

July 16, 2004

Peter O'Dell
Acting Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. O'Dell:

Re: Process for Establishing 2006 Electricity Distribution Rates

The Electricity Distributors Association (EDA) would like to provide some initial comments on the preliminary issues list. While the EDA has not had the benefit of having an extensive consultation with members on the issues, we plan to hold a council meeting in late August to have a more thorough review of the proposed issues list in preparation for the Issues Conference. At that time we should be able to provide valuable feedback to the OEB on areas where there is broad agreement amongst LDCs.

The EDA has had preliminary discussions with some members and has participated in the informal consultations on July 6 and 7 during which initial agreement on some issues has been identified even at this early stage in the review. Generally there is agreement that the use of comparators and cohorts will assist in screening out where further information is required. As was noted in the consultation, care has to be taken with the use of comparators and cohorts as there are a number of different factors that could impact LDC costs. A different approach may be needed for LDCs that do not have reasonable cohorts. In addition, there are concerns with the comparability of data between LDCs due to differences in accounting practices.

With respect to the question of which Test Year to use in establishing the rate base and revenue requirement, there was a general consensus that either an historic year with adjustments or a future year based a forecast that extrapolates from an historic year would be acceptable, and that individual distributors should be provided with flexibility in this regard. Also, adjustments to historic year data or forecasts for future years should not include any projected post-merger efficiency gains. To do so would reduce or eliminate a key incentive for distributor consolidation, to the longer-term detriment of customers. An industry group formed to work on the test year issue would probably be the best approach to arrive at a reasonable proposal.

With respect to the other revenue requirement issues, the EDA has not had adequate consultation to-date with its members to obtain a preliminary position. We note that members at the OEB consultation generally supported a deemed Debt/Equity structure but this issue requires more discussion.

For the Distribution Rate Base issues, the discussions at the OEB consultation indicate that all these issues are relevant to varying degrees with the exception of the no-cost capital issue, which was not an issue for the vast majority of LDCs. The EDA will be seeking further input on these issues to determine which could be addressed through an industry work group.

1/2

For the Operating Expenses issues most of the concern expressed has been on whether reviewing certain specific expense items constituted intrusive micromanaging. Employee Compensation and Advertising, Entertainment, Charitable/Political Contributions are items that are closely managed by LDCs' Boards of Directors, who have the responsibility to manage the business and contain these costs on behalf of shareholders. This effective oversight function of LDC boards is particularly relevant given the near total public ownership of the industry as it is currently structured. The EDA would like to caution the OEB against drawing too heavily from the regulatory experience of jurisdictions with a large investor-owned utility presence.

Most of the other operating expense issues for most of the LDCs do not require detailed scrutiny. Some expenses such as IT Costs may involve tradeoffs with other costs and as such it may be inappropriate to assess certain specific costs in isolation. Benchmarking of these costs should be at a higher level. The Bad Debt Expense was recognized as a relevant issue to address due to the recent regulatory changes, which are likely to increase bad debt expenses. The EDA plans to have further discussion with members on these issues to determine which, if any, could be addressed through an industry work group.

With respect to the Rate Design Matters for 2006, the input received to-date indicates a preference to defer most of the rate design issues to the cost allocation review as any change made before the cost allocation review could be seen as arbitrary and unsupported. The only change in existing rates that may be supported could be to begin to move the fixed charges to a more reasonable level that recovers at least all the customer-related costs. Unmetered scattered loads should be addressed through costs allocation. Whether obsolete existing TOU rates should be removed requires more input from members. Any discussion on new TOU distribution rates should be deferred to a cost allocation review.

During the consultation a number of additional issues were identified as important and requiring resolution. The EDA has not had an opportunity to discuss with members which of these additional issues should be given priority. Each of the additional issues was a concern to at least a few members and the EDA would suggest each of these additional issues be added to the issues list for the time being. However, we expect and hope that the scope of the issues list will be significantly narrowed, as a detailed scrutiny of all these issues as part of the establishment of individual LDC rates would result in undue costs and resource commitments by all stakeholders.

The EDA is looking forward to working with the OEB to find ways to streamline the regulatory process for approving 2006 rates. By early September we should be prepared to identify which issues could be addressed through industry groups.

Yours truly,



Anton Krawchenko
Director External Relations

AK:lm