Overview of Written Comments on February 28, 2008 Staff Paper and PEG Report

3rd Generation Incentive Regulation (EB-2007-0673)

Participant	Key Messages	Preferred IRM, if explicit
Association of Major Power Consumers in Ontario	• Regulation should mimic the business pressures of competition. • Supports comprehensive PCI; 3-5 years • A capital module would need to be managed with great caution. Capital may be addressed through the rebasing prior to IRM or may be localized to a subset of the distributor population. • Several detailed comments offered. • ESM s/b last backstop	IPI – X(TFP+stretch) reasonable. Sympathetic to Dx interest in other regulatory approaches.
Consumers Council of Canada	• Supports comprehensive PCI; 3-years only • Macro inflation may be easier on 3-year plan; however, would support IPI if all experts agree it superior and mechanics not too complex • Reserves comment on X-factor deferred until review of other experts proposals • Allow for incremental capital module, but shorter term should reduce need to invoke • Supports Off-ramp (300bp >ROE) and asymmetric ESM (if term 5 years 100bp, 3 years 200 bp) • It would be useful to allow parties an opportunity to explore others proposals, perhaps via a stakeholder meeting and further written comment	
Electricity Distributors Association	• Supports comprehensive PCI; 3-5 years; alternatives should be allowed • In addition to capital module, establishing a K-factor based on multi-year capital plans filed at time of rebasing for going-in rates is highly desirable • Does not support TFP of 0.88%; proposes 0.5% - 0.6% as more reasonable • Does not support implementation of stretch factors in Ontario Dx; proposes diversity factors of -.3 to +.3 around the proposed TFP for the future (cannot be done until better benchmarking data available) • Prefers IPI, but further work required to ensure that it tracks actual costs pressures experienced by Ontario Dx • If ESM, should be symmetrical	
Energy Cost Management Inc.	• Do not mix US and Ontario Data • Weight segmented TFP to yield lower X-factor (.4 to .6) • Rely on most recent capital data	
EnWin	• Where COS processes or data can be used in IRM, it should be the overwhelming first choice; use LDC-specific data from CoS reviews to set parameters • Need menu approach or allow Dx to bring alternative applications to deal with CAPEX • Issue of lost revenue should be re-opened	
London Property Management Association	• Capital investment module is not warranted • Supports comprehensive PCI; 3-5 years; does not support hybrid; multi-year CoS may not be practical • Supports .88 base X-factor; plus allow Dx to select stretch/ESM from menu (0.15%/100% - 0.75%/200%) • Supports IPI with smoothed capital sub index and proposes specific enhancements • Several detailed comments offered • Highlights a number of implementation matters that need to be addressed in Board Report	IPI – (0.88 + MenuStretch)
Pollution Probe	• Promote CDM and DG	

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3rd Generation Incentive Regulation (EB-2007-0673)

Participant	Key Messages	Preferred IRM, if explicit
Power Workers Union	• Propose a long-term vision of a comprehensive and sustainable bifurcated IR framework • Supports comprehensive PCI; 3-5 years; does not support hybrid; multi-year CoS may not be practical • Does not support US data TFP or OM&A benchmarking to set peer groups for stretch factor; proposes menu-approach until Ontario data available (0.8%/8.5% - 1.6%/12.5%) • Supports IPI with smoothed capital sub index but prefers 1st gen PBR weights • Supports optional modular approach to deal with incremental capital • Several detailed comments offered • Comment re: ESM reserved until specific plan known	IPI – MenuX
School Energy Coalition	• Under IR costs should not drive rates • Regulation should be a proxy for competition; not a convergence on average efficiency • Supports PCI; 5 years unless Board convinced otherwise • Propose IPI with a 10-year weighted average of the past data, updated annually • Supports US data TFP; proposes broader stretch factors (0.5% - 1.5%) • Proposes end-of-term benefit that carries reduced stretch factor into next term • Detailed proposal re: three types of capital spending (lumpy, legislated, asset optimization) • Generally opposed to ESM, but may be appropriate for this plan • Several detailed comments offered	IPI – (0.88 + LargerStretch)
The CLD and Hydro One	• Support comprehensive PCI; 5 years • Prefers IPI; but further work required • Does not support US data TFP; proposes 0.55% (mid-point of 0.4% - 0.7%) • Does not support OM&A benchmarking to set peer groups for stretch factor • Supports ESM on plans > 5 years (300bp 50:50) • Launch a consultation in the appropriate level and rules governing a “Z”-factor adjustment rather than applying an arbitrary 3% threshold level. • Reconvene working group to develop capital investment module that funds CAPEX that forms part of the integrated capital program instead of being Z-factor like • Several detailed comments offered	GDP IPI FDD – 0.55%
Vulnerable Energy Consumers Coalition	• Supports comprehensive PCI; 3-5 years, but only 3 if capital module invoked • IPI preferred but must be understandable and calculations publicly transparent; suggests enhancements to price index for capital • Supports US data TFP and PEG stretch factors; suggests off-ramp and option of lower stretch factor in conjunction with tighter asymmetric ESM as safeguards • Recognizes need for incremental CAPEX; details need to be worked out re: module; should include mitigation conditions (e.g., ESM, public scrutiny, cap beyond which apply for rebasing, shorter term) • Staff should draft detailed proposal for comment before Board issues draft proposal	IPI – (0.88% + PEGStretch)

