ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 1

Access to Capital (addressed to distributors)
Please provide any information available on situations where your distribution utility has experienced difficulties in obtaining financing for capital investments on reasonable terms. What reasons were given for the inability to raise capital or on unreasonable (i.e. above-market rates)?

Response

To-date LDCs have not encountered difficulty with obtaining financing for capital projects, *per se*. However, the question at hand does not pertain solely to access to capital. The issue at hand is also one of access to capital on favourable terms. Basing ROEs on Board Staff's version, or Lazar and Prisman's version of the CAPM, effectively sets artificially low ROEs which serves to weaken LDCs' creditworthiness. In turn, this will lead to higher-than-necessary costs for debt financing. This also coincides with a period in which many LDCs will need to access debt capital markets with relatively large capital requirements (e.g. Smart Meter financing) which places short to medium term stress on corporate leverage and reduces interest coverage. The implication being that, at the margin (i.e., when capital markets do enter a period of extreme volatility), weaker credits-ratings could result in difficulty sourcing capital on reasonable terms.

Many LDCs continue to use municipal shareholder promissory notes as their principal means of debt financing. For these LDCs, it remains indeterminate whether they would encounter difficult accessing third-party debt financing for all of their financing needs.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 2

Merger and Acquisition Valuations (addressed to distributors) Please provide information available specifically on the valuation (relative to the net book value) of your distribution utility (if you were considering or effected the sale or merger of your utility) or of another distribution utility that you were considering or effected a merger or acquisition with.

CLD Response

Details regarding merger and acquisition activity are available on the public record, under the regulatory process and case ID numbers provided in the table below.

Regulatory Process Number	Case ID Number	Type of Application	Date Filed
RP-1999-0282	-	Veridian Connections/Uxbridge Hydro – leave to purchase and sell	1999-12-09
RP-2000-0059	EB-2000-0140	Veridian Connections/Port Hope - leave to purchase and sell	2000-05-01
RP-2000-0107	EB-2000-0261	Veridian Connections/Brock Hydro – leave to purchase and sell	2000-09-07
RP-2000-0166	EB-2000-0380	Veridian Connections/Belleville Utilities – leave to amalgamate	2000-11-06
-	EB-2005-0256	Veridian Connections/Scugog Hydro – leave to purchase and sell	2005-03-24
-	EB-2005-0257	Veridian Connections/Gravenhurst Hydro – leave to purchase and sell	2005-03-24
RP-2002-0068	EB-2002-0838	Hydro Ottawa/Casselman Hydro - leave to purchase and sell	2001-12-21
	EB-2005-0254	PowerStream/Aurora Hydro – leave to purchase and sell	2005-03-24
RP-2004-0143	EB-2004-0223	Hydro Vaughan/Markham Hydro/Richmond Hill Hydro – leave to amalgamate	2004-03-12
-	EB-2004-0504	Hamilton Hydro & St. Catharines Hydro merger	2004-11-19

Typically LDCs employ a discounted cash flow analysis in determining the value of prospective utility acquisitions. Assumptions would be established related to customer growth, expected operating, maintenance and administration expenses, capital expenditures and future terminal value of the utility acquisition. Deemed regulatory return on equity, debt costs and capital structure along with expected re-basing periods would be assumed based upon the current or expected Ontario Energy Board guidelines over the period of the discount cash flow projection. An LDC may also ascribe additional value relative to other strategic benefits that will be derived

from the acquisition. Any analysis would assume that the goodwill premium paid above the acquired utility's regulated rate base is not eligible for inclusion in regulated base for future distribution rate adjustments. Goodwill related to amalgamations is non-cash in nature.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 3

Impact on Sector Rationalization
What impact (positive or negative), if any, might changing capital structure for most Ontario electricity distributors have on the prospects of physical consolidation of electricity distributors?

CLD Response

The CLD has not undertaken a detailed study of this issue but does offer an opinion from the perspective of utility management.

The impacts of changing the existing capital structures of utilities in the way proposed by Board Staff are likely to be mixed. Considered alone, the reduced earnings resulting from the lower equity ratios as well as the reduction in ROE would tend to increase the risk that LDCs will not have sufficient capital to necessary reinvestments in the distribution system. This heightens the urgency of achieving cost reductions through scale economies or, possibly, decisions that are contrary to a sustainable and reliable distribution system. This would tend to favour physical consolidation where that could provide such scale economies.

