



OFFICE OF THE PRESIDENT

July 28, 2004

Mr. Peter O'Dell
Acting Board Secretary
Ontario Energy Board
Suite 2601, 2300 Yonge Street
PO Box 2319
Toronto, ON M4P 1E4

Sent by Fax: 416-440-7656

Dear Mr. O'Dell:

RE: Process for Establishing the 2006 Electricity Distribution Rates

I would like to thank you for allowing our Association to comment on your process for establishing the 2006 electricity distribution rates. As you know, AMO is comprised of 400 municipal members throughout Ontario, and has a direct interest in Local Distribution Company (LDC) rates and the electricity system as a whole. Our members are both LDC shareholders and large consumers of electricity.

On July 23, 2004 our Executive reviewed the Ontario Energy Board's (OEB's) *Establishing 2006 Electricity Distribution Rates Potential Issues for Generic Methodology Review* paper. We have a few general comments at this preliminary stage.

First, we would suggest that the Board reiterate the objective of a light-handed regulatory approach to setting LDC rates. The Board will recall that this was seen as one of the benefits of the first generation PBR regime for setting distribution rates. AMO strongly encourages the Board to continue to adopt light-handed approaches to regulating LDC rates for 2006 and beyond.

It should be noted that one of the operating expenses outlined – “Post-Retirement Benefits and Pensions” is beyond the control of LDCs. OMERS and the Provincial government review the “... economic assumptions used in plan calculations,” and the “Prudence of management of pension assets.” Accordingly, it is critical for second-generation LDC rates to continue to incorporate a “Z” factor approach to ensure that LDCs can recoup operating expenses for which they control.

We also concur with the comments made by the Electricity Distributors Association, in their July 16, 2004 letter to you on the distribution rates, that the Board be very cautious about the use of comparators and cohorts.

The Board also needs to ensure that LDCs are made whole for achievements made in conservation – either from direct actions made by LDCs or through the actions/policies of other stakeholders (e.g. Province of Ontario). Similarly, further LDC consolidation and rationalization should be encouraged and facilitated by the Board through the LDC rate regime by permitting municipal shareholders to capture and monetize savings resulting from LDC mergers/acquisitions.

We also note that LDCs who operated under a revenue minimization model put in place by their former municipal electric utility regime prior to industry restructuring and LDC commercialization, should be permitted to remedy the loss of shareholder value as part of the LDC revenue requirement rebasing exercise, which will be determined this Fall. At this time, AMO intends to participate in that process.

We hope that these brief comments will assist you at this preliminary stage. Thank you for providing AMO the opportunity to comment. We look forward to participating in future stages of these discussions.

Yours very sincerely,

A handwritten signature in black ink, appearing to read 'Ann Mulvale', written in a cursive style.

Ann Mulvale
President

c.c.: Anton Krawchenko, Director of External Relations, Electricity Distributors Association
AMO Electricity Task Force