Aiken & Associates
578 McNaughton Ave. West
Chatham, Ontario, N7L 4J6
Phone: (519) 351-8624
Fax: (519) 351-4331
E-mail: raiken@xcelco.on.ca

April 27, 2007

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2006-0209 Multi-year Incentive Rate Regulation

We are consultants for the London Property Management Association ("LPMA") and are writing in response to the Board's invitation for comments contained in its letter of March 30, 2007 to "All Participants in EB-2006-0209". LPMA is providing comments on the Total Factor Productivity study ("TFP") prepared by Pacific Economics Group ("PEG") and on the scoping of the generic hearing to be convened by the Board on its own motion.

Preliminary Comments

On behalf of the LPMA, we have reviewed the "Preliminary Observations" and "IR Framework Described in Board Staff's Discussion Paper" prepared by Mr. Thompson on behalf of IGUA in his letter to the Board dated April 25, 2007. LPMA supports these comments.

The Total Factor Productivity Study

The PEG TFP study recommends different price caps for each of the two utilities, Enbridge and Union Gas. It is unclear why the same cap would not be applicable to both utilities. LPMA believes the PEG study should include information on the treatment of utilities under similar price cap regimes in other jurisdictions where more than one utility is regulated.

The PEG study also provides the notion that the price cap analysis can be extended, for each utility, to provide different price caps for different rate classes. However, the analysis appears to be based on end use characteristics of the customers. Specifically, the PEG study derives price caps for residential and non-residential customer classes rather than by individual rate classes. The reason for this is not clear. In particular, the reason for looking at different price caps for rate classes is that declining average use may affect customer rate classes differently, and inter-class cross subsidization should be minimized (Staff Discussion Paper, January 5, 2007). The Staff Discussion Paper states that "PEG will undertake analysis to determine the extent of declining average use, and whether it differs materially among ***rate classes***. (emphasis added)". The PEG study does not, in fact, do this, nor does it explain why it does not do the analysis by rate class. It is recommended that the PEG study do the analysis for each rate class for each of the utilities, or provide justification for the arbitrary end use distinction used.

It is unclear to the LPMA whether the average use adjustment calculated in the PEG study would be fixed for the term of the IR plan, or whether it would be adjusted, perhaps through the use of a rolling 3 or 5 year average. Such an approach would provide a timely reflection of recent trends in average use. Fixing the average use factor for a term of up to 5 years seems counter intuitive to the objectives of the process.

The PEG study uses a number of assumptions and time periods for estimating different components of the total factor productivity. The study should include a robust sensitivity analysis to show the impact of using different assumptions and time periods on the various components of the overall total factor productivity calculation.

Process

LPMA supports the process analysis prepared by Mr. Warren in his letter to the Board dated April 20, 2007. Further, LPMA agrees with the comments on process in Mr. Thompson's April 25, 2007 letter to the Board. In particular, LPMA agrees with the importance of the Settlement Conference component of the process.

Please contact the undersigned if you have any questions on the contents of this letter of comment.

Sincerely,
Randy Aiken

Randy Aiken

Aiken & Associates

cc: List of Interested Parties