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VIA E-MAIL AND WEB POSTING

August 2, 2007

To: All Licensed Electricity Distributors
All Other Interested Parties

**Re: 3rd Generation Incentive Regulation for Electricity Distributors
Board File No.: EB-2007-0673**

The Ontario Energy Board (the “Board”) is initiating a consultative process on the development of the principles and methodology for the third generation incentive regulation mechanism (3rd Generation IRM) for electricity distributors. The development of 3rd Generation IRM forms part of the multi-year rate-setting plan for electricity distributors announced by the Board in 2006.

This letter identifies how interested parties may participate in this consultation, including in relation to the issue of cost awards. It also invites views on a Board Staff Scoping Paper (the “Paper”) that is being released today and is available on the Board’s website at www.oeb.gov.on.ca.

Background

Rates for the 2007 rate year were set using the second generation incentive regulation mechanism (2nd Generation IRM). For the 2008 rate year, the rates for 25 distributors will be rebased using a cost of service approach, while the rates for the remainder will continue to be adjusted using the 2nd Generation IRM.

The 3rd Generation IRM will first apply in the 2009 rate year for those distributors whose rates will be rebased in 2008. The 3rd Generation IRM will apply to additional distributors as and when their rates have been rebased.

Completion of this initiative is therefore expected in the summer of 2008, in time to inform the rate applications of the affected distributors. Filing guidelines for rate applications for the 2008 rate year for those distributors that will continue to be subject to the 2nd Generation IRM are expected to be issued in September 2007.

Staff Scoping Paper

The Paper sets out staff's proposals in relation to the key issues to be considered and the conduct of the consultation process. The Board invites all interested parties to provide written comments on the Paper, in accordance with the filing instructions set out below.

The Board welcomes views on any of the issues set out in the Paper, but in particular:

- Are there other key issues that should be considered (i.e., other than the necessary elements of the IRM framework, capital investment, lost revenue due to changes in electricity consumption, and distributor diversity)?
- How might the work done to date on comparative utility cost analysis be used in 3rd Generation IRM?

Additional Elements of Initial Phase of Consultation

Participation on a Stakeholder Working Group

Staff proposes to establish a stakeholder working group to provide assistance to staff during this consultation. Important information about the working group is set out in the Paper.

Interested parties with relevant qualifications are invited to nominate themselves or a third party to participate on the working group. A short statement demonstrating relevant experience and qualifications should be provided as part of the nomination. Based on the guideline outlined in the Paper, Board staff will select working group participants from those that respond.

Stakeholder Consultation Conference in September

In addition to providing written comments on the Paper, all interested parties will be invited to participate in a stakeholder consultation conference on the Paper and on the questions identified above. The consultation conference will be hosted by Board staff in September. Further details will be issued in August.

Cost Awards

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their participation in this consultation. The costs awarded will be recovered from all rate-regulated licensed electricity distributors based on their respective distribution revenues. The rates of licensed distributors Cornwall Street Lighting and Power Company and Dubreuil Forest Products are not currently fixed or approved by the Board, and cost awards will not be recovered from these two distributors. **Appendix A contains important**

information regarding cost awards for this consultation, including in relation to eligibility requests and objections. In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

Invitation to Participate and Filing Instructions

The Board encourages participation in this consultation process by all interested parties.

Notice of Intention to Participate, Cost Eligibility Requests and Working Group Nominations

Those interested in participating should indicate their intent in writing by letter addressed to the Board Secretary at the Board's mailing address set out above by **August 16, 2007**. That letter should include the following:

- a statement as to whether the participant wishes to request cost eligibility. All requests for cost eligibility must be accompanied by the information identified in Appendix A under the heading "Cost Award Eligibility"; and
- if the participant wishes to nominate a person to participate on the stakeholder working group, the name of the nominee and a short statement identifying the nominee's relevant experience and qualifications.

Comments on Staff Scoping Paper

Participants who wish to provide written comments on staff's Scoping Paper must do so by **September 21, 2007**.

Instructions on Filing Material with the Board

All filings in relation to this consultation must quote file number **EB-2007-0673** and include your name, address, telephone number, and, where available, an e-mail address and fax number. Three paper copies of each filing must be provided. All filings are to be addressed to the Board Secretary at the Board's mailing address set out above. The Board asks that interested parties make every effort to provide electronic copies of their filings in searchable Adobe Acrobat (PDF) or Word, either on diskette or by e-mail to boardsec@oeb.gov.on.ca.

Filings must be received by **4:45 pm** on the required date.

All materials related to this consultation will be posted on the "Key Initiatives & Consultations" portion of the Board's web site at www.oeb.gov.on.ca. The material will also be available for public inspection at the office of the Board during normal business hours.

If you have any questions regarding this consultation, please contact Lisa Brickenden at 416-440-8113, or e-mail EDR@oeb.gov.on.ca. The Board's toll-free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original signed by

Peter O'Dell
Assistant Board Secretary

Attachment: Appendix A – Cost Award Information

Appendix A

Cost Awards

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person requesting cost eligibility must file with the Board a written submission to that effect by **August 16, 2007**, identifying the nature of the person's interest in this process and the grounds on which the person believes that it is eligible for an award of costs (including addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost award eligibility will be posted on the Board's website.

Groups representing the same interests or class of persons are expected to make every effort to communicate and co-ordinate their participation in this process.

Rate-regulated licensed electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If an electricity distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board Secretary by **4:45 pm on August 31, 2007**. All objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility of the requesting parties.

Eligible Activities

Cost awards will be available in relation to the following activities.

Table 1: Activities Eligible for Cost Awards

Activity	Total Eligible Hours per Participant
Written comments on Staff's Scoping Paper	Up to 15 hours
Preparation for, attendance at, and reporting on up to three (3) one-day stakeholder consultation conferences (a maximum of 18 hours per conference, covering preparation, attendance, and reporting time)	Up to 54 hours
Participation on stakeholder working group – it is expected that the working group will meet in up to 2 phases over a 6-month period. The meeting time in each phase is expected to be up to 3 or 4 days, with cost awards being available for a maximum of 18 hours per day, covering preparation, attendance, and reporting time	TBD
Written comment on staff's initial proposals	TBD
Written comment on staff's revised proposals (if any)	TBD

The eligible hours per activity listed above do not currently provide for eligible participants to claim the costs of an expert to prepare a separate expert submission. It would be helpful to the Board if participants requesting cost eligibility would indicate in their request whether costs for separate expert submissions should be provided for in this consultation.

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process.

For more information on the cost awards process, please see the Board's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the Board acting as a clearing house for the cost award payments. These documents can be found on the Board's website at http://www.oeb.gov.on.ca/html/en/industryrelations/rulesguidesandforms_regulatory.htm#general.