



3240 Mavis Road
Mississauga, Ontario
L5C 3K1

Tel: 905.566.2727
Fax: 905.566.2737

www.enersource.com

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Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4
Attn: Ms. K. Walli
Board Secretary

Dear Ms. Walli

Re: EB-2006-0268

Thank you for the opportunity to comment on the Board's Comparison of Distributor Costs. These comments are provided without information on or understanding of the Board's intended use of the data, when executing its rate making responsibilities under s78 of the *Ontario Energy Board Act, 1998*. Enersource Hydro Mississauga Inc., ("Enersource") has the following four questions:

- Is the data comparable, between and among distributors or over time? Does it need to be normalized (eg. for inflation, weather)?
- Are aggregated financial expenses suitable proxies for activity costs?
- Are the measures selected good proxies for the cost drivers? and
- Do the computed averages reflect either scale considerations or that costs are fixed and variable?

Enersource is also concerned that the Board has not linked performance or quality related metrics to the analyzed cost data.

Is the Data Comparable?

Enersource believes that the Board's treatment of Enersource's Account 4325 - "Revenues from Merchandise, Jobbing, etc." is incorrect: specifically, the credit balance recorded in this account should be included as a reduction to its Operations, Maintenance and Administration ("OM&A") expenses. Enersource is concerned that this account may be administered differently by other distributors and that the resulting data may not be comparable. Enersource's audited financial statements include this reduction in OM&A expenses as did Enersource's 2006 EDR application. These Recoveries include amounts that are capital in nature. The overall effect of the Board's treatment is to overstate Enersource's OM&A expenses.

The staff paper compares financial data (prepared in accordance with the Board's Accounting Procedures Handbook and to indicate the company's financial position in a period) to measurable activity levels. The financial data of one LDC may not be comparable to that of another; for example, accounting policies, reliance on Contributions in Aid of Construction, amounts recorded in "Other Distribution Expenses" may vary.

Number of customers does not reflect number of end users (eg. an apartment building that is one distribution customer may represent over a 100 residential end users). Wholesale MWh includes losses, where losses vary from one LDC to another. Circuit kilometers do not reflect whether a system is networked (and has the ability to supply customers through a variety of paths) or is radial, has layers of step down transformation or requires carefully co-ordinated switching operations. Total Service Area doesn't clearly relate to the area served.

Are aggregated financial expenses suitable proxies for activity costs?

Administration expenses, as defined by the Board, are the consolidation of 14 specific accounts, any one of which may or may not be material. Administration costs depend on many factors (eg. whether manual or automated systems are used, whether customers have many transactions or few in a year, whether the customers are complex). Similar observations can be made about Operations and Maintenance Expense. Bad Debt expense originates with the customer's behaviour and is impacted by the distributor's original provision. It is not 'driven' by the MWh delivered by the distributor's host, or by circuit km of line, or by the area of the territory. Amortization expense reflects assumptions about salvage costs or values, commissioning schedules, age of assets and that the underlying assets are designed to support delivery volumes that may not be required for years into the future.

Are the measures selected good proxies for the cost drivers?

Number of customers is a proxy for number of end users. Enersource serves 180,000 customers that represent over 225,000 end users. Customer driven costs are included in both the Operations and Maintenance expenses and in Administration expenses. Operations and Maintenance expenses and Administration expenses both have non-customer related costs that may mute the explanatory power of the computed costs per customer.

Enersource suggests that the Board consider using demand and peak demand measures. This data is metered by wholesale revenue meters and is available to all LDCs in the province. This metric is a key consideration when designing distribution systems and relates to reported Operations and Maintenance expenses and to reported Amortization expenses.

Do the computed averages reflect either scale considerations or that costs are fixed and variable?

Distribution systems and customer service systems are designed for a certain scale of operations, where the scale can be captured as a range of conditions. At the low end of the range, the costs of providing service resemble fixed costs. Typically, systems are not capable of serving beyond their design limits, i.e. high end of the scale. In the middle of the range, a portion of the costs remain fixed. Economies of scale considerations and cost behaviors are not revealed by computing average expense per customer or average expense per MWh.

As a final note, Enersource draws the Board's attention to two matters:

- There is tremendous variability in the reported results; and
- Enersource's 2005 kW data for its General Service <50 kW customer class is incorrect.

An inspection of the seven LDCs whose 2005 amortization expense/MWh is \$1 shows that their Total OM&A Expense/MWh ranges from 5 to 22 (the reported ratios are: 5, 6, 10, 11, 12, 18, 22). An inspection of the reported 2005 expenses shows that the ratio between the highest computed OM&A/MWh (being \$55) and the lowest (being \$5) is 11. Enersource notes that the energy billed to its General Service <50 kW customer class has been entered as the demand billed to this class; the billed demand for this class is 0, these customers do not have demand meters.

Enersource's responses to the Board's questions are attached as Appendix A.

Sincerely,

Kathi Litt
Manager, Rates and Regulatory

Encl.

EB-2006-0268

Appendix A

Theme 1: the appropriateness of the “cost centre” groupings

Response to question 1: The aggregations of costs should be constructed to support the decision(s) the Board intends to make. Without better information on the decisions the Board will take it is not possible to answer this question.

Response to question 2: Average labour costs must be used cautiously. Labour costs are capitalized and expensed, and may need to be adjusted for inflation. A portion of the labour costs incurred in a period may be causally related to a particular service metric.

Response to question 3: The granularity of the information is likely a secondary consideration. The primary consideration should be whether the data is logically related, has been prepared to a consistent standard and is suitable for the analysis to be performed.

Theme 2: are the performance measures proxies for the costs drivers?

Response to question 4: The cost drivers are not appropriate on their own, other performance measures should be considered. Gross MWh reflects customer utilization as well as distribution system losses. Number of customers does not always proxy number of end users served. Circuit kilometers don't link readily with the nature of the distribution system or with scale considerations. Service Area doesn't always proxy area served. Peak demand may be an appropriate performance measure.

Response to question 5: Other cost drivers include but are not limited to: peak demand and forecasted annual demand, system age, degree of automation, complexity of the system and customers, and number of transactions processed.

Response to question 6: Each cost centre should be evaluated on a number of cost drivers once the qualitative and logical links have been established.

Theme 3: what criteria should the Board rely on to construct groups?

Response to question 7: Without knowing the intended end use of the ratios it is impossible to say whether the groupings are appropriate.

Response to question 8: The Board would be better served, for example, by lagging some factors over time and by adjusting for intensity of usage.

Theme 4: what additional data is required?

Response to question 9: The Board should first understand that appropriateness of the benchmarks used in other jurisdictions. An objective, comprehensive assessment of the logic and the reality prevailing at the time the benchmarks were adopted will inform whether the benchmarks relied on by other jurisdictions can be imported into Ontario.

Response to question 10: All distributors should have the opportunity to break out their reported SQI data based on controllable and non-controllable events and activities. If the Board wishes to promote and enhance the quality of distribution service then it could request information on the causes of each gap in performance or examine incurred expenses against measured performance.

Response to question 11: Without better information on the decisions the Board will take it is not possible to answer this question.