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December 8, 2006

Ontario Energy Board  
P.O. Box 2319  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

**Attention: Ms. Kirsten Walli, Board Secretary**

Dear Ms. Walli:

**Re: EB-2006-0268 Comparison of Distributor Costs**

Waterloo North Hydro Inc. (WNH) appreciates the opportunity to provide input on the OEB's Comparison of Distributor Costs as presented with their letter of November 24, 2006.

### **General**

WNH would like to express its dismay at the compressed timeline for stakeholders to provide comments. Distributors are currently in the process of multiple concurrent regulatory processes and deadlines (i.e. Cost of Capital/2<sup>nd</sup> Generation IRM, Smart Meter Implementation Plans, and Cost Allocation) and a two week response timeline to analyze the Distributor Aggregated Data provided by the OEB is insufficient. The matter at hand is important to the future of distributors and sufficient time should be provided for analysis and comment. WNH, therefore, has prepared our comments on a preliminary basis only.

During the short-time frame for review, we have an initial comment regarding the source of some of the financial data. It was noted that the financial information for the years 2002 through 2004 was obtained from the RRR Filing 2.1.7, however, this would not take into account any adjustments or re-allocations made during the EDR 2006 process.

WNIH submits that the OEB should clearly document their intended use of the distributor cost comparison allocation. The intended use would allow stakeholders to provide more meaningful input. Initially the Comparators and Cohorts information was intended for internal OEB use only as a screening and analytical tool. To extend the use of this data, without further consultation, may lead to incorrect comparisons or mis-interpretation.

Board staff has noted on page 2 of their letter that there are “some data recording inconsistencies apparent when more granular data sets are analyzed.” WNIH would agree with this assessment, namely that the comparability of the data is an issue. Local Distribution Companies (LDCs) may have differently interpreted the Uniform System of Accounts (USoA) and recorded expenses in different accounts. It is our understanding that the OEB is undertaking a review of the USoA in anticipation of a much needed revision to its current form and may also resume its SQI working group. These are two important processes that we believe must occur prior to any meaningful comparability of distributor costs. WNIH submits that it is essential to ensure distributor cost data is comparable between LDCs prior to its use in any regulatory rate decisions. WNIH would like to volunteer to participate in any USoA and SQI review processes.

WNIH would like to suggest that the OEB continue to convene working groups in order to solicit relevant input from stakeholders prior to adopting processes that significantly impact the industry. Working groups allow the diversity of opinions to be considered prior to its adoption. It is suggested that Board Consultants would benefit from observing or reviewing these working group proceedings.

Discussions regarding Comparators and Cohorts have been taking place at the OEB since presentations by Frank Cronin and Michael King in late 1998. This issue has resurfaced many times including a flurry of activity in 2004 as part of the RP-2004-0188 for the 2006 Electricity Distribution Rates. The OEB had a working group of stakeholders examining Comparators and Cohorts. The OEB also contracted Christensen Associates Energy Consulting to produce several reports and presentations to the Board on Comparators and Cohorts with Mr. Robert Camfield as the Board’s expert on this matter.

It would appear that the OEB staff are moving into analyzing the data to draw conclusions without heeding the words of their own expert. Mr. Camfield indicated during the RP-2004-0188 Proceeding that he saw this as a process of several regulatory cycles to be able to draw meaningful conclusions.

Howard Weston’s comments in a speech to the EDA on February 27, 2006 are even more appropriate where he stated “So we must be prudent. We have to take our time and do this right.”

WNIH recommends that the Board Staff and their Consultant should include past work completed on Comparators and Cohorts, be prudent in their approach for filing requirements, and take the time to ensure that the process provides comparable and meaningful information.

## Potential Cost Centres

- Q1) *Are the proposed aggregations, or alternately the 2006 EDR groupings, appropriate?*

WNIH presents its suggestions in Q3) below and thus, would not adopt the proposed aggregations, nor the 2006 EDR groupings.

- Q2) *Should average labour costs be reported separately for comparison?*

WNIH submits that labour costs should not be reported separately for comparison. The cost of an activity is a function of all its costs and components, not only labour, and should be reported at this higher level.

- Q3) *Given the 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.*

WNIH would suggest the adoption of the following groupings:

- i) Operations and Maintenance (O&M) – excluding any LDC Owned Transformer Station Costs

Removal of LDC Owned Transformer Station Costs will place LDCs on equal footing. LDCs that own their own transformer stations have O&M costs for these transformer stations in their total O&M costs. LDCs that do not own their own transformer stations do not have transformer station costs in their O&M expenses, rather these amounts are pass through components included in the Retail Line and Transformation Connection Service Rate (RSVA Connection).

- ii) Billing, Collections, Meter Reading and Community Relations, including Bad Debts and Collection Charges Revenue (#5330)

WNIH submits that segregation of these costs from Administration is appropriate as they are related to producing and collecting customer bills. Bad Debts should not be shown separately as they are generally related to the level of collection activity.