A uniform capital structure would remove one potential disincentive for amalgamations that exists with the current tier structure for debt to equity. For example, two amalgamating LDC's, each with a deemed 50/50 debt to equity capital structure, would have a disincentive if the amalgamated rate base now required a 60/40 capital structure.

The Board Staff proposal also appears to heighten the incentive to find cost reductions through alternative business co-operation avenues which would not reduce the number of licensed distributors.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 4

Return on Equity – Cannon Methodology
Several parties have suggested that the Board retain the existing method of calculating the ROE as documented in Dr. Cannon's paper "Determination of Return on Equity and Return on Rate Base for Electricity Distribution Utilities in Ontario", dated December 1998, and consistent with the ROE methodology used in rate regulation of natural gas distributors under the Board's "Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities". If the Board was to retain the current methodology:

a. Should the ROE be updated for May 1, 2007 distribution rate adjustments?
b. What should the starting point for the ROE applicable to electricity distributors (e.g., 9.88% from the first Distribution Rate Handbook or 9.00% as calculated in the 2006 Electricity Distribution Handbook)?
c. If updates to the ROE are not done annually (e.g. under IRM), then how should the ROE update be done at the time that distributors file rebasing applications?

Response

a. The CLD believes that a properly applied update to Dr. Cannon's methodology for determining ROEs for LDCs for May 1, 2007 would be appropriate.

b. The CLD believes that an appropriate starting point for the ROE applicable to electricity distributors is 9.88% based on the Board's application of the Cannon methodology in 1999-2000. This stems from the view that Board Staff has incorrectly applied the Cannon methodology since that time. For example, based on evidence filed by Toronto Hydro Electric System Limited as part of its 2006 EDR filing, the correct value for ROE in the 2006 Electricity Distribution Handbook should have been 9.13%.

c. In the absence of a full generic hearing on cost of capital that could lead to a change in the methodology, and perhaps to a change in LDCs' capital structure, the CLD believes that the ROE should be updated annually based on a proper application of the Cannon methodology.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 5

Return on Equity and Rebasing
The staff proposal currently would have the IRM price cap formula applied to existing Board-approved distribution rates, largely set through 2006 EDR applications.

a. Does the change in the inflation or price escalator factor of the price cap index, measured by GDP-IPI (Final Domestic Demand) as proposed by staff, reasonably track or proxy also the changes in the debt rates and market returns (and therefore the distributors ROE) year to year?

b. If so, is an ROE adjustment required in 2007 and while a distributor is subject to the price cap index? What are the implications of not changing the Return on Equity (ROE) currently allowed in a distributor's approved distribution rates until the distributor files a Cost of Service (rebasing) rate application during the period 2008 to 2010?

Response

a. In the opinion of CLD members, while there is little doubt that long-term trends in capital costs are eventually reflected in market prices for goods and services, it appears that their impact on GDP-IPI would be indirect and could be significantly delayed. Competition and demand elasticity act to limit the degree and timeliness by which these costs can be passed through in prices, and in any event capital costs are only one element in the overall cost structure for most companies in general, while this cost element is typically high for capital intensive LDCs (e.g. LDCs operating in high growth areas in the province).

   It is also important to distinguish the prices of capital goods from the 'price' of financial capital. The GDP-IPI may to some degree reflect changes in the cost of capital in the prices of goods and services, but the market for financial capital may exhibit very different characteristics. A distributor's need for financial capital at any particular time may be driven entirely by financial factors (e.g., a need to re-finance expiring debt) and the cost of that financial capital may be unrelated to developments in the market for goods and services.

b. One implication of not adjusting ROE annually is that customers and distributors face an increased risk that capital costs recovered in rates become out of step with market conditions – a risk that increases with the length of time between adjustments. The CLD considers significant discrepancies to be unreasonable and unnecessary; however, the need for an adjustment should be evaluated annually rather than being taken as given.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board's Question 6:

