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VIA MAIL and E-Mail

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
2300 Yonge St.
Toronto, ON
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Dear Ms. Walli

Re: 3rd Generation Incentive Regulation for Electricity Distributors
Board File No.: EB-2007-0673
Comments on Staff Discussion Paper

We are writing to provide comments on the Board Staff's February 28, 2008 Discussion Paper on 3rd Generation Incentive Regulation Mechanism (3GIRM) for Ontario's Electricity Distributors.

VECC's comments follow the Table of Contents of the Discussion Paper. Within each section VECC has provided comments on various points/issues the Discussion Paper as well as responses to the specific issues that Board Staff has indicated it is seeking input on. Comments on the PEG Report are included in the section dealing with Productivity.

Introduction (Section 1)

VECC agrees with Staff (page 2) that there needs to be a "core plan" that is suitable for most distributors. VECC also agrees that, in some cases, other approaches may be more appropriate for a specific distributor. However, VECC does not agree with the suggestion that the determination of when an alternate approach is appropriate should be left solely to the discretion of the distributors.

Long-Term View of Incentive Regulation (Section 2)

Use of Incentive Regulation/Current State of Incentive Regulation

It is important to recognize that many of the critical components required for the long-term application of an incentive regulation framework are currently not fully developed and in place. There is a need to not only address the points raised in this section of the Discussion Paper regarding the benchmarking of distributors' current (efficiency) performance and the establishment of a comprehensive regulatory regime (e.g., standards, reporting, rewards/penalties, etc) for service quality but to also address concerns raised during the Technical Conference regarding:

- The adequacy of information on historical Ontario industry TFP performance
- The price index to the used for Capital in any industry-specific price escalator, and
- The methodologies that should be used in developing the 3GIRM parameters such as the productivity factor

In light of these issues VECC believes that it is premature to conclude (as Staff has done on page 7) that "incentive regulation <u>can be</u> a viable and flexible long-term approach to setting rates that are just and reasonable". In VECC's view, incentive regulation <u>may be</u> a viable long approach and it is worthwhile continuing to pursue it.

As result, VECC agrees with the Discussion Paper (page 9) that an "incremental approach" must be taken toward the development of a comprehensive incentive regulation framework. However, VECC submits that it is too early to determine whether all the pieces will eventually come together adequately to make incentive regulation a truly workable solution for the long-term.

Criteria for 3rd Generation IR

Given Staff's comments regarding the need for an "incremental approach", VECC believes it is important clarify that it is not the proposed 3GIRM that is sustainable in the long-term but rather that the 3GIRM needs to be viewed as a step towards a longer term framework for incentive regulation that would be sustainable.

In VECC's view an effective framework is also not only one that provides for prudent capital (and OM&A) spending but also one that ensures that any such spending is prudent (per page 10).

Building the Framework

VECC agrees with the need to develop a more comprehensive data set that allows the assessment of Ontario utilities performance based on both OM&A and capital spending. However, the discussions between the various “experts” present at the Technical Conference demonstrated that there are different methodologies for analyzing the data and different perspectives as to the weight that should be applied to recent versus more historical data. Indeed, during participation in the Technical Conference VECC’s representative was struck by the similarities between the debate that was taking place on TFP and the debates that have historically occurred regarding the data and methodologies that should be used for ROE analysis.

VECC does not see these methodological issues being resolved in time for implementation of the 3GIRM. There is neither the time nor the necessary Ontario data. These debates will need to continue and should inform future decisions (i.e., post 3GIRM implementation) regarding the practicality and implementation of incentive regulation over the longer term.

Issues and Options for 3rd Generation IR (Section 3)

High Level Issues

VECC agrees that the issues flagged (page 13) in the Discussion Paper (i.e., capital investment, lost revenue, distributor diversity and tax treatment) are important and need to be “considered” in the development of the 3GIRM. However, in VECC’s view, service quality and reporting requirements are also key issues. It is not sufficient to say they are being dealt with by other Board initiatives. They are both critical components of an IR framework and the Board must ensure that the approach undertaken for each is compatible with the 3GIRM it adopts.

