



August 16, 2006

Mr. John Zych, Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge St, Suite 2700
Toronto, Ontario, M4P 1E4

Re: Staff Proposal on the Minimum Filing Requirements for Transmission and Distribution Rate Applications and Leave to Construct Projects, Board File No. EB-2006-0170

In accordance with the Board's instructions of July 17, 2006 we are providing our written comments on the Board staff's draft proposal on the minimum filing requirements for electricity transmission and distribution rate applications and leave to construct projects.

Utilization of a Forward Test Year versus Historic Test Year

- Board staff proposes that the standard methodology going forward will be utilizing a forward test year. As we saw in the 2006 EDR process, applications based upon a forward test year place an enormous strain on the resources of both the Board and utility staff, and generally result in a lengthy and costly oral hearing process.
- This proposal is in direct contrast to the Board's own guiding principles as stated in objective 5 of the draft proposals for revisions to Cost of Capital and 2nd Generation Incentive Regulation which is to:

“minimize the time and cost of administering the framework. Costs imposed on all participants, including the regulated entity and the regulator, should not exceed the benefits available. This objective could be met through a simple process that reflects the concerns of interested parties and reduces the formal process requirements.”

- The Board has indicated that during the period 2008 to 2010, only 1/3rd of the utilities or approximately 30 rate applications would be processed in each of these years. We believe that the time and resources required by the Board to process these 30 applications could potentially exceed that required to process the 2006 EDR applications that were submitted for all utilities.

- We recommend that the Board continue with a historic year filing process such as that employed in the 2006 EDR process, and allow for certain known or highly predictable adjustments, such as labour and fringe benefit adjustments and anticipated customer and load growth.

Section 2.1.1 Key Planning Parameters

- Test year, bridge year, historical year, rate year, Board approved year and other annual data:

The proposal indicates that Test Year = Prospective Rate Year and that selected information must be provided for bridge year, historical year, etc and reconciled to the test year.

Virtually all utilities maintain their annual financial data, budgets, tax filing information and reconciliations on a calendar year basis and audited financial statements are available on only a calendar year basis. The Board's current Regulatory Reporting Requirements are based upon the utilities calendar year data.

Rates, when approved, are normally implemented at some point in the year after January 1, such as May 1, and thus many consider the Rate Year to be the year commencing May 1.

Board staff should clarify in their proposal, that the Test Year (Prospective Rate Year) and all other references to "Years" is not the year that commences on the day that rates are implemented, but that it is the calendar year in which the rates are implemented. IE: the year commencing January 1 for most utilities.

This clarification is required to ensure that Board staff is not proposing a reconciliation of multi-year data and information that in most cases is unavailable.

Section 2.2.1 Administration

- Board staff lists as a detailed requirement, the "List of Witnesses and their Curriculum Vitae". Unless the Board has determined that all rate applications will be subject to an oral hearing, this should not be a requirement upon filing.

Section 2.2.2 Overview

- Board staff lists as a detailed requirement the following budget information:
 - Budget Directives
 - Budget Process

- Flow charts of approval process
 - Correspondence regarding Budget levels-goals, strategies and guidelines
- Filing of this type of information should not be a requirement, as it will lead to an attempt by the regulator and/or other stakeholders to micromanage the utility and the industry as a whole. All applicants are required to reconcile and explain any variances that result between historical years, bridge year and test years. These reconciliations will incorporate the decisions made by management through the budget process and the Board and other stakeholders will have an opportunity to questions any decisions that were made through that process. The decisions made through the budget process should be the subject of the Boards interest, not the budget process itself.

Section 2.3 Exhibit 2. Rate Base

- Capital Budget – Historic Year, Bridge Year & Test Year

The proposed requirements appear to indicate request for capital budgets for the historic year. If this is the intent, we fail to understand the value or purpose of this information if historical actuals are available for that same period.

We would recommend a clarification or revision to this section to indicate a request for historic year actual, bridge year budget and projected actuals, test year budgets.

As a general principle, we do not believe there should be any request for budget information of any type, when actual historic data is available.

Section 2.4 Exhibit 3. Operating Revenue

- **Revenue Sharing**

The draft document indicates that information should be provided with respect to Revenue Sharing. The Board Staff’s proposals for Cost of Capital and 2nd Generation Incentive Regulation propose that there will be no earnings sharing mechanism. Clarification is required here with respect to what Revenue Sharing information Board staff is referring to.

- **Throughput Revenue**

The draft document requests actual and forecasted consumption information by customer for the past 10 years. Aside from the questionable usefulness of information this old, many utilities may have disposed of records of this vintage. Consolidation in the industry, changes in customer mix, changes in weather patterns

and the efficiency of electrical equipment during the past 10 years makes information beyond a 5 year time frame of limited usefulness.

