratio for embedded distributors.
- One of the explanatory variables included in the econometric research was km of line. If the analysis is to include an estimate of LV OM&A costs it should also include the corresponding line km.

At this point VECC believes that it is premature to use the revised efficiency cohort/stretch factor assignments.

Thank you for the opportunity to comment. If you have any questions regarding the comments please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,

Michael Buonaguro
Counsel for VECC