

Comments on the Process for Establishing 2006 Distribution Rates

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Purpose

To provide a high level summary of main areas requiring consideration in order to address the interests and concerns of the DX customers, industry and Hydro One

Hydro One will submit a separate discussion document by July 12, 2004 to address the issues in more detail (including all the issues listed in the June 16, 2004 notification and other issues)

Process

- Concerned about the expanse of the exercise
 - Proposed process comparable to Cost of Service review for all LDCs
 - Need to limit to key issues
 - Likely to be difficult to complete in a timely manner in view of time & resource constraints
 - Need a simplified approach given # of utilities and # of issues

- Recommended Approach - Utility's choice between two methods:
 - A generic formula-based approach developed by the OEB, with allowance for adjustments (may require some delay to proposed timeline); or
 - A fuller Cost of Service review based on utility's filing

Under either method, a streamlined approval process is required

Comparators

- No comparable cohorts in Ontario for some LDCs, for example:
 - Size and geographic area unique
 - Age profile, and capital & cost structures distinct for some

- Recommended Approach:
 - Cohort-based review only where suitable comparator(s) exist
 - LDCs with specific characteristics should be considered on their own

Test Year Approach

➤ Adjustments required if historic year is used, in order to accommodate:

- Changes in government policy
- Changes in codes
- Accounting policy changes
- Utility specific adjustments (such as LV charges, Depreciation, etc.)
- Uniform industry trending adjustments (inflation, etc.)

➤ Recommended Approach:

- Prospective year (2006) would be more representative of current cost structures
- If a historic test year is used, it should be as current as possible (2004) again to better reflect current cost structure

Recommended Approach for Major Issues

➤ Debt / Equity Structure

- Varies across LDCs as a result of capitalization decisions; must maintain confidence of capital markets in providing financing to utilities

➤ Capital

- Periodic formulaic rate adjustments should be allowed on the basis of costs incurred for major programs and projects that are placed in service

➤ Compensation (Post-retirement, pensions, employee compensation)

- Specific utility circumstances should be taken into account

➤ Low Voltage and Wheeling Costs

- A mechanism is required by all utilities to recover these valid and approved costs

Other Important Issues

- Impact of Transmission System Code decision on DX
- Bill 100 implementation (e.g. commodity pricing)
- Rate Harmonization
- DSM load reductions

- Recommend that the following issue should not be deferred:
 - Recovery of DSM related costs like metering