

November 15, 2006

**BY COURIER (7 COPIES) AND EMAIL**

Ms. Kirsten Walli  
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 Ontario Energy Board  
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Dear Ms. Walli:

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

We are responding on behalf of Pollution Probe to the Board’s invitation to comment on the Electricity Distributors Association’s (“EDA’s”) proposal for a revenue stabilization mechanism for local electricity distributors (“LDCs”).

Pollution Probe strongly supports the EDA’s proposal, particularly since it will reduce or eliminate the electric utilities’ existing short-run financial disincentive to promote energy conservation and efficiency. In light of our strong support of the proposal, we are accordingly focusing our comments to only two of the Board’s inquiries.

*What are the implications, advantages, and disadvantages of adopting the EDA’s proposed approach?*

As detailed below, Pollution Probe submits that the key advantages of adopting the EDA’s proposed approach include the elimination of status-quo financial disincentives as well as the elimination of the need for Board review of actual savings achieved by electric utilities’ CDM programmes that are funded by the Ontario Power Authority.

To summarize the EDA’s approach: the EDA’s report recommends that the Board implement a Lost Revenue Adjustment Mechanism (“LRAM”) for Ontario’s electricity distribution utilities that captures their revenue variances that are due to variances between their customers’ forecast and actual grid-supplied electricity consumption. The EDA’s report recommends that this be done on a weather-normalized or a non-weather-normalized basis.

As noted on pages 11 and 12 of the EDA’s report dated August 25, 2006, implementing an LRAM that is only targeted at revenue variances due to conservation and demand management (“CDM”) programmes that are controlled by the electric utilities would face several serious challenges:

First, a targeted LRAM would not fully mitigate the CDM disincentive if distributors influence the success of CDM programs that they do not control. For example, if it is

reasonable to expect that the support of distributors for CDM of all types, whether controlled by them or not, will encourage superior CDM results in the province, then there is a need to design a more comprehensive LRAM that captures the lost revenues associated with all CDM programmes. [emphasis in original]

Second, any targeted LRAM will have to draw a line between CDM programs that are controllable by the distributor and programs that are not controlled by the distributor. However, given that the goal of the province and the Conservation Bureau of the OPA is to create a province-wide culture of conservation, it may be appropriate to ensure that no aspect of this culture of conservation will financially compromise distributors.

Pollution Probe supports an LRAM that captures all volume-related revenue variances (including weather-related variances) since this will eliminate the utilities' status quo financial disincentive to establish seasonal and time-of-use rates or to increase their volumetric charges relative to their fixed monthly customer charges. For example, in the absence of a comprehensive LRAM, if an electric utility raises its volumetric distribution charges and lowers its fixed monthly customer charges, it will increase its weather-related return on equity risk.

In addition, a comprehensive LRAM will eliminate the need for Board review of the actual savings achieved by the electric utilities' CDM programmes that are funded by the Ontario Power Authority as they would be accounted for appropriately as part of such a comprehensive LRAM.

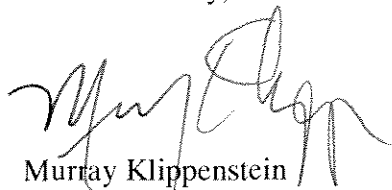
*If the Board provided for a revenue stabilization mechanism for distributors, would it affect the distributors' risk? If so, how might it impact on the distributors' allowed ROE and/or the design of an incentive regulation framework?*

Pollution Probe submits that the introduction of such a mechanism can be accompanied by a reduction in their OEB-approved return on equity since a comprehensive LRAM will reduce the electric utilities' financial risk.

#### *Future Participation and Costs*

Depending how the Board decides to proceed, Pollution Probe will likely participate and seek an award of costs (including for costs to date). As the Board is aware, Pollution Probe is a registered charity that has no pecuniary interest in the outcome of this proceeding, and its membership includes thousands of electricity consumers.

Yours sincerely,



Murray Klippenstein

MK/ba