Capital Structure

Several distributors have raised concerns about migrating quickly to a new capital structure. Consider a scenario whereby the Board were to phase in the change from the existing size-related capital structure to the common structure, for rate-making purposes, over several years. For example, a large distributor with over $1 billion in rate base might move from its deemed 35% equity to 40% over two years, to mitigate possible rate impacts on ratepayers. As another example, a small distributor with a rate base of less than $100 million could migrate from its current deemed 50% equity to 40% equity over three years, to Board Staff Questions to Participants of September 18-22, 2006 Technical Conference September 27, 2006 - 3 - mitigate the impact on corporate restructuring and on the distributor's shareholder(s). This change in the capital structure would be accomplished through the K-factor while the distributor is under an incentive rate mechanism (IRM) scheme, and a distributor migrating to the new capital structure would also factor such migration into its Cost of Service rebasing application.

a. What are the implications, advantages and disadvantages of such an approach?
b. Are there alternative approaches that the Board might consider?

Response

a. The CLD acknowledges that there will be customer rate and shareholder impacts associated with a transition from the current size-related capital structure. We agree that it is reasonable to make changes over more than one year if it is necessary to mitigate these impacts.

The CLD does not object to a two-year phase in period for LDCs with an existing deemed structure consisting of 35% equity. However, it is not clear that such a phase-in is necessary to mitigate customer rate impacts. We submit that it may be preferable to permit an immediate transition to the common capital structure if the aggregate distribution rate adjustment for 2007 does not exceed an established acceptable level. This would reduce the potential for second phase cost of capital adjustments being combined with other increased costs in 2008, leading to even greater customer rate impacts at that time.

The proposed three-year phase in period for LDCs with an existing deemed capital structure consisting of 45% or 50% equity would provide LDCs and their shareholders with time to adjust to the change. However, this must be balanced with consideration for fairness to customers. Consideration must also be given to the response of capital markets if a new capital structure is adopted. This will be influenced by all of the cost of capital

decisions of the Board taken together. Any transition to a common debt/equity structure for rate-setting purposes, must be accompanied by a fair means of establishing ROE, to ensure that the LDC sector has access to capital at reasonable rates.

The CLD agrees that the K-factor could, in most cases, be used to adjust rates during the phase in period while a distributor is operating under an IRM scheme. However, adjustments would be required to accommodate phasing-in of changes to a new deemed capital structure.

b. A modified approach for large LDCs moving to a higher equity component in their deemed capital structure is included in the above response to question 6a.

ONTARIO ENERGY BOARD STAFF
TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 7

Load Concentration-related Business Risk
While Board staff have proposed a common capital structure applicable to all distributors, several stakeholders have commented on business risk, possibly related to a material loss of revenues due to the loss of a customer or business sector served by the distributor and where that customer or business sector constitutes a significant portion of the load and distribution revenues for the distributor.

a. Could any significant risk that might materialize due to the loss of a significant load concentration be mitigated by Z-factor (or analogous) treatment?
b. If yes, then what would be the criteria for identifying an occurrence of such an event (e.g. what percentage of distribution revenue attributable to loss of a single customer should be the threshold for identifying a material revenue loss)?

Response

a. The CLD believe that a Z-factor is appropriate for recovery of the bad debt loss of a significant customer. Ongoing load changes should be dealt with through an application to the Board for an adjustment to rates.

b. The 2006 Electricity Distribution Rate Handbook provides for a materiality threshold for non-routine/unusual adjustments of 0.2%. In the opinion of the CLD, it is not unreasonable to continue with the materiality threshold of 0.2% as it applies to total distribution revenue.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board's Question 8:

Short-term Debt (addressed to distributors)
At the Technical Conference, staff heard that not all working capital is funded by short-term debt and that some may be funded by long-term debt.

a. What percentage of your actual working capital is funded by short-term debt?
b. What percentage of your rate base does short-term debt represent?

Response

The CLD believes that Board Staff's proposed methodology that explicitly sets eight percent of LDCs' capital structure as short-term debt does not properly reflect LDCs' operations. The Rate Base is comprised of Net Fixed Assets plus a Working Capital Allowance ("WCA"). Currently, with the exception of Hydro One, LDCs' WCA is determined as 15 percent of the sum of cost of power and controllable expenses. In practical terms this effectively leads LDCs to recover their WCA via rates, and, barring significant volatility in the electricity spot market that could require making cash-based margin calls to the IESO, or the misapplication of these monies to fund long-term assets, the allowance permits LDCs to recover sufficient funds to meet their short-term obligations. Accordingly, the CLD believes that, short-term debt need not form any part of LDCs' deemed capital structure.

