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VIA E-MAIL AND WEB POSTING

July 25, 2006

**To: All Participants in Proceedings EB-2006-0088 and EB-2006-0089
All Licensed Electricity Distributors
All Other Interested Parties**

**Re: Multi-year Electricity Distribution Rate Setting Plan
Cost of Capital (EB-2006-0088) and 2nd Generation Incentive Regulation
Mechanism (EB-2006-0089)**

On April 27, 2006, the Board issued a letter to interested parties describing the process it intends to use to review the cost of capital and to develop a 2nd generation incentive regulation mechanism (the “2nd Generation IRM”). The Board intends to implement new rate-setting methodologies through a licence amendment which would refer to a code or codes.

On June 19, 2006, the Board posted on its web site a draft report containing staff’s initial proposals for both the cost of capital and the 2nd Generation IRM. Interested parties were invited to comment on this draft report. The purpose of the draft report was to provide stakeholders with a framework for discussion, including the identification of critical issues. The draft report was informed by, but in some respects departed from, the expert advice retained by staff to review both incentive rate making and derivation of cost of capital. Reports prepared by the experts retained by staff were also posted on the Board’s web site: a report on the cost of capital prepared by Dr. Fred Lazar and Dr. Eli Prisman of the Schulich School of Business; and a report on incentive regulation prepared by Dr. Mark Newton Lowry of Pacific Economics Group. In addition, on June 20th, Board staff hosted an information session for interested parties on incentive regulation and the cost of capital. Staff also met with various stakeholder groups in June to discuss its proposals and stakeholder comments. The aim of these sessions was to facilitate common knowledge and understanding of the cost of capital and incentive regulation theory and to identify supplementary issues to be addressed in staff’s proposals.

Today, the Board has posted on its web site a Board staff Discussion Paper containing staff’s current proposals for both the cost of capital and the 2nd Generation IRM. In light of comments heard and received in writing from interested parties on staff’s initial proposals in and on the reports of staff’s experts, staff has prepared this Discussion Paper. This Discussion Paper, the results of the consultations including comments and expert reports received from interested parties, and any subsequent revisions that staff may make to its proposals will be taken into account by the Board as it prepares the proposed codes on the cost of capital and on the 2nd Generation IRM.

The Board would be assisted by written comments on all aspects of staff's Discussion Paper. Parties should send their comments to the Board by **August 14, 2006** and as set out below. Also, as was announced previously, parties may submit their own expert reports by **August 14, 2006**.

The Board will make provision for a transcribed technical conference at which parties that have sent expert reports to the Board, including Board staff, are expected to make available their experts. The technical conference is expected to take place the **week of September 18, 2006** and will be held in the North Hearing Room at the Board's offices. Details will follow.

Written Comment on Staff's Discussion Paper

Parties wishing to provide written comments on Board staff's Discussion Paper must send three (3) paper copies of the comments and an electronic version of the comments in searchable Adobe Acrobat (PDF) and Word to the Board Secretary by **4:30 pm on August 14, 2006**. Electronic copies may be sent on diskette or by e-mail to boardsec@oeb.gov.on.ca.

Written comments must quote file numbers EB-2006-0088 (Cost of Capital) and EB-2006-0089 (2nd Generation IRM) and include name, postal address and telephone number and, if available, e-mail address and fax number.

This letter, Board Staff's Discussion Paper and all written comments received by the Board in response to the report will be available for public inspection on the Board's website at www.oeb.gov.on.ca and at the Board's office during normal business hours.

Any questions relating to this consultation should be directed to Russ Houldin at 416-440-8112, or 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.

Yours truly,

Original signed by

E. Kirsten Walli
Board Secretary

Attachment: Staff Discussion Paper – on the Cost of Capital and 2nd Generation
Incentive Regulation for Ontario's Electricity Distributors