Capital Investment

VECC does not question the fact that circumstances (per pages 14-17) may arise for individual electricity distributors where an IR mechanism does not adequately provide for the additional revenue requirement associated with new in-service capital additions. However, when considering how to reflect this concern in an IR mechanism some of the relevant issues that need to be considered are:

- Should the IR mechanism also recognize that there may also be distributors for whom the annual adjustment mechanism over compensates them relative to the funding really required to support new in-service capital additions?
- The IR mechanism itself will (in all likelihood) include some provision for funding of new facilities and any capital investment adjustment mechanism must be limited to “incremental needs”.
- If the mechanism is based on “forecast capital spending”, how will revenue

requirement impacts arising as a result of differences between forecast and actual spending be treated?

- What will be subject to review at the time of the distributors' next rebasing (e.g., will spending be subject to a prudence revenue at the distributor's next rebasing)?
- Given that capital spending can impact OM&A costs (e.g., capitalized overhead, efficiency improvements, etc.), should there be any adjustment to the productivity factor used in the IR mechanism?

Request for Input – Capital Investment Mechanisms

On page 25 Board Staff has requested comments on the seven capital investment mechanism alternatives outlined in the Discussion Paper. In VECC's view none of the alternatives have been sufficiently articulated to conclude that it would be acceptable for the 3GIRM. Furthermore, a number of the alternatives appear to be somewhat similar and may not differ that much once the practical details were worked out. However, VECC believes it is possible to narrow the field at this point in time for purposes of the 3GIRM.

First, while the Sliding Scale incentive mechanism may have a conceptual appeal, VECC does not believe it is a practical alternative to implement for 3GIRM. Similarly, VECC does not believe that the Unit Cost Approach is practical given the current state of distributor benchmarking in Ontario.

Second, as noted in the Discussion Paper (page 24), the End-of-Term capital incentive does not really address the primary concern of distributors in terms of revenue requirement recovery during the 3GIRM term. The Accelerated Cost Recovery approach which would include CWIP in rate base appears to be more compatible with cost of service as opposed to incentive regulation. Also, for many distributors, capital assets are placed in-service the same year the dollars are spent and this latter approach may have offer little opportunity for relief.

This effectively leaves some form of adjustment to the IRM mechanism based on forecast capital spending as envisioned under the Modular Approach to the IRM (pages 20-21) or the Project Cost Tracker approaches (page 23). As the Board is aware, VECC provided detailed comments in October 2006 on a similar approach proposed by Hydro One Networks during the development of the Second Generation IRM. At that time VECC stated:

> *Should the Board decide that a capital expenditure adjustment factor is necessary then it is VECC's position that:*
>
> *a) Applications should involve a public process where the rationale and data inputs to the calculation can be questioned and tested. The type of information provided should include:*
>   - *Historic spending levels*
>   - *Business cases for large (one-off) projects*

- *Materials that link the ACA study to the proposed spending plan and demonstrate why both the level of activity and timing proposed is prudent*
- *Description and discussion regarding alternatives considered.*

b) *A revenue cap formulation, similar to that used by FortisBC and Terasen Gas should be considered, in lieu of a price cap. This would ensure a proper tracking and no double counting of capital-related costs.*

c) *If a price cap approach is adopted then the 2nd Generation IRM should include an earnings sharing mechanism (ESM). Even if the Board concludes that an ESM is not required under the general IRM formulation, VECC believes that one should be adopted if a CI factor is included in a utility's IRM..*

While VECC's general views regarding the approach that should be used in implementing a Capital Investment mechanism remain unchanged, it does acknowledge that a capital investment adjustment mechanism can be integrated with a price cap approach. However, as seen by VECC's October 2006 comments, the "devil is in the details". During the Technical Conference those parties sponsoring "experts" indicated they would be putting forward specific proposals as part of their April 2008 comments.

VECC looks forward to reviewing these proposals and will be looking for the following elements which it considers as "key" to any satisfactory proposal"

- The proposal should include some mechanism (e.g., an symmetric earnings sharing) to address the potential for over earnings if capital spending is less than forecast.
- There needs to be some level of public scrutiny of the proposed spending and other critical assumptions (e.g. load growth) prior to the plan being put in place. The level of pre-plan review depends on nature of the prudency review that will take place after the fact. For example, if the revenue requirement impacts of incremental capital spending were to be treated as a rate adder and actual spending posted to a deferral/variance account (similar to smart meter spending) whose disposition was subject to review after the fact then the level of scrutiny required upfront could be reduced.
- At some level incremental capital spending, the distributor should be required to apply on a cost of service basis.

