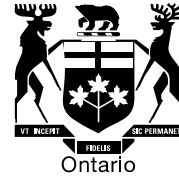


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BY E-MAIL OR FACSIMILE

February 1, 2006

TO ALL NATURAL GAS AND ELECTRICITY MARKET PARTICIPANTS IN ONTARIO:

Re: Cost Assessment Model

In March 2005, the Ontario Energy Board (“the Board”) published its final Cost Assessment Model, informed by input from market participants. The Board has been researching further changes to the Cost Assessment Model, as it committed to do in the Model published in March, 2005 to ensure that “the Model is revised to meet the needs of the Board, as a self-financing entity, and the needs of regulated entities for fair assessments”. (The Cost Assessment Model can be viewed on the Board’s website at: http://www.oeb.gov.on.ca/documents/corporate_cam_160305.pdf.)

The purpose of this letter is to inform you that the Ontario Energy Board is reviewing the cost allocation process that it uses to charge regulated entities its costs and is seeking stakeholder input into the process.

The Board commissioned EES Consulting (EESC) to survey the practices of numerous regulatory bodies throughout the world and how they allocate their regulation costs across their regulated utilities. The attached report by EESC, entitled Regulatory Cost Allocation Survey and Recommendations, compared the survey results with the current Board cost allocation methodology and recommended best practices for future Board cost allocations as follows:

- Direct assignment of direct and indirect costs to regulated entities (electric distribution, electric transmitter and gas utilities). This methodology is consistent with the Board’s guiding principles, cost causation and best practices of other jurisdictions. This recommendation requires no change in the current methodology.
- Allocation of regulatory costs to individual electric distributors based on distribution revenues. This recommendation requires no change in the current methodology.

- Allocation of regulatory costs to individual electric transmitters based on transmission revenues. This recommendation requires no change in the current methodology.
- Allocation of regulatory costs to individual gas utilities based on net revenues. This recommendation requires no change in the current methodology and is appropriate given the gas commodity sourcing differences across Ontario's gas LDCs.
- Using 24 months of historical data to allocate regulatory expense is appropriate to reduce significant fluctuations in the regulatory cost to utilities. Other jurisdictions use between 12 months and 4 years of historical data.

In summary, this survey of other regulatory jurisdictions indicates that no major changes are needed in the Board's current regulatory cost allocation procedures. The current Board allocation methods are in keeping with industry best practices and generally accepted utility regulation.

Please provide your written feedback on the Regulatory Cost Allocation Survey and Recommendations report by February 17, 2006. Your submissions can be e-mailed to Boardsec@oeb.gov.on.ca. The Board will consider all input received as it develops its position on changes to the Cost Assessment Model. The Board will then share all written comments submitted as well as its intention to maintain or change the Cost Assessment Model (with revisions to the Model if so determined).

Yours truly,

A handwritten signature in black ink, appearing to read "John Zych". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Zych".

John Zych
Board Secretary