		Long-term View		Issues and Options						
Participant	**Introduction**	**Criteria**	**Building**	**Capital Investment**	**Lost Revenue due to Changes in Consumption**	**Distributor Diversity**	**Form**	**Term**	**Inflation Factor**	**Productivity Factor**
Association of Major Power Consumers in Ontario	need to mimic business pressures of competition to encourage regulated companies to improve their total productivity			Some of the concerns that distributors have concerning capital investment may be addressed through the rebasing prior to IRM or may be localized to a subset of the distributor population. A capital module would need to be managed with great caution.	Estimate that the effect of IPSP forecasts on the energy portion of Dx output may work out to about 0.4% a year or less. RSAM (revenue cap) makes sense with commensurate change to capital structure or ROE. Rate volatility could be mitigated under Revenue Cap.	Provide flexibility in term. It would be unfair to the majority of Ontario customers if the regulatory regime were straight jacketed by a “one size fits all” approach designed to speed the regulatory process or excessively lighten the regulatory burden on all distributors.	Comprehensive PCI workable. Ofgem sliding scale approach with an information quality incentive merits further examination (for those Dx that can do it). Hybrid approach should be rejected.	3 to 5 year terms seem reasonable.	Industry specific IPI seems correct; could be adjusted to reflect varying weights for capital and labour. Do not include consideration for transmission asset planning in Dx IPI. Some concern that Dx using lower depreciation rates than the 5.67% may benefit inappropriately if differences are not considered.	Overall, use of US TFP until a 10-year Ontario trend establish seems reasonable way to start. Articulates several reasons to trust the US data. If accepted, the Dx convergence argument vis-à-vis stretch factors would drive a race to the average. The “menu” proposal to allow some distributors to accept higher performance improvement targets in return for a potential higher rate of return has merit.
Consumers Council of Canada	Supports the development of a 3rd GIRM framework that is sufficiently flexible to adapt to changing circumstances, recognizes the diverse nature of the LDCs in the Province, and includes mechanisms to appropriately balance the interests of ratepayers and shareholders.		Taking an incremental approach towards a long term vision of comprehensive IR for electricity distributors is a practical approach for Ontario. Lack of data compromises the ability for the Board to undertake meaningful benchmarking studies. The Council sees value in this work continuing.	Plan term should be 3 years to help reduce potential need for some form of special treatment of materially significant investment. To the extent LDCs find, during the term of the plan that the formula is not sufficient to support incremental capital expenditures they should have an opportunity to apply for the Board for relief.	Do not support RSAM or HON proposal. LDCs have the LRAM. Going forward, if there is evidence that revenue erosion during the term of an IR plan is increasing, adjustment mechanisms may be considered by the Board. This could be part of a longer term framework.		Supports continuation of a price cap approach for following reasons: used in 1st and 2nd generation; less regulatory burden; LDC and stakeholder familiarity; sustainable, predictable, effective, and practical relative to other approaches.	Plan term should be 3 years. The lack of a comprehensive utility data base and the fact that government policy continues to mandate new roles for Ontario LDCs are factors inconsistent with a the determination of a long term approach at this time. The fact that the Board is undertaking a review of rate design policies is also relevant. If Board allows five years or longer, need ESM.	Given the fact that the Council is proposing a three-year plan term it may be easier to use the macroeconomic approach. If, in the alternative, the experts are of the view that an industry-specific IPI would be a superior approach, and the mechanics are not too complex, the Council would support the use of the industry-specific IPI.	The Board has a number of choices regarding the X-factor. It could continue with the current 2nd Generation IRM X-factor of 1%. It could adopt the recent recommendation of PEG for X-factor of .88% coupled with a range of consumer dividends based on comparative cost research gathered from Ontario LDCs. Alternatively, the Board may be convinced that it is appropriate to use an X-factor or factors based on the submissions of other experts that have been a part of this process. The Council is not convinced there is a perfect way to construct an X-factor. Although PEG’s analysis, as set out in its report, does not represent an approach accepted by all parties, it does derive results that appear to be in the range of reasonableness relative to other such studies and other IR plans. Although clearly not an empirically “pure” approach the Council is of the view that it represents an approach that should be seriously considered by the Board for 3rd Generation IRM.
