Chapter 3

Test Year Adjustments

3.1 Test Year

The 2006 Handbook is based upon the principle of building rates from costs, using a test year derived from the applicant's 2004 (historical) audited financial statements, with the adjustments specified.

There are two levels of adjustment: **Tier 1** adjustments, which are **mandatory** for all applicants filing on this basis, and **optional Tier 2 adjustments**, which may be made by applicants meeting the criteria specified in this chapter. Tier 1 adjustments include low voltage/wheeling charges and C & DM/Smart Meter expenses.

Tier 1 Alternatives involve whether to include the application of the half-year rule impact for Transformer Stations constructed in 2006.

Tier 2 adjustments are applicable if the applicant meets one of the following criteria;

- The applicant began the 1999 RUD process with negative returns.
- The applicant did not receive the second third of the MBRR increment.

It is expected that Tier 2 adjustments will be allowed providing there is proof of hardship.

Applicants not wishing to file on the adjusted historic test year basis, **optional Tier 3 adjustments** may file on a "forward" test year basis, with full supporting documentation. The Board staff advised that such a filing would require additional scrutiny that may delay the normal rate implementation date.

An applicant must file on the basis of a forward test year if it wishes to make any adjustments to its application beyond those outlined in the Tier 1 and Tier 2 categories in this chapter.

Where any restatements and/or changes in accounting policy have occurred which affect opening 2004 balances, the data filed in the application is to be based upon the audited financial statements, incorporating only those changes that the applicant's auditor has accepted.

If an applicant is aware of material events expected to occur in 2006, which are identifiable, quantifiable, and verifiable, it is
Alternative 1: is obliged to disclose
Alternative 2: is not obliged to disclose

We may assume that it may be advantageous to report material events and therefore would support Alternative 1.

Chapter 4

Rate Base

4.1 Definition of Rate Base

The applicant is required to file information on its 2004 total rate base, broken down into "wires" and "non-wires" segments.

The "wires" segment is that part of the business in which distribution activities are performed and, consequently, assets associated with activities that enable the conveyance of electricity for distribution purposes will be considered to be distribution assets. These would include operation and management of the distribution system, meter-reading services, billing and collection services, and similar activities.

The "non-wires" segment would consist of activities that would not be considered to be distribution activities, including street lighting services, renting and selling of hot water heaters, electricity transmission, and other services that do not satisfy the definition of distribution wires assets.

There are two alternatives considered for determining 'Wires' net fixed assets.
Alternative 1: at year-end
Alternative 2: calculated as an average of the balances at the beginning and end of 2004

A majority of LDC's continue to build their net-fixed assets and may benefit from Alternative 1.

The Rate Base will also include a **working capital allowance**, which is 15% of the sum of the cost of power and controllable expenses. Controllable expenses are defined as the sum of operations and maintenance, billing and collection, and administration expenses.

4.3 Capital Investments

With regards to **Capital Expenditures**, applicants will be required to complete Schedule 4-1, Capital Expenditures, which provide details on their 2004 capital investment programmes. The major capital **expenditures related to IT initiatives** (e.g. billing systems, SCADA systems, asset management systems, integrated resource systems, and similar expenditures) should be disclosed on Schedule 4-1. The materiality threshold for such disclosure is as outlined below. A majority of NEPPA LDC's will have a materiality threshold value of $75,000 (Rate base < $100,000).

The applicant should calculate each of the materiality thresholds applicable to its particular circumstances and use the lower of the two thresholds to determine its own applicable level of materiality.

4.4 Interest On Deferral Accounts and Construction Work in Progress

Alternatives to the **rate of interest** on Deferral Accounts and Construction Work in Progress (CWIP) include:
The interest rate to be used **for deferral accounts** is:

Alternative 1: …the embedded cost of debt (GAAP).
Alternative 2: …some form of short-term debt rate.
Alternative 3:…deemed debt rate (5- to 10-year rate).

The interest rate to be used **for construction work in progress** (CWIP) is:
Alternative 1:…the embedded cost of debt (GAAP).
Alternative 2:…some form of short-term debt rate.

The current deemed 7.25% interest rate utilized since 2000, has not been representative of this period of unusually low rates, therefore, alternative 3 may result produce similar results. Alternative 1 would develop a 'custom' rate for each LDC, reflective of their actual cost of debt, while alternative 2 may be considered a simpler, universal rate, providing that the term is short i.e. maximum 2 years.

