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November 17, 2006

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

Dear Ms. Walli:

**RE: EB-2006-0267 EDA Proposal for a Revenue Stabilization Mechanism for Local Electricity Distributors**

Hydro Ottawa Limited is pleased to be able to provide the following comments with respect to the Electricity Distributors Association (EDA) proposal regarding a revenue stabilization mechanism for local electricity distributors (LDCs) as outlined in the report entitled, *Designing an Appropriate Lost Revenue Adjustment Mechanism (LRAM) for Electricity CDM Programs in Ontario*.

The availability of a mechanism to address revenue lost as a result of CDM activities is critical to both the success of CDM in this province and the Board's requirement to ensure an LDC is allowed just and reasonable rates. Furthermore, whatever mechanism the Board adopts must address not just the CDM programs delivered by the LDC, but all CDM activity that affects an LDC's load.

The EDA's proposed approach for recovering the lost revenue resulting from Conservation and Demand Management (CDM) programs is for the Ontario Energy Board (OEB) to adopt a revenue stabilization mechanism that captures the effect of variances between the actual energy consumption and the volumetric forecast. The EDA's recommendation does not include whether this should be done on a weather-normalized basis (which would remove the variation from forecast due to weather) and/or on a use per customer basis (which would remove the impact of a difference in the growth of the number of customers from that forecasted).

Hydro Ottawa is providing comments on the EDA proposal by responding to the questions posed by the OEB.

- 1. What are the implications, advantages and disadvantages of adopting the EDA's proposed approach?**

The EDA's proposal would provide a mechanism to capture the impact of all CDM programs that affect an LDC's revenue and as a result LDCs would not be discouraged from participating in the delivery of CDM programs. The advantage of such a simplified mechanism is that it minimizes regulatory and administrative burden. One of the disadvantages of a mechanism based on a load forecast is that the forecast itself will be open to challenge. Even load forecasts produced with proven methodologies and many years of experience have been questioned.

The EDA's proposal is silent on whether the adjustment should be done on a weather-normalized basis and/or on a use per customer basis. Hydro Ottawa would be concerned about the use of any revenue stabilization mechanism that did not include weather normalizing for the actual consumption or did not reflect the impacts on a per customer basis. Any variance should be a result of only the conservation programs being delivered in the province.

**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?**

A revenue stabilization mechanism for distributors could affect short-term risk depending on the form of the mechanism. If the variance was based on actual unadjusted consumption compared to forecast, the risk associated with changes in weather and economic growth would be removed. Hydro Ottawa does not believe that the implementation of a mechanism to protect LDCs from lost revenue due to CDM programs should also be used to fundamentally change the way the risk due to weather and economic growth have been handled historically.

**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?**

All of the CDM programs being delivered in the province, either by LDCs or other parties, will have been screened rigorously for effectiveness and prudence through the processes being developed by the OPA. This should be sufficient review and testing for the Board.

**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.**

The two approaches set out in the EDA report are:

- implement an LRAM with limited scope,
- a simplified revenue stabilization mechanism that eliminates the impact of all variances from forecast.

An LRAM with limited scope would only capture the lost revenue from specific LDC delivered programs and therefore would be insufficient in addressing the impact of those CDM programs delivered by other parties.

The most appropriate revenue stabilization mechanism would be one that only captures the impact of reduced revenue due to CDM programs. This would have to be done by using the weather corrected load forecast and the per customer calculation.

**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.**

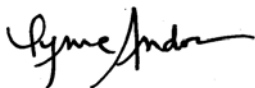
There are alternative approaches to the EDA's proposal that might be considered, such as:

- LDC's could be provided the option of producing a weather normalized load forecast that could be submitted at the time of rate adjustments. This load forecast could incorporate the effects of CDM activity in the LDC's service territory.
- Hydro Ottawa would support further review of a provincial adjustment factor that could be derived from the total kWh/kW saved as a result of CDM programs in Ontario. The savings would be determined by the OPA as part of their normal reporting. Each LDC would then be allowed to adjust their revenue requirement based on the provincial impact of CDM or if available, the impact in their region.

It may be appropriate to allow an LDC to choose from a number of different mechanisms in order to adjust for lost revenue. The LDC's choice would be based on their capabilities and the extent of CDM activity in their area.

In conclusion, Hydro Ottawa's principle concern is that LDCs be protected from losses not only from the programs delivered by the LDCs, but for all CDM activity that affects the LDC's load. Should you have any questions or require additional information, please do not hesitate to contact the undersigned.

Yours truly,

A handwritten signature in black ink, appearing to read "Lynne Anderson".

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