Electricity Distributors Association				Multi-year capital plans should be allowed at the time of rebasing to reduce dependence on “off-ramps” and intra-term capital cost approval processes.	Dx disadvantaged under a price-cap approach should be able to apply to the Board to have their rates set according to an alternative plan such as a revenue-cap.	Proposes diversity factor rather than stretch factor. However, serious concerns about the validity of the benchmarking analysis that would underpin the assignment of “diversity factors”. Proposes development after estimates of relative efficiencies of distributors are found to be sufficiently reliable.	A comprehensive price cap mechanism is the preferred approach for many utilities. It produces the strongest incentives for efficiency gains and it is the simplest from an administrative point of view. However, further refinement to incorporate variability in capital expenditures is highly desirable.	An optional three to five year term is appropriate.	The long-term objective of replacing a broad measure of inflation with an industry specific input price index is appropriate. However, further work is required to ensure that the index tracks actual cost pressures experienced by utilities.	PEG US TFP: average annual productivity growth for this period is 0.72%; there is no statistical evidence of systematic acceleration in productivity growth which could justify higher expected productivity factors in the near term; estimation of a nonlinear trend effect model suggests variation of productivity growth between 0.4% and just over 1% during the period 1988-2006; and most recent years of data suggest a period of deceleration. 0.88% too high; Ontario data 2002-2006 also indicate a slowdown; 0.5% to 0.6% a reasonable target for the industry average productivity factor. Stretch factors rationalized on the basis that a utility should experience “accelerated productivity growth”; this is not evident for Ontario Dx; therefore, inclusion in plan is not justified.

		Long-term View		Issues and Options						
Participant	**Introduction**	**Criteria**	**Building**	**Capital Investment**	**Lost Revenue due to Changes in Consumption**	**Distributor Diversity**	**Form**	**Term**	**Inflation Factor**	**Productivity Factor**
Energy Cost Management, Inc.										Do not blend data from US and Ontario. If the Board decides to be guided by US data then it should use US data throughout. If however, the Board recognizes that the Ontario market is a discrete market with its own unique characteristics then the Board should by guided only by Ontario data. Supports Dr. Yatchew's observation that the 1st Generation approach to weighting segmented TFP trends would yield lower expected growth rates in the range of 0.4 to 0.6 percent.
EnWin	Staff paper does not take into account the COS process and outcomes and the interrelationship between COS and IRM. Where COS processes or data can be used in IRM, it should be the overwhelming first choice.	"Practical" has been interpreted in a very narrow sense; should also capture "usefulness". In setting the 3GIRM, significant regard must be had for the usefulness of the mechanism in relation to COS.	IRM ratemaking ought to build on the most recent COS decision and orders of the Board, not data that predates the latest COS. The most current data for an LDC begins with its most recent COS and is of a higher quality and consistency.	If capital investment is to be a permanent fixture in IRM, then over the 2009-2011 period, it is desirable to provide a menu approach or to allow LDCs to bring alternative IRM applications that employ differing approaches to capital investment.	Recommends that the broader issue of lost revenue be re-opened to solicit suggestions for incorporating the broader issue into the Core Model. Concerned that what began as a broad concept of lost revenue in the Scoping Paper has gravitated back to LRAM and SSM. Forces Dx into investigating alternative ratemaking or early CoS review.	re: Deviating from a core plan: Introducing any additional screening procedures that force an applicant to justify the format of an application or deviation from a plan would be unnecessary, impractical and of limited use. Issues related to the presentation of any application, beyond the basic filing requirements, can and should be addressed through Board determinations of the weight given to the evidence and cost awards.	Supports the creation of a Core Mode, however, final report must emphasize Dx right to request alternative forms (modifying the Core Plan or completely different, etc) Concern that the three alternatives appear to have been evaluated only in the narrow 3GIRM context instead of in the broader ratemaking context.		The use of LDC-specific data as opposed to weighing inflation factors according to provincial averages would be more accurate and thus better preserve the justified and reasonable rates established in COS.	By including a productivity factor, 3GIRM will move away from LDC-specific justified and reasonable rates. As a result, ratepayers will pay less justified and less reasonable rates. One possibility is for the Board to make a "IRM-year productivity factor order" for each LDC as part of its COS decision. Concern over use of Ontario benchmarking and service quality data - consistency of data is suspect.
London Property Management Association				Prudently incurred CAPEX will be reflected in base rates. Does not believe that capital module is warranted given the flexibility that is being proposed for other components of the Plan (choice in term, Off-ramp and option to file CoS). If incremental capital approved in rates, Dx cannot expect to retain any excess earnings that it may achieve over and above that level.	Supports status quo with respect CDM. Alternative mechanisms do not appear to be practical at this point in time: (1) RSAM changes risk profile and/or the allowed ROE, requires load forecasts, and shifts risk of volume fluctuations and deviations from forecast from the distributor to the ratepayers. (2) Hydro One "CDM factor" approach has a number of impediments and practical considerations, including forecasting.	Supports the use of a common X factor, but with choice of five stretch factors. An ESM accompanies this selection so that the choice of a higher stretch factor is accompanied by a higher ESM dead band. Other elements of the plan (Off ramp, capital module, plan term and the option of filing a cost of service application if required) should service the diverse interests of the distributors.	Supports comprehensive price cap index. Does not support the adoption of a capital module, especially when distributors are free to make a cost of service application to deal with any unforeseen significant capital expenditures. Does not support comprehensive multi-year cost of service approach or hybrid approach.	Supports a term plan of 3 to 5 years. Believes that distributors has the choice of the plan term. Board needs to address potential problem with distributors selecting a plan term and then before the completion of that term, exercising its right to file a cost of service application.	IPI approach better and simple, and requires some sort of smoothing to deal with volatility. If a macro index is used, there is need to include a productivity differential and input price differential. However, their estimation is controversial and in a longer term, the economy wide index approach may deviate from industry costs. Supports calculation of IPI as illustrated with a number of modifications that result in a less volatile IPI. The use of 2002- 2006 sub index weights reasonable.	Supports 0.88% as the industry TFP component of the X factor. Supports the concept of stretch factor but not PEG's proposal because the comparative cost research is untested and the analysis is based only on OM&A costs which could result in biased results. Supports the concept, but not the numbers for five categories of consumer dividends. Proposes self selection by the distributors with respect to consumer dividend ranges (from 0.15% to 0.75%). Associated with each level of consumer dividend is a dead band above which any earnings would be shared 50:50. See ESM section.