Historical forecasted consumption per customer should not be a requirement and we believe that in a large number of cases it will not exist. Historical actual data for the past 4 years plus bridge year actual and forecast data should be the basis upon which test year projects are made.

We do not believe that an evaluation of the accuracy of previous forecasts will be any indication of the accuracy of test year forecasts. Test year forecasts should be based on historical actual trends, and not on historical forecasts.

Large volume (contract) customers – further clarification is required here to determine who these customers are. I.e.: - large users, cogeneration, GS>50?

What are the criteria to determine who a large volume customer is? Comments indicated above apply equally to these customers.

- **Other Revenues**

The proposal requests a “detailed calculation of Rate of Return on non-core delivery activities. Specific details and guidance is required here to be able to identify what should be classified as “non-core delivery activities” and how the rate of return should be calculated.

Section 2.5 Exhibit 4. Operating Costs

- **1. A. - Operating and Maintenance**

The draft proposal requests a breakdown of information on a departmental basis. The document identifies the departments to be Administration and General, Sales Promotion and Customer Accounting. Board staff should be cognizant of the fact that, most utilities corporate and departmental structures are significantly different than that provided for in the USoA accounting structures. Additionally, these varying departmental structures are not static; they are constantly changing and evolving over time, making any form of comparisons over time virtually impossible.

The request for breakdown of information on a departmental basis must be based on the USoA account structures, and should specifically define which USoA accounts are to be grouped for departmental information reporting; otherwise the Board will receive a wide array of groupings and combinations of information that will likely be different for every utility.

Board staff should also be aware of the fact that departmental information based upon the USoA account groupings will in most instances not be comparable to any departmental information that may be provided in the utilities audited financial

statements. While the costs should be reconcilable in total, there would be no value added in attempting to reconcile on a departmental basis.

- **1. D. - Corporate Cost Allocation**

The draft proposal requests information on corporate cost allocation. It is assumed that this information relates to allocation of cost between the regulated utility and other corporate entities. The document should clarify this item to ensure that it is not interpreted as cost allocation within the regulated utility

Section 2.8 Exhibit 7. Calculation of Revenue Deficiency or Surplus

The draft proposal requests a series of schedules and analysis to provide information on the calculation of revenue deficiency or surplus. To avoid the submission of a complex array of information and presentation formats, we would recommend that the Board develop a standard set of presentation templates for this information. This recommendation would apply equally to all areas of the rate application where standardization of submission documents could be employed to improve the efficiency of the submission process and the Board review and stakeholder input process.

Section 2.9 Exhibit 8. Cost Allocation

The draft proposal requests that the Board approved cost allocation must be filed whether the utility proposes to use it or not. It is assumed that this cost allocation is the cost allocation that is currently under developed and scheduled to be filed during the latter half of 2006 and the spring of 2007 based upon the 2006 EDR financial data. Board staff should clarify that this is the document being referred to in this section of their proposal.

Section 2.10 Exhibit 9. Rate Design

- **2. Proposed Rate Schedules**

The information requested under this category includes the following two items:

- Calculation of differences between revenue and allocated cost under current rates and proposed rates by customer class
- Revenue/Cost Ratios for Historic Year, Bridge Year and Test Year

It is our understanding that the only manner in which these information requests could be provided is through the completion of a cost allocation study for the Historic Year, Bridge Year and Test Year.

To-date, the Board has advised that the cost allocation review currently underway is a process that will be used to determine if there is any revenue to cost ratios that are sufficiently out of line to require correction in a future rate application.

Board staff's proposal should clarify that the "calculation of differences between revenue and allocated cost under current rates and proposed rates by customer class" refers to the cost allocation results from the cost allocation review submissions of 2006 and 2007.

Further clarification should be provided to indicate that the "Revenue/Cost Ratios for Historic Year, Bridge Year and Test Year" are as follows:

- Historic year = revenue/cost ratios from 2006/2007 cost allocation review filings
- Bridge year = Historic Year findings plus any Board approved revisions based upon those findings
- Test Year = Bridge Year plus any proposed revisions based upon more recent cost allocation studies if available.

Board staff's proposal creates an impression that cost allocation studies are an annual requirement, and to-date, the Board has not proposed or discussed this matter with utilities. We are under the assumption that these studies will only occur on periodic basis to ensure that the ongoing revenue/cost ratios are not materially out of line.

All of the above comments are respectfully submitted for your consideration.

Sincerely,

Ian McKenzie
Regulatory Analyst
Bus. (519) 661-5800 ext. 5579
Fax (519) 661-2596
mckenzii@londonhydro.com