February 14, 2005

FACSIMILIE AND SAME DAY COURIER

Mr. John Zych
Board Secretary
Ontario Energy Board
Box 2319, 2300 Yonge Street
26th Floor
Toronto, Ontario M4P 1E4

Dear Mr. Zych:

Re: RP-2004-0188 – Comments of Veridian Connections Inc. Regarding Draft 2 of the 2006 Electricity Distribution Rate Handbook

In accordance with the Board's Procedural Order number 5 dated February 4th 2005, we are pleased to submit the comments of Veridian Connections Inc. ('Veridian') on the second draft of the 2006 Distribution Rate Handbook. We have enclosed eight hard copies and one electronic version of this submission, and have also forwarded one electronic copy via email to the attention of Mr. Keith Ritchie.

Prior to proceeding with our comments, we would like to emphasize that this submission is not based on a comprehensive review of the draft rate handbook and does not consider evidence or argument presented during the oral phase of this proceeding. While we appreciate the importance of this process, we simply have not been able to commit the significant resources that would be needed to fully participate in this proceeding. The limits on our participation are primarily due to competing regulatory priorities and the short consultation times that have been made available since the release of the draft rate handbook.

Despite the limited nature of our comments at this time, we would like to point out that Veridian has been an active contributor to the process leading up to the oral phase of this proceeding. Our firm was represented on the Executive of both the 'Rate Base and Revenue Requirement' and 'Rate Design and Cost Allocation' working groups.

Given our limited review of the most recent version of the rate handbook and our lack of representation during the oral proceeding, we will focus our comments on six areas of particular interest to our company:

1. **Chapter 3 - Test Year Adjustments**
   3.2 Low voltage/wheeling adjustments
   (Pages 19 and 20)

   Veridian supports alternative 1, which provides for the recovery of expected host distributor charges. However, there are two provisions of this alternative that require clarification:

   - The draft language in this alternative indicates that pre-May 2006 charges should be recovered through a rate-rider and post May 2006 charges through base rates, <u>unless the Board deems this to be a transmission service in the future.</u> We do not understand how a decision on the means of recovery of these costs can be deferred. If this were the case, it raises the possibility of an initial rate filing based on one cost recovery model, then a second filing in the event that the Board subsequently adopts an alternate model.

     We encourage the Board to render a decision on the means of low voltage charge cost recovery as part of this proceeding. Veridian's position is that these costs should be recovered through base distribution rates. We believe that such a decision, coupled with a subsequent decision to allocate host low voltage charges on a cost causality basis by embedded supply point, would provide for a greater degree of comparability between the rates/costs of electricity distributors. This would be helpful to the Board as it pursues opportunities for benchmark regulation.

     The alternative of considering low voltage charges a transmission service would ignore standard industry classifications. In Veridian's case, our host low voltage supply facilities operate at 8.32 kV, 27.6 kV and 44 kV. These system voltages are generally regarded in the industry as distribution and sub-transmission voltages. To classify them as transmission services for the purpose of ratemaking is factually incorrect and confusing to knowledgeable customers.

   - Alternative 1 contemplates that an embedded distributor would be able to include in its 2006 rate application provisions for the recovery of LV amounts for January 2004 to May 2006 as a rate rider, and amounts related to post May 2006 through base rates. However, since these amounts will presumably not be known until such time that Hydro One Networks files its application for 2006 rates, and since Hydro One Networks' application is likely to be filed contemporaneously with those of embedded LDCs, we do not understand how the recovery amounts will be made available for inclusion in embedded LDC rate applications. Clarification on this process is needed.

2. Chapter 4 – Rate Base
4.3.1 Capital Investments – Non I.T. Related
(Pages 32 and 33)

Veridian supports alternative number 2, which sets the materiality threshold for reporting details of non-I.T. related capital investments at 0.2% of net fixed assets as defined for rate base. We believe this is the fairest and most consistent approach of the alternatives given, as it does not discriminate based on LDC size.

3. Chapter 5 – Cost of Capital
5.4.1 Working Capital Allowance - Introduction
(Pages 43 and 44)

This section provides four alternatives for the calculation of the Working Capital Allowance, as well as two alternatives for 'additional adjustments' related to customer security deposits. In both cases, Veridian supports alternative number 2. That is, the historical cost of power should be adjusted based on forecast commodity rates for 2006, and there should be no claw-back of customer security deposit amounts.

However, we do not believe that alternative number 2 of the first four is adequate as presented in the draft handbook. While it provides for a commodity price forecast, it does not provide direction on the treatment of distribution expenses nor does it dictate the means by which the cost determinants for cost of power would be calculated. We suggest that the provisions of alternative number 4 be adopted for this purpose.

