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Ontario Energy Board
27th Floor,
2300 Yonge Street,
Toronto, Ontario
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ATT: Kirsten Walli, Secretary

April 11, 2008.

Dear Ms. Walli,

**3rd Generation Incentive Regulation for Electricity Distributors Board Staff Paper
Board File No.: EB-2007-0673**

In accordance with the OEB's e-mail and web posting of February 28, 2008, ECMI submits its comments on the Board staff Discussion Paper on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors which relies on the report prepared by Pacific Economics Group, entitled "Calibrating Rate Indexing Mechanisms for 3rd Generation Incentive Regulation in Ontario" (the "PEG Report").

Three paper copies are enclosed. Electronic copies in both Adobe Acrobat and Word have been sent this date to boardsec@oeb.gov.on.ca.

Requested contact details are as follows:-

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Respectfully submitted for the Board's consideration,

Original signed by R. White

Roger White
President

**ECMI comments on
Board staff Discussion Paper on 3rd Generation Incentive Regulation for Ontario's
Electricity Distributors
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The proposed X-factor has two elements; an industry TFP based component reflecting TFP growth potential and an efficiency benchmark based stretch factor.

Board staff appears to have been selective in the choice of productivity growth rates. If the Board decides to be guided by American data then it should use American data throughout. If however, the Board recognises that the Ontario market is a discrete market with its own unique characteristics then the Board should be guided only by Ontario data.

In ECMI's view, what the Board should NOT DO is cherry pick the data to achieve a predetermined result which appears to be the objective of Board staff. Ontario and the U.S. are not one distribution market. Further, it is ECMI's view that as the Ontario market has been in place for almost a decade and the distributors in place for much longer, the Ontario data is robust if not more robust than the American data.

In the first generation PBR regime the Board selected a high productivity factor based on PBR 1 historical data weighted in favour of the most recent data available at the time. By contrast, the authors of the PBR 3 Board staff discussion paper appear to be unsatisfied with Ontario data that would result in a "relatively" low number. Rather than be consistent with the PBR 1 approach, Board staff appears to have cherry picked without credible rationale from a mixture of U.S. and Canadian data. The optics suggest that ignoring Ontario data is a good idea if it doesn't meet an apparent agenda.

Further, in the first PBR regime, the productivity factor was obtained by assigning two thirds weight to the growth rate for 1988 to 1997 and one third weight to the second half of that decade. ECMI suggests that the Board rely on Dr. Yatchew's observation stated during the Calibrating Rate Indexing Mechanisms for 3rd Generation Incentive Regulation for Electricity Distributors Stakeholder Meeting held on March 26, 2008, that the same approach applied to the present data would yield lower expected growth rates in the range of 0.4 to 0.6 percent.

With respect to the possibility raised in the same stakeholder meeting of reconstructing Ontario capital data, this data would have to be reviewed with substantive caution because of the accounting practice of removal of assets from the balance sheet which are fully depreciated. What this means is to try and theoretically age the data using existing original cost and depreciation data would be an issue. Further, the degree of restructuring of utilities and transfer of assets from the then Ontario Hydro to LDCs and historically Municipal Electric Utilities would probably be a problem. The fact that Ontario Hydro used a different set of accounting rules than those employed by the Municipal Electric Utilities would create discontinuities in historical data. Further, the notion that Municipal Electric Utilities under an Ontario Hydro regulatory regime would be uniform is not valid as GAPP was often used as sufficient rationale to depart from a literal interpretation of the Ontario Hydro approved accounting. Further, there were changes in the "Black Book" Ontario Hydro accounting manual. These changes would also produce discontinuities in the data. ECMI suggests that the Board rely on most recent capital data in its considerations.