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## BY E-MAIL AND WEB POSTING

June 18, 2009

**To:** All Participants in Consultation Process EB-2009-0084  
All Licensed Electricity Distributors  
All Registered Intervenors in 2009 Cost of Service Proceedings  
All Other Interested Stakeholders

**Re: Board Determination on the Cost of Capital Parameter Values for 2009 Cost of Service Applications and Notice of Consultation Process on Cost of Capital Review Board File No.: EB-2009-0084**

On February 24, 2009, the Ontario Energy Board (the "Board") issued a letter which set out its determination on the values for the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates for use in the 2009 rate year cost of service applications. These cost of capital parameter values were calculated based on the methodologies and formulae set out in the Board's December 20, 2006 "Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors" (the "Methodology").

On March 16, 2009, the Board initiated a consultative process to help it to determine whether current economic and financial market conditions warrant an adjustment to any of the parameter values of the Methodology (i.e., the ROE, Long-Term debt rate, and Short-Term debt rate).

Interested stakeholders were invited to provide written comments on issues as identified by the Board. Comments were received from 18 interested stakeholders. Stakeholders' written comments are available on the Board's website.

### **Board Determination**

There was general agreement amongst stakeholders that economic conditions have had an impact on the variables used in the Methodology. Government of Canada long bond yields have declined while the cost of equity has risen.

However, not all stakeholders agreed that adjustments should be made to the parameter values. Stakeholders representing ratepayer groups acknowledged that the Long-Term debt rate was higher than might be otherwise be expected, but generally argued that the values announced in February are reasonable. The remaining stakeholders, representing rate-regulated companies or the financial

community, generally commented that adjustment should be made to both the ROE and the Short-Term debt rate. These stakeholders put forward a range of proposed parameter values, and varied in their views about how best to make any 2009-specific adjustments.

Although some parties expressed concern with the results from the application of the Methodology, others did not.

The Board is not persuaded that there is a sufficient basis to vary, in a timely manner, the 2009 parameter values for 2009 rates. Nevertheless, the Board is satisfied that further examination of its policy regarding the cost of capital is warranted to ensure that, on a going forward basis, changing economic and financial conditions are accommodated if required.

### **Review of Policy Regarding Cost of Capital**

The Board is therefore proceeding with a review of its policy regarding the cost of capital. It is anticipated that any changes to the policy made as a result of this review will apply to the setting of rates for the 2010 rate year.

#### *List of Issues*

The Board will prepare a list of the issues that will form the basis of its review. The list, which will be issued in due course, will be prepared taking into account the stakeholder comments received in response to the Board's March 16<sup>th</sup> letter and other information that the Board considers relevant. Interested stakeholders will be invited to file written comments identifying their views and positions on the listed issues.

#### *Stakeholder Conference September 21 to 25, 2009*

The consultation will also include a stakeholder conference to provide a forum for discussion on the issues identified by the Board. Participants will be provided with an opportunity to make presentations during the stakeholder conference.

The stakeholder conference will be held from September 21 to September 25, 2009 in the Board's West Hearing Room, 25<sup>th</sup> floor, 2300 Yonge Street, Toronto. The stakeholder conference will be attended by members of the Board who will subsequently report back to the full Board. The conference will be transcribed and will be webcast to allow remote participation.

Following the stakeholder conference, provision may be made for further written comment. Further details on this consultation process, including registration for and participation at the stakeholder conference, will follow shortly.

## Cost Awards

As noted in the Board’s March 16<sup>th</sup> letter, cost awards will be available to eligible persons under section 30 of the *Ontario Energy Board Act, 1998* for their participation in this consultation. The costs awarded will be recovered from all rate-regulated licensed electricity distributors based on their respective distribution revenues.

Details regarding the process for filing requests for cost eligibility will be included in the separate communication setting out further details on this consultation process. Participants that were determined to be eligible for an award of costs as identified in the Board’s April 14, 2009 Decision on Cost Eligibility need not file a further cost eligibility request.

An eligible participant that plans to retain an expert is asked to so advise the Board by letter by **July 6, 2009** in accordance with the filing instructions set out below. Cost awards will be available to eligible participants as follows:

<b>Activity Eligible for Cost Awards</b>	<b>Total Eligible Hours <u>per Eligible Participant</u></b>
<u>For eligible participant:</u> <ul style="list-style-type: none"> <li>• Written comments addressing the issues identified by the Board; and</li> <li>• Preparation for, attendance at, and reporting on the stakeholder conference held September 21 to September 25, 2009 (up to 12 hours per day).</li> <li>• Further written comment (to be determined).</li> </ul>	<p style="text-align: right;">Up to 15 hours</p> <p style="text-align: right;">Up to 60 hours</p> <p style="text-align: right;">Up to 10 hours</p>
<u>For expert retained by eligible participant:</u> <ul style="list-style-type: none"> <li>• Expert advice to eligible participant; and</li> <li>• Participation at stakeholder conference (up to 12 hours per day).</li> </ul>	<p style="text-align: right;">Up to 40 hours</p> <p style="text-align: right;">Up to 60 hours</p>

### *Instructions on Filing Material with the Board*

All filings in relation to this consultation must quote file number **EB-2009-0084** 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 searchable/unrestricted PDF format, be submitted through the Board’s web portal at [www.errr.oeb.gov.on.ca](http://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](http://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](mailto: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.

If you have any questions regarding this consultation, please contact Lisa Brickenden at 416-440-8113, or e-mail [EDR@oeb.gov.on.ca](mailto: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