We also have concerns regarding the availability of a commodity price forecast at the time that LDC 2006 rate applications are due. We urge the Board to address this issue in its decision, and direct the IESO to immediately proceed with such a forecast.

Finally, with regard to the reduction of the Working Capital Allowance by the amount of customer security deposit amounts held, our rationale for supporting alternative number 2 is that these funds must be made available for refund under the Board's security deposit provisions of the Distribution System Code. Distributors cannot rely on these funds as working capital.

4. Chapter 6 – Distribution Expenses
6.2.7 Expenses Paid to Affiliates
(Pages 57 to 60)

This section of the draft handbook provides two alternatives for the base filing requirements related to affiliate transactions, as well as two alternatives for additional wording. For both, Veridian supports alternative number 2.

It is our view that the Affiliate Relationships Code (ARC) adequately governs transactions with affiliates. The minimum filing requirements as set out in this area are sufficient for rate review and rate setting purposes. The overlying principle for review of all distribution expenses within the rate setting process should be that of prudence, regardless of the origin of the expense, and not compliance with the various codes and regulatory instruments.

Having said this, we appreciate that there may be unique circumstances where the Board may desire additional documentation to support payments to affiliates. However, we do not believe that such a requirement should be applied to all distributors as a matter of course. To do so would encumber both Board and LDC staff with non-productive administrative burden. Instead, we suggest that the Board use high-level industry benchmarks (i.e. distribution rates) to identify those distributors with outlier cost structures, and then require those particular distributors to file additional information as required to satisfy the Board that expenses have been prudently incurred. Such a process would provide focus for the limited resources of the Board, and relieve the majority of distributors from unnecessary, costly and intrusive regulation.

Finally, we contend that additional filing requirements for actual costs of affiliates could result in the release of commercially sensitive information. This may lead to financial harm to the affiliate.

5. Chapter 13 – Mitigation
13.2 Mitigation Methodologies
(Page 141)

Veridian supports alternative number 1, which permits distributors to file a rate harmonization plan for amalgamated or acquired service areas.

This is a particularly important issue to Veridian. Our company was formed through merger and acquisition activity during 1999 to 2001. We currently take in the service areas of seven predecessor distributors, and maintain four distribution rate schedules.

There are three key reasons why we believe we should be permitted to proceed with rate harmonization prior to the completion of a cost allocation study:

1. <u>Rates Equity for Veridian Customers</u>

   As mentioned above, Veridian services four geographic rates areas. This provides for wide variations in the distribution rates that like customers pay from one service area to the next, despite the fact that all are served by the same company with a similar operating cost structure for all service areas. For example, a 100 kW business customer in Belleville currently pays distribution charges of $80.76, while a customer with the exact same load characteristics in Ajax pays $508.76. This is clearly inequitable and must be addressed without further delay.

   An even more glaring example exists in the City of Belleville. A number of larger business customers in this community receive a transformer ownership allowance credit that exceeds Veridian's distribution charges. In effect, these customers are paid to use Veridian's distribution network. Again, this is clearly inequitable, and must be addressed immediately.

2. <u>The Fulfillment of Commitments Made to Municipalities</u>

   During the time that Veridian grew through merger and acquisition activity, commitments were made to municipalities that distribution rates would be harmonized across Veridian's service areas. Veridian has been hampered in fulfilling this commitment due to the distribution rate freeze imposed by Bill 210 in 2002. This freeze was recently lifted, and it is our company's desire to honour these commitments without further delay.

3. A Smoother Transition to 'Cost-Based' Rates

It is anticipated that distribution rate adjustments in 2007 that reflect the results of cost allocation studies will produce significant rate impacts for some customers. Deferring harmonization of distribution rates to 2007 would very likely exacerbate these rate impacts, and should be avoided.

6. Conservation and Demand Management (CDM)

Veridian generally supports the submissions of Hydro One in this area. Specifically, we agree on the need and importance of revenue protection and the timely recovery of CDM expenditures. We also support the adoption of a simple incentive mechanism tied to tangible customer and system benefits.

All electricity distributors, including Veridian, are at a very early stage of implementing CDM programs. As we gain experience in executing, monitoring and evaluating these programs, we hope there are further opportunities for us to participate in a dialogue on this important issue.

Thank you for the opportunity to comment on the Board's draft rate handbook. We look forward to continuing to participate in this process.

Yours truly,

Original signed by
George Armstrong, C.E.T., B.A.S.
Manager of Regulatory Affairs and Key Projects

cc Michael Angemeer
Dave Clark
Axel Starck
Laurie Stickwood