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BY E-MAIL AND WEB POSTING

March 16, 2009

To: All Interested Stakeholders

**Re: The Cost of Capital in Current Economic and Financial Market Conditions
Board File No.: EB-2009-0084**

The Ontario Energy Board (the “Board”) is initiating a consultative process to help it to determine whether current economic and financial market conditions warrant an adjustment to any of the Cost of Capital parameter values (i.e., the Return on Equity, Long Term Debt rate, and/or Short Term Debt rate) set out in the Board’s letter of February 24, 2009.

The Board’s letter of February 24, 2009 set out the values for the updated Cost of Capital parameters as determined in accordance with the Board’s established methodology. Those values are as follows:

Parameter	Value for 2009 Cost of Service Applications
	(assuming May 1, 2009 implementation date for rate changes)
Return on Equity	8.01%
Long-Term Debt rate	7.62%
Short-Term Debt rate	1.33%

The Board notes that the spread between the Return on Equity and the Long-Term Debt rate has declined to a spread of 39 basis points in 2009, from a spread of 247 basis points as of the comparable date in 2008. The Board also notes the deterioration in economic and financial market conditions during 2008 and 2009. Consequently, the Board is considering whether these circumstances warrant the Board exercising its

discretion to adjust any or all of the values produced by the application of its established formulaic methodology.

The Board's established formulaic methodology itself is not at issue. The objective of this consultation is not to reconsider that established methodology, but rather to test whether the values produced, and the relationships among them, are reasonable in the context of the current economic and financial market conditions.

Invitation to Comment

Interested stakeholders are invited to provide written comments on the issues identified below to help the Board better understand whether current economic and financial market conditions may have an impact on the reasonableness of the Cost of Capital parameter values calculated in accordance with the Board's established Cost of Capital methodology, and to help the Board to determine if, when and how to make any appropriate adjustments to any of the values.

Specifically, the Board seeks comments on the following:

1. How do the current economic and financial conditions affect the variables (i.e., Government of Canada and Corporate bond yields, bankers' acceptance rate, etc¹) used by the Board's Cost of Capital methodology?
2. In the context of the current economic and financial conditions, are the values produced by the Board's Cost of Capital methodology and the relationships between them reasonable? Why, or why not?
 - 2.1. If the values are not reasonable, what are the implications, if any, to a distributor?
3. What adjustments, if any, should be made to the Cost of Capital parameter values to compensate or correct for the current economic and financial conditions?
4. Going forward, should the Board change the timing of its Cost of Capital determination, for instance, by advancing that determination to November?
5. Are there other key issues that should be considered if the Board were to adjust any or all of the Cost of Capital parameter values produced by the application of its established formulaic methodology?

Written comments received will be considered by the Board in its determination as to whether to make adjustment to any of the Cost of Capital parameter values calculated

¹ Details on the variables used by the Board's Cost of Capital methodology are detailed in the Board's December 20, 2006 Report of the Board on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, and is available on the Board's web site at http://www.oeb.gov.on.ca/documents/cases/EB-2006-0088/report_of_the_board_201206.pdf

by the Board's formulaic approaches for the 2009 rate year. The Board notes that this determination may impact the rates for the 23 distributors that had their rates rebased this year. If the Board determines to make any adjustments, a mechanism to adjust rates in 2009 will be established. The Board expects to make its determination by early June, 2009.

Written comments must be filed with the Board by **April 17, 2009** in accordance with the filing instructions set out below.

Cost Awards and Instructions on Filing Material with the Board

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. The rates of licensed distributors Cornwall Street Lighting and Power Company Limited and Dubreuil Forest Products Ltd. are not currently fixed or approved by the Board, and cost awards will not be recovered from these two distributors. **Attachment A contains important information regarding cost awards for this consultation, including in relation to eligibility requests and objections.** In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

Cost awards will be available to eligible participants as follows:

Activity Eligible for Cost Awards	Total Eligible Hours <u>per Eligible Participant</u>
Written comments on issues.	Up to 16 hours

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 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 will be available on the Board's web site at www.oeb.gov.on.ca. The material will also be 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 e-mail 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 A: Cost Award Information

Attachment A: Cost Award Information

Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person requesting cost eligibility must file with the Board a written submission to that effect by **March 23, 2009**, identifying the nature of the person's interest in this process and the grounds on which the person believes that it is eligible for an award of costs (including addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost award eligibility will be posted on the Board's website.

Groups representing the same interests or class of persons are expected to make every effort to communicate and co-ordinate their participation in this process.

Rate-regulated licensed electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If an electricity distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board Secretary by **4:45 pm on April 6, 2009**. All objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility of the requesting parties.

Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process.

For more information on the cost awards process, please see the Board's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the Board acting as a clearing house for the cost award payments. These documents can be found on the Board's website at

http://www.oeb.gov.on.ca/html/en/industryrelations/rulesguidesandforms_regulatory.htm#general.