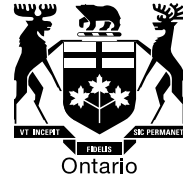


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August 12, 2004

**To: All Licensed Electricity Distribution Companies
Other Stakeholders**

Re: RP-2004-0188 2006 Electricity Distribution Rates (2006 EDR)

On July 6, 2004 the Board began the process to establish electricity distribution rates for the 2006 rate year. Having canvassed the parties as to the issues which should be dealt with in this proceeding and reviewed the submissions made subsequent to the consultation, the Board is now prepared to establish the processes by which it intends to proceed.

The objective of the 2006 EDR project is to establish the new revenue requirements to be recovered in 2006 rates. The Board will also consider specific proposals for modifying rate design to accommodate changes in the electricity market. These new policies will be set out in a revised Rate Handbook which is expected to be issued by March 2005.

The Board expects comprehensive cost allocation and rate design to be implemented for the 2007 rate year. This will allow for collection of load data and the consideration of cost allocation principles and models to be developed. It will also allow parties to consider rate design issues related to the smart metering initiative.

There are a number of initiatives, such as smart metering and demand side management which may affect 2005 and 2006 rates. While these initiatives will proceed in separate fora, the Board will provide opportunity for the cost and rate-setting impacts of these programs to be considered in 2006 EDR.

THE PROCESS

The Board expects distribution utilities, consumers and industry stakeholders to work cooperatively in developing the revised Rate Handbook. To this end, we invite interested parties to work with Board staff on drafting the Handbook. The Board proposes four steps in the process:

1. Issues discussion;
2. Working groups;
3. Alternate dispute resolution (ADR); and
4. Hearing.

1. Issues Conference and Issues Day

In conducting the consultation on July 6 and 7, 2004, Board staff solicited input from participants on a preliminary issues list as well as on other issues that parties felt should be dealt with in setting distribution rates for 2006. Further submissions have been received subsequent to the pre-consultation. All material provided is available on the Board's web site at

http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_edrsubs.htm, as well as in the Board's Public Reading Room.

The Board has taken into account the presentations and submissions of parties, and has established an updated initial issues list. The updated issues list is also available at the Board's web-site at

http://www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_EDR.htm. If you are unable to access this list, please contact Keith Ritchie. Mr. Ritchie's contact information is provided at the end of this letter. This updated Initial Issues list will form the basis of discussion at the Issues Conference.

An Issues Conference led by Board staff will be held on Wednesday, September 8 and Thursday, September 9 (if required), 2004 from 9:30 a.m. to 4:30 p.m. The Board will notify registered parties as to the venue.

The purpose of the Issues Conference is to develop four lists for presentation to the Board on Issues Day:

- issues that all agree should be included;
- issues whose inclusion on the issues list is contested;
- issues that, if included, can be resolved through working groups; and
- issues that, if included, are highly contentious and unlikely to be resolved through the working group process.

On Issues Day, the Board will finalize the issues list and determine which issues should be considered by working groups and which issues, if any, must be subject to a formal hearing process. Parties will have an opportunity to make submissions to the Board on Issues Day on these points.

The Board hopes that the establishment of the 2006 Rate Handbook can be a cooperative process resulting in broad consensus, but understands that there may be issues which require the Board's determination. In such cases, the Board is prepared to hold a hearing which follows the established regulatory hearing process. Parties should be prepared, at the Issues Conference, to identify any issues that they believe must definitely be heard by the Board. Parties who wish an issue to be heard and decided by the Board must be prepared to provide evidence and to answer interrogatories on that evidence.

2. Working groups

Board staff has tentatively identified that five separate working groups should be established to develop proposals and draft material for incorporation into the Handbook. The working groups are tentatively designated as follows:

- Comparators;
- Rate Base, Operating Expense and Working Capital Allowance;
- Financial Parameters;
- Taxes/PILs and Accounting Matters; and
- Rate Design.

