



December 5, 2006

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

Re: Comparison of Distributor Costs Board File No.: EB-2006-0268

In response to the Board's letter of November 24, 2006 requesting input from stakeholders on "Questions for Consideration by Interested Parties:" with respect to the comparison of distributor costs, we submit the following input for consideration by the Board.

Questions for Consideration by Interested Parties:

1) Are the proposed aggregations, or alternatively the 2006 EDR groupings, appropriate?

Response

The aggregations indicated are:

- Operations and Maintenance (O&M)
- Administration
- Bad Debt Expense
- Amortization Expense

The proposed aggregations are reasonable, but due to varying interpretations and treatments of expenditures between O&M versus Administration, comparability of data will be affected. Total O&M and Administration is a more reliable data comparator than a split of the two.

2) Should average labour costs be reported separately for comparison?

Response

Average labour costs per employee, segregated between union versus management may serve as an indicator of relative wage and benefit levels. Utility averages will additionally reflect the variations in staffing levels (managers, directors, supervisors, lead hands, etc.) between distributors.

Total labour costs between distributors should not be used as a comparator, as the results could be extremely misleading due to the degree by which various distributors may or may not be outsourcing certain functions such as customer billing and other administrative functions, facility and infrastructure maintenance and construction, etc.

3) Given difficulties with data comparability below the cost centre level of O&M and administration, should a lower level of granularity be considered? For example, billing separated from collection? Please suggest the lowest level of granularity based on the Uniform System of Accounts (USoA) that would be most useful.

Response

No, a lower level of granularity should not be considered.

4) Are the four cost drivers above the appropriate ones?

Response

The four cost drivers listed, were

- Number of customers
- Megawatt hours
- Kilometres of line
- Square kilometres of service area

Of the four items listed, megawatt hours is not an appropriate cost driver. There is no direct relationship between changes in energy volumes and changes in costs such as billing, meter reading, maintenance, administration, etc.

Certain O&M and capital costs are affected by energy volumes, but only to the extent that those volumes are representative of changes in the level of system demand which is the more appropriate cost driver for system infrastructure and maintenance related costs.

There may be some overlap between kilometers of line and square kilometers of service area, in that both of these cost drivers combined with customer numbers will indicate the degree of customer density.

5) What other cost drivers should be considered?

Response:

- System demand
- Customer class composition or mix. IE- ratio of residential vs. commercial vs. large industrial

6) Should different cost drivers be used for different cost centres? If so, which cost driver do you view as appropriate for which cost centre?

Response:

Yes. It is critical that the correct cost driver be used for any given cost centre or activity.

For example:

- Number of customers is most appropriate for billing, collecting, and all other customer service related activities.
- Kilometers of line is appropriate for operations and maintenance related cost centres
- System demand for capital and maintenance accounts

7) Are the grouping factors proposed by staff appropriate?

Response

The groupings listed are:

- Geographical location
- Customers per kilometre of line
- Total number of customers
- The degree of outsourcing and cost particulars
- Service quality performance

Yes, these groups are appropriate, but we suggest adding to this list:

- Customer mix or average energy consumption per customer
- Ratio of overhead to underground servicing
- Existence of and extent of underground network systems

8) Are there additional characteristics of utilities that should be considered for grouping distributors?

Response

Yes.

- Customers mix
- Utility load factor
- Overhead vs. underground servicing
- Underground network systems

9) Should external benchmarks established in other jurisdictions be considered in setting rates for Ontario distributors?

Response

External benchmarks established in other jurisdictions will have been based upon the unique utility operating characteristics of the utilities operating in those other jurisdictions.

Unless there is a reliable mechanism to filter out the impacts and distortions created by comparing the operating environment and unique characteristics of Ontario utilities to those of other jurisdictions, other countries and other regulatory regimes, external benchmarks should not be considered.

10) Some SQI data is currently collected. How could consideration of service quality as a driver of O&M cost be improved?

Response

No comment.

11) In order to further the development of utility comparisons, what additional data should be collected from distributors, and why?

Response

No comment.

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

If you require any further information, please contact me directly.

Sincerely,

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