Lost Revenue Due To Changes in Consumption

In VECC's view it is important to separate out the issue of lost revenue due to distributor-provided CDM programs versus the impact of other factors such as weather, population trends, etc.. There are two reasons for this:

- First, disincentives for distributors to undertake cost-effective conservation programs (either on their own or in support of the OPA) need to be minimized, but this concern only applies in the first instance.
- Second, while the impact of conservation programs on sales can generally be

estimated independently, the impact of other factors frequently requires a "base load forecast" against which to compare actual results. However, under a Price Cap form of incentive regulation distributors are not required to produce load forecasts as part of the rate setting process. Furthermore, as the current 2008 Rate Approval process has demonstrated, most distributors are unable to produce high quality weather normalized load data on either an historical or forecast basis.

Request for Input - Revenue Erosion Options

Overall, VECC agrees with Board Staff (page 32) that adjustment for changes in consumption under the 3GIRM should be limited to the current CDM-related LRAM. VECC also notes that distributors' plans regarding CDM are generally limited to supporting/delivering OPA programs. Since the delivery of such programs is considered a "non-utility" activity for purposes of setting rates there is no need for the 3GIRM to consider the costs distributors will incur in supporting such programs (i.e., these costs will be covered by OPA/Distributor CDM deliver agreements). However, the issue of the treatment/verification of the LRAM for OPA-funded CDM remains.

VECC does not support a RSAM such as that proposed by the EDA. Not only would such mechanisms fundamentally change the "risk sharing" between distributors and ratepayers as noted in the Discussion Paper (pages 29-30) but they are impractical to implement at this stage. As noted earlier, they require the existence of an approved "weather normalized" load forecast for the rate year and a link between this load forecast and the rate approved.

Distributor Diversity

This section of the Discussion Paper discusses a number of aspects of distributor diversity that are relevant to the development of an IR mechanism. The first is that electricity distribution is different from other industrial sectors and, as such, an inflation or productivity factors adopted should be reflective of the industry (page 35). VECC agrees that industry-specific factors are preferable provided they are understandable and their derivation is publicly transparent.

The Discussion Paper also addresses diversity in the context of whether the same productivity factor and/or stretch factor should be applied to all distributors (page 34).

In principle, VECC agrees that productivity (in combination with stretch factors) could vary across distributors for two reasons:

- First, TFP factors may well vary depending upon distributors circumstances. However, in VECC's view, the development of differentiated TFP factors requires analyses for which satisfactory data does not currently exist.
- Second, stretch factors should ideally recognize that some utilities are already

more efficient than others. The Technical Conference discussions indicated that there were varying opinions as to whether the analysis performed to date on distributor cost benchmarking was adequate to support the application of differentiated stretch factors. This issue is discussed further in the next section of comments

The Discussion Paper also acknowledged (page 34) that the 3GIRM will apply to some 80 distributors that differ in a number of ways besides just their capital spending requirements. In VECC's view this is the key issue and the question is whether to address such differences by:

a) Incorporating Earnings Sharing and Off Ramp Mechanisms as part of the Core Plan,
b) Allowing Distributors to choose from a number of regulatory models, or
c) Permitting Distributors to propose alternative approaches.

Request for Input = Options to Address Distributor Diversity

In VECC's view; there is a fundamental difference between including an Earnings Sharing Mechanism (ESM) as part of the core plan and allowing distributors to select from a menu of productivity/ESM options. As the discussion paper notes, the first is a "back stop" approach to dealing with distributor diversity. If the circumstances of a particular distributor are sufficiently different from those implicit in the "core plan" then the ESM mitigates risks to both the distributor and ratepayer of extreme outcomes.

VECC is generally supportive of using an ESM for this purpose. However, in such circumstances, the ESM is not a permanent solution – particularly if the deviation is material and persistent. In such circumstances, VECC suggests that off-ramp should be triggered and the distributor's circumstances assessed through a rebasing exercise.

In contrast the menu approach is better suited for addressing uncertainties regarding what is the appropriate TFP factor to apply to a specific distributor. However, the menu must be carefully designed to ensure internal consistency between the options. VECC is uncertain as to whether there is sufficient time and/or data available to adequately design and test a "menu approach" for 3GIRM.

VECC agrees fully with the concerns expressed on page 37 about allowing distributors to select from a range of regulatory models. In VECC's view the Board's 2005 concerns about allowing (natural gas) distributors to switch back and forth between incentive and cost of service plans apply equally to a circumstance where there would be different incentive plans. Changing plans or approaches should only be done within the context of a full rebasing.