As to the mechanics of Board Staff's proposal to set eight percent of LDCs' capital structure as short-term debt, the CLD understands that Board Staff has taken two revenue/expense metrics from Hydro One's lead/lag study, and has divided the sum of these categories by Hydro One's Rate Base. The CLD believes that, in practical terms, this ratio imparts little-to-no information on working capital needs, and little-to-no information on why the resulting percentage is an appropriate percentage for short-term debt. For example, were the eight percent to be applied to Toronto Hydro Electric System Limited's rate base, the resulting $160 million would be grossly insufficient to fund peak working capital expenses that have exceeded $300 million on a monthly basis. However, it does not follow that the short-term debt component should be set at a significantly higher level than eight percent. For the reasons given above, the correct conclusion should be that, "properly" sized (using either 15% of COP + CE or via fulsome lead-lag studies) WCAs will permit LDCs to meet short-term obligations effectively, and will send the correct signals to incent them to structure adequate short-term liquidity/backup lines to meet contingencies. Furthermore, a lead-lag study undertaken by Hydro One may not be relevant for other LDCs. Hydro One bills most of its customers monthly whereas a large portion of the industry bills customer bi-monthly, requiring more short-term debt to finance the working capital.

The CLD encourages the Board to undertake further studies of this issue prior to making any changes to the approach used up until now.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 9

Incremental Capital Expenditures

Some distributors at the conference expressed concern over aging infrastructure and the need for increased investment in that infrastructure to maintain appropriate levels of service.

a. What are your known circumstances of where this could arise (addressed to distributors)?

b. Should incremental capital spending that is not attributable to load growth be treated outside of the price cap index (similar to what is proposed for CDM)?
    i. If so, should it be eligible for Z-factor treatment?

c. Are there alternative approaches that the Board might consider?

d. If the Board were to provide for special treatment of these investments, should a threshold apply? If so, how might that be expressed (e.g., percentage of current CapEx budget less depreciation)?

Response

a. The concern is not just the need to increase investment in infrastructure, it can also be the need to maintain current levels of investment, when that current investment is above the yearly amortization. While the GDP-IPI – X adjustment is expected to allow for some increase to the revenue requirement at less than inflation, it does not cover the incremental amortization, financing costs or equity return on capital expenditures.

As an example, in Hydro Ottawa's 2006 EDR, amortization was approved at $34 million. Capital expenditures for the year, net of contributions in aid of construction, of $67 million were approved for inclusion in rate base. This capital program was based to a large part on an asset management plan that illustrated the age distribution and condition of assets, and set out a plan to increase capital spending to manage this aging infrastructure. Therefore net additions to fixed assets in 2006 were $33 million. Assuming that the company simply maintains this current level of capital spending in 2007, there would be an additional $33 million added to fixed assets for 2007. This should result in the following adjustment to the revenue requirement, assuming a mid-year rate base from mid 2006 to mid 2007, for the company to earn the regulated rate of return:

Financing costs @ 5.25%	$1.0 million
Amortization (assume 25 year assets)	$1.3 million
Equity return	$1.2 million
PILs	$0.7 million
Total	$4.2 million

Hydro Ottawa's approved revenue requirement for 2006 was $121 million, excluding Smart Meters. If the GDP-IPI – X adjustment becomes 0.77%, as proposed by Board Staff, the increase to the revenue requirement would be roughly $0.9 million, of which approximately $0.3 million is related to OM&A. In order to achieve the regulated rate of return, rather than getting a small increase for inflation, OM&A costs would have to be decreased by $3.3 million, or roughly 7%, to offset the costs of the capital expenditure program. This is the situation if capital expenditures are frozen at current levels even if asset management plans indicate that increased spending is warranted. Furthermore, this is the impact for 1 year. The effect is cumulative for each year between rebasing.