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Pollution Probe		Add "The promotion of conservation, demand management and distributed generation should be encouraged."			(1) Supports continuation of LRAM and SSM. (2) Board should strongly support more aggressive LDC CDM programmes; automatic approval for CDM spending up to specified level. (3) Board should hire an independent auditor to assess results.					
Power Workers' Union	Suggests milestones that would lead to a long-term vision of a comprehensive and sustainable bifurcated IR framework in which robust benchmarking approach in place for Dx with peers and comprehensive IPI-TFP in place for those that have no peers.				Agrees that current LRAM appropriate until completion of rate design review	Agrees core plan with sufficient flexibility appropriate. Beyond this, ability of Dx to apply for alternative sufficient backstop. However, where possible it would be best to recognize diversity and deal with it proactively rather than relying on backstop (e.g., bifurcated framework or menu approach).	Supports a comprehensive cap mechanism for 3rd Generation IR. We do not support a hybrid IR approach because it an inappropriate incentive to shift costs from O&M to capital.	Whether distributors should have choice on the term of the IR plan needs to be considered in the context of the Board's vision for a long-term IR regime. If the Board adopts a robust benchmarking approach in the future, a synchronized start-year would be needed so that the benchmarks established can be fairly applied to all distributors.	Supports industry IPI and agrees that it better reflects the changes in input price trends for the distributor because they better reflect changes in materials prices, exchange rates, interest rates, amongst other things. Its use provides a reasonable cost benchmark for the distributors. Prefers actual distributor line crew wage rate information as it provides the actual labour price sub-index for the sector; however, in the absence of this, agrees with proposed proxy. Prefers use of 1st Generation weights.	Agrees that the TFP is the correct basis for the productivity factor. Does not agree with methodology proposed by PEG. Prefers use on Ontario data. Does not agree with the use of benchmarking based on O&M rather than total cost in determining Dx efficiency ranking for the application of stretch factors. Proposes PF-ROE menu (detailed in Dr. Cronin's report): In the absence of comprehensive cost benchmarking analysis, a menu approach best addresses distributor diversity. This approach allows utilities to select a TFP that is realistic for its circumstances that will mitigate the need to make irrational cost cuts that jeopardize on going service quality. At the same time, the ROE ceiling ensures that ratepayers benefit from the efficiency improvements. A menu has the distinct advantage of having built-in distributor "buy-in". Since the distributors get to select a productivity factor that they consider to be achievable (and are rewarded for being more aggressive in doing so), it combats the problem of distributors, pressuring to make the productivity factor as low as possible.
Schools Energy Coalition		Two key principles that the Board must keep in focus in deciding on the 3rd Generation IRM: (a) costs are not the drivers of rates, especially under IR; and (b) IRM should produce results that mimic the competitive markets, driving utility costs towards (but not all the way to) the frontier level.		Special treatment of capital investment only for three categories (lumpy spending, spending driven by exogenous factors, spending to improve productivity) and only to the extent that they are not captured in the normal rate adjustment components.			Price cap is preferred to a revenue cap. Price cap is more effective and results on more predictable rates.	Proposes a range of 3-7 years, with a target average of 5 years. Shorter periods, for larger utilities, longer periods for small utilities. Unless there is a clear tradeoff set in the rules, LDCs should not be given the right to make regulatory choices for their benefit. Either the utility or the intervenors should have the right to propose a term different from 5 years. In such case, the term will be decided by a panel through a process or during an ADR.	IPI is a better technique to track trends in utility costs. The use of a ten year weighted average IPI will provide a better budget base for the utility, while reducing rate volatility to a more acceptable level.	TFP component of the X factor proposed by PEG should be adopted without amendment. Supports concept of stretch factor based on productivity/efficiency levels, but has concerns about proposed implementation. Considers stretch factor as the only way that ratepayers would benefit in a material way from 3 Gen IR given the few significant ratepayer benefits arising in the rebasing process (LDCs have seen rebasing as an opportunity to seek a substantial incremental increase in revenues from the ratepayers). For the same groups identified by PEG, proposes consumer dividends of 0.5% for Group I, 0.75% for Group II, 1.0% for Group III, 1.25% for Group IV, and 1.5% for Group V.

