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BY E-MAIL AND WEB POSTING

July 15, 2008

To: All Participants in Consultation EB-2007-0673
All Licensed Electricity Distributors

Re: **3rd Generation Incentive Regulation for Electricity Distributors
Issuance of Report of the Board (Including Filing Guidelines for 2009
Rate Applications)**

Today, the Board issued its “Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors” (the Report). A copy of the Report is attached and is available on the Board’s website at www.oeb.gov.on.ca.

The Report sets out the Board’s policies on 3rd generation incentive regulation (3rd Generation IR), including details regarding implementation of the policies and filing guidelines to guide distributors in the preparation of their rate applications for the 2009 rate year. With few exceptions, the Report represents the Board’s final determination of its policies regarding 3rd Generation IR. The outstanding issue of the values of certain parameters of the 3rd Generation IR mechanism will be the subject of the stakeholder conference referred to below. The Board will in due course provide further guidance on the issue of tax changes in relation to the Z-factor.

Distributors are expected to file their incentive regulation applications for the 2009 rate year by November 1, 2008. The filing models for both 2nd and 3rd Generation IR will be issued by the end of September and a web cast for distributors filing incentive regulation applications is planned for in mid-October.

The Board engaged many interested stakeholders in the discussion of an appropriate 3rd Generation IR mechanism for electricity distributors. This consultation has assisted the Board in developing the policies detailed in the Report. The Board has appreciated the input from all stakeholders in determining the approach it should take.

August 5-8, 2008 Stakeholder Conference

On June 13, 2008, the Board notified participants of a stakeholder conference that will be held the week of August 5, 2008. As indicated in that letter and in the Report, the stakeholder conference is intended to solicit further stakeholder input in relation to the determination of appropriate values for the productivity factor, the stretch factor, and the capital module materiality threshold. As also noted in the June 13, 2008 letter, the determination of these outstanding values involves issues in relation to which the input of Board staff's and participants' experts would be desirable. Participants should therefore plan to have their experts in attendance at the stakeholder conference. Details on registering for the conference are outlined below.

Conference Outline

An agenda will be issued to participants at the conference. The conference will proceed by topic, as identified below. Each participant that wishes to make a presentation on a given topic will be provided up to 20 minutes to do so. Once all interested participants have completed their presentations on a topic, the floor will be opened up for questions and discussion. On the last day of the conference, after all three topics have been covered, interested participants that wish to make final comments on one or more of the three topics will be provided up to 10 minutes in total to do so.

The Board members that will be moderating the stakeholder conference are familiar with all of the materials that have been filed or produced as part of this consultation. Participants are asked to prepare their presentations accordingly, and to minimize duplication of comments made in earlier phases of this consultation.

Topics for Presentations at the Conference

The conference will be limited to the three topics identified below and in the Report. The Board will not entertain comments on any other matters that are the subject of the Report.

The Productivity Factor

What is the appropriate value for the total factor productivity trend?

While it is clear to the Board that participants support an index based approach for the derivation of an industry productivity trend to form the basis for the productivity factor for the IR plan, the Board would be assisted by further consultation on the interpretation of the results in order to determine the final value for the productivity factor.

The Stretch Factor

What are appropriate stretch factor values for each of the three groups?

While the Board has determined that there will be three stretch factors representing diversity of efficiency and that these will be revised annually to reflect changes in efficiencies in the sector, the Board has not yet determined what the three stretch factor values will be. The Board would be assisted by further consultation on the appropriate stretch factor values for the three groups.

Incremental Capital Module

What is an appropriate capital expenditure to depreciation threshold value to determine materiality?

Eligibility of a distributor to apply for rate relief through the incremental capital module will be subject to a materiality threshold; however, the Board has not yet determined the value of that threshold. The Board would be assisted by further consultation on the appropriate materiality threshold.

Time, Location and Registration

The stakeholder conference will commence at 1 p.m. on August 5, 2008 and will take place in the Board's West Hearing Room, 25th floor, 2300 Yonge Street, Toronto.

Notice of Intention to Participate

In accordance with the filing instructions set out below, those interested in participating in the stakeholder conference should indicate their intent in writing by letter addressed to the Board Secretary by **July 21, 2008**. Participants that intend to make a presentation are asked to indicate which topic(s) they would like to address and to file with the Board copies of any material they intend to present at the conference by **July 28, 2008**.

Instructions on Filing Material with the Board

All filings in relation to this consultation must quote file number **EB-2007-0673** and include your name, address, telephone number and, where available, an e-mail address and fax number. Three paper copies and one electronic copy of each filing must be provided. Paper copies are to be addressed to the Board Secretary at the Board's mailing address set out above. The electronic copy must be in native (e.g., PowerPoint for presentations) and searchable/unrestricted PDF formats, be submitted through the Board's web portal at www.errr.oeb.gov.on.ca and conform to the document naming conventions and document submission standards outlined in the RESS e-Filing Guides (available on the Board's website at www.oeb.gov.on.ca on the e-Filing Services web page). A user ID is required for filings through the web

portal. If you do not have a user ID, please visit the Board's web site on the e-Filings Services web page and fill out a user ID password request. If the web portal is not available, the electronic copy may be submitted by e-mail to BoardSec@oeb.gov.on.ca. Participants that do not have internet access may file their electronic copy on diskette or CD.

Filings must be received by **4:45 pm** on the required date.

All materials related to this consultation are posted on the "OEB Key Initiatives" portion of the Board's web site at www.oeb.gov.on.ca. The material is also available for public inspection at the office of the Board during normal business hours.

If you have any questions regarding this consultation, please contact Lisa Brickenden at 416-440-8113, or by e-mail at EDR@oeb.gov.on.ca. The Board's toll-free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment: Report of the Board on the 3rd Generation Incentive Regulation for Ontario's Electricity Distributors