It is clear from the preliminary handbook, that more work needs to be done to develop a 'capitalization' handbook that provides LDC's with clear definitions as to what can be deemed capital.

4.7 Treatment of Capital Gains and Losses

In Chapter 7 we outline the philosophy for taxes/PILs. We believe that this philosophy should carry forward in the treatment of Capital gains or losses.

Chapter 5

Cost of Capital

5.0 Cost of Capital

The cost of capital is the weighted average of the return on equity and the debt rate, as demonstrated in the following equation, where D is debt, DR is debt rate, and ROE is return on equity:

Cost of Capital = D x DR + (1 – D) x ROE,

5.1 Maximum Return on Equity

The ROE is expected to be reduced to 9.61%. The actual debt rate will be a weighted average and two alternatives proposed. **Alternative 1** utilizes a weighted average of all individual debts formula. This alternative would cap the debt rate at 6.61% with any affiliate (and the municipality). **Alternative 2** would allow the use of the actual debt rate with an affiliate (at the time of issuance) along with the expiry terms attached to the debt.

In the event that **alternative 1** is selected, many of the NEPPA LDC's with 7.25% notes held by their shareholder will recognize a lower cost of capital calculation. It can be assumed that our shareholders will continue to require the full interest payment despite the lower interest rate allowance provided in alternative 1.

Alternative 2 would result in a status quo debt rate until such time as the loans expire. Current note payable rates would be reflected in the cost of capital calculation. NEPPA members should strongly support alternative 2 to ensure that there is no net financial loss, especially since the OEB specified the initial terms of the notes with our shareholders.

5.4 Working Capital Allowance

The working capital allowance represents the estimated cash flow required by the distributor to be paid in advance of recovery. It is to be included in the calculation of the rate base upon which the distributor may earn a return. Two alternatives to the calculation are proposed. **Alternative 1** proposes to use 15% of year-end 2004 'wires only' controllable costs and cost of power costs in the calculation. **Alternative 2** attempts to take into account that the cost of power from the IMO can drastically increase in an upcoming year and the affect should be forecasted and included in the 2006 rates. **Alternative 3** proposes to track the difference in the actual cost of power from that provided by the allowance and tracks the variance in a deferral account for recovery in a subsequent rate filing. NEPPA should be supportive of alternatives 2 or 3 given the fact that the cost of power is a significant portion of an LDC's operating cost. Alternative 3 creates yet another variance account but is generally a fair method.

Chapter 6

Distribution Rates and Expenses

Compliance with the 2006 Handbook guidelines set out below regarding distribution expenses will help to establish the reasonability of the 2004 amounts filed in support of the determination of 2006 revenue requirements. All applicants must file distribution expenses for the years 2002, 2003, and 2004. Significant variances in the level of expenses between years should be explained in the description of the application. Circumstances which may affect the comparability of any of the three years of cost data filed, such as a change in accounting policies, should be also be explained in the description.

There are several distribution expenses, which are being considered for only partial recovery through rates in 2006.

Advertising, Political Contributions, Employee Dues, Charitable Donations, Meals/Travel and Business Entertainment, Research and Development

Alternative 1 suggests that 50% of charitable contribution expenses will be included in the determination of the applicant's 2006 revenue requirement, with the following exception: - 100% of charitable contribution expenses made to programmes that provide assistance to the distributor's customers in paying their electricity consumption bills, will be included in the determination of the applicant's 2006 revenue requirement.

Alternative 2 proposes that no charitable contribution expenses will be included in the determination of the applicant's 2006 revenue requirement.

Alternative 3 proposes that 100% of charitable contribution expenses be included in the determination of the applicant's 2006 revenue requirement.

An intervener representing the school board has hired a consultant to argue for alternative 2. A group of LDC's led by Newmarket are in the process of soliciting LDC's to support a legal counter offer for Alternative 3. NEPPA should discuss and perhaps settle on Alternative 1 as a compromise.

Meals/travel and business entertainment expenses

The applicant must indicate in the description of the application whether or not it has a written policy, including any collective agreement(s) that sets out guidelines for management approval of meals, travel, and business entertainment expenses. Applicants must confirm, also in the description of the application, that internal measures exist to ensure that staff meals, travel, and entertainment-related expenses included in the filing, were approved by the applicant's management, based upon a consistently-applied corporate policy.

