CANADIAN NIAGARA POWER INC.
A FORTIS ONTARIO Company

December 12, 2008 ***DELIVERED BY COURIER***

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: FURTHER CONSULTATION ON STRETCH FACTOR RATINGS FOR 3RD GENERATION INCENTIVE REGULATION FOR ELECTRICITY DISTRIBUTORS
BOARD FILE NO. EB-2007-0673

Canadian Niagara Power Inc. ("CNPI") appreciates the opportunity to comment on Board staff's overview and proposal related to the above captioned matter. CNPI is encouraged to find that the Board recognizes the necessity of continually evaluating the use of OM&A benchmarking to establish appropriate stretch factor rankings for use in incentive regulation. In PEG's concluding comments (attached to the Board's Invitation to Comment), PEG wrote "However, PEG believes that further research on this, and on related issues, is warranted in total cost benchmarking analysis to be undertaken." This is seen as further evidence of continued evolution of the process.

The recognition of low voltage charges is an important and first step in identifying the many inequalities that exist when the comparator for efficiency rankings is limited to the OM&A costs. Producing a proxy for OM&A costs to simulate the cost of providing and maintaining distribution assets helps level the playing field. However, CNPI believes that the cost of providing and maintaining transformation assets is not necessarily common amongst like LDCs and this further inequality should be examined in this review.

Many LDCs in the greater Toronto area, those who have seen a significant amount of development in more recent times, may reasonably be described as true wires and poles distribution companies. That is to say that Hydro One Networks Inc. ("HONI") as the transmitter provides transformation facilities from transmission voltages to distribution voltages, normally at 27.6 kV. The local distributor than provides distribution services at 27.6 kV to its end use customers without utilizing further transformation assets, other than line transformers. These LDCs do not incur OM&A costs associated with owning and maintaining their own distribution stations and ancillary equipment.

Conversely, other LDCs operating more mature distribution systems, more likely than not, own and maintain distribution stations that further transform the 27.6 kV distribution voltage to lower system voltages such as 8.32 kV and 4.16 kV. The cost of owning and maintaining these transformer stations and ancillary equipment are also a part of that LDC's OM&A costs. It is not reasonable to automatically assume that a straight forward comparison of OM&A costs without a recognition of the differing distribution system configurations is an accurate indicator of efficiency and should contribute to a higher stretch factor. To do so would unfairly penalize a distributor for requiring additional assets in its distribution system.

To illustrate examples of diverse distribution systems, it may be appropriate to compare CNPI – Port Colborne with another LDC in the southern Ontario. These are similar in size as it pertains to customers and throughput. The latter, an efficiently operated LDC, ranks among the most efficient LDCs in the province and accordingly ranked in the PEG analysis. CNPI – Port Colborne, likewise an efficiently operated LDC, is ranked 77 out of 82. The latter is a true wires and poles LDC; transformation is provided at 27.6 kV and that LDC provides virtually all of its distribution at 27.6 kV, no additional transformation is required. Conversely, CNPI – Port Colborne, which also takes distribution service at 27.6 kV, but due to the age and configuration of the distribution system, requires six distribution substations to transform the 27.6 kV distribution voltage to a 4.16 kV distribution voltage. CNPI – Port Colborne is responsible for funding the additional costs and resources required to maintain and operate these stations; costs such as operating and maintenance expenses, property taxes and municipal services fees. This is significant and, when compared to a wires and poles LDC, this additional cost will yield a higher OM&A cost per customer and ultimately result in a higher stretch factor. CNPI suggests the additional costs of owning and maintaining a legacy distribution system as discussed here should be taken into consideration when determining overall OM&A efficiency and when assigning stretch factors for use in incentive regulation.

Similar to the recognition of the potential inequalities related to the assessment of low voltage charges, the Board must also examine the comparative capital assets that must be owned and maintained in order to provide electricity distribution in Ontario.

An additional matter for consideration is geographical challenges that certain LDCs face other than the Canadian Shield. CNPI's Fort Erie and Port Colborne LDCs located on the shore of Lake Erie, are often prone to the ravages of severe storms that commonly track along the Great Lakes. The frequent system restoration costs resulting from autumn and winter storms are often impactive on the OM&A costs.

Yours truly,

Douglas R. Bradbury
Director – Regulatory Affairs

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