Kenora Hydro
Electric Corporation Ltd.

December 12, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, On M4P 1E4

Dear Ms. Walli:

Re: EB-2007-0673-Stretch Factor Rankings for 3rd Generation IR

Attached is our response to the above noted consultation.

As required three paper copies have been couriered.

Should you require anything further please feel free to contact this office.

Sincerely,

D.E. (Dave) Sinclair
President & CEO

c.c. J. Robertson

Box 2680-215 Mellick Avenue, Kenora, Ontario P9N 3X8 Phone (807)467-2075 Fax (807)467-2068

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Dear Ms. Walli:

Re: EB-2007-0673-Stretch Factor Rankings for 3rd Generation IR

In reply to your invitation to comment on the Pacific Economics Group's (PEG) paper with respect to the 3rd Generation Incentive Regulation, Kenora Hydro would like to provide the following information for consideration.

We support the Coalition for an Effective Incentive Rate Mechanism (CEIRM) submission for the most part, however we would offer additional comments as follows:

1. We believe it is imperative to "get it right" for any incentive to be meaningful. This would suggest that serious consideration needs to be given to the issue of high voltage assets. PEG believes further research is required and we would agree.

2. We also believe that the PEER grouping is flawed from a geographic perspective as Kenora Hydro is PEERED with only 3 comparators, 2 of which are not considered to be in Northern Ontario. The Province of Ontario recognizes 10 Territorial Districts in Northern Ontario. The closest Territorial District to Lakeland, Ottawa River and Renfrew would be the Nipissing District and does not include those respective cities. The Province itself is broken into 4 regions (one of which is Northern Ontario) and all Ministries abide by the areas as such.

   I would expect that the OEB as a Crown Corporation of the Province would follow similar rules as all Ministries.

   Equally important is the distance between Kenora and it cohorts. Clearly we have much more in common with Fort Frances than Ottawa River both in terms of size, geography, and local economics which do bear impact on many utility aspects such as collective agreements.

3. For some reason all small northern low undergrounding was split from small northern medium undergrounding yet southern Ontario show a PEER grouping which combined low and medium undergrounding. In Northern Ontario there is little undergrounding as a result of the shield, and as such should not be included as a proxy.

4. We realize that it will be difficult to establish measureable cohorts with Hydro One, however if they are excluded from the groups, it will be difficult, if not impossible, to provide reasonable cost comparisons which ultimately benefit their customers.

5. We differ with CEIRM on the issue of scale as criteria in PEERING. We do not agree that it is a vehicle of protecting the administration costs of small utilities as in most cases small utilities must contract out many services to larger ones thereby having little control over the ever increasing costs. In fact we would further suggest that consideration needs to be given to a form of "critical" size or cost to small utilities. That is, there is a minimum cost associated with small utilities for some aspects such as regulation, billing, meter reading, operation, maintenance, and contracted services. I would further suggest that these costs are not likely to be less than one million dollars annually whether the utility has 1000 customers or 10,000 customers. Clearly the OM&A costs for this "minimum" scale could distort the average cost per customer. We believe the OEB can address this issue by the consideration of an average customer rate. For example, if the average monthly residential delivery rate in Ontario was $15.00 per customer, a utility with a higher rate would require detailed evidence and higher stretch factor targets for justification. Utilities which fall below the average rate would require a simplified stretch factor and less evidence for filing.

   This may seem contrary to the consideration of the importance of scale however we believe that small utilities are better positioned to manage their costs above what we would consider to be a minimum critical cost. This method of cost control while in some respect is outside of this mandate; it could be an important aspect of economic efficiency and furthermore would provide stability and predictability in rate setting. It was also a similar method of rate setting employed by the CRTC in the deregulation of the telephone industry.

   Should you require anything further please feel free to contact this office.

Sincerely,

D.E. (Dave) Sinclair
President & CEO

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