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BY EMAIL

July 18, 2006
Our File No. 2050410

Ontario Energy Board
2300 Yonge Street
26th Floor
Toronto, Ontario
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Attn: Peter O'Dell, Acting Board Secretary

Dear Mr. O'Dell:

Re: Cost Allocation Principles and Methodologies – EB-2005-0317

We are counsel for the School Energy Coalition, and in this letter are providing our comments on the Board Staff Proposal dated June 28, 2006 in this matter.

As you know, the Coalition's former consultant, Darryl Seal of Institutional Energy Analysis Inc., was a member of the Cost Allocation Working Group, and actively involved over some months in its deliberations. The Coalition was able to keep up to date with the process through his periodic reports, and we hope his participation added value. We also appreciated the opportunity to be involved, as it has helped us to understand at a high level some of the concerns of the LDCs and the Board in revising electricity rates.

Unfortunately, when Mr. Seal joined Toronto Hydro in April, we were left without an experienced technical advisor for issues such as cost allocation. While the undersigned attempted to fill in on the Working Group, the technical nature of this initiative did not allow me to make an effective contribution on behalf of the Coalition. As a result, rather than show up without contributing, we elected to leave the process to those who had been participating throughout.

This leaves us in a difficult position with respect to commenting on the staff proposal. While we are aware of the issues involved in many of the points in the proposal (as a result of Mr. Seal's reports), many points were in fact resolved or modified after April. We do not have an internal resource right now capable of doing the analysis of those technical issues. Therefore, although we have reviewed the staff proposal in detail, our responses to it are necessarily limited to high level statements.

We have reviewed the comments of the Vulnerable Energy Consumers' Coalition, and in general find that their analysis is useful. Like VECC, we believe that their extensive comments do not reflect badly on the working group process or the resulting staff proposal, which on the whole is a significant accomplishment. However, their comments are worthy of serious consideration by the Board in finalizing its cost allocation approach. We also note specifically VECC's comments in their cover letter on the ongoing nature of cost

allocation analysis, and we agree wholeheartedly. As we note later, we see the cost allocation and rate design components as being too closely linked to consider this phase to be the end of anything.

Aside from the VECC comments, School Energy Coalition does not have further specific critique at this time. We have long been of the view, as you know, that while there are important policy implications embedded in the current proposal, this part of the process is primarily about thorough data acquisition. Yes, how the data is gathered, and which data is gathered, will potentially limit the Board's ratemaking options in the future. That cannot be totally avoided, but the Board should ensure that there is as little restriction on it as possible.

In the end, in our view the cost allocation and rate design decisions will have to be looked at on an overall basis to ensure that both parts fit together to produce just and reasonable rates. The staff proposal assumes certain rate classes, for example, but as costing data comes in it may become clear that other classes, or other designs of the existing classes, are in fact more appropriate. At the other end of the analysis, when the Board is considering rate design changes, it will be looking to the costing data to determine the implications of those changes, and to validate the appropriateness of those changes.

Tested against that backdrop, we believe that the staff proposal may provide a good foundation on which the Board can design and implement appropriate rates, because it seeks to build a thorough data base of cost and load information. It is that thoroughness that should assist the Board in the future.

We note that we have looked at the staff paper, but not at the actual cost allocation model that is being proposed for the LDCs. The many details embedded in the model are not, at this point, accessible to us practically and we have no comment on them, or on the model design itself.

We look forward to seeing the next steps in this process, at which time we anticipate once again having the technical resources to provide more detailed input. In the meantime, we appreciate having had the opportunity to participate to date.

Yours very truly,
SHIBLEY RIGHTON LLP

Jay Shepherd

Cc: Interested parties (by email)