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The CLD and Hydro One	A considerable amount of work has been done in developing the 3GIRM core model and the CLD and Hydro One believe that the proposed concepts are sound to move forward with. The CLD and Hydro One recognize that despite some concerns pertaining to data quality and availability associated with the development of the model parameters this should not hold up the implementation of the 3GIRM core model in the context of evolving and adjusting the model as we gain more information and experience. It is imperative that the Board approve the core model so that utilities subject to 3GIRM rate adjustments starting in 2009 are afforded the required time to prepare and file their submissions in a timely manner.			Recommend that the Board reconvene the Working Group to develop a CAPEX factor that should be incorporated directly into the price cap formula. Module needs to be based on the premise that it funds capital requirements that are anticipated, predictable, and form part of a distributor's large scale integrated capital programs. Based on this, the proposed Z factor mechanism is not appropriate.	Believe that in the short term utilities can make use of existing lost revenue adjustment processes in connection with unforecasted CDM impacts, and that revenue-oriented IRM alternatives can accommodate broader concerns around reductions in load and customer numbers.		Agree with and recommend the use of a comprehensive price cap index-based adjustment. Distributors which need to depart from the core model could file an alternative proposal, e.g. a revenue cap or a cost of service, and would submit a rationale as to the circumstances for alternative treatment.	The CLD and Hydro One recommend 5 years as the normal period for 3GIRM. Those utilities that request a longer or shorter period than 5 years would provide a rationale as to the circumstances for the need to depart from the norm.	Agree with the use of an industry specific Input Price Inflation factor; however, further work needed to reduce concerns re: the reasonableness and consistency of the sub-indices and how they would reflect utility costs going forward. Recommend that the Board and stakeholders continue with the development of an IPI for future implementation during the 3GIRM period. In the meantime, use GDP IPI FDD.	Recommend a TFP of 0.55% this being the mid point of a range of values estimated by our consultant London Economics International. Concerned that too much reliance has been placed by the Board's Consultant on US data; not reflective of Ontario's recent history of distributor operations or the negative TFP growth over the recent years. Recommend that the use of Stretch Factors be deferred until such time as an appropriate comparison of utility costs has been completed. Stretch Factor needs to reflect the trends in productivity changes and circumstances under which the utilities have and will be operating under during the IRM. The proposed peer classification is insufficient. Therefore whether the productivity levels of firms within each peer group are consistent cannot be determined.
Vulnerable Energy Consumers Coalition	Agrees that there need to be a "core plan" and that alternate approaches may be more appropriate for a specific Dx. 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.	3rd generation needs to be viewed as a step towards a longer term framework, not the end state. An effective framework is not only one that provides for prudent capital (and OM&A) spending but also one that ensures that any such spending is prudent.	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. 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 regarding the practicality and implementation of IR over the longer term.	Need to be consider: IRM will (in all likelihood) already include some provision for funding new facilities and therefore must limit a module to "incremental needs"; potential of overcompensating Dx; dealing with differences between forecast and actual; review at rebasing; given that capital spending can impact OM&A costs whether there be any adjustment to the productivity factor.	Overall, agrees that adjustment for changes in consumption under the 3GIRM should be limited to the current CDM-related LRAM. Does not support RSAM. Not only would such mechanisms fundamentally change the "risk sharing" between distributors and ratepayers but they are impractical to implement at this stage. 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	Overall, a shorter-term for the plan (i.e., more frequent rebasing) is 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.	Agrees that "core plan" should be a comprehensive price cap index.	Agrees with concept of allowing Dx to select term of 3 - 5 years. However, Dx requiring a capital investment adjustment should not be eligible for a term more than 3 years.	In principle agrees that industry-specific IPI preferable to generic index such as CPI or GDP-IPI. Agree with proposed labour and materials price sub-indexes; however, concerned with suggested approach to price index for capital. Work should be done to develop a more comprehensive approach to capital pricing; 5-year average may be more appropriate; and as the issue only applies to the debt component of the cost of capital, consider allowing 40% (i.e., 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.	Overall, believes the results obtained using the US data (the 0.88% value proposed by PEG) 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. Supports both the concept that stretch factors should vary according to a distributor's current performance and the range of values proposed by PEG. Acknowledges that the performance benchmarking analysis performed by PEG is not perfect. However, identifies safeguards that can be included: off-ramp and option of a lower stretch factor in conjunction with a tighter asymmetric ESM.

