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February 9, 2005

VIA FAX and EMAIL

Mr. John Zych
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Mr. Zych:

Re: Vulnerable Energy Consumers Coalition (VECC)
Undertaking Response No. E.3.1
Electricity Distribution Rates RP-2004-0188
Funding for Stakeholder Participation

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I have enclosed the undertaking response No. E.3.1 with respect to the above-noted hearing.

Yours truly,

Original signed

Sue Lott
Counsel for VECC

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

Undertaking of Mr. Greg Matwichuk
<u>To Mr. Rogers</u>

TO PROVIDE PARTICULARS AS TO ANY REGULATORY AGENCY IN CANADA THAT IMPOSED A RATE OF PRIME LESS 175 BASIS POINTS FOR DEFERRAL ACCOUNTS.

There is no particular instance that Mr. Matwichuk is aware of where a regulatory agency in Canada has specifically set a rate of prime less 175 basis points for the carrying cost associated with deferral accounts. However, there are important facts and context that result in the recommendations included in the evidence. The facts and context are as follows.

First, Manitoba is an example of a jurisdiction using short-term rates for carrying costs on deferral accounts. While those rates may not be measured on a formulaic basis as recommended in the Mr. Matwichuk's evidence before the OEB (i.e. prime less 175 bp), the Manitoba PUB chose a short-term rate for such carrying costs. In Manitoba a formulaic approach was not necessary as this regulator only deals with two major utilities Centra Gas Manitoba Inc. and Manitoba Hydro and a one or two other very small utilities. This approach has been used while Centra was previously privately owned by Westcoast Energy Inc. and as currently owned by the crown corporation Manitoba Hydro. The formula based approach was recommended for the purposes of Ontario electric LDCs, principally due to the large number of such utilities under the OEB's jurisdiction and for consistency of the approach currently elsewhere in the Draft Electricity Rate Handbook.

Second, it is recognized that there was lack of consensus among regulators on what rate to use and how to design a rate for such a purpose. The survey of regulators showed that there was a range of types of rates used for calculating carrying costs on deferral accounts from short term rates to weighted average cost of capital. Moreover, this matter is under review by a number of regulators, as it is currently the case in Ontario. The review of practice in other jurisdictions was unable to provide decisive enlightenment as to the appropriate carrying cost rate for deferral accounts.

It was in this light that the evidence examined first principles and the regulatory principles regarding these costs. Therefore, the evidence did not simply attempt to find a rate used by most or any one particular regulator. Rather, and given the foregoing, the evidence drew on the facts and circumstances associated with the 90+ utilities in the Ontario jurisdiction and applied the regulatory principles articulated in the evidence to arrive at a recommended rate.

The facts, circumstances and principles took into consideration, nature of the account, the volatility of the account, the amortization period, administrative practicality, the cost principle, cost recovery principle, rates that the utilities for were capable of financing actually incurred for similarly short term periods, financing rates provided to customers for holding customer money in the form of deposits. The conclusion from this analysis was that a short-term rate would be appropriate.

The evidence was not attempting to “draw a line in the sand” in regards to the specific short-term rate. Rather, the evidence which resulted in a recommendation of prime less 175 basis points provided that rate as a starting point for carrying costs. The starting point is intended for the “large” distribution companies as defined in Table 1 on page 22 of that evidence with adjustments for progressively smaller utilities, consistent with the definitions for size used in the Draft Electricity Rate Handbook.

Therefore, in light of the facts and context, to rely on the practice in other jurisdictions, alone, would not likely provide assistance to the Board in respect of appropriate carrying costs specifically for deferral accounts.

Witness:	Greg Matwichuk
Question:	January 19, 2005
Answer:	February 9, 2005
Docket:	RP-2004-0188