

April 4, 2008

BY COURIER (3 COPIES) AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4
Fax: (416) 440-7656
Email: boardsec@oeb.gov.on.ca

Dear Ms. Walli:

**Re: Pollution Probe – Written Comments on Staff Discussion Paper
EB-2007-0673 – 3rd Generation Electricity IR**

We are writing to provide you with Pollution Probe's written comments regarding the *Staff Discussion Paper on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*. Pollution Probe's comments are limited to three areas as detailed below.

1. *Additional Explicit Principle Upon Which a Multi-Year Rate-Setting Methodology Should Be Designed (page 5)*

Pollution Probe respectfully submits that the following should be an additional explicit principle upon which a multi-year rate-setting methodology should be designed: "The promotion of conservation, demand management and distributed generation should be encouraged." Pollution Probe submits that this proposed additional principle would be in accordance with the Board's statutory objectives regarding electricity¹ as well as current Government of Ontario policy.

2. *Conservation and Demand Management ("CDM")*

Pollution Probe has three specific submissions related to CDM, which are detailed below.

First, Pollution Probe supports the continuation of the Lost Revenue Adjustment Mechanism ("LRAM") and the Shared Savings Mechanism ("SSM").

Second, given the Agency Review Panel's Phase II recommendation that the Ontario Power Authority should be wound down after the completion of the Integrated Power System Planning proceeding, Pollution Probe submits that the Board should strongly support more aggressive LDC CDM programmes.

¹ *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B, s. 1(1)

In particular, Pollution Probe submits that, as part of a more aggressive support of CDM, the Board should grant an LDC automatic approval for CDM spending up to specified level (e.g. 2% of their total revenue requirement including electricity commodity costs). This level of spending could be financed by LDC distribution rates or by the global adjustment mechanism as administered by the Board instead of the OPA.

Third, Pollution Probe submits that the Board should hire an independent auditor to assess the reasonableness of LDCs' CDM evaluation reports with respect to both electricity savings (i.e. in kW and kWh) and resource savings (i.e. through the Total Resource Cost Test).

3. Price Cap Regulation – What Should Be Inside/Outside the Price Cap

Assuming the Board adopts a price cap regulatory framework for LDCs, Pollution Probe submits that the utilities' costs with respect to distribution system electricity losses should be included within the price cap. Such an inclusion would encourage LDCs to reduce such losses.

In contrast, Pollution Probe submits that all CDM-related costs and all capital costs with respect to facilitating distributed generation should be outside the price cap. Such exclusion would ensure that LDCs do not have disincentives with respect to CDM and distributed generation.

Conclusion

We trust that that these comments are of assistance, and please do not hesitate to contact the undersigned if you require clarifications or further information.

Yours truly,



Basil Alexander

BA/ba