Informal Consultation on
2006 Electricity Distribution Ratemaking Methodology
July 6, 2004

BRANTFORD POWER INC. PRESENTATION

1. Introductions:

   Good morning, My name is Heather Wyatt, Manager of Regulatory Compliance and Governance, Board Secretary for Brantford Power Inc. and I am joined today by my colleague, John Loucks, Director of Engineering and Planning for Brantford Power Inc.

2. Brantford Power is the LDC serving approximately 35,000 customers in the City of Brantford. The OEB's letter announcing the establishment of a process for 2006 electricity distribution rates stated that the purpose of this week's informal consultation is "to identify the various issues and to discuss which are suitable for generic consideration."

3. Brantford Power will not be taking positions on the various issues in the Board's list of potential issues. We do, however, want to ensure that certain issues of concern to Brantford Power are included in the Issues List being developed by Board staff. We believe that these issues will also be of concern to other LDCs in the Province.

4. Our comments this morning will focus on four themes:

   - The establishment of a level playing field among LDCs with respect to the starting point for the calculation of their permitted return on equity;
   - The impact of DSM on LDCs;
   - The continued ability of LDCs, their shareholders and their customers to benefit from efficiency gains, and the maintenance of incentives for LDCs to create efficiencies;
   - The establishment of a mechanism for incorporating major capital facilities into the LDC's rate base during a PBR period.

A LEVEL PLAYING FIELD AMONG LDCs

5. The Board's Distribution Rate Handbook contains the calculations by which LDCs were to determine the additional revenue they would have to collect in order to obtain the maximum allowable adjustment for market-based rates. The additional revenue required to move to the targeted return was derived by subtracting the product of the LDC's 1999 rate base times its 1999 return on equity from its 2000-2001 Market Adjusted Revenue Requirement. The Handbook states that "Any utility with a negative ROE in 1999 <u>will be subject to the floor value of 0 per cent."</u> The Board considered the matter of negative 1999 returns in its September 2000 Decision on the Minister's Directive, and confirmed the 0 per cent floor value contained in the version of the Handbook that preceded the Directive.

6. The result of this decision has been that throughout first generation PBR, despite having elected a Market Based Rate of Return of 9.88%, Brantford Power has been prevented from earning a regulatory return equal to other Ontario LDCs. If this is not remedied in the next generation of PBR, Brantford Power's regulatory returns will continue to lag behind those of other LDCs, simply by virtue of an unfortunate choice of test year.

7. Issue 6 of the current potential issues list is titled "(Maximum) Return on Equity for 2006 Electricity Distribution Rates". Brantford Power suggests that this would be an appropriate place to discuss the appropriate floor value for LDCs with negative returns in the test year.

THE IMPACT OF DSM ON LDCs:

8. The Ontario Government intends to create a "culture of conservation" in the province. The promotion of demand side management and other conservation measures will grow in importance.

9. Brantford Power supports the Province's desire that Ontarians' reduce their electricity consumption, which will help to reduce our current supply problems.

10. That being said, though, the implementation of DSM programs will affect LDCs' revenues ? reduced consumption and demand translates into reduced distribution revenue.

11. Brantford Power is concerned that LDCs be made whole for revenue losses resulting from DSM measures. This issue, which has implications for load forecasting and rate design, is currently not addressed in the potential issues list, although Issue 3 does address load forecasting methodologies where using a forward test year. We suggest that this may best be dealt with in a separate issue.

CONTINUED BENEFITS FROM LDC EFFICIENCY GAINS:

12. The Board's Distribution Rate Handbook notes several attractive features of PBR:

    - It provides strong incentives to the utilities to continue and expand their efforts to control cost, increase efficiency, and maintain service quality.

    - It is expected to minimize the administrative burden.

    - It should minimize the cost of regulation.

13. Other benefits of PBR identified by the Board were:

    - It allows electricity distribution utilities 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 and provides a planning horizon for the term of the PBR plan, during which the mechanism for calculating price changes and earnings to be retained by the utility are fixed.

    - Customers benefit from PBR through the prescribed productivity factor and from potential gains through increased efficiency. By creating incentives that normally accrue in a competitive market, PBR brings the benefits of competition, and preserves the important service quality standards.

    - If the utility can reduce its costs by more than its prescribed productivity factor it can keep the cost savings in the form of higher operating profits. Thus, PBR provides strong incentives for utilities to find efficiencies in their operations.

14. Brantford Power is concerned that the Board may be moving toward a cost of service forward/future test year framework for distribution rate setting purposes ? much in the same manner as is currently done in natural gas.

15. In contrast to the PBR approach, efficiency gains achieved by the utility under a cost of service future test year framework, whether individually or as a result of an amalgamation, flow directly to the customer and very little benefit, if any at all, flows to the utility and its shareholder.

16. Brantford Power recognizes the importance of benefits flowing to the customer, but if no benefits flow to the LDC and its shareholder, the incentives to find increased efficiencies are significantly reduced. If the abandonment of PBR discourages the finding of efficiencies, this will ultimately harm LDC customers.

17. Brantford Power recommends that the Board reaffirm its commitment to PBR. If the Board is considering determining LDCs' cost of service solely in order to set initial rates for 2nd generation PBR, then that may be acceptable. However, the cost of service should be determined on the basis of a historical year in order to share the benefits of increased efficiencies between customers and LDC shareholders.

INCORPORATING MAJOR CAPITAL FACILITIES INTO THE LDC'S RATE BASE DURING A PBR PERIOD:

18. As a final point, potential issue no. 17 speaks to capital projects and prudency reviews in relation to LDC expenditures on those projects.

19. Numerous LDCs have recently undertaken Transformer Station projects in order to service increased loads in their service areas. Where the project is justified, the Minister of Energy has authorized applications to the Board for the recovery by the LDCs of the $1.50 per kW transformation connection charge in respect of the incremental demand on the TSs. The Board, in turn, has issued rate orders allowing the LDCs to collect the $1.50 pending the determination of the cost of providing transformation service.

20. The TS will not be included in the LDC's rate base until rebasing takes place at the end of a PBR period. Brantford Power requests that an issue be added to the list, either as a stand-alone item or within issue 17, relating to the incorporation of major capital projects into the LDC rate base *during* the PBR period.

21. We thank the Board for the opportunity to make remarks at this consultation session and look forward to other opportunities to participate in this consultation process.

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