

November 17, 2006

Board Secretary
Ontario Energy Board
Suite 2701
2300 Yonge Street
Toronto ON M4P 1E4

Dear Secretary:

**Re: EDA Proposal for a Revenue Stabilization Mechanism for Local
Electricity Distributors: EB-2006-0267**

By letter dated November 2, 2006, the Ontario Energy Board (“Board”) informed parties that it had received a proposal from the Electricity Distributors Association (“EDA”) regarding a revenue stabilization mechanism for local electricity distribution companies (“LDCs”). The proposal is outlined in a consultant’s report entitled, “Designing an Appropriate Lost Revenue Adjustment Mechanism for Electricity CDM Programs in Ontario.” The Board indicated that it was seeking input on the proposal.

We are Counsel to the Consumers Council of Canada (“Council”). We do not intend to provide detailed comments on the all of the elements of the proposal. We do, however, have the following high level submissions to make.

The proposal is being introduced following the Board’s review of Cost of Capital and Second Generation Incentive Regulation for electricity distributors (EB-2006-0088/89). From the Council’s perspective the proposal advanced by the EDA for a full revenue stabilization mechanism should have been considered in the context of that consultation process for a number of reasons, as follows:

1. The introduction of a full revenue stabilization mechanism would remove the risk associated with revenue variances, thereby impacting an LDC’s risk profile. Such a fundamental change would have to be considered in establishing an allowed return on equity (“ROE”), as a reduction in risk should be reflected through a lower allowed ROE;
2. The mechanism proposed in the paper assumes that the LDCs have undertaken load forecasts. Under the current regulatory regime, and the one being proposed by Board Staff for the future, there is not a requirement for LDCs to do so. It is not clear, in the absence of such a requirement, if the proposal would be feasible;
3. The proposal represents a fundamentally new approach to setting rates. Such a fundamental change in setting rates should be weighed against other alternative

approaches. The extent to which this approach is compatible or not compatible with Board Staff's proposed framework would need to be considered by the Board. This proposal cannot be considered in isolation;

4. The proposal goes beyond compensating LDCs for lost revenue associated with conservation and demand side management ("CDM") programs. It should not be simply viewed as a lost revenue adjustment mechanism ("LRAM") in the traditional sense, and should not be considered by the Board independently of its review of second generation incentive regulation.

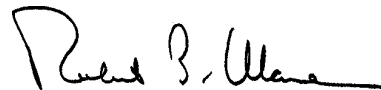
The Council has supported, for a number of years, the implementation of LRAMs for both Ontario natural gas LDCs. The EDA's proposal is not, in our view, an approach that should be adopted by the Board, as it goes well beyond compensation for lost revenue associated with CDM programs. In addition, it does not require that the results of such programs be subjected to a rigorous evaluation, verification and audit process. In our view, such a process is critical in order to assess the cost-effectiveness of CDM programs and measure results. LDCs should not be compensated for revenue that was not actually "lost".

The Council recognizes the importance of CDM in Ontario. In addition, it is important that LDCs not be adversely affected by the results of those programs. The Council urges the Board to reject consideration of the EDA proposal at this time and constitute a proceeding in which all parties have the opportunity to put forward LRAM proposals. The Board can consider whether such mechanisms are required and allow parties to put forward alternative approaches. The Board can also consider how those mechanisms would be incorporated into the Board's second generation incentive regulation framework.

It will be important for the Board to adopt a proposal that is both fair to utility ratepayers and their shareholders. It will also be important for the Board to establish mechanisms that measure CDM results as accurately as possible. The credibility of CDM in Ontario will depend upon the achievement of actual results and the implementation of processes to verify those results.

Yours very truly,

WeirFoulds LLP



Robert B. Warren

RBW/dh

cc: Peter Dyne
cc: Joan Huzar
cc: Julie Girvan

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