

**Ontario Energy
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**Commission de l'Énergie
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BY EMAIL ONLY

February 5, 2007

Mr. W.G Zehr
President
Festival Hydro Inc.
187 Erie Street,
P.O. Box 397
Stratford ON N5A 6T5

Dear Mr. Zehr:

**Re: Festival Hydro Inc.
2007 Incentive Rate Mechanism Application
Board File No. EB-2007-0527**

This will acknowledge receipt on January 26, 2007 of your electricity distribution rate application (the “application”). An initial review of your application reveals that it has not been filed in conformity with 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” (the “Board’s Report”).

Specifically, your application does not conform in the following respects:

- The application contains a request for direct mitigation of rate harmonization for Hensall Rates;
- The application contains a request for recovery of bad debt due to a loss of a large volume customer.

As you may be aware, distributors filing forward test year cost of service applications based on alternative principles or mechanisms for setting rates must do so in conformity with the Board’s November 14, 2006 “Filing Requirements for Transmission and Distribution Applications” (the “November 2006 filing requirements”) which is Appendix D to the Board’s Report.

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You have the following options for the processing of your application:

1. amend your application to remove any reference to recovery or inclusion of cost-related issues as part of the 2007 rate process and remove any request to modify customer classifications to conform to the requirements of the December 2006 guidelines and refile by February 9th. The cost related and customer classification issues can be addressed through separate applications to the Board made in conformance with the November 2006 guidelines.
2. amend your current application and file the materials to meet the requirements of the November 2006 guidelines. You must provide the additional information described in Chapter 2 of the November 2006 guidelines document, which includes but is not limited to:
 1. A volume and revenue forecast, including any normalization methodology and other sales activities;
 2. An operating cost exhibit with information summarizing the total cost of service;
 3. Information on rate base, capital budgets and system expansion.

The Board will resume processing your application once the above requirements have been met. If the application and the required additional information are not filed within 30 days of the date of this letter, the Board may close the file for this application.

The Board has assigned File Number EB-2007-0527 to this matter. Please refer to this number in all future correspondence to the Board regarding this matter.

Please direct any questions relating to this application to Rudra Mukherji, Advisor at (416) 440-7608 or Rudra.Mukherji@oeb.gov.on.ca.

Yours truly,

Original Signed By

Peter O'Dell
Assistant Board Secretary