The other consideration is the cash flow implications of this capital program. In addition to the regular capital program, LDCs are implementing Smart Meters. For Hydro Ottawa, this would result in a capital program net of amortization of roughly $50 million per year, assuming that no increases are required for capital spending other than for Smart Meters. With a 60/40 debt to equity ratio, $20 million of this spending should be financed from equity. However, Hydro Ottawa's regulated return on equity from the 2006 EDR is only $18 million, so clearly the equity financing cannot be solely from retained earnings. It is unrealistic to expect that cash strapped municipal shareholders can provide equity financing, and financing from third parties becomes very costly because of the current provincial transfer tax. This is a practical concern that the Board needs to consider when determining if an adjustment for capital expenditures programs will be included as part of 2GIRM.

While this is a Hydro Ottawa specific example, the situation can exist for many LDCs. Toronto Hydro expressed similar concerns about capital spending for aging infrastructure as part of its 2006 EDR. S&P also identified this as an issue in their Industry Report Card date July 27, 2006 in which they stated the following:

"The outcome of the OEB's ongoing generic cost of capital review will be used in rate determinations for 2007 and beyond and could affect the cash flow strength of local distribution companies (LDCs). Both the allowed returns and the regulatory capital structure of some LDCs in Ontario are under examination..... The design of the OEB's second generation incentive regulation that will determine LDC revenue requirements for the period 2007 to 2009 is also in progress. The inclusion of a proposed productivity factor in annual rate adjustments will likely pressure some utilities' ability to earn their allowed return. On the other hand, improvements to both regulatory transparency through the use of formulas for annual rate adjustment and timeliness of decisions through streamlined processes, should serve to reduce regulatory risk somewhat s compared with two or three years ago. .... For some LDCs in Ontario, after taking into account the government-directed investment in smart meters, capital expense may double in the next several years as compared with previous years……The regulated returns on existing rate base typically allowed in Canada do not permit utilities to generate sufficient FFO {funds from operations} to finance major infrastructure expansion and

renewal. Increased bank line capacity has also been necessary as a result of higher commodity prices."

b. The CLD would be receptive to a separate treatment for capital spending requirements.
   i) A Z factor is typically used for extraordinary events that are unexpected, beyond the control of company management and have already occurred. Capital programs are therefore of a different nature. However, some mechanism similar to a Z factor may be an appropriate approach.

c. The CLD has previously proposed that the Board consider approving multi-year capital plans as part of the next cost of service applications. While this does not address the issue for 2007, this assurance for future years would alleviate some of the concerns. However, the Board may be faced with more than 1/3 of the industry seeking to rebase in 2008 if no adjustment mechanism for capital expenditures is available in 2GIRM. The use of deferral accounts is better than no adjustment for capital expenditures at all, however, this does not alleviate cash flow considerations. Furthermore, accounting rules are becoming stricter on the recording of deferral accounts. Depending on the specific nature of the account, including expectation and timeliness of recovery, external auditors may expect an LDC to record a provision for doubtful recovery against any such deferral account.

d. The CLD fully supports the use of a threshold to ensure that only LDCs with a demonstrated need make use of any adjustment mechanism for capital expenditures.

ONTARIO ENERGY BOARD STAFF
TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 10

CI-factor

During the technical conference, Mr. John Todd proposed a methodology for a CI-factor as part of the IRM price cap formula as a means for including incremental capital expenditures not related to load growth as an increment to the price cap index.

a. What are the implications, advantages and disadvantages of adopting such an approach?

b. Mr. Todd suggested that a distributor file an Asset Condition Assessment Study as support for the proposed CI-factor. Such a study does not directly indicate the cost of incremental capital expenditures needed to address deficiencies in the system. What information on the proposed capital expenditures should a distributor be required to file in addition to the Study?

c. What are the implications of adopting this approach where CapEx plans are not reviewed and approved by the Board?

d. The CI-factor methodology as proposed seems to start from a 2006 rate base. Hydro One Networks has a 2006 rate base that has been reviewed during its 2006 distribution rate application by virtue of applying on a forward test year. However, most electricity distributors filed 2006 distribution rate applications on the basis of a 2004 historical test year with allowable adjustments. Hence, the public information for most distributors reflects a 2004 rate base. What changes need to be done to the CIformula to properly adapt it for when 2006 distribution rates are calculated on a 2004 historical rate base?

e. Should the load growth factor be weather normalized? If so, how should this be done?

f. Some of the parameters for the calculation of the CI-factor, as proposed, may not be readily available from prior filings where the data were subject to review by the Board. By what process would the Board review and test the reasonableness of the parameters if a distributor were to apply for a CI-factor?

