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**Commission de l'Énergie
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BY E-MAIL AND WEB POSTING

April 27, 2007

To: All Licensed Electricity Distributors
All Participants in Proceedings EB-2006-0088 and EB-2006-0089
All Participants in Proceeding EB-2006-0268
All Other Interested Parties

**Re: Comparison of Distributor Costs
Consultation on Consultant's Report
Board File No.: EB-2006-0268**

The Board has today released for comment a report by Board staff's consultant, Pacific Economics Group ("PEG"), on a methodology for comparing electricity distributor costs (the "PEG Report"). This letter describes the background to that Report, as well as the purpose of this consultation and how to participate.

Background

The Board began its work of comparing distributor costs in the 2006 EDR process, and had hired Christensen Associates Energy Consulting LLC in 2004 to provide a report on comparators and cohorts. The Board subsequently announced that, as part of its multi-year rate plan for electricity distributors, the Board would continue work on methods and techniques for comparing distributor costs. To that end, Board staff hired PEG to continue this initiative using more recent data.

By letter dated November 24, 2006, the Board provided summaries of data gathered from distributors under the Board's Reporting and Record-keeping Requirements for the years from 2002 to 2005. Input was solicited from interested parties on a number of questions relating to the grouping of distributors for cost comparison purposes as an initial stage in this consultation process. Written comments were received from several interested parties, and have been posted on the Board's website at www.oeb.gov.on.ca under "OEB Key Initiatives" on the "Comparison of Ontario Electricity Distributors Costs" webpage.

The written comments were also provided to PEG for consideration. The PEG Report reflects PEG's views on those comments.

In the 2006 rate-setting process, a comparators and cohorts mechanism was used to assist Board staff in screening the 2006 distributor rate filings. Given that the comparative analysis techniques are currently under further development, the Board has not yet articulated what use(s) might aptly be made of the techniques. Even the very existence of a comparative analysis may serve as an impetus for distributors to pursue measures that will enhance cost performance, outside of any direct role in ratemaking.

Depending on the robustness of the techniques, potential uses of the comparative analysis could include:

- screening rate applications (similar to 2006);
- supplemental information available to parties in rate rebasing proceedings (e.g., as a basis for formulating interrogatories);
- benchmarking expense levels; and
- informing the development of incentive regulation, and in particular the issue of variable, or utility-specific, productivity factors.

Release of the PEG Report for comment is a step in the evolution of the Board's consideration and development of regulation of the sector.

PEG Report

The PEG Report is based on econometric modelling. It recommends the use of multivariate indexing to compare relative distributor performance and also recommends that for the current analysis only aggregated operations, maintenance and administration (OM&A) costs be benchmarked.

Board staff provided PEG with preliminary peer groups of distributors for review and comment. Those groupings, together with PEG's appraisal of and suggested enhancements to them, are contained in the PEG Report.

Invitation to Comment

The Board is inviting written comments from interested parties on the PEG Report. Details on how to provide your comments are set out below.

In addition to any other comments interested parties may wish to make on the PEG Report, the Board is particularly interested in comments on the following:

- the application and value of benchmarking in ratemaking;
- the relative merits of PEG's and Board staff's proposed benchmarking methodologies; and
- any alternative methodologies that the Board should consider (including the rationale for the alternative and how it might be implemented).

The PEG Report recommends some improvements in data capture, including the collection of certain additional capital expenditure data. Some of this information may already be on file with the Board as part of a distributor's rate application filings. It

would be of assistance if interested parties could suggest alternatives for the timing and manner of collection of the additional data should the Board decide that collection of additional data is warranted.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their participation in this consultation. The costs awarded will be recovered from licensed rate-regulated electricity distributors based on their respective distribution revenues. Cost awards will not be recovered from distributors whose rates are not currently fixed or approved by the Board (Cornwall Street Lighting and Power Company, Dubreuil Forest Products) or from distributors whose data have not been included in this study (Attiwapiskat, Fort Albany, Kashechewan, Hydro One Remote Communities).

Appendix A contains important information regarding cost awards for this consultation, eligibility requests and objections. In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

How to Participate and Instructions for Filing Comments

The Board encourages participation in this consultation by all interested parties.

Those interested in participating should indicate their intent in writing by letter addressed to the Board Secretary at the Board's mailing address set out above by **May 8, 2007**. That letter should include a statement as to whether the participant wishes to request cost eligibility. All requests for cost eligibility must be accompanied by the information identified in Appendix A under the heading "Cost Award Eligibility".

Participants who wish to provide written comments on the PEG Report must do so by **June 26, 2007**. All filings to the Board in relation to this consultation must quote file number **EB-2006-0268** and include your name, address, telephone number and, where available, an e-mail address and fax number. Three paper copies of each filing must be provided. The Board asks that participants make every effort to provide electronic copies of their filings in searchable Adobe Acrobat (PDF) or MS Word, either on diskette or by e-mail to boardsec@oeb.gov.on.ca. Please name your electronic copy "Organization Name_EB-2006-0268".

Filings must be received by **4:30 pm** on the required date.

All materials related to this consultation, including the PEG Report and all written comments received by the Board in response to this letter will be available for public inspection on the Board's website at www.oeb.gov.on.ca on the "Comparison of Ontario Electricity Distributors Costs" webpage, and at the Board's office during normal business hours.

Next Steps

Based on the comments received from interested parties, the Board will determine the need for and form of the next steps for this consultation process as may be required.

Any questions relating to this consultation should be directed to Market Operations Hotline by e-mail at Market.Operations@oeb.gov.on.ca or by telephone at 416-440-7604. Please include on the subject line "Distributors' Costs, file EB-2006-0268".

Yours truly,

Original signed by

Peter H. O'Dell
Assistant Board Secretary

Comparison of Distributor Costs (EB-2006-0268)

Appendix A To Letter Dated April 27, 2007

Cost Awards

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person requesting cost eligibility must file with the Board a written submission to that effect by **May 8, 2007** identifying the nature of the person's interest in this process and the grounds on which the person believes that it is eligible for an award of costs (including addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known.

Licensed electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. All requests and any objections will be posted on the Board's website. If an electricity distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board Secretary by **May 22, 2007**. The Board will then make a final determination on the cost eligibility of the requesting parties.

Eligible groups should have flexibility to budget potential cost awards as needed to best assist the Board throughout this consultation. As such, groups representing the same interests or class of persons are expected to make every effort to communicate and co-ordinate their participation in this process. Costs may be pooled when groups with common viewpoints collaborate and pool their resources.

Eligible Activities

Cost awards will be available in relation to the following activity.

Written comments on the PEG Report

Up to 40 hours

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will use the process set out in section 12 of its *Practice Direction on Cost*

Awards to implement the payment of the cost awards. Therefore, the Board will act as a clearing-house for all payments of cost awards in this process.

For more information on the cost awards process, please see the Board's *Practice Direction on Cost Awards* and the Board's October 27, 2005 letter regarding the rationale for the Board acting as a clearing-house for the cost award payments. These documents can be found on the Board's website at www.oeb.gov.on.ca on the "Rules, Codes, Guidelines and Forms" webpage.