Alternative 1 would require the mandatory filing of employer's policy. In the description of the application, applicants will file a copy of their written policy(ies) for employee expenses in relation to meals, travel, and business entertainment.

Alternative 2 would not require any filing.

Obviously NEPPA should support Alternative 2 to reduce the quantity of 'red tape' involved in this filing.

Review of Employee Total Compensation

Applicants must demonstrate that the total compensation paid to its employees, part of which may be capitalized rather than expensed, is reasonable for recovery in the calculation of 2006 revenue requirements.

Total compensation includes the following items:

- base salary or wages earned
- overtime premiums paid
- value of benefits received that are paid for by the employer performance incentive payments received

Alternative 1 - In addition to aggregated salary disclosure, total compensation for each distributor employee earning more than $100,000 per annum must be reported separately and individually.

Alternative 2 - No additional filing requirements are necessary.

It would be advisable for NEPPA to support Alternative 2 to reduce the 'red tape' and avoid disclosing sensitive information that should have no bearing on this submission. The LDC industry has a competitive employee wage market and should not require review by the OEB.

Incentive Plans

Distributor incentive compensation plans reward employees for meeting specific performance targets. The targets can include performance which benefits ratepayers (e.g. targeted reduction in departmental OM & A expense per employee), or which benefits primarily the shareholder (e.g. percentage increase in share value).

Alternative 1 suggests that the criteria used in any performance incentive plans must be of substantial benefit to the ratepayers in order that the amount can be included in determining 2006 revenue requirement.

Alternative 2 proposes that payments for incentives that provide immediate benefits primarily to the shareholder are not eligible as a distribution expense in the approved 2006 revenue requirements, and must be considered non-recoverable.

It can be argued that any incentive that ultimately improves the efficiency of the company and shareholder must also positively benefit the customer. NEPPA should argue for Alternative 1.

Distribution Expenses Paid to Affiliates
Reported distribution expenses incurred through the purchase of services or products from affiliate companies ("affiliate transactions") must be documented and justified as part of the 2006 revenue requirement. Distributors must file the following information for the years 2002, 2003, and 2004.

Alternative 1 proposes to help justify the reasonableness of amounts paid to affiliates for purposes of 2006 distribution rates, applicants must provide a general explanation of Schedule 6-3 on how they followed the transfer pricing and shared service rules in the Affiliate Relationships Code. Where a distributor failed to follow a material requirement in the Affiliate Relationships Code transfer pricing and shared services rules, it will face additional scrutiny of these expenses in its 2006 distribution rate application. In such cases, the Board will specifically review the reasonableness of allowing full recovery of the amounts paid in the given circumstances.

Alternative 2 would omit the above statements.

Most NEPPA members share services between the wiresco and affiliates and would therefore be subject to a detailed examination of code compliance with Alternative 1.

Chapter 7

Taxes/PILs

Previously we submitted the following comments with regards to taxes/PILs. Based on the evidence given by KPMG, Messrs. John Krukowski and Jonathan Erling and Foster Associates, Inc., Ms. Kathleen C. McShane, we now believe that the Fair Market Value bump (FMVB) should remain with the LDC. This change in position is based on Ms. McShane's example and their comments related to benefits follow costs. In Ms.

McShane's example, we believe that her analysis of the affected ROE is correct. Disallowing the FMVB will eliminate our ability to reach the full market based rate of return.

7.1 Rules and Principles

7.1.1 General Principles Underlying the 2006 Tax Calculation

The government introduced Bill 35 the Energy Competition Act 1998, which had many affects on LDCs including the introduction of PILs. The Energy Competition Act recognized that LDCs had an obligation to serve all customers regardless of location or circumstances. Therefore, one of the key guiding principles of the Act was to make LDCs free of risk.

PILs were designed to place LDCs on a level playing field with private companies and they were enacted into law October 2001. The initial PILs philosophy was that they be treated a pass through so that LDCs would remain risk free.

Smaller LDCs, like us, have continued to treat PILs as a pass through and have not engaged in tax strategies. Primarily, we do not have the where with all, the experience, budget or staff to deal with PILs. Plus our taxes are low, which minimizes the strategies and cost recovery mechanisms.

LDCs that have continued to treat PILs as a pass through do not have the costs of these tax specialists in their 2004 revenue requirement numbers. Therefore, should the Board decide to change from a pass through, these LDCs would need to have an adjustment to the revenue requirements to help offset these additional costs. Further, there is no conclusive proof that low PILs paying LDCs can effectively minimize taxes to affect customers' rates.