Q3) *Given the 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. - Continued*

iii) Administration, excluding the costs in ii) above and any capital tax amounts included in USoA account 6105

WNI recognizes that Capital Tax is a tax deductible expense; however, we submit that Capital Tax costs should be included with Income Taxes, as it is included in the OEB PILs calculation for inclusion in distribution rates.

iv) Amortization

WNI supports the proposed inclusion of amortization as an appropriate grouping.

### **Potential Cost Drivers**

Q4) *Are the four cost drivers above the appropriate ones?*

WNI submits that three of the four listed on page four of the OEB letter, in addition to the driver suggested in Q5) below are appropriate.

a) *Number of Customers*

Appropriate measure as it is a driver for some costs, as noted below in Q6.

b) *Megawatt Hours*

Not a useful measure of cost drivers that are under the control of the LDC.

c) *Kilometres of Line*

WNI submits that the Kilometres of Line should be based on Circuit Kilometers, as reported annually in RRR 2.1.5, as it is more representative of distributor costs.

d) *Square Kilometres of Service Area*

Appropriate measure as this driver directly impacts the amount of infrastructure required to service customers, which in turn impacts maintenance, travel and response time costs.

Q5) *What other cost drivers should be considered?*

WNH would add an additional driver of Density (Number of Customers / Circuit km) to the four proposed. Density directly affects the LDC's cost of providing service to its customers.

Q6) *Should different cost drivers be used for different cost centres? If so, which cost driver do you view as appropriate for which cost centre?*

i) Operations and Maintenance

- Number of Customers
- Circuit Kilometres of Line
- Square Kilometres of Service Area
- Density

ii) Billing, Collections and Community Relations, including Bad Debts and Collection Charges Revenue (#5330)

- Number of Customers

iii) Administration, excluding the costs in iii) above and any capital tax amounts included in USoA account 6105

- Number of Customers

iv) Amortization

- Number of Customers
- Circuit Kilometres of Line
- Square Kilometres of Service Area
- Density

### **Potential Grouping Characteristics**

Q7) *Are the grouping factors proposed by staff appropriate?*

WNH supports the following proposed groupings:

- Geographical location
- Customers per kilometre of line
- Total number of customers

Q7) *Are the grouping factors proposed by staff appropriate? - Continued*

WNH submits the following grouping factors are not appropriate:

- The degree of outsourcing and cost particulars

WNH is unclear as to the source and use of this information. Currently costs are not collected in the USoA in this manner, in addition to the fact that the overall cost to the distributor should be the focus, as opposed to the manner in which the costs are incurred.

- Service Quality Performance

WNH submits that service quality performance is an expected responsibility of the LDC; it should not be a measure by which LDCs are compared.

Q8) *Are there additional characteristics of utilities that should be considered for grouping distributors?*

WNH submits that Square Kilometres of Service Area is also an appropriate grouping measure. Square Kilometres of Service Area directly impacts the amount of infrastructure required to service customers, which in turn impacts maintenance, travel and response time costs.

Q9) *Should external benchmarks established in other jurisdictions be considered in setting rates for Ontario distributors?*

WNH submits that this would be premature at this time; efforts should be directed at obtaining more comparable information within the Ontario market at this time.

Q10) *Some SQI data is currently collected. How could consideration of service quality as a driver of O&M cost be improved?*

WNH submits that service quality performance is an expected responsibility of the LDC; it should not be a measure by which LDCs are compared.

Q10) *Some SQI data is currently collected. How could consideration of service quality as a driver of O&M cost be improved? - Continued*

Consideration should be taken of differing situations that may affect service quality. A decrease in O&M costs may be viewed in two ways with two differing results. A reduced commitment to investing in O&M costs may result in deteriorating service quality. However, an increase in capital investment may decrease O&M costs, which would not result in deterioration of SQIs.

WNH, thus, does not see a direct connection between service quality in the drivers of O&M costs.

Q11) *In order to further the development of utility comparisons, which additional data should be collected from distributors and why?*

WNH submits that SQI data being collected should be expanded as follows:

- SAIDI
  - Total Statistics
  - Distributor Only Statistics
  - Supply Side Statistics
- CAIDI
  - Total Statistics
  - Distributor Only Statistics
  - Supply Side Statistics
- SAIFI
  - Total Statistics
  - Distributor Only Statistics
  - Supply Side Statistics
- CEA Method of Calculation of Outage Minutes/Customer on a 12 month rolling basis
  - Total Statistics
  - Distributor Only Statistics
  - Supply Side Statistics

Outages as a result of supply side issues are not within the control of the distributor and thus, should be reported separately. This segregation will allow a more meaningful review of these indices.

If there are any questions, please contact myself, Gerry Hilhorst at 519-888-5550, [ghilhorst@wnhydro.com](mailto:ghilhorst@wnhydro.com) or Chris Amos at 519-888-5541, [camos@wnhydro.com](mailto:camos@wnhydro.com).

Yours truly,

**note original signed by GH**

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