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VIA E-MAIL AND WEB POSTING

September 11, 2006

**To: All Natural Gas Utilities
All Other Interested Parties**

**Re: Multi-year Incentive Rate Regulation for Natural Gas Utilities
Board File No.: EB-2006-0209**

In its March 30, 2005 “Natural Gas Regulation in Ontario: A Renewed Policy Framework, Report on the Ontario Energy Board Natural Gas Forum” (the “NGF Report”), the Ontario Energy Board indicated that it would develop a multi-year incentive regulation methodology (the “IR Plan”) for setting natural gas utility rates. The NGF Report established an overall framework for the IR Plan and identified key elements that would need to be elaborated before the IR Plan could be implemented.

The purpose of this letter is to describe the consultation process that the Board intends to use in relation to the development of certain elements of the IR Plan, and to invite interested parties to participate in this consultation.

Overview and Scope of Project

In the NGF Report, the Board noted that the IR Plan must meet the following criteria:

- it must establish incentives for sustainable efficiency improvements in the natural gas utility sector that benefit customers and shareholders;
- it must ensure appropriate quality of service for customers; and
- it must create an environment that is conducive to investment, to the benefit of customers and shareholders.

Because the IR Plan is intended to apply on a multi-year basis, it must be sustainable over the applicable term of the plan. It should also be able to be

applied uniformly (in terms of principles and methodology, but not necessarily the specific adjustments) to all natural gas utilities.

The following elements are not intended to be considered as part of this project as their treatment has previously been determined by the Board in the NGF Report, and in the generic Decision and Order on return on equity (RP-2002-0158):

- the form of incentive regulation: a price cap has been determined as the appropriate form of incentive regulation;
- earnings sharing: the Board has determined that there will not be earnings sharing;
- form of rebasing at plan termination: the Board has determined that a comprehensive cost-of-service rebasing review will be undertaken at plan termination; and
- matters in relation to the cost of capital.

The elements of the IR Plan that have yet to be addressed and that are included within this project are:

- the annual adjustment mechanism (i.e., inflation and productivity factors);
- the term of the IR Plan;
- the need for off-ramps and Z-factors;
- the reporting requirements that will apply during the term of the IR plan;
- the treatment of demand side management; and
- the need for other adjustments.

The Board's Approach

Board staff will be conducting consultation sessions with interested stakeholders. This process will lead to the development of a staff Discussion Paper. Staff's Discussion Paper will also be informed by the expert advice of a consultant.

Interested parties will be invited to comment in writing on staff's Discussion Paper, and will be provided an opportunity to submit their own expert reports if they so choose. The Board will provide an opportunity for interested parties to make oral presentations, followed by a further opportunity to provide written comments.

Subsequent steps in the process of completing the IR Plan will be identified at a later date, as required.

Timelines

Staff will start its consultations with interested parties by the first week of October, 2006. Details on the consultation sessions will be issued in due course. Staff's Discussion Paper is scheduled to be released by November 30, 2006, while written comments and expert reports from interested parties will be due early in January, 2007. The opportunity to make oral presentations and further written comments would be scheduled for February, 2007.

Invitation to Participate and Cost Awards

The Board encourages participation in this process by interested parties. Those interested in participating should indicate their interest in writing by letter addressed to the Board Secretary at the Board's mailing address set out above by **September 25, 2006**.

Cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998*. The costs to be awarded will be recovered from all rate-regulated natural gas utilities based on their respective distribution revenues. Appendix A contains further details regarding cost awards for this project. Any person intending to request an award of costs must file with the Board a written submission to that effect by **September 25, 2006**. The submission must be addressed to the Board Secretary at the Board's mailing address set out above. Rate-regulated natural gas utilities will be provided with an opportunity to object to any of the requests for cost award eligibility within fifteen days. Following this process, the Board will make a determination on the cost eligibility of the parties requesting an award of costs.

All filings to the Board in relation to this consultation must quote file number EB-2006-0209 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. The Board asks that interested parties make every effort to provide electronic copies of their filings, either on diskette or by e-mail to Boardsec@oeb.gov.on.ca. The electronic copy should be in searchable, unsecured Adobe Acrobat (PDF), if available, or in Word.

This letter and all filings received by the Board in response 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.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment: Appendix A – Cost Awards

**Multi-year Incentive Rate Regulation for Natural Gas Utilities
EB-2006-0209**

**Appendix A
to Letter Dated September 11, 2006**

Cost Awards

Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person intending to request an award of costs must file with the Board a written submission to that effect, 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, 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.

Activities Eligible for Cost Awards

Consultations with Board Staff

Cost awards will be available in relation to consultations with Board staff prior to the issuance of staff's Discussion Paper. Specifically, costs will be available for attendance at meetings with Board staff and for time spent in preparation for the meetings. Preparation time will be limited to 125% of attendance time.

Written Comments and Oral Presentations

Cost awards will be available in relation to written comments on the staff Discussion Paper (including the preparation of expert reports) and to oral presentations. The number of hours for which cost awards will be made available in relation to these activities will be determined at a later date.

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 expects that groups representing the same interests or class of persons will make every effort to communicate and co-ordinate their participation in this process.