Larger LDCs have had the luxury to redeploy or hire additional staff to manage PILs, as we believe that they may more significantly take advantage of tax strategies to recover costs. As proof, we offer the detailed report that KPMG has provided on their behalf.

Therefore, we recommend that the Board keep PILs as a pass through. Should the Board decide to deviate from the intended purpose of Bill 35 and make LDCs assume the PILs burden, we believe that LDCs should retain 100% of the benefit or assume 100% of the loss.

We do not believe it to be fair for LDCs to assume 100% of the risk and customers benefit if our tax strategies are successful. Therefore, the only true fair way is to continue to treat PILs as a pass through and that the variance accounts should be trued up annually.

7.1.2 Principles Applicable to Specific Components of the Calculation

We agree that LDCs should not be able to double dip. However, if taxes are not treated as a pass through, we believe that any tax shield should remain solely with the LDCs for reasons as previously stated.

<u>Disallowed Expenses</u>

We believe that there should be no disallowed expenses except for any items stipulated in Section 6.

Eligible Capital Expenses

Currently, we believe that 100% of the savings is sitting in the PILS variance account and waiting to be pass through to the customer. This again is why we support the pass through methodology.

However, should the Board decide to make LDCs assume risk, we recommend that 100% of the savings be retained by the LDCs as they are now assuming all risks.

Charitable Donations

Historically, LDCs have always made charitable donations to the direct benefit of the customers by our support of community activities. Some examples are but not limited to the installation of community Christmas lights, sponsorships to local minor sports, Canada Day celebrations, local community sponsored Heritage events, hospitals and local economic and tourism activities. These activities promote a viable and healthy community required by all citizens to maintain the expected quality of life customers demand. This again is why we support the pass through methodology.

However, should the Board decide to make LDCs assume risk, we recommend that 100% of the savings be retained by the LDCs as they are now assuming all risks.

Capital Gains and Losses on Disposition of Assets

For reasons as previously state, LDCs were to have minimized risk. We reject the 50:50 sharing for reasons outlined in Section 4.7. This again is why we support the pass through methodology.

However, should the Board decide to make LDCs assume risk, we recommend that 100% of the risk or savings be managed by the LDCs as they are now assuming all risks.

Sharing of Tax Exemptions

We support the notion that the federal LCT tax should not be prorated between the LDC and its subsidiary corporations. We believe that this may place our subsidiary corporations at a tax disadvantaged that is enjoyed by their competitors.

Loss Carry Forwards

In the PILs pass through methodology this becomes a non-issue. We believe that 100% of the savings is sitting in the PILS variance account and waiting to be pass through to the customer. This again is why we support the pass through methodology.

However, should the Board decide to make LDCs assume risk, we recommend that 100% of the savings be retained by the LDCs as they are now assuming all risks.

Interest Deduction

We believe that the actual interest should be used. This again is why we support the pass through methodology.

Estimated Taxable Capital

If the pass through methodology is used this issue is eliminated as the variance accounts track the differences.

Property Taxes

The 2006 rate handbook suggests that LDCs can recover actual property taxes, which is the pass through methodology. We believe that this action is prudent and further adds to our claim that PILs should follow the same pass through methodology.

7.2 Tax Payable Filings

7.2.1 Minimum Information to be Provided with 2006 EDR Filings

The filing of audited financial statements for the wires only company might place unnecessary risks on a subsidiary companies business. Therefore, any submission must be held in confidence and not disclosed to the general public unless the LDC has granted the expressed written consent. The audited statements should only be used by the OEB to assess compliance matters.

7.2.2 Future Tax Information Disclosure

If the pass through methodology is used this issue is eliminated as the variance accounts track the differences. The variance accounts should be trued up annually so that the customers may benefit by lower rates. Conversely, the LDC should collect any differences in the following year to minimize its exposure.

7.2.3 Supporting Documentation

Any submission must be held in confidence and not disclosed to the general public unless the LDC has granted the expressed written consent. The supporting documentation should only be used by the OEB to assess compliance matters.

Chapter 8

Revenue Requirement

8.1 Tier 1 Load and Revenue Adjustments

Gain or Loss of a Major Customer

While we agree with the concept, this can be difficult to accurately assess a future gain or loss. Further, there is no material threshold that is included in the draft. However, in an attempt to provide guidance, we are suggest that the material threshold should be .2% of total distribution revenues and that any adjustment should be looked at annually based on actual losses versus expected gains. We feel the .2% is consistent with the figure being recommended in other areas of the draft handbook.

