

**Ontario Energy Board**  
P.O. Box 2319  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416- 481-1967  
Facsimile: 416- 440-7656  
Toll free: 1-888-632-6273

**Commission de l'énergie de l'Ontario**  
C.P. 2319  
27e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone: 416-481-1967  
Télécopieur: 416-440-7656  
Numéro sans frais: 1-888-632-6273



**BY E-MAIL ONLY AND WEB POSTING**

August 20, 2009

Mr. Robert B. Warren  
WeirFoulds LLP  
The Exchange Tower, Suite 1600  
P.O. Box 480  
130 King Street West  
Toronto, ON M5X 1J5

Dear Mr. Warren:

**Re: Consultation on Cost of Capital (Board File No.: EB-2009-0084)**

This letter is in response to your letter of August 13, 2009, sent on behalf of the Consumers Council of Canada, the Vulnerable Energy Consumers Coalition and the London Property Management Association, in which a number of questions are listed concerning the Board's consultation process.

The following information, in response to your questions, is provided to assist you and other stakeholders in preparing written comments and in participating at the stakeholder conference. As you know, this initiative is a consultative process and not an adjudicative one. As such, concepts such as "evidence", "record" and "cross-examination" (among others) in their traditional hearing sense do not apply. We have understood your questions as reflecting that distinction, and the information provided below should also be read in that context. For easy reference, your original question numbers are indicated in square brackets, below.

The Board's consultation is prompted by the state of the financial markets. As indicated in the Board's June 18, 2009 letter, 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. [1]

The Board is therefore proceeding with a review of its policy regarding the cost of capital. While the issues list refers to the consultation as one addressing the cost of capital for electricity distributors, that does not necessarily preclude the results of this review, which is on the application and derivation of the equity risk premium approach (ERP), from being applicable to other rate-regulated sectors. [2]

The Board's review will take into account all stakeholder comments and supporting materials received in response to the Board's March 16, 2009 letter plus any additional materials that stakeholders bring forward in their responses to the listed issues. [3]

The Board has commissioned work (from time to time) to inform its approach to regulatory policy development. The Board retained Concentric Energy Advisors in 2007 to prepare a report that provides a comparison of awarded ROEs in other jurisdictions to those awarded in Ontario, including an analysis of the forces that contribute to those differences. The resultant report entitled “A Comparative Analysis of Return on Equity of Natural Gas Utilities” (dated June 14, 2007) is referred to in the Board’s issues list as a springboard for discussion on the issue of comparability of risk. Cross-examination is not required to support the use of a report in the context of a consultation. Any comments that stakeholders offer in relation to the issue of comparability of risk are welcome. [4]

Stakeholders are asked to provide in their written comments answers to the questions identified in the Board’s issues list. To help the Board in its review, the Board invites stakeholders to include in their written comments some analytical support and detailed information to identify their views and support their positions in response to the Board’s questions. [5]

In preparing the issues list as a basis for its examination of the Board’s policy regarding the cost of capital, the Board included the question concerning the current deemed capital structure for completeness. The Board has done so in recognition of the interrelationship between the elements. [6]

As indicated in its July 30, 2009 letter, the focus of the Board’s review is on the application and the derivation of the current ERP approach to determine if it is sufficiently robust to guide the Board’s discretion in applying the fair return standard. This consultation is limited to an examination of the underlying policy approach. As indicated in the Board’s June 18, 2009 letter, the Board does not intend to vary 2009 rates, but rather to apply any changes to the policy to the setting of rates for the 2010 year. While any changes to the policy would be applied prospectively, implementation details may be best considered after the Board makes its determination in this review. To help the Board in this respect, the Board welcomes discussion at the stakeholder conference on general implementation matters in relation to any options presented and discussed. [7&8]

If you have any further 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).

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary

cc: All Participants in Consultation Process EB-2009-0084