	Elements of a Core Plan					Implementation Considerations			
Participant	**Common Capital Structure and Incremental Capital Investment**	**Treatment of Unforeseen Events**	**Earnings Sharing and Off-ramps**	**Service Quality**	**Reporting Requirements**	**How Adjustments Would be Determined**	**Rebasing Rules**	**General**	**Link to Comments**
Association of Major Power Consumers in Ontario	Of alternatives, preference should be given to those that can be practically implemented, provide incentives for distributors to forecast accurately and discourage alternating IRM with rebasing. Concern about dilution of incentives and the growth of rate base. The evidentiary bar for exceptional capital investment should be kept high and it would also seem prudent to keep the materiality threshold high (5% or greater). The use of an incremental module should be limited to those investments and project characteristics that can be reasonably established to be outside management's ability to prudently avoid.	Best to treat on a case-by-case basis. Cost allocation by revenue is not appropriate, since unforeseen events tend to affect assets. If the event is material, cost allocation based on asset use would be appropriate. Recovery though rate riders is a valid approach for the OM&A portion.	Off ramp should be symmetrical. The 6% may be too broad. Weather normalization of earnings should only be allowed if there is an ESM related to weather induced revenue windfalls. ESMs have counterparts in private business - suppliers may be incented to achieve cost reductions when allowed to keep a portion of the benefit. Board may wish to consider a sliding scale ESM, with an upper limit on ROE.	Existing standards should be continued through the first run of IRM unless evidence that customers dissatisfied with current performance.					Comments
Consumers Council of Canada	As noted above, the Council is supportive of allowing for some mechanism to accommodate incremental capital investment beyond that accounted for through rebasing or through the formula. A review of the Staff Paper indicates that Board Staff's proposal is consistent with such an approach. In effect, incremental capital expenditures could be considered in the same way Z-factors are typically treated in most price cap plans. Under a three-year plan the expectation would be that these applications would be the exception, not the norm. All of the LDCs will have been rebased prior to having their rates set by the formula. These applications should be accompanied by comprehensive evidence to support the claim for incremental capital, and not be treated as simple passthroughs. From the Council's perspective the most appropriate approach would be for the Board to review the appropriateness of allowing for recovery of prudently incurred costs on a case-by-case basis.	Thresholds of 3% for both capital and distribution expenses. Disposition of the Z-factor amounts should be considered by the Board on a case-by-case basis. Should be symmetrical (A reduction in tax rates is an obvious example of a cost reduction that would qualify as a Z-factor.)	An ESM is an important component of any IR plan. To the extent that the Board allows 5-year terms, the Council submits that an ESM will be essential. Supports an asymmetric ESM given the fact that LDCs can opt out of the IRM plan at any point and apply for rates based on a cost of service determination by the Board. If 5 years dead band of 1%, if 3 years dead band of 2%. In the absence of an ESM the need for an off-ramp at a pre-determined dead band around the ROE is essential. Supports an off-ramp that would require an LDC to come into the Board if earnings in a given year exceeded 300 basis points over the allowed ROE. At that point the Board can determine whether a review of the plan parameters for that LDC is required.	The Board is currently undertaking a consultation process to deal specifically with service quality regulation. The Councils is satisfied that process will result in mechanisms sufficient to ensure that service quality for Ontario electricity customers will not be compromised in the context of an IRM plans.	The Council submits that to the extent that the Board accepts ESMs as components of the plan, additional reporting requirements may need to be defined.	Although Board Staff has set out many important points and issues, there are many details that would need to be established before implementation of the final framework. Further consultation will enhance the Board's ability to develop a detailed plan.			Comments
Electricity Distributors Association	The development of a mechanism by which multi-year capital expenditures would be incorporated within the price-cap framework should be a central objective. The most appropriate approach would seem to be the direct inclusion of a utility-specific "K-factor" within the price-cap formula. Further, a capital investment module with a materiality threshold of 1%-2% of net fixed assets should also be available. The threshold should be applied to total incremental capital expenditures rather than on a project basis		Earnings sharing mechanisms have the undesirable feature that they reduce the power of incentives for efficiency improvements. In considering such mechanisms, one should be mindful that, upon rebasing, consumers capture the benefits of efficiency improvements in perpetuity. In the event that an earnings sharing mechanism is implemented, it should be symmetrical.					The absence of consistent Ontario capital data limits further improvements to the calibration of an incentive mechanism. Development of better historical Ontario data would substantially resolve these shortcomings and should be undertaken.	Report prepared by Adonis Yatchew for EDA

	Elements of a Core Plan					Implementation Considerations			
Participant	**Common Capital Structure and Incremental Capital Investment**	**Treatment of Unforeseen Events**	**Earnings Sharing and Off-ramps**	**Service Quality**	**Reporting Requirements**	**How Adjustments Would be Determined**	**Rebasing Rules**	**General**	**Link to Comments**
Energy Cost Management, Inc.								Rely on most recent capital data. With respect to the possibility raised in the same stakeholder meeting of reconstructing Ontario capital data, this data would have to reviewed with substantive caution due to changes in accounting practice over the years amongst other matters.	Comments
EnWin		The Z-Factor is currently too narrow. A major improvement would be to encompass previous Board orders or the necessary implications of those orders. The threshold appears to be an arbitrary percentage. It would be preferable to allow an LDC to make application for any Z-Factor event that meets appropriate causation and prudence criteria only. The attention the Board, Staff and intervenors give to a claim in an application will be proportionate to their respective concerns regarding the appropriateness and materiality of the claim.	Since the LDC can off-ramp at is discretion, formalized Core Plan or Core Model off ramps should only apply where it would be unduly to the advantage of an LDC to bring a Core Model application or remain in the Core Plan stream. Therefore, off-ramps would solely benefit those interested in capping LDC profits.	The Board considers SQ in COS reviews and those decisions impact subsequent IRM years. To the extent the Board makes such orders, the Core Model ought to be flexible enough for the applicant to reflect such orders in their IRM Model			Rebasing Rules - Benchmarking: ENWIN is supportive of benchmarking, but not the current approach taken by Staff's consultant. Given the widespread controversy associated with the ongoing benchmarking exercise and its limited progress to date, ENWIN recommends against any inclusion of benchmarking in 3GIRM.	Generally speaking, the overriding value of administrative boards is their capacity to evaluate a multitude of factors and come to reasonable and justified outcomes. Thus, the Board itself and its active consideration of LDC-specific issues during COS must be considered as a means of accurately incorporating the many interwoven issues into justified and reasonable IRM rates.	
