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July 25, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
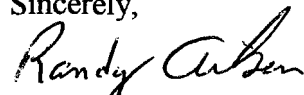27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2007-0673 – LPMA Notice of Intention to Participate

As per the Board's July 15, 2008 letter, I will be making a presentation at the upcoming stakeholder conference on the issue of the incremental capital module.

A copy of the presentation is attached.

Sincerely,

Randy Aiken
Aiken & Associates

WHAT IS AN APPROPRIATE CAPITAL EXPENDITURE TO DEPRECIATION THRESHOLD VALUE TO DETERMINE MATERIALITY?

THE APPROVED BASE YEAR REVENUE REQUIREMENT COVERS OM&A RELATED COSTS AND RATE BASE RELATED COSTS (DEPRECIATION, INTEREST ON DEBT, RETURN ON EQUITY, TAXES).

THE REVENUE GENERATED UNDER A PRICE CAP PLAN IS EQUAL TO THE APPROVED REVENUE REQUIREMENT, ADJUSTED FOR THE PRICE CAP INDEX AND LOAD GROWTH.

ON AVERAGE, IF OM&A EXPENSES ARE MANAGED BASED ON THE PRICE CAP (INFLATION – PRODUCTIVITY – STRETCH) AND LOAD GROWTH, THEN THE REVENUE GENERATED UNDER A PRICE CAP WILL COVER RATE BASE RELATED COSTS THAT ALSO REFLECT THE PRICE CAP AND LOAD GROWTH.

CONSIDER THE FOLLOWING APPROACH WHERE:

RB = RATE BASE INCLUDED IN RATES

RB_F = RATE BASE THAT CAN BE FINANCED BY INCREASE IN REVENUES DUE TO THE PRICE CAP FORMULA AND LOAD GROWTH

RB_R = RATE BASE THAT RESULTS FROM CAPEX

P = PRICE CAP INDEX (INFLATION LESS PRODUCTIVITY LESS STRETCH FACTOR)

G = REVENUE CHANGE BASED ON LOAD GROWTH

CAPEX = CAPITAL EXPENDITURES

DEP = DEPRECIATION EXPENSE

(1) $RB_F = RB \times (1 + P) \times (1 + G)$

(2) $RB_R = RB - DEP + CAPEX$

THE LEVEL OF CAPEX THAT RESULTS IN RATE BASE OF RB_F CAN BE DETERMINED BY SETTING (2) EQUAL TO (1):

(3) $RB_R = RB_F$

(3A) $RB - DEP + CAPEX = RB \times (1 + P) \times (1 + G)$

(3B) $RB - DEP + CAPEX = RB \times (1 + P + G + (P \times G))$

(3C) $CAPEX = DEP + RB \times (P + G + (P \times G))$

(3D) $CAPEX = DEP + RB \times (G + P \times (1 + G))$

THIS EQUATION SHOWS THE LEVEL OF CAPEX THAT IS ACHIEVABLE UNDER A PRICE CAP OF P% AND LOAD GROWTH OF G%

THIS CAN BE WRITTEN AS A CAPEX TO DEPRECIATION RATIO:

(4) $CAPEX / DEP = 1 + (RB / DEP) \times (G + P \times (1 + G))$

THIS RATIO COULD BE USED AS THE MATERIALITY THRESHOLD OR AS A BASE FROM WHICH THE THRESHOLD WOULD BE CALCULATED

VALUES FOR DEP, RB AND G WOULD BE TAKEN FROM THE BOARD APPROVED BASE YEAR RATE DECISIONS

VALUE OF P WOULD BE BASED ON THE INFLATION RATE, THE COMMON PRODUCTIVITY FACTOR, AND THE SPECIFIC STRETCH FACTOR APPLIED TO THE DISTRIBUTOR

MATERIALITY THRESHOLD WOULD BE DIFFERENT FOR EACH DISTRIBUTOR – THIS WOULD REFLECT DISTRIBUTOR DIVERSITY AND DIFFERENT POSITIONS IN THE ASSET REPLACEMENT CYCLE

Utility A	Base	Growth	Price Cap	Cycle
Rate Base ($)	22,154,852	22,154,852	22,154,852	27,693,565
Depreciation ($)	935,709	935,709	935,709	935,709
G (%)	0.40%	0.90%	0.40%	0.40%
P (%)	1.50%	1.50%	2.00%	1.50%
CAPEX/Depreciation (%)	145.1%	157.1%	157.0%	156.4%
CAPEX ($)	1,357,980	1,470,416	1,469,198	1,463,548

Utility B	Base
Rate Base ($)	5,745,092
Depreciation ($)	365,676
G (%)	0.00%
P (%)	1.50%
CAPEX/Depreciation (%)	123.6%
CAPEX ($)	451,852