

**Ontario Energy
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**Commission de l'énergie
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By Email

March 19, 2007

Mr. Jay Shepherd
Shibley Righton LLP
Barristers and Solicitors
250 University Ave, Suite 700
Toronto, ON M5H 3E5

Dear Mr. Shepherd:

Re: 2007 Rates for Electricity Distributors
EB-2007-0514 Canadian Niagara Power Inc. – Fort Erie
EB-2007-0595 Canadian Niagara power Inc. – Port Colbourne
EB-2007-0517 Chatham Kent Hydro Inc.
EB-2007-0551 Lakeland Power Distribution Ltd.

Under separate cover, the Board has confirmed the Schools Energy Coalition ("SEC") as an intervenor in the above noted proceedings, subject to the applicants' right to object to SEC's request for intervention within 10 days of receipt of SEC's letter of intervention. In addition, the Board has granted SEC's request for cost eligibility pursuant to the Board's Practice Direction on Cost Awards, subject to the applicants' right to object to SEC's request for cost eligibility within 14 days of receipt of SEC's letter of intervention.

In a letter dated February 26, 2007 which accompanied its letters of intervention, SEC requested oral hearings for the applications in which it has intervened. The Board is not satisfied that there is good reason for holding an oral hearing in respect of these applications. The Board is satisfied that a written hearing is sufficient in relation to applications where the issues relate to compliance with the guidelines for incentive regulation as detailed in the December 20, 2006 Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, and to limited departures from those guidelines.

In its letter of February 26, 2007, SEC also requested certain information and raised issues with respect to the procedure being followed to determine 2007 distribution rates.

SEC requested two information items: a “live version” of the spreadsheet model for deriving rates, and past financial data of the applicant. SEC states that it has not been provided a “live version” of the electronic model the Board is using for rate calculations for 2007 and states that distributors have been provided the “live version”. By “live version” we understand SEC to mean an unlocked version of the spreadsheet model.

The Board developed a model to assist distributors with the preparation of applications filed on the basis of the guidelines for incentive regulation as detailed in the December 20, 2006 “Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors”. The model provided to distributors is a locked version. This means that the equations in the model cannot be accessed by anyone other than the Board. The model is an important element of the Board’s review of the applications, and therefore, its integrity is important. Locking the model allows the Board to ensure that this integrity is maintained. SEC and other parties, along with distributors, can access the locked version of the model on the Board’s website.

SEC states that actual distributor financial results for previous years must be made available for review for the purpose of allowing parties to evaluate whether distributors were over earning on their allowed return on equity. Such a review would necessarily require a consideration of the costs and revenues of the distributor. The Board reminds SEC that applicants who have filed in accordance with the Board’s guidelines are not seeking a cost based rate, but rather an incentive based adjustment to the current rate. The incentive mechanism is a price cap approach that adjusts the rates themselves and not the costs or the return. SEC was one of the many parties who participated in extensive consultation on the incentive model to be used for ratemaking in 2007. After considering the comments received, the Board determined as a matter of policy that distribution rates for 2007 should be set using a price cap mechanism, using the Board-approved 2006 just and reasonable rates as a base. The application of a price cap mechanism does not include a review of costs and revenues.

SEC raises two other issues; cost eligibility and inadequate notice. With respect to costs, SEC objects to the statement in the Board’s notice that it would not award costs in those applications which conform to the guidelines.

For those applications that deviate from the guidelines, the Board’s notice indicated that the Board would consider requests for costs. In issuing the notices for applications that were filed on the basis of the guidelines, the Board exercised its discretion against making cost awards available on the expectation that, in the vast majority of cases, rates set through these applications will simply implement the incentive regulation policies of the Board.

With respect to notice, SEC suggests that the Board erred in not ordering service on parties who have previously intervened before the Board. There is no obligation to serve notice on past intervenors. The Board does require that notice of all rate applications be published in a newspaper having the highest paid circulation in the

service area of the utility. The Board may direct the applicant to serve other parties, but does not do so because of any preferred status granted to past intervenors.

Notice has been published in the service areas of the distributors. Distributors are required to provide copies of the applications when requested by an interested party. The notices and applications have also been made available on the Board's website to facilitate review and participation by interested parties. The Board considers that notice has been adequate for the 2007 distribution rate applications, and that the 2007 EDR process as a whole is both fair and efficient.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary