



June 27, 2013

BY EMAIL/RESS/COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
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Dear Ms. Walli,

**RE: Comments – Defining and Measuring Performance of Electricity Distributors
(EB-2010-0379)**

Whitby Hydro Electric Corporation (“Whitby Hydro”) appreciates the opportunity to comment on the above noted initiative. Whitby Hydro acknowledges the progress that has been made in moving from an OM&A focus to “Total Costs” as we prepare to shift from Third Generation Incentive Rate Making (3GIRM) to Fourth Generation (4th Generation IR) and understands and appreciates the significant amount of time, data and analyses that have taken place so far over the course of this initiative.

Whitby Hydro supports the report (recommendations and comments) provided by the Electricity Distributor’s Association’s (“EDA”) consultant Adonis Yatchew. In addition, Whitby Hydro offers the following:

Low Voltage (LV) and High Voltage (HV) Costs

The issues surrounding the treatment of LV costs for embedded distributors and High Voltage costs for distributors who own Transformation Stations (TS) were identified to the Board during the consultation for 3GIRM. On December 15, 2008 Whitby Hydro provided comments which suggested that further investigation should be done prior to incorporating adjustments for these costs into incentive rate making.

While related discussions have continued during this process, it is unclear if significant progress has been made to help determine whether adjustments related to these costs can be done in a manner that results in a reasonably equitable treatment with respect to cost comparability amongst distributors. Whitby Hydro feels that the following comments provided in its previous 2008 submission, continue to be relevant to today’s discussion:

LV costs are significant for many embedded distributors and there should be some further review and understanding of how the “pooling” of LV costs impact embedded distributors. The “pooling” concept is utilized by Hydro One in calculating LV costs and it is important to note that embedded distributors have little if any control over

the assigned LV charges. A more in depth review of how the pooling of LV costs impacts various embedded distributors should be part of the on-going process starting in 2009....

And,

In order to ensure that costs for distributors have improved comparability, the Board should undertake some additional review with regards to High Voltage and Supply Voltage. It is apparent that distributors who own Transformation Stations (TS) may incur OM&A costs to operate them, while other embedded distributors incur these related costs through retail transmission rates which are held in RSVA accounts. While the initial thought may be to remove these costs in an attempt to create a level playing field, it should be noted that additional factors should be considered before proceeding in this manner.

There are a number of embedded utilities that have significant OM&A expenses related to municipal substations. Host utilities supplied from their own transformation stations may not incur these costs. Distribution structure is dictated by the supply voltage which drives municipal substations requirements. We believe that further studies in this area are required to better understand different distribution structures and the resulting cost drivers before any costs are adjusted.

Contributed Capital

It is Whitby Hydro's understanding that contributed capital (USoA 1995) is not considered in the total capital costs used for unit costs and benchmarking comparisons (ie. gross capital investment is used versus net capital investment). The outcome of cost comparisons are specifically designed to be used in the assignment of efficiency cohorts and the related stretch factors for rate setting. It is important to consider that distributors are often mandated to make investments in capital which are incremental to regular rate base work and are not necessarily economically efficient as in the case of road relocation and system expansion. In these cases significant costs can be incurred by a distributor who is required to replace or move well-functioning existing assets and construct new assets with often no resulting customer growth or throughput. Whitby Hydro suggests that the Board should consider incorporating the impact of contributed capital in this exercise in order to ensure that only the net capital investment by the distributor is measured in order to be more closely aligned with those considerations made for rate-setting.

Peer Groups

Whitby Hydro has concerns regarding the use of Peer Groups and supports an alternate approach (as per the EDA consultant). However, should the Board continue to use Peer Groups, Whitby Hydro would like to highlight what appears to be an inconsistent treatment of "cost outliers" Toronto Hydro and Hydro One when considering peer groups versus productivity factors. PEG has identified that these two distributors are influencing the TFP so significantly (disproportionately) that they should be removed however, it is unclear as to why these "cost outliers" would then be included in a peer group where they also exert significant influence on their peer group average which is used for peer benchmarking. It seems inconsistent to include these two distributors in a peer group when the results will so heavily influence (in a favorable manner), the benchmark unit cost comparison for those other distributors within their peer group. This approach appears to give unfair advantages

to those distributors who are included in Toronto Hydro and Hydro One's peer group when benchmarking comparisons and efficiency rankings are completed for assignment of stretch factors.

Data Concerns

Whitby Hydro has been working with other members of the EDA to review some basic data checks and will provide any distributor specific reconciliation concerns through a separate communication (via the RRF email). In general, Whitby Hydro would like to raise the following comments to the Board regarding data:

- While some historical data was posted back in December 2012, it was unclear to Whitby Hydro whether the Board had an appetite for, or if there was a clear process to address/revise data. In its December 6, 2012 letter, the Board stated:

Board staff does not intend that the data be revised or amended as a result of distributor review or Dr. Kaufmann's advice, and is of the view that the data, as it is, could advance further empirical work on the sector.

As this process has progressed, it does appear that the Board will consider data concerns however Whitby Hydro is concerned that a formal process, education and validation by distributors may not have been built into the process or timeline. The integrity of data for each distributor has a bearing on all distributors and to ensure the results of this initiative are meaningful and correctly influence distributors' rates to customers, Whitby Hydro encourages the Board to ensure there is sufficient opportunity and direction communicated to review data and the derivation of data used by PEG prior to finalization.

- Whitby Hydro individually, as well as the EDA (on behalf of its members) has made a request to Hydro One for an explanation of how the LV charges that were provided to PEG have been developed. Whitby Hydro along with several EDA members have identified that they have not been able to tie this information to their annual LV costs and as a result they are unable to fully understand or validate the data included in PEG's analysis. If it is determined that LV costs are to be included in the total costs, Whitby Hydro requests that the Board allow distributors an opportunity to understand and review this data prior to finalizing.
- Whitby Hydro has been involved in two email strings regarding Smart Meter costs to the RRF email, which have not yet been responded to. The topics include:
 - Assignment of Coding as to whether Smart Meter Capital Costs are to be included in Total Costs in Specific Years
 - Inclusion of Smart Meter Capital Costs in Years other than 2011 in PEG's Spreadsheets (although PEG has provided a response that it only assigned the Smart Meter Data to 2011)
 - Distributors Smart Meter Costs not included in Data Request Results - due to either non-response of distributor or distributor response information not transferred to PEG's Spreadsheets

To summarize, a general review of data included in PEG's spreadsheets have raised concerns related to data accuracy, completeness and consistency in applying Smart Meter costs in a manner that allows for comparable results amongst distributors.

Whitby Hydro respects the complexity of data and variety of issues that must be considered in this initiative and appreciates the efforts undertaken thus far. Whitby Hydro hopes the Board will continue to engage distributors, stakeholders, and various consultants in this exercise to ensure that the Board has the best information possible to determine the methodology and process for 4th Generation IR using accurate, complete and consistently applied data.

Please contact me if you have any questions.

Respectfully,

Original Signed By

Susan Reffle
Vice-President
Whitby Hydro Electric Corporation