London Property Management Association	Does not support the need for a module for the provision of incremental capital investment. If incremental capital module is included: Accepts the causation criteria described in paper, with the caveat that non-discretionary would mean, among other things, that a push for under grounding by a municipality would not meet the criteria to include such costs in a capital module. Threshold should be related to the changes in net fixed assets over the 2002- 2006 period. Proposes that any distributor that invokes the use of this capital module should be subject to an asymmetric ESM.	Agrees with 3% threshold. Agrees that the intent of a Z factor is to deal with unforeseen temporary matters, not with a permanent change in the level of costs or a significant (however defined) increase in capital related costs; cautions against capitalization as applied in cost of service. Proposes the use of the cost allocation filing associated with the last rebasing cost of service filing, as approved by the Board, to allocate costs associated with a Z factor event. Supports the use of rate riders.	Recommends menu approach to allow Dx to select its overall X factor (comprised of 0.88% base value plus a consumer dividend) and an associated asymmetric ESM dead band. Any amounts in excess of the dead band would be shared 25:75 (or 50:50 or ratio set by Board). The Dx could raise its X factor in later years, but not lower it. If capital module is invoked, the dead band should be reduced to zero and any over earnings passed to customers up to the capital module amount; any earnings in further excess would be subject to the "menu dead band". Recommends that the Board offer the Dx choice of using normalized or actual utility earnings for use in the calculation of the ESM. Off-ramp appropriate because of the considerable uncertainty associated the various components of an IR plan (e.g. lack of data). Recommends a mechanism around a +/- 3% variance in actual utility earnings.	For the time being, service quality regulation and standards are better dealt with outside of the IR rate adjustment mechanism.	If an ESM is adopted, it may be useful for the Board to include an example of the information needed and level of detail required to stakeholders for the earnings sharing calculations. The calculation should follow the cost of service approach.	The price cap index should be applied only to the distribution revenue components of rates and exclude taxes, Z factors, deferral and variance accounts and CDM related items. The recovery of deferral and variance accounts should be treated as rate riders. The index must be applied to all customer classes on the same basis and to all components (fixed and volumetric) of the distribution rate. Base rates will need to he adjusted to reflect the new revenue to cost ratios before the price cap index is applied. A detailed example should be provided by the Board in its Report about revenue to cost ratios. .	Recommends that distributors continue to file their rebasing information (actual year, Board Approved year, bridge year and test year) information in the same level of detail as they are currently doing for their cost of service applications. No specific rule of rules should be determined now as to how a revenue requirement should be determined or influenced by the unknown results of the intervening incentive period.		Comments

	Elements of a Core Plan					Implementation Considerations			
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Pollution Probe						To encourage Dx to reduce losses, costs with respect to distribution system electricity losses should be included within the price cap. In contrast, to ensure that Dx do not have disincentives with respect to CDM and DG, all CDM-related costs and all capital costs with respect to facilitating DG should be outside the price cap.			
