

July 16, 2004

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

Dear Peter

RE: Establishing 2006 Electricity Distribution Rates

The purpose of this letter is to provide written input to the Board staff's consultation regarding the 2006 distribution rate setting process. Our comments are intended to help staff identify the various generic and utility specific issues that are suitable for consideration in developing the 2006 distribution rates. We understand that the Board will be commencing the formal proceeding later this summer.

PowerStream Inc. (PowerStream) commends the Board for recognizing the extent and complexity of this proceeding and for starting with what we view as a sweeping canvass of all stakeholder interests and the potential issues to the process. While we did not provide an oral presentation on July 6 and 7 we did participate in the discussions and found the forum to be interesting and useful in highlighting issues and ideas within the industry.

We generally support the outline presented by the EDA and support Toronto Hydro's oral presentation. Through this letter however, we are not attempting to discuss the *merits* of any issues. We recommend that the merits should be discussed, negotiated and ultimately where required, argued in a generic proceeding.

The plethora of issues raised need to be prioritized, and itemized into those that can be reasonably dealt within a generic proceeding and those that require attention in individual proceedings. In assessing which issues should form part of the 2006 proceeding PowerStream recommends that the Board also consider whether the costs of review or compliance outweigh the benefits that arise from regulation.

To that end, PowerStream would recommend that the Board consider the following key issues in a generic proceeding:

1. Issue 2 - Choice of test year.
2. Issue 4 - Test year adjustments - although the issue may be generic PowerStream and other merging customers may have separate items to address.
3. Issue 6 - ROE
4. Issue 12 - PiLs/taxes
5. Issue 13 - Definition of Distribution rate base
6. Issue 22 - Post retirement benefits & pensions

7. Issue 32 - Fixed/Variable - The one size does not fit all argument applies, however, we agree with Toronto Hydro's suggestion that the fixed to variable proportion methodology may be a better fit for all.
8. Issue 33 - Rate mitigation

Once the issues are clearly identified and "scoped" stakeholders will be in a better position to assist the Board in identifying those that are likely to be settled through a negotiated process and those that will require an adjudicative process.

PowerStream supports the issues raised by Hamilton Hydro Inc. and St Catharines Hydro in their oral presentation that the choice of test year will have an effect on the degree of distributor rationalization in the industry. In assessing potential mergers and acquisitions, shareholders forecast and quantify potential costs and benefits. A merger will likely proceed where the benefits arising from cost savings and other synergies outweigh the costs of the merger. Empirical evidence suggests that the Ontario distribution sector could benefit from significant rationalization. The Board's consultation earlier this year on driving efficiencies in the distribution sector also recognized this. As such, the choice of a test year, the ability to recover transition costs and the ability to keep some of the cost savings will all impact on the willingness of distributors to proceed with rationalization.

PowerStream understands that in absence of a public review process, the Board will be unable to give *a priori* approval of distributor expenditures on DSM initiatives. However, given that the approval of the next distribution rate increase in 2005 (to bring distributors up to their full MBRR) is conditional on distributors' DSM planned expenditures, PowerStream suggests that the Board consider reviewing the treatment of demand management in the regulatory framework as a generic issue to the proceeding for setting 2006 distribution rates.

Similarly, a portion of capital costs and O&M amounts will be a function of the Government's smart metering initiatives. A "place holder" in proceeding with such costs might ensure that they are given appropriate consideration.

In closing, we wish to encourage the Board to give the industry an early indication of the regulatory period being contemplated. This is critical to distributors in allowing them to plan and manage the risks in their businesses and will help the Board "smooth out" cost increases, and savings, over the regulatory period and help avoid potential consumer price shocks.

If you have any questions or require further clarification, please do not hesitate to call me at (905) 417-6992 or Dianne Petrucci at (905) 737-2523.

Yours truly,

Paula Conboy
Director of Regulatory and Government Affairs