Gains can be delayed for many reasons due to scheduling delays in construction or actual load materializing based on a consultant's evaluation. Locally we note that consultants have historically estimated high or put in a larger service than required to offset future capital costs as the plant grows. How is this assessed in advance? We suggest that all adjustments need to be considered post loss or gain.

Non-Routine or Unusual Adjustments

We support the removal of the regulatory assets from the distribution revenue. However, the handbook fails to identify any other sources of revenue that might be included.

Low Voltage Wheeling Revenue

We support the addition of low voltage charges being added to the revenue requirements of an embedded LDC.

C&DM Program Impacts

We support the loss revenue adjustment mechanism (LRAM) being applied to future rate applications. We believe that the LRAM should be applied post or retroactively annually.

Smart Meter Impacts

We believe that the smart metering pilots that LDCs have planned for early 2005 might provide more accurate data. Conversely, other LDCs such as Milton might be able to provide data from their experiences that can be used as guidance when the Board is considering this matter. Should the OEB choose not to make a decision in this regard, we believe that the LRAM should be applied post or retroactively annually.

8.2 Service Revenue Requirement

We support the definition of service revenue. However, we believe the other miscellaneous revenue should not be considered for ratemaking purposes. It is the other miscellaneous revenue areas that can fluctuate substantially based on the activities of an LDC and rate of interest being drawn on investments/bank accounts. Interest revenue can fluctuate based on the rates. Further, interest revenue includes that paid on the additional cash from customer deposits. However, this is an added expense since LDC must pay the interest back to customers for these monies. Therefore, it is not netted out against the expense and artificially inflates revenues.

8.3 Base Revenue Requirement

For reasons as previously stated above, we do not support the use of miscellaneous revenues being part of the equation to calculate base revenue. However, we support the fixing some miscellaneous rates charged to customers for specific services to recover actual costs. However, these rates need to be indexed to cover inflationary increases. This way it encourages LDCs to use the recommended rates, which leads to greater continuity of the charges used by all LDCs.

Revenue from Board-approved Rates

For reasons as previously stated, we do not believe that revenue from other sources should be considered. This revenue can vary year on year depending on a LDCs practices. The only time that this revenue should be considered is if the Board drastically imposes a rate that affects LDCs revenue by imposing a lower rate.

8.4 Regulatory Asset Recovery

We agree that regulatory assets must not be considered for the 2006 rates and that it is recovered through a separate/parallel manner.

Chapter 9

Cost Allocation

9.1 Customer Classes

Previously, LDCs were able to adjust a customer within the general service class depending on their demand. We are assuming that this will continue and that once changed the LDC is not obligated to review a customer's class for one year.

9.2 Determination of the Appropriate Share of the 2006 Revenue Requirement for Each Class, Sub-Class, or Group

We support the averaging of the kWh/customer and kW/customer data as the fairest method of dealing with weather normalization.

Chapter 10

Rates and Charges

10.1 Fixed/Variable Split

We support maintaining the fixed/variable split. However, we would support the elimination of the variable component. We believe that this removes the barrier for a LDC to promote energy conservation. Further it reduces the need for additional regulation to review loss revenue adjustment mechanisms and the need for OEB Hearings and the interventions process.

10.2 Unmetered Scattered Loads

Unmetered scattered loads place an increased liability/burden on LDCs to monitor changes in their profiles. Many times these customers can arbitrarily make changes to their equipment and they do not notifying the LDC. The only method a LDC can use to verify changes is to conduct load calculations regularly. We find it difficult to accept the proposals as submitted. We feel that unmetered scattered loads should remain in their same rate class and invoiced on a per site basis. We can support however changing some unmetered scattered loads that have a steady load to a time of use rate, which should minimize their costs.

10.3 Time of Use Distribution Rates

We support the harmonization of rates within classes or sub classes as the case may be. We do not feel that there is merit in maintaining different residential rate classifications between time of use and non-time-of-use as an example.

10.4 Transformer Ownership Allowance

We agree with the concept of maintaining the existing transformer allowance for the 2006 rates.