Power Workers' Union	Agrees that "implementation of a capital investment mechanism is an important design consideration for 3rd Generation IRM to effectively reflect distributor diversity". Supports an optional modular approach to deal with incremental capital investment as a separate parameter in IRM. Does not support an Information Quality Incentive ("IQI") as it would be challenging for the Board to establish reasonable capital expenditure benchmarks given the well acknowledged "information asymmetry" between the regulator and regulated entity. As such there is significant risk that the Board's benchmarks may inadvertently incent capital underinvestment. In turn, this puts at risk on going service quality, reliability and safety. In any case, a distributor should have the flexibility to reduce its capital expenditure and increase maintenance efforts from the forecast levels when it is necessary to do so (e.g. delay in equipment delivery) or it comes to light that doing so is more efficient. The IQI would discourage a distributor from doing so. Therefore, the PWU does not support an IQI.	Given that costs related to Z-factors may have benefits for future periods the PWU submits that capitalization of Z factors is relevant in IR. Whether the allocation of Z-factor costs between classes on the basis of distribution revenue should be clarified in situations in which it is not possible to directly allocate costs or there is no alternative basis that merits consideration..	The need for an ESM or an off-ramp is very much dependent on the robustness of the IRM. As an example, given the critical short comings of the use of O&M rather than total cost benchmarking in the application of the stretch factors, if the Board adopted this approach, an ESM and an off-ramp would be required to mitigate the risk associated with this approach. However, in the absence of a concrete proposal on a 3rd Generation IRM it would be premature to comment on whether one or more off ramps or an ESM should be included in the plan, or what form they might take.		The current PBR data filing requirements as per section 12.4.4 of the 2000 version of the Electricity Distribution Rate Handbook provide complete information required to determine TFP as well as for benchmarking purposes. Together with the annual service quality performance filing requirements, these data should provide the reporting requirements for 3rd Generation IR.				PWU Comments Report prepared by Dr. Cronin for PWU Comments
Schools Energy Coalition	For lumpy spending needs, utilities should file detailed long term data (for min 40 years) on its capital spending. With this data, the Board can determine the capital spending patterns of the utility (based on past spending patterns), and then assess where the LDC is in the pattern relative to a baseline, and adjust rates up or down. For spending driven by exogenous factors, status quo on treatment as a Y or Z factor that applies to all utilities. For capital spending needs related to productivity, onus and burden would be on the LDC to demonstrate with a detailed business case, both the incrementality and prudence of the spending proposal. Both incremental expenditure and benefits from it should be treated as Y factor for the project's life.	Current Z factor rules are well understood. Accepts a move to 3% in the threshold level . For simplicity and fairness income and capital taxes should be treated much like a Y factor.	Invoking of an Off ramp should be open to the utility, its ratepayers, or Board Staff. There should be no right to opt out, only a right to apply for an order allowing it. The burden of demonstrating that the utility is special should be substantial. The goal is to ensure that the situation is reviewed, not that it is changed.				Proposes that at the end of IR term a utility may qualify for an end-of-term ongoing benefit if it proposes rates on rebasing that are on average lower than the rates in the final year of their IR term. The end-of-term benefit would be a reduction in the stretch factor for that individual utility in the next IR term. The amount of the stretch factor reduction would be 20% of the average distribution rate decrease proposed, up to a maximum of 1.0%. Announcing in 2008 an end-of-term benefit for utilities that are strongly efficient will help change the mindset of Ontario LDCs, and promote more private sector thinking.	PEG Report is one of the best pieces of research, analysis and explanation commissioned by the Board that we have seen in more than twenty years of work at the Board.	

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The CLD and Hydro One		Recommend that the Board issue a consultation in the appropriate level and rules governing a "Z"-factor adjustment rather than applying an arbitrary 3% threshold level.	Recommend the use of off-ramps be determined on a case-by-case basis where a distributor brings forward an application that proposes the Board should make modifications to the adjustment mechanism or whether the distributor is seeking a cost of service re-basing. Accept the use of Earnings Sharing Mechanism with IR plans longer than the normal 5 year period (e.g., achieved ROE from regulated activities is more than 3% different from the Board's allowed ROE, then computed overage/underage be shared equally (i.e.,50/50) between the distributor and its customers.			Recommend the availability of variance accounts to assist with tracking the differences between revenues earned and costs incurred with respect to Smart Meter projects that are not in base rates, and other material incremental revenue requirement impacts associated with annual capital and operating expenditures resulting from new regulatory and legislative requirements imposed on distributors.		the timeline in which all stakeholders have been given to fully understand and access the complex issues and implications of the proposed 3 GIRM has been significantly tight for such a critical initiative.	CLD and HON Comments Report prepared by Julia Frayer for CLD and Hydro One
Vulnerable Energy Consumers Coalition	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. Threshold should be higher. 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 module must consider the impact over the course of the 3GIRM period. Also, beyond a certain point/threshold, it may be more appropriate for Dx to apply for early rebasing. Request more complex than a Z-factor since amounts will be based on forecast (as opposed to actual) spending and the question of "need" will likely not be as easily demonstrated. It will be important to also consider historical spending since the start of the Plan.	Agrees with proposal to limit Z-Factors to tax rules and natural disasters. 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.	Agrees that significant variation in ROE (from approved levels) should trigger an off-ramp, and criteria should be developed (e.g., persistent over/under earnings) that automatically trigger. However, if based on weather normalized earnings, may be necessary to adopt some simple form of normalization using customer counts and average (weather normalized) customer usage values established during the last rebasing proceeding. Supports two roles for asymmetric ESM: 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 (i.e., capital investment adjustment mechanism, longer term (>3 years), choice of a lower stretch factor). Dead band could vary with "option".	Service quality and reporting requirements are also key issues.	Primary concern is with respect to transparency. Board should limit "confidentiality restrictions" on information filed by distributors to only those areas where the need is clearly demonstrated.	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, notes that impact can give rise to rate design issues.		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.	Comments