December 15, 2006

BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

10 18/12

Dear Ms. Walli:

Board File No. EB-2006-0088/EB-2006-0089
Cost of Capital and Development of 2nd Generation IRM
Energy Probe Comments on Board Draft Report

As requested in the Board's letter of November 30, 2006, please find attached 7 hard copies of the Comments of Energy Probe Research Foundation (Energy Probe) in respect of the Draft Report of the Board. An electronic version of Energy Probe's Comments will be forwarded to the Board in PDF format.

Energy Probe has been involved in a number of Board proceeding over the last several weeks and apologizes for the late submission of its comments. Should you have any questions or require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

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EB-2006-0088
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Comments of Energy Probe Research Foundation

In Respect of the

Draft Report of the Board

Prior to providing these Comments to the Board, in addition to reading the Draft Report of the Board, Energy Probe had the opportunity to review the submissions of Mr. Jay Shepherd, representing the School Energy Coalition, and Mr. Randy Aiken, representing the London Property Management Association.

Cost of Capital

Energy Probe supports the approach of the Board to move to a single capital structure for all local electricity distribution companies (LDCs) whereby the same deemed capital structure would be applied to all utilities.

Energy Probe supports Mr. Aiken's contention that the deemed equity ratio of 40% in conjunction with the proposed ROE appear to be more than adequate for the LDCs, but are acceptable for the transition period.

Consolidation of the now-fragmented electricity distribution sector offers the opportunity for significant long term reductions in cost and resulting benefits for ratepayers. The Board's current approach to LDC capital structure of using four size-related deemed capital structures for rate regulation permitted smaller utilities to maintain a higher equity ratio and collect a higher weighted average cost of capital than is recovered by larger utilities. This approach presented a barrier, but not the only one, to the more efficient rationalization of Ontario's distribution sector, and imposes a cost penalty on consumers served by smaller utilities.

Energy Probe supports maintaining the current method of setting ROE, the Dr. Cannon method, for the transition period. Beyond the transition period, Energy Probe submits that the adjustments to be made at rebasing take into consideration the comments of Dr. Booth, which indicate a somewhat lower level of return on equity than produced by the Cannon methodology.

Incentive Regulation

Energy Probe is of the opinion that there is not a need for infrastructure investment incentive. There are likely to be utilities who have postponed needed capital projects, particularly for existing customers, due to the long period of regulatory uncertainty LDCs have faced. While the Board should provide utilities in these circumstances with reasonable opportunities for recovery, specific utility circumstances should be considered by the Board. Energy Probe is well aware that a number of utilities require extensive investment to overcome aging infrastructure, and supports the Board study referred to at page 21.

Cost of Service

Energy Probe supports the suggestion of Mr. Shepherd to make LDCs aware that, should they file cost of service rate applications for 2007, there will be no retroactive rate adjustments.

Summary

It is the position of Energy Probe that the Draft Report of the Board is well balanced, providing protection for ratepayers while moving toward rebasing for all LDCs on a forward test year.

Respectfully submitted at Toronto, Ontario this 15th day of December, 2006.

Energy Probe Research Foundation