Elsewhere in the Discussion Paper (e.g., page 2) Board Staff has suggested that a distributor may apply to the Board to have its rates set using an alternative approach to the "core plan". VECC believes that if such an approach is adopted the onus should be on the distributor as to why continuation of the "core plan" or simple rebasing of the "core plan" is not a workable solution.

Overall, VECC sees a shorter-term for the plan (i.e., more frequent rebasing) as the most practical way to recognize and allow for distributor diversity (in conjunction with a workable capital investment mechanism if one is possible). To offset the additional regulatory burden this may place on the Board, provision could be made for distributors to opt for a longer-term plan at the start of the 3GIRM.

Request for Input- Three Alternative Approaches

VECC does not agree with the Staff Evaluation of the three alternative approaches. The text (page 42) of Paper suggests that for the Comprehensive Price Cap Index approach to be both sustainable and effective it should include some provision for incremental capital investment adjustments. However, the evaluation matrix on page 43 does not reflect this requirement.

In VECC's view, it is unrealistic to suggest that an effective and workable capital investment mechanism can be developed without having to incur some additional administrative burden and delinking of OM&A and Capital from an efficiency consideration perspective. It is simply part of the tradeoff one must make in order to ensure that the 3GIRM allows for adequate capital investment while protecting the interests of consumers. Indeed, if an effective capital investment adjustment mechanism is included as part of the comprehensive price cap index approach the resulting methodology will start to look similar to that of the hybrid approach.

The main difference between the two approaches is the Hybrid method effectively results in a capital investment adjustment being calculated for every distributor whereas the Comprehensive Price Cap method only includes the adjustment when certain criteria are met. In those instances where the capital investment adjustment is not required, the Comprehensive Price Cap method will (as demonstrated on page 43) score higher. However, in those cases where the capital investment adjustment is deemed to be required the relative scoring will depend on:

- The ability of the criteria regarding when the capital investment adjustment will apply to adequately address both distributors and ratepayers interests, and
- The ability of capital investment module to be seamlessly integrated with the "core plan".

VECC believes that here are currently insufficient details as to how a capital investment adjustment factor would work to adequately address these issues.

Elements of a Core Plan (Sections 4.1 and 4.2)

Form and Term (Sections 4.1 and 4.2)

VECC agrees that the "core plan" for the 3GIRM should be based on Comprehensive Price Cap index. While VECC is still unconvinced (see preceding discussion) that such an approach is superior over the longer term, VECC believes it should be pursued at this point in time. VECC does not believe that the Hybrid Option offers a practical alternative for 3GIRM as it would require all distributors to prepare (and the OEB to review) multi-year load and capital spending forecasts.

VECC generally agrees with the concept of allowing distributors to select a 3GIRM term of three to five years. However, distributors requiring a capital investment adjustment should not be eligible for a term of more than 3 years. Also, there is a greater need for earnings sharing with a longer term in order to protect ratepayers (Note: Distributors are protected as they have the prerogative to make an application to the Board at any time). Finally, as discussed earlier, VECC believes that criteria should be developed (e.g. persistent over/under earnings) that automatically trigger an off-ramp for the distributor.

Elements of a Core Plan: Inflation Factor (Section 4.3)

- Industry vs. General Price Index

In principle VECC agrees that an industry-specific price index is preferable to a generic index such as the CPI or GDP-IPI. The key issues in developing such an index are that other stakeholders must be able to replicate the results and it must demonstrably linked to changes in the industry's costs.

The Discussion Paper suggests that an industry-specific IPI be developed based on a weighted average of the prices of capital, labour and materials.

For labour, VECC believes that the index related to Wage Adjustments for Utilities is a reasonable basis for the labour component. The Discussion Paper indicates that this index is available for Ontario and published on a timeline that would meet the requirements May 1st rate adjustments (page 50). VECC also agrees with Staff's suggestion regarding the index to be used for materials (page 51). However, VECC has difficulties with the suggested approach with respect to the price index for capital.

The Discussion Paper uses a formulation for the capital price index similar to that adopted for the First Generation PBR plan. The Paper then goes on to address the volatility of this price index and how the volatility could be reduced by smoothing the index through the use of a multi-year moving average.

In VECC's view the volatility of proposed capital price index results from the fact that the capital price index itself is incorrect. Indeed, this issue was discussed at the Technical Conference and the Board's consultant acknowledged that the capital price formulation used in their analysis of TFP differed from that proposed.