Response

a. The advantage of Hydro One's proposal for a CI-factor is the simplicity of the adjustment, provided that it only uses data from an LDC's 2006 EDR.

b. It would be appropriate for an LDC to file a short manager's summary describing the capital program. There is no need for a comprehensive filing of a capital plan because the actual capital spending for the year can be reviewed at the time of the next cost of service application. An Asset Management Plan that includes other factors beyond condition assessments should be considered an acceptable filing in place of an Asset Condition Assessment Study.

c. While it is true that the CI-factor would provide incremental funding for capital programs in advance of a detailed review and approval by the Board, this does not mean that the programs will never be reviewed and approved. At the next cost of service application the rate base will be approved. This includes all capital spending since the last rebasing, included spending related to the CI-factor.

d. For the 2006 EDR, tier 1 adjustments were allowed to the 2004 base, therefore it was not a completely historical base. This was intended to provide a proxy for 2006. A forward test year was always an option if the LDC felt that the tier 1 adjustments were not sufficient. Therefore, no changes should be required to the formula for those that filed based on a 2004 historical test year.

e. As indicated in part a., the advantage of the CI-factor is its simplicity. If the load data must be weather normalized, this would no longer be the case. It should also be pointed out that the load data used for rate setting within the 2006 EDR smoothed out weather effects by using a three-year average for kilowatt-hour sales.

f. The CLD's understanding of the CI-factor is that it would be based solely on data from the 2006 EDR.

ONTARIO ENERGY BOARD STAFF
TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 11

Declining Customer Base
Some distributors have documented declines in their customer bases.

a. Would it be reasonable to adjust the X-factor, for example, to 0.7 for a distributor that has negative growth in its customer base over the period 2002 to 2005?

b. Are there alternative approaches that the Board might consider to address constraints on operating efficiencies possible under declining customer base conditions?

Response

a. The CLD does not take a position on this issue, but does point out that there may be other circumstances beyond a declining customer base that would also have to be considered if dispensation is provided to LDCs on this issue.

b. One possible alternative approach is to deal with this issue through a cost of service application.

ONTARIO ENERGY BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

Board Staff Question 12

Smart Meter incremental funding
In the July 25, 2006 Staff discussion paper, staff proposed incremental amounts of smart meter funding of $1.00 per month per metered customer for distributors working to achieve the Government's objective of 800,000 smart meters in place by the end of 2007, and $0.30 per month per metered customer for other distributors.
c. Are the proposed increments reasonable?
d. If not, what should they be, and why?

Response

Initially the CLD viewed the proposal for the incremental $1.00 per month per metered customer as reasonable, and based on the original implementation plans it was. However, as the plans become more specific, a number of new details need to be considered.

1. The CLD has made a commitment to have 700,000 Smart Meters installed by the end of 2007. This is significantly more than was originally planned as part of plans filed with the 2006 EDR; with approximately 60% of installations completed by the end of 2007 instead of the original plan for 40%.

2. Per meter purchase prices are generally lower than initial estimates, however, current plans require capital spending for the implementation of the MDM/R systems in 2007. With the accelerated schedule and requirements for MDM/R spending, overall capital spending is expected to be higher in 2007 than it would have been if Smart Meter installations occurred on a straightline as originally intended.

3. Initial estimates for incremental OM&A may not have appropriately reflected costs during the transitional period as the program is ramping up. This includes:
   a. Training costs for staff;
   b. Development and implementation of new process for data handling, VEE, billing, call handling and overall change management costs etc.;
   c. Incremental call centre costs as meters are installed, work to implement TOU rates and general customer communication costs.

4. The CLD is concerned about the amortization rate of 15 years for Smart Meters. The OEB should review this in more detail.

5. LDCs are faced with the removal of significant metering assets that are not fully depreciated. The legislation ensures that LDCs will be held harmless on these stranded assets, but it is necessary for the OEB to issue accounting guidance on this prior to year-end to provide assurances to external auditors.

Based on these considerations, the CLD is now recommending that those LDCs that are on an accelerated time table for Smart Meters be funded an incremental \$1.30 to \$1.50 per month per metered customer for 2007.

This document was created with Win2PDF available at http://www.daneprairie.com.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.