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July 6, 2006

BY FAX & BY EMAIL

Mr. John Zych  
Board Secretary  
Ontario Energy Board  
2300 Yonge St, Suite 2601  
Toronto ON M4P 1E4

Dear Mr. Zych:

**Board File No. EB-2006-0089**  
**Development of 2<sup>nd</sup> Generation Incentive Regulation Mechanism**  
**Submission of Energy Probe Respecting Draft Staff Report**

Following release of the Board Staff Draft Report and its participation in the June 23, 2006 Consultation Session, Energy Probe Research Foundation (Energy Probe) is hereby providing its Comments for the Board's consideration. An electronic copy of this communication is being forwarded to your attention.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh  
Case Manager

Interested Parties (By Email)

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# **Ontario Energy Board**

## **Development of 2<sup>nd</sup> Generation Incentive Regulation Mechanism**

**Energy Probe Research Foundation**

**◆Comments on Draft Staff Report◆**

**Submitted July 6, 2006**

# **Ontario Energy Board Draft Staff Report**

## **Comments of Energy Probe Research Foundation**

**Following the Consultation of June 23, 2006**

### **General Comments**

**The following comments are provided on behalf of Energy Probe Research Foundation (Energy Probe) in response to the Board Staff Draft Report “Proposals for Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors” released June 19, 2006.**

**Energy Probe appreciates the opportunity to review and comment on draft papers. Our comments are restricted in this case to 2<sup>nd</sup> Generation Incentive Regulation.**

### **Comments Specific to the Draft Report and the June 23<sup>rd</sup> Consultation**

**The proposed plan would implement a cost of service review following the conclusion of the proposed 2<sup>nd</sup> Generation Incentive Regulation period. This approach seems to Energy Probe to reverse the appropriate order. An Incentive Regulation Mechanism should be based on a cost of service review. We recommend a cost of service review prior to the commencement of any incentive regulation period.**

**Rather than waiting until 2008 to commence the first cost of service review, as proposed, Energy Probe recommends that the review cycle begin in 2007.**

**The proposed plan would base the Incentive Regulation Mechanism on 2006 rates. Because of the very limited review provided for most utilities during the process to establish rates for 2006 and the reliance of these rates on 1998 rates, Energy Probe recommends that any indexing of rates required due to administrative realities must be limited to the shortest reasonable time period.**

**Under the proposed Board Staff plan, the Board would not have the benefit of any asset condition assessment information for each electric distribution utility. We consider this to be a significant information gap. The recent Board cost of service review of Toronto Hydro's rate application was presented with information indicating that as of the time of the presentation of evidence, Toronto Hydro had not completed a systematic asset condition assessment. The fact that a major utility could allow such a significant knowledge gap to exist highlights the need for the regulator to focus on the issue.**

**The proposed approach leaves the issues related to the quality of services provided to consumers outside of the Incentive Regulation Mechanism. Irrespective of how service quality is regulated, Energy Probe suggests that Incentive Regulation Mechanism should not be implemented without service quality standards being imbedded in the performance requirements for each local electricity distributor.**

**Respectfully submitted at Toronto, Ontario this 6<sup>th</sup> day of July, 2006.**

**ENERGY PROBE RESEARCH FOUNDATION**

**Tom Adams**