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VIA E-MAIL AND WEB POSTING

June 19, 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 rate setting code or codes.

The Board has posted on its web site a draft report of Board staff containing staff's initial proposals for both the cost of capital and the 2nd Generation IRM. This report is intended to provide stakeholders with a framework for discussion, including the identification of critical issues. The report is informed by, but in some respects departs from, the expert advice retained by staff to review both incentive rate making and derivation of cost of capital.

The Board today is also posting on its web site a report on the cost of capital prepared by Dr. Fred Lazar and Dr. Eli Prisman of the Schulich School of Business. A report on incentive regulation prepared by Dr. Mark Newton Lowry of Pacific Economics Group was posted on June 14, 2006. Parties may submit their own expert reports by **August 14, 2006**. The Board will make provision for a transcribed technical conference at which parties who have submitted expert reports, including Board staff, are expected to make available their experts. The technical conference is expected to take place in early September.

Board staff would be assisted by written comments on its draft report. It is staff's intention to review these submissions in consideration of a second draft report. Parties should make these submissions no later than **June 30, 2006** and as set out below. Staff intends to issue a second draft on July 20, 2006. Parties will be invited to make submissions on that report by or before **August 14, 2006**.

Cost award issues for various steps in this process, including the new written comment phase and technical conference, are addressed separately in another letter that will be issued shortly by the Board in relation to cost award eligibility.

Written Comment on Staff's Draft Report

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

Your submission must 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.

This letter, Board Staff's draft report, and all written comments submitted in response to the draft 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

Peter H. O'Dell
Assistant Board Secretary

Attachment: Draft Staff Report – Proposals for Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors