Niagara-on-the-Lake Hydro Inc.

July 13, 2004

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

Re: Process for Establishing 2006 Electricity Distribution Rates

Dear Mr. O'Dell

We would like to provide some initial comments on the "preliminary issues list" provided to all LDCs with your letter of June 16, 2004. Niagara-on-the-Lake Hydro Inc. will have a representative at the informal consultation on July 6 and 7, and may provide further comments prior to your due date of July 12. We understand that there will also be an opportunity to provide comments on the upcoming generic process once details of it are provided after the consultation.

Use of Comparators

We believe that both the OEB and LDCs would like to streamline the work involved in the preparation and review of rate applications. On this basis, NOTL Hydro would support the use of comparators to assist in the OEB review of rate applications, and the concept of grouping LDCs into cohorts within which meaningful comparisons can be made.

One approach to identifying cohorts that the OEB may want to consider is overall customer density in the territories of LDCs, because density can be a key driver of rates, as indicated below. The number of customers per km of wires or, alternatively, number of customers per sq. km. of territory could measure density. These parameters could be measured by the LDCs' GIS systems.

If the OEB were to group LDCs into cohorts based on these parameters, outliers or

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anomalies in the values of financial data may be more meaningful. For example:

- Financial data = Capital asset dollar value (wires etc.) per customer:
  - In more sparsely populated LDCs, as measured by the density parameters suggested on Page 1, this value could be expected to be higher because of the distances involved in providing supply. Rocky terrain may also result in higher values.
  - In more densely populated urban LDCs, the value could also be higher because of more complex overhead or underground wiring requirements.

  With such higher values, the rate base per customer and therefore net income required per customer to generate a given rate of return (e.g. an updated 9.88% figure as per your Issue 6) would appropriately be higher. Thus, density is a driver of rates through the rate base.

- Financial data = Operations and maintenance costs per customer
  - Both in more sparely and more densely populated LDCs, these costs could be expected to be higher than in an "average" density LDC, because of longer distances or more complex urban requirements.

  As a result, the revenue required per customer to cover costs would appropriately be higher. Thus, density is a driver of rates through these costs.

  Billing, collection and administrative costs per customer could however be expected to be independent of LDC density.

Revenue Requirement – General Issues

We support the inclusion of Issue 2 in the list of issues. Re-establishing rate bases to reflect up-to-date values is important to the financial strength of LDCs.

Operating Expense Issues

As a general comment, establishing an appropriate balance between detailed vs high-level OEB review of expense items will be important. The reasonableness of costs needs to be assured, but in a way that respects the need of LDC corporations to make business decisions that best serve their customers, and that eases the burden on the OEB and LDCs in the review process. Areas where this consideration would apply would include cost items such as IT, advertising, employee compensation, including management bonus systems, and staffing (your Issues 26 to 28).

2006 Rate Design Matters

NOTL Hydro supports a generic approach to cost allocations studies to minimize the financial impact of the work on smaller LDCs.

I hope these comments are useful.

We look forward to working with the OEB in establishing an effective and streamlined process for establishing distribution rates.

Yours sincerely

Jim Huntingdon
President
Niagara-on-the-Lake Hydro Inc.