10.5 Recovery of Regulatory Assets

We agree that the recovery of regulatory assets should continue to be recovered through a parallel process and accounted for in the 2006 rate applications. However, we believe that the various variance accounts should be trued up annually and they should also form part of the rates process. This way customers either receive the credits or the customers pay the shortfall to minimize a LDCs risk.

10.6 Update of Loss Adjustment Factor Reflecting Distribution System Losses Including Unaccounted-for Energy

We support the averaging of the actual loss factors for each LDC. The loss factors affect many of the variance accounts. We believe that these variance accounts should be trued up annually and they should also form part of the on going annual rates process. This way customers either receive the credits or the customers pay the shortfall to minimize a LDCs risk.

10.7 Distributed Generation

We support maintaining the status quo for the 2006 rates.

10.8 Standby Charges

We disagree with the concept that would drop the standby charges to a customer when they are taking load from a LDC. We do agree that there should be no double dipping. The current rates have us

charging the standby fees based on the nameplate rating of the transformer each month. The rationale for this is that we are continuing to reserve/build infrastructure for their maximum load requirements. In addition, generation could be minimized monthly to draw power from a LDC for 1 kW. This would reduce the customer's costs drastically while unfairly jeopardizing the LDC. Therefore, we support the maintaining of the fixed standby charge regardless of whether the customer draws load or not.

10.9 Low Voltage Charges

We support the recovery of specific costs from customers requiring the service. Many LDCs are embedded to Hydro One and some to other LDCs. Fairly, the OEB has applied rates based on load. The current format is based on a fixed load, which goes back to 1999 values. We do not support maintaining these fixed 1999 values as many embedded LDCs loads have changed. Many have installed new transformer stations to service customers. The old transformers stations were significantly overloaded causing LDC customers to pay higher fees for services that are no longer being provided. We submit that this is a classic case of over harvesting of assets and double dipping.

10.10 Demand Determinants

We support billing demand at the greater of 100% of the kW or 90% of kVA. This assists in the identification of energy savings initiatives that a customer can identify in order to undertake conservation.

Chapter 11

Specific Service Charges

11.1 Methodology

We support the methodology as proposed in the calculation of the charges for the specific service charges listed below by sub group as identified in the draft handbook. It allows LDCs to select a uniform approved rate or to use an approve calculation to develop charges based on labour rates. Further, the formulas allow the flexibility for a LDC to make adjustments based on the collective labour agreements. We also feel that a LDC has been given the flexibility to recover costs that they may incur when they provide other service as required from time to time through their Conditions of Service or to meet other customers needs.

11.2 Customer Administration
11.3 Non-Payment of Account
11.3.1 Late Payment Charge
11.3.2 Collection of Account Charge
11.3.3 Reconnection of Electricity Service Charge
11.4 Service Calls
11.5 Temporary Electricity Service Charge
11.6 Other Services and Charges

Chapter 12

Other Regulated Charges

12.1 SSS (to be re-named RPP) Administration Charge

The standard charge of $0.25 per month per customer is proven to be too low and does not adequately cover the existing costs. The introduction and passing of Bill 100 has increased the amount of work required to adequately invoice customers. The introduction of the Global Adjustment is an additional reason for an upward adjustment to this rate. The 2006 EDR process only looks at the 2004 current expenses. Bill 100 takes affect January 1, 2005 and any increased expenses for implementation including the regulated price plan is not being considered. We recommend that this rate be increased to at least $0.75 per customer per month. A variance account can be setup to track differences. Previously we have recommended that variance accounts be reconciled annually as part of the ongoing rates process. This way it recognizes an additional obligation for LDCs and establishes a reconciliation process for customers.

12.2 Retail Service Charge

We believe that for the most part the Retail Service Charges are fair and reasonable except that the costs for the EBT transactions are not adequately accounted. The lowest cost provider offers the service for $0.34 per customer per month. These costs should either be passed on to the retailers directly or to the customers requiring the service. This does not include any costs for the upgrades or changes to the EBT standards, which have been on going since implementation.

12.2.1 Establishing Service Agreements
12.2.2 Distributor-Consolidated Billing
12.2.3 Retailer-Consolidated Billing
12.2.4 Service Transaction Requests (STR)
12.2.5 Monitoring and Cost Tracking

12.3 Non-Competitive Electricity Charges

We offer no comments on these charges as they are reviewed and approved by the OEB or imposed by the Government of Ontario.

