November 20, 2006

VIA COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2006-0267 – EDA LRAM Proposal
Submissions of Energy Probe

Pursuant to the letter of the Board dated November 2, 2006, Energy Probe Research Foundation (Energy Probe) is hereby providing comments in respect of the Electricity Distributors Association report entitled *Designing an Appropriate Lost Revenue Adjustment Mechanism (LRAM) for Electricity CDM Programs in Ontario* in 7 hard copies. An electronic copy of this communication in PDF is being forwarded to your attention.

Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

Interested Parties (By Email)

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EB-2006-0267

Ontario Energy Board

Electricity Distributors Association Proposal for a Revenue Stabilization Mechanism for Local Electricity Distributors

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SUBMISSION OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

November 20, 2006

Energy Probe Research Foundation Submission
EDA Proposal for Revenue Stabilization
EB-2006-0267

Proposal Background

In Ontario, Local Electricity Distribution Companies (LDCs) do not collected all fixed costs through fixed charges to customers. Instead, a large amount of their fixed costs are recovered as a portion of volumetric charges. There has been no overall agreement among parties appearing before the Board as to the benefits to be derived by collecting fixed costs entirely through fixed charges and variable costs entirely through volumetric charges.

Some parties believe that as an inducement to encourage customers to reduce volumetric usage, it is a greater incentive to allow those customers not only to enjoy the benefit of not paying for the commodity they did not use, but also to enjoy the benefit of reducing the amount they would have contributed to fixed costs. The theory is that all customers benefit from reduced usage, and other customers should pay an increased amount for fixed costs to balance out the reduction allotted to commodity savers.

In a report prepared by John Todd of Elenchus Research Associates Inc. on behalf of the Electricity Distributors Association (EDA) entitled *Designing an Appropriate Lost Revenue Adjustment Mechanism (LRAM) for Electricity CDM Programs in Ontario*, the EDA clearly indicates that its members do not wish to shoulder the burden for reduced fixed cost recovery caused by Conservation Demand Management (CDM) within their territory no matter who is the driver of the program for conservation.

With the Ontario Government targeting energy conservation as a prime, ongoing political initiative, LDCs have become concerned about the risk to their bottom line caused by CDM programs over which they exercise no control, but which they feel they will be obligated to support.

Regulatory Efficient Solution

A straight forward and regulatory efficient method of solving this revenue problem is the removal of fixed costs from volumetric charges.

However, the report of the Board on the 2006 EDR Handbook (RP-2004-0188) states:

> The Board does not believe that it would be appropriate at this point to move to a fixed distribution charge. While this approach might reduce the costs associated with calculating an LRAM, the Board does not believe that those costs will be onerous. Moreover, moving to a fixed distribution charge would raise additional issues, including cost allocation issues, which cannot be addressed at this time.

Mr. Todd's Solution

Mr. Todd, and presumably the EDA, now informs us that unlike the situation in 2005 when the Board was crafting its Decision on the 2006 EDR Handbook (RP-2004-0188), the costs associated with calculating an overall LRAM would be onerous. The situation has changed; the anticipated CDM players have changed.

At the beginning of his Report, in the first paragraph on page 3, Mr. Todd complains that under Cost of Service Regulation, regulated companies are not rewarded for goals that are pursued in the public interest such as "setting aggressive marketing goals". While this may not be central to his argument, it is somewhat difficult to support rewarding LDCs for aggressive marketing when the conservation goal is reducing usage.

In any event, Mr. Todd would have us believe that the Board should adopt a revenue stabilization mechanism that provides an LRAM-like adjustment for all variances from forecast, and he really likes the Terasen Gas Inc. model, the RSAM, but suggests that there are a number of stabilization options that the Board might review.

Recommendation of Energy Probe

Neither option set forth by Mr. Todd on page 14 of his report is attractive.

It is the recommendation of Energy Probe that the Board revisit the Decision it presented in the report of the Board on the 2006 EDR Handbook (RP-2004-0188). If the Board agrees with the EDA that the situation has now changed significantly, and the costs associated with calculating an LRAM may become onerous, then it should move to examine the additional issues that moving to a fixed distribution charge would raise, which it felt it could not address at the time it produced the 2006 EDR Handbook.

The Board can address them now.