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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:

Thank you for the opportunity to comment on the Revenue Stabilization Mechanism (“RSM”), as described in Elenchus Research Associates’ August 25, 2006 paper sponsored by the Electricity Distributors Association.

Enersource Hydro Mississauga Inc. (“Enersource”) supports the concept of an RSM operating in the near term (eg., 4 years) for the same reasons given in support of a revenue cap as part of the Second Generation Incentive Rate Mechanism (EB-2006-0088, EB-2006-0089 Enersource’s July 5, 2006 comments). As is discussed below Enersource does not expect that an appropriately designed and administered RSM will alter its risks. This mechanism permits the recovery of a rate regulated distributors’ revenue requirement - a key aspect of a sound rate design as articulated by Bonbright.

The RSM, as proposed, may mitigate against the individual and combined effects of:

- Conservation and Demand Management;
- Standard Offer Program;
- Smart Meter consumption related effects;
- Cost Allocation Review related rate changes;
- Rate changes attributable to the Board’s Fundamental Rate Review;
- Price elasticity responses to increasing charges for electricity service.

As the paper points out, the proposed methodology is sufficiently flexible either to include or exclude other impacts on revenues, such as weather or customer growth. Because the Cost Allocation Review and the Fundamental Rate Review have the potential to significantly change rates it may be appropriate to decrease the emphasis on rate adjustments in the near term.

Some parties will argue that the RSM is inappropriate: that it lowers, or substantially eliminates, distributor’s risks or that it results in inappropriate price signals to consumers. These concerns are best dealt with through the design and administration of the RSM.

Others will argue that a Lost Revenue Adjustment Mechanism ("LRAM") is adequate. An LRAM deals with revenue related impacts attributable to a single initiative, typically CDM, that arise because the charge parameter forecast relied on in the rate setting process was incorrect. A revenue cap or an RSM can accommodate charge parameters inaccuracies as well as rate changes arising from the Cost Allocation Review and or the Fundamental Rate Review.

Any discussion of risk should recognize that rate regulated distributors are not able to participate in revenue growth opportunities such as:

- Attracting new customers;
- Promoting energy intensive devices; or
- Promoting new energy consuming technologies.

An RSM is comprehensive, straight forward and understandable. It is a mechanism that capital providers can rely on to assure themselves that capital provided to distributors will be recovered according to the negotiated terms and conditions.

An RSM presents different impacts to different affected interests. All consumers will have the benefit of continuity of service because their distributor of record will have access to the financial resources necessary to be able to continue to provide service. Consumers who seek lower bills will benefit from the commodity related reductions, approximately 50% of the amount billed. Distributors will be able to continue to provide service to existing customers and to new customers (eg., those that will arise through the OPA's Standard Offer Program). Capital providers will not incur any unusual or incremental risks while the previously identified government and policy initiatives are being designed and implemented.

Enersource's responses to the Board's questions are set out in Attachment A to this letter.

I will be pleased to clarify any aspect of this letter and answer any questions.

Sincerely,

K. Litt
Acting Manager, Rates and Regulatory

Encl.

<u>Attachment A</u>

Question 1: What are the implications, advantages, and disadvantages of adopting the EDA's proposed approach?
Answer 1: These are discussed in greater detail in the cover letter. If an RSM or a revenue cap is implemented it should apply for limited period and be coordinated with other elements of the OEB's 3 year distribution rates project.

Question 2: If the Board provided for a revenue stabilization mechanism for distributors, would it affect the distributors' risk? If so, how might it impact on the distributors' allowed ROE, and/or the design of an incentive regulation framework?
Answer 2: Whether, and if so to what extent, a revenue cap or an RSM impacts a distributors risk depends on the design and administration of the mechanism.

Question 3: What are the implications of adopting the EDA's proposed approach if CDM programs, associated expenditures and program results are not reviewed and tested by the Board in the context of rate recovery?
Answer 3: It is assumed that the proposed RSM applies to regulated revenues and that CDM related expenditures and revenues are not regulated. An RSM should operate to hold the distributor revenue neutral against the exogenous policies and developments that are beyond its reasonable control. As described in the comments, the RSM deals with the impacts of charge parameters inaccuracies and policy initiatives on distribution revenues. The financial risks and opportunities associated with the OPA's CDM programs should be independent of the distributor's regulated rates, the two financial streams should not be commingled.

Question 4: There are two options set out on page 14 of the report. Do you think one, both, or neither are appropriate? Please provide a detailed explanation for your choice.
Answer 4: While a RSM is preferred over an LRAM, an LRAM is the bare minimum required. The RSM is more robust and has merit over the near term. It could be relied on for four years; at the end of the 4th year it may be feasible to transition to a LRAM. This position is taken so that distributors continue to be able to provide service and to be operationally and financially viable all of which is are key assumptions in the design - and anticipated success - of the OPA's Standard Offer Program.

Question 5: Are there alternative approaches to the EDA's proposal that the Board might consider for setting a lost revenue adjustment mechanism for CDM, including CDM funded by the OPA? If so, what do you think is the most appropriate approach? Please provide a detailed explanation for your proposed approach.
Answer 5: One alternative is to rely on fixed customer or periodic charges exclusively; other alternatives likely exist. The operation and impact of any alternative should be analyzed carefully.