- Capital Price Index and Volatility

The key problem with both the formulation of the proposed capital price index (and the resulting source of instability) is the implicit assumption that a distributor's debt is <u>all</u> re-financed each year at current rates. Clearly this is incorrect. Distributors rely primarily on long-term debt and debt cost (in terms of effective interest rate) only change when existing debt is re-financed or new debt is added. This means that for most distributors their change in average cost of capital will be far less than the observed change in long-term interest rates from one year to the next. As a result, "smoothing" should not be viewed as merely a way to reduce volatility but also as a simple way to make the index more representative as to how capital costs actually change for distributors from one year to the next.

Adopting this perspective gives rise to a number of implications:

- First, while using a multi-year average is one way to address the issue, work should be done during the 3GIRM term to develop a more comprehensive approach to capital pricing.
- Second, for the debt portion of capital cost a three-year average may be too short a period. For purposes of the 3GIRM perhaps a longer timeframe (e.g.; at least 5 years) should be used
- Third, as the issue only applies to the debt component of the cost of capital, consideration should be given to allowing 40% (i.e, the equity portion) of change to flow through directly recognizing the need to also adjust for the 75% flow through factor included in the Board's ROE formula.

Elements of a Core Plan: Productivity Factor (Section 4.4)

PEG's Recommendations

The Board Staff relies on the work of its consultants (PEG) for recommendations regarding both the standard TFP factor and the Stretch factor that would be used in the 3GIRM. VECC agrees with the both Staff's Discussion Paper and PEG's Report that the lack of Ontario data is problematic and the results of the associated analysis can not be relied on to provide a credible estimate of TFP. As well as the issues raised in the PEG Report regarding the use of 2002-2006 data, VECC would also note that:

- While PEG's analysis attempts to weather normalize the annual volume output of Ontario's distributors, VECC is concerned whether the data used in the analysis were sufficiently robust (e.g., did it track local weather conditions for each distributor or simply reflect weather at one point in the province).

- Additional (one-time) costs were incurred during this period that would reduce the calculated TFP factors (e.g., pension costs increases and conservation spending required to attain MARR)

Overall, VECC believes the results obtained using the US data provide a reasonable proxy and represent the best information currently available regarding long-term TFP performance. Clearly more work has to be done developing suitable Ontario data. However, for purposes of the 3GIRM, VECC believes that the 0.88% value proposed by PEG is based on the best information currently available and represents a reasonable value.

For purposes of establishing stretch factor, PEG has used the results of the OM&A Benchmarking analysis it is doing for the Board to identify five different cohorts of distributors within the industry in terms of OM&A cost efficiency. PEG has then proposed that a different stretch factor (ranging from 0% to 0.6%) be applied to each cohort. VECC supports both the concept that stretch factors should vary according to a distributor's current performance and the range of values proposed by PEG.

VECC acknowledges that the performance benchmarking analysis performed by PEG is not perfect. However, there are safeguards that can be built into the 3GIRM:

- As noted earlier, criteria should be developed (e.g. persistent over/under earnings) that automatically trigger an off-ramp for the distributor.
- Distributors in Groups II through V could be offered the option of using the stretch factor associated with that of the Group immediately below them in return for an asymmetric earnings sharing mechanism.

Request for Input: Menu Approach (page 63)

VECC does not support a "menu-approach" for establishing the core TFP factor to be applied to each distributor. However, there may be merit in offer distributors the option of a lower stretch factor (as discussed above) in conjunction with a tighter asymmetric earnings sharing.

Provision for Incremental Capital Investment (Section 4.5)

VECC has already indicated that it recognizes the need for a capital investment adjustment mechanism and provided comments on the key elements required of such a mechanism.

Materiality Threshold

It is not clear if the 3% is meant to be a one-year impact or an average of 3% per annum over the Plan. Capital spending by utilities varies (naturally) from year to year and, in VECC's view, the incremental capital investment module must consider the impact over the course of the 3GIRM period.

Also the materiality criteria should be higher than 3% of net fixed assets:
- 3% of net fixed assets will translate into less than 3% of rate base as the latter also includes an allowance for working capital
- A 3% increase in net fixed assets translates into less than a 3% increase in the revenue requirement associated with fixed assets since historical depreciation will represent a higher percentage of net fixed assets than the depreciation associated with new assets coming into service
- Any load growth will provide an automatic increase in revenues.

