

September 14, 2009

Board Secretary Ontario Energy Board P.O. Box 2319 27th Floor 2300 Yonge Street Toronto, ON - M4P 1E4

Via Board's web portal and by courier

Dear Board Secretary:

Re: Board File No. EB - 2009- 0084 EDA's Presentation at Stakeholder Conference - Consultation on Cost of Capital

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario.

The EDA would like to provide the attached presentation slides that it intends to use for its presentation at the stakeholder conference scheduled for September 21, 2009.

Yours truly,

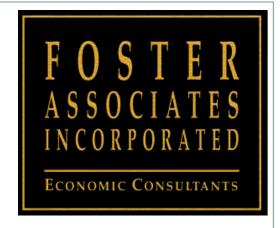
"Original Signed"

Maurice Tucci Policy Director, Distribution and Regulation

Attached: EDA Presentation Slides

dp:





PRESENTATION TO THE OEB ON BEHALF OF THE ELECTRICITY DISTRIBUTORS ASSOCIATION

KATHLEEN McSHANE PRESIDENT FOSTER ASSOCIATES, INC. SEPTEMBER 21, 2009

Ensuring A Fair Return

- Explicit recognition of the relationship between capital structure and return on equity
- Stand-alone principle should be respected for purposes of setting both the ROE and capital structure
- Both the Initial ROE and the automatic adjustment formula should be reset
 - o Formula ROEs too low
 - ROE/bond yield relationships not captured in current formula

Establishing the Initial ROE

- Need for comprehensive review
- Reliance on multiple cost of equity tests applied to comparable risk companies
- Benchmarking test results against other relevant indicators of a fair return
- Application of informed judgment
- Initial ROE can be expressed in terms of an equity risk premium

Modifying the Automatic Adjustment Formula

- Empirical analysis indicates:
 - Relationship between ROE and long-term Canada bond yields is approximately 50%
 - Positive relationship between ROE and spreads between longterm utility and Canada bond yields
- Modify formula to incorporate these relationships

 $ROE_{New} = ROE_{Initial} + 50\% X (\Delta Forecast GOC BY) + 50\% X (\Delta Corp. BY Spread)$

Implications of Proposed Formula

	Canada Underlying	Change in Forecast Long Canada from	NEB ROE	Sept/Oct Corporate	Change in Corporate Yield Spread from	ROE with 50% Change in Long Canada and 50% Change in Corporate
	NEB ROE	1995	RH-2-94 12.25	Yield Spread	1995	Yield Spread
1995	9.25	-1.22	11.25	0.71	-0.29	11.50
1996	8.03			0.42		
1997	7.14	-2.11	10.67	0.27	-0.45	10.97
1998	6.53	-2.72	10.21	0.28	-0.43	10.68
1999	5.69	-3.56	9.58	0.99	0.27	10.61
2000	6.12	-3.13	9.90	0.94	0.23	10.80
2001	5.73	-3.52	9.61	1.56	0.84	10.91
2002	5.63	-3.62	9.53	1.31	0.60	10.74
2003	5.98	-3.27	9.79	1.32	0.61	10.92
2004	5.68	-3.57	9.56	0.97	0.26	10.59
2005	5.55	-3.70	9.46	0.98	0.26	10.53
2006	4.78	-4.47	8.88	0.96	0.25	10.14
2007	4.22	-5.03	8.46	1.07	0.36	9.91
2008	4.55	-4.70	8.71	1.18	0.47	10.13
2009	4.35	-4.90	8.57	2.58	1.87	10.73
Average 1996-2009			9.6			10.7

Safeguards

Trigger

If formula ROE is +/- 200 basis points from the recalibrated
 Initial ROE, process in place for comprehensive review

Dead band

 Adjustments to ROEs embedded in rates, subject to dead band, for changes in Initial and formula ROEs

Specified Schedule for Review

- Subject to review once every 5 years
- Earlier review if warranted by changes in economic and capital market conditions