Issues will be assigned appropriately to each working group. The working groups will conduct their work in September.

Staff will consolidate the work of these groups and provide an initial draft Handbook for review of all parties at a meeting to be held in October. Subsequent to this consultation Board staff will distribute a second draft of the Handbook which will be the subject of an Alternative Dispute Resolution meeting in November 2004.

The time frames outlined in this notice have been established so as to ensure the timely completion of the new Rate Handbook. The Board regards conformity with the time frames to be a critical element in the process.

3. ADR

An ADR session will be convened to allow the parties to discuss and reach an agreement on:

1. Any issues not resolved during the working group process; and
2. Those issues that were designated as requiring a hearing before the Board.

Any agreement resulting from the ADR will be presented to the Board for its consideration.

4. Hearing

The Board will receive submissions from parties on issues that were discussed through the working group process.

For those issues identified at the Issues Day as requiring a Board determination, a process to file evidence and ask and answer interrogatories will be established. The Board expects these issues to have a proponent who is prepared to provide a detailed proposal and file evidence in support of that proposal. This process will proceed in parallel with the working group process, so that interrogatory answers are available before the ADR commences. The Board will hear evidence and submissions on these issues.

PARTICIPATION

All licensed electricity distributors will be registered as parties to the proceeding and will be provided notification through the designated contact provided in their most recent licence application. The Board encourages, but does not require, licensed distributors to participate in these proceedings.

If you are not a licensed distributor and wish to participate in these proceeding you are required to register with the Board Secretary. Letters of registration should be send to the Board Secretary, no later than August 23, 2004. The Board's mailing address and fax number are given in this letter's letterhead. Please reference your correspondence as: 2006 EDR File RP-2004-0188. In registering, parties are requested to provide their name, title, company or organization name, address, telephone and fax numbers and e-mail address. You are also requested to indicate if you intend on participating at the Issues Conference scheduled for early September.

The Board will issue a further general notice with a view to soliciting participation from a wider range of stakeholders, including actively seeking input from ratepayers.

IMPORTANT

IF YOU DO NOT REGISTER OR INDICATE TO THE BOARD SECRETARY THAT YOU WISH TO PARTICIPATE IN THIS PROCESS, THE BOARD MAY PROCEED IN YOUR ABSENCE AND YOU WILL NOT BE ENTITLED TO ANY FURTHER NOTICE OF THIS PROCESS.

Funding for Stakeholder Participation

On June 23, 2004, the Board issued a discussion paper regarding Funding for Stakeholder Participation in Regulatory Policy Initiatives. In that letter, it was indicated that the process to establish 2006 electricity distribution rates would be eligible for participant funding.

In order to obtain funding, participants must file a request with the Board, providing the following information:

- i A statement of the interest the participant represents and a description of how the participant receives instruction to represent that interest;
- ii The issues they intend to pursue in the 2006 EDR process and the general position they expect to take;
- iii A budget of the costs of their participation, including the costs of any experts or legal representations;
- iv The amount of funding being requested;
- v An explanation of any other sources of funding that the participant will be accessing; and

- vi The extent to which the participation will be coordinated with and joined with other parties of like interest.

Participants must provide 5 hard copies and an electronic version of their funding request no later than August 27, 2004. Participants' funding requests will be posted on the Board's website.

The Board is in the process of reviewing submissions with respect to eligibility for participant funding. These submissions will be taken into consideration in the Board's review of participants' funding requests when allocating funds.

Submissions format

Documents filed with Board should be provided in hard copy and electronic versions. Electronic documents should be provided in Word, WordPerfect, Excel, or PowerPoint or Adobe PDF format.

Contact Information

For further information on the 2006 EDR process and issues, please contact Keith Ritchie at 416-440-8124, or e-mail Keith.Ritchie@oeb.gov.on.ca.

Yours truly,

Original Signed by

John Zych
Board Secretary