Finally, beyond a certain point/threshold (e.g., 10%) it may be more appropriate for the distributor to apply for early rebasing.

Application Requirements

VECC agrees that the actual application for a capital investment adjustment factor should be similar to that for a Z-factor (page 66) and can not be reduced to a simple formula or check list. Indeed, the issue is more complex than a Z-factor adjustment since it will be based on forecast (as opposed to actual) spending and the question of "need" will likely not be as easily demonstrated.

If the distributors are allowed to "invoke" the incremental capital investment module during the course of the 3GIRM it will be important to also consider historical spending requirements to date (i.e., since the start of the Plan)

Treatment of Unforeseen Events (Section 4.6)

Limited Z-Factors

VECC agrees with Staff's proposals to limit Z-Factors to tax rules and natural disasters.

Materiality Criteria

Given the variation in capitalization policies across distributors VECC questions the usefulness of having separate materiality criteria for capital vs. labour cost impacts. Overall it may be more reasonable to establish a materiality threshold based on total revenue requirement impact.

Off-Ramps and Earnings Sharing (Sections 4.7 and 4.8)

Off Ramps and ROE Trigger

VECC agrees that significant variation in ROE (from approved levels) should trigger an off-ramp. However, one of the issues with applying a mechanism similar to that adopted for Union Gas is that many electricity distributors do not have the resident capability to weather-normalized there actual loads/earnings. It may be necessary to adopt some simple form of normalization using customer counts and the average (weather normalized) customer usage values established during the last rebasing proceeding.

Role of ESM

VECC sees two roles for ESM within the context of the 3GIRM: First, it could be included as part of the "core plan" in order to mitigate against unintended consequences. Second, as discussed earlier, it can be included specifically in conjunction with certain options that may be offered to distributors as part of the 3GIRM. These options could include:

- The capital investment adjustment mechanism
- The choice of longer term (>3 years) plan
- The choice of a lower stretch factor.

VECC also supports the concept of an earnings sharing mechanism in both instances and notes that the difference circumstances discussed above could be addressed by varying the dead band.

VECC also believes that the ESM should be asymmetric. The reason for the asymmetry is that electricity distributors themselves always have option to apply for revised rates if conditions warrant. However, rate payers will not have the same option if they believe circumstances have changed such that rates should be lower.

Service Quality and Reporting Requirements (Sections 4.9 and 4.10)

Service Quality Regulation

VECC is concerned that the Board's current proposal not to incorporate reliability-related SQIs in the Distribution System Code will lead to a significant gap in the effective ability of Board to protect consumer interests during the 3GIRM. If the DSC does not hold electricity distributors accountable for reliability performance, then performance in this area should be an issue for the 3GIRM.

Reporting Requirements

VECC's primary concern is with respect to transparency. Fairly comprehensive reporting requirements for electricity distributors have been established. However, much of the information is filed in confidence, even though it would be normally released if requested during a cost of service review. VECC believes that Board should limit "confidentiality restrictions" on information filed by distributors to only those areas where the need is clearly demonstrated. The default should be that all information filed with the Board is available to the public.

Implementation Considerations (Section 5)

VECC generally agrees with the positions put forward by Board Staff regarding CDM, Taxes, Deferral/Variance Accounts, the Application of the Price Cap Index and Rebasing Rules.

With respect to Revenue to Cost Ratio adjustments, VECC notes that the 2008 Rate Decisions for at least three distributors (i.e., Oshawa, Halton Hills and Barrie) will require them to make Cost Allocation adjustments during the term of the 3GIRM. In order to properly do this, these distributors will likely have to annually revise the 2008 starting rates based on the required shifts in cost allocation. Although not addressed in the Decisions, changes in cost allocation can give rise to rate design issues if the cost shifts mean that the customer service charge for a customer class moves outside the range established by the Board in its November 2007 Guidelines.

Next Steps

While the Staff Paper outlines the general framework that will apply for 3GIRM, there areas such as the Capital Investment Adjustment where the details still need to be worked out. VECC believes the process would benefit greatly if, based on the April input Board Staff (with the aid of its consultant) was to draft a detailed outline of the 3GIRM and circulate it for comment before the Board itself issued draft proposal.

Thank you for the opportunity to comment. If you have any questions regarding the comments please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,

Michael Buonaguro
Counsel for VECC