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## VIA E-MAIL AND WEB POSTING

November 30, 2006

To: All Participants in Proceedings EB-2006-0087, EB-2006-0088 and EB-2006-0089  
All Licensed Electricity Distributors

Re: **Multi-year Electricity Distribution Rate Setting Plan  
Cost of Capital (EB-2006-0088) and 2<sup>nd</sup> Generation Incentive Regulation  
Mechanism (EB-2006-0089)  
Issuance of Draft Report of the Board**

On November 23, 2006, the Board issued a letter stating that, in the interests of achieving a more timely setting of electricity distribution rates for the 2007 rate year, the Board would discontinue its code-based approach and instead implement its cost of capital and 2<sup>nd</sup> generation incentive regulation policies for 2007 rates by means of guidelines. The time and effort dedicated thus far to the development of the principles that would have been the foundation for the code(s) has provided the Board with the input necessary to support this change in direction without the need to reassess the issues. The Board recognizes the important role that stakeholder participation has played in this regard.

As the next step in this consultative process, the Board has today issued a draft "Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors and Associated Guidelines". This draft report details the Board's policies on cost of capital and 2<sup>nd</sup> generation incentive regulation, and draws on the work of Board staff and the input of interested parties since this consultation was initiated in April of this year. It also includes guidelines to assist parties in understanding how the policies will be implemented and information for distributors in preparing their rate applications for the 2007 rate year. **Interested parties are invited to submit comments on this report by Tuesday, December 12, 2006, in the form as set out below.** A final report with associated guidelines will be issued following consideration of comments received.

The final report will confirm how the Board intends to address the cost of capital and incentive regulation. It will also include specific information for how distributors should file for 2007 rates. Distributors should be aware that applications based on alternative principles or mechanisms for setting rates will not be able to be processed as expeditiously as applications that are consistent with the final report, and may require a significant length of time to process.

## **Cost Awards**

Cost awards will be available to eligible participants in relation to the preparation of written comments on the draft Board report, up to a maximum of 21 hours. The costs to be awarded will be recovered from licensed electricity distributors in the same manner as for other activities that have previously been determined by the Board to be eligible for cost awards as part of this consultative process.

## **Instructions for Sending Materials to the Board Secretary**

Written comments sent to the Board are to be sent to the address set out above and in the form of seven (7) paper copies and an electronic version in searchable Adobe Acrobat (PDF) and Microsoft Word. Please quote file numbers EB-2006-0088 (Cost of Capital) and EB-2006-0089 (2nd Generation IRM) and include your name, postal address and telephone number and, if available, e-mail address and fax number. Electronic versions may be sent on diskette or by e-mail to [boardsec@oeb.gov.on.ca](mailto:boardsec@oeb.gov.on.ca).

This letter, the Board's draft report, and written comments received by the Board will be available for public inspection on the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca) and at the Board's office during normal business hours.

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary

Attachment: Draft Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors and Associated Guidelines