12.3.1 Wholesale Market Service Rate
12.3.2 Retail Transmission Service Rates
12.3.3 Distribution Wheeling Service
12.3.4 Charges/Taxes Levied by the Government of Ontario

Chapter 13

Mitigation

13.1 Impact Analysis

We believe that the impact analysis should be a comparison between bills on the proposed and existing rates and should be done on a customers' total bill in order to get the magnitude of the impact. We believe that customers ideally go directly to the bottom line. Further, it improves the fairness of allocating the costs within a customer class. It does not hold true that lower users of electricity require less service than customers requiring more power.

13.2 Mitigation

We believe that any mitigation of rates should not increase a LDCs level of risk or adversely affect their ability to make up any difference as might be deferred. However, any deferral must be fair to both customers and LDC alike. Therefore, if a LDC decides to defer revenue as a mitigation strategy, they should be required to outline the timing and parameters surrounding the future recovery and this should be approved by the OEB so that the filed plan becomes automatic.

13.3 Rate Harmonization (Amalgamated or Acquired Service Areas)

We see rate harmonization as a barrier to amalgamations/rationalizations for LDCs. OEB requirements increase the regulatory burden and decrease potential cost savings. We feel rate rationalization strategies should be handled between the interested owners/stakeholders when they are municipally owned. Local interests groups are better prepared to present their case to the municipal owners who have a vested stake in the 'joint venture'.

Chapter 14

Comparators and Cohorts

14.2 Filing Requirements

A report recently prepared for Board staff by Robert Camfield of Laurits R. Christensen Associates, Inc. is recommending the development of a model utilizing regression analysis to highlight cost anomalies amongst LDC's that will assist Board staff in processing 2006 rates. Cohorts can be developed by 'statistical clustering'.

The model will breakdown costs into 4 main areas 1) distribution services, 2) settlement (billing/collecting), 3) customer service (new connections/terminations, advertising etc., 4) administration (management, finance, regulatory etc.). Common inputs will include description of service territory, mWh sales and peak, conductor composition (km, 1-phase, 3-phase, u/g, o/h), number and types of transformers, annual customer additions/deletions and will involve the statistical years of 2002 and 2003.

Camfield has added that the current statistical data submitted for PBR is "incomplete and inconsistent" and it "should not be that burdensome to LDC's to submit" the new information.

While we generally support some form of comparison to ensure our cost structures are reasonable, unbundling our services into the 4 broad categories and gathering this information for mid-year is burdensome considering we already have the filings for the 2005 rate application, regulatory assets and C & DM prior to the 2006 filing. In order to ensure that the required information gathered is specific and accurate, clear guidelines and definitions need to be developed. This procedure must recognize, for example, that a number of LDC's do not have an accurate means of determining some of the requested data for example 'conductor compositions'. This means that data may not be a true 'apples-to-apples' comparison. We believe that the OEB needs to issue guidelines to assist in cleansing the data and allow LDCs to collect any missing data first. Therefore, we recommend that comparators and cohorts be considered in perhaps the 2008 rates filing.

Should the OEB decide to move forward for the 2006 rate filing, then we suggest that the data only be available to OEB staff and the effected LDC. The affected LDC would only be told the quartile they are in for each comparator or cohort. In future years, we feel that the information could be released to all LDC to allow them to ascertain best practises. However, in the initial stages we remain concerned that data that is not 'apples-to-apples' can be misleading and allow others to draw conclusion, which may be incorrect.

Chapter 15

Service Quality Regulation

15.1 Customer Performance Indicators

We firmly believe that the following list of performance indicators is an important part of service quality regulation. However, we feel that much of the data could be suspect due to its method of collection or systems in place at the LDC level. Further we are unaware as to what the OEB is doing with the data or how deficiencies are being handled.

15.1.1 Connection of New Services
15.1.2 Underground Cable Locates
15.1.3 Telephone Accessibility
15.1.4 Appointments Met
15.1.5 Written Responses to Enquiries
15.1.6 Emergency Response
15.1.7 Service Reliability Indices
15.1.8 System Average Interruption Index (SAIDI)
15.1.9 System Frequency Interruption Index (SAIFI)
15.1.10 Customer Average Interruption Index (CAIDI)

15.2 Cause of Service Interruption

We note that the service interruption index as noted in Table 15.2 is changing. Changes need to be clearly identified along with an expected post implementation date.

15.3 Remedial Activity

We believe that a remedial action plan is fair.