

July 16, 2004

Mr. Keith Ritchie
Research and Policy Analyst
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto ON
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Dear Mr. Ritchie:

**RE: PROCESS FOR ESTABLISHING 2006 ELECTRICITY DISTRIBUTION
RATES**

Introduction:

Brantford Power made an oral presentation to the OEB's 2006 Ratemaking Methodology consultation on July 6, 2004. The text of that presentation is available on the OEB's web site, and a copy accompanies this submission for the OEB's reference, but Brantford Power does not propose to repeat it here. We must reiterate, though, that it is critical that the inequity under which Brantford Power and certain other LDCs have been operating since their initial OEB rate orders came into force in 2001, whereby their negative returns in 1999, coupled with the rule set out in the Distribution Rate Handbook that negative 1999 returns would be deemed to be 0% for ratemaking purposes, have prohibited them from earning the same regulatory rate of return as other LDCs, be addressed, if not retroactively then at the very least going forward into the next generation of ratemaking.

The purpose of this brief written submission is to address certain matters raised by other participants in this month's informal consultation. Brantford Power's comments pertain to three general issues:

- The management of issues by arranging them according to priority;
- The streamlining of the ratemaking process; and

- The nature of the comparators and cohorts to be used, if it is determined that it is appropriate to use comparators and cohorts in reviewing individual rate applications.

We must emphasize that these are preliminary comments on only a few of the issues identified in the OEB staff discussion paper. Brantford Power expects to have further input into this consultation as it progresses.

As a general matter, Brantford Power appreciates that the one of the OEB's key objectives as the regulator of the electricity distribution sector is "the protection of the interests of consumers with respect to prices and the reliability and quality of electricity service." This would continue to be one of the OEB's objectives under the amendments introduced by the Ontario Government in Bill 100, the proposed *Electricity Restructuring Act, 2004*. However, Bill 100 would also retain the OEB's current objectives of promoting economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and facilitating the maintenance of a financially viable electricity industry. The Macdonald Committee Report and the Government's White Paper that preceded the *Energy Competition Act, 1998* favoured the commercialization of the distribution sector. The regulatory instruments such as the Distribution Rate Handbook that followed adopted PBR as a means of benefiting customers through an imposed productivity factor and the potential for efficiency gains, while allowing LDCs "...the potential for greater returns, based on superior performance than would a traditional regulatory framework, such as cost-of-service regulation. It allows the utility to keep a portion of the rewards from innovation...."¹

Brantford Power submits that in establishing the methodology for the next generation of ratemaking, the OEB should maintain the balance between the need to regulate rates in the interests of the consumer with the need to foster innovation through the maintenance of incentives for LDCs to reduce their costs and improve their efficiency.

The management of issues according to priority:

Brantford Power supports Toronto Hydro's submission generally, and more particularly its comments regarding the management of the many issues on the OEB staff draft issues list by defining high and low priority issues. Brantford Power also agrees with Toronto Hydro's observation that it may not be possible to deal with all of the issues identified to date for 2006, and that in order for the ratemaking process to remain manageable, the OEB's standard filing requirements should be limited to the highest priority items.

In Brantford Power's view, Issues 9, 14 through to 24 and 26 to 28, 29 to 31 should be considered lower priority issues. Issue 12 [PILs] while a priority issue, could be

¹ OEB Electricity Distribution Rate Handbook, s.2.3.1

addressed separately from rates methodologies, particularly in light of its complexity. Issue 10 [Transfer pricing and corporate services] might more properly be addressed within the context of a review of the Affiliate Relationships Code. When those separate reviews have taken place, the findings may then be incorporated, where appropriate, into the development of the overall ratemaking methodology.

The streamlining of the ratemaking process

Brantford Power supports the notion of a streamlined ratemaking process. We agree with the suggestion of the “Alliance” of LDCs that there be differing evidentiary burdens as between small/medium-sized utilities and larger utilities. In addition to OEB’s recognition of the strong incentives that PBR provides to distributors to continue and expand their efforts to control cost, increase efficiency, and maintain service quality, the OEB noted that PBR is expected to minimize the administrative burden, and that it should minimize the cost of regulation.² Imposing similar evidentiary burdens on all LDCs regardless of size would significantly lengthen the ratemaking process and subject small and mid-sized LDCs to costs that are likely disproportionate to any rate impact reductions that might be realized by imposing such detailed evidentiary requirements.

The nature of the comparators and cohorts to be used, if it is determined that it is appropriate to use comparators and cohorts in reviewing individual rate applications.

Having emphasized the importance of a streamlined process, Brantford Power recognizes that the use of legitimate cohorts and comparators may assist in reducing the burden on individual LDCs. The OEB can then focus more on the outliers, and look more closely at their circumstances. However, Brantford Power has two comments in this regard:

- Brantford Power agrees with Toronto Hydro in that the cohorts and comparators should not be used directly for determining costs and rates, given that there would have been no analysis of the underlying conditions giving rise to the differences in data. The use of comparators may signal that further inquiries should be made of an “outlier” LDC, but the finding that an LDC is an outlier should not in itself affect the LDC’s rates.
- Finally, if comparators and cohorts are to be used to assist in the review of rate applications, Brantford Power recommends that a high level approach be taken to the comparators. Aggregated financial information and rates could be used for comparison. Brantford Power would be concerned about the use of detailed indicators such as IT costs or customer service costs as the basis for comparison, as it would significantly lengthen, and increase the cost of, the rate

² OEB Electricity Distribution Rate Handbook, s.2.3

application process (with a lengthy period of time simply to establish and justify the comparators and cohorts, and determine, if possible, the underlying conditions giving rise to differences in LDC data before the application itself is finally considered).

We trust that these comments will be of assistance to the OEB. Brantford Power looks forward to participating in this proceeding as it progresses.

Yours truly

Heather Wyatt
Manager of Regulatory Compliance and Governance

cc. Mr. George Mychailenko
CEO, Brantford Power Inc.

Messrs. Mark Rodger and James Sidlofsky
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