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BY E-MAIL AND WEB POSTING

January 5, 2007

To: All Participants in EB-2006-0209

**Re: Mutli-year Incentive Rate Regulation for Natural Gas Utilities
Staff Discussion Paper
Board File No.: EB-2006-0209**

The purpose of this letter is to introduce Board staff's discussion paper on an incentive regulation (IR) framework for natural gas utilities.

In its March 30, 2005 report *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 natural gas utilities. 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.

By letter dated September 11, 2006 the Board provided further information on a consultation process in relation to the development of certain elements of the IR Plan, and invited interested parties to participate in the consultation. Following issuance of that letter staff conducted consultation sessions with interested stakeholders on the elements of the IR Plan that the Board has yet to address.

A discussion paper setting out staff's initial views on an IR framework, including the IR Plan elements that the Board has yet to address, has been posted on the Board's website at www.oeb.gov.on.ca. Staff's views as reflected in the paper have been informed by:

The incentive regulation policy described in the Board's NGF Report.

The views of stakeholders contributed through the consultations.

Staff's own research regarding incentive regulation mechanisms adopted and considered in other jurisdictions.

The advice of Pacific Economics Group ("PEG"), staff's technical expert.

As reflected in the discussion paper, PEG has also been asked to prepare a Total Factor Productivity (“TFP”) study and other analyses. These are expected to be completed and released in late January, 2007.

Staff is inviting written comments from parties on the IR framework set out in the discussion paper, and on the TFP study and other analyses to be released shortly. Comments from interested parties will assist Board staff in refining its views on an appropriate IR framework.

In a letter released by the Board on December 22, 2006 and addressing the next steps to be taken by the Board in determining the remaining IR Plan elements, the Board has also invited parties to consider options for scoping the generic review to be convened by the Board on its own motion. The Board asked that parties provide any comments in this respect together with their comments on the substance of the discussion paper.

Timelines

Participants will be advised of the filing date for written comments on the discussion paper, the TFP study and other analyses, and scoping of the generic hearing by separate correspondence, upon release of the TFP study and other analyses.

Cost Awards

As indicated in the Board’s letter dated December 22, 2006, costs incurred by eligible parties to review and comment on the discussion paper and the TFP study and other analyses, and to provide written comments on scoping of the generic hearing will be considered by the Board as part of the cost award process following the generic hearing.

This letter, the staff discussion paper and the PEG TFP study, 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.

For any questions regarding the multi-year incentive rate regulation for natural gas utilities please contact Laurie Klein at (416) 440-7661.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary