



EB-2006-0087

NOTICE OF PROCEEDING AND NOTICE OF HEARING

TO AMEND ELECTRICITY DISTRIBUTOR LICENCES

TO MAKE PROVISION FOR METHODS AND TECHNIQUES TO BE APPLIED IN DETERMINING DISTRIBUTION RATES

The Ontario Energy Board (the "Board") is commencing a proceeding on its own motion under section 74 of the *Ontario Energy Board Act, 1998* (the "Act") to amend the licences of electricity distributors to make provision for methods and techniques to be applied by the Board in determining distribution rates for licensed electricity distributors.

Background

On April 27, 2006, the Board issued a letter to all licensed electricity distributors and other interested parties that describes the process that the Board intends to use in relation to two elements of its multi-year electricity distribution rate-setting plan (the "Plan"); namely, the review of cost of capital and the development of a 2nd generation incentive regulation mechanism or "2nd Generation IRM". That letter indicated that the Board will develop two Codes: a Code that confirms the cost of capital to be used in adjusting annual revenue requirements for 2007 and beyond; and a Code that establishes a simple, practical and mechanistic incentive rate adjustment mechanism for the period covered by the Plan. Consultations in respect of the development of these two Codes were initiated in proceedings EB-2006-0088 (cost of capital) and EB-2006-0089 (2nd generation incentive regulation mechanism).

In accordance with the Plan, the rate-setting methods and techniques developed in respect of the cost of capital and the 2nd Generation IRM will be applied by the Board in determining electricity distribution rates effective May 1, 2007. For a transitional period of up to three years (depending on the distributor as explained below), this approach will replace the Board's more traditional approach to distribution rate-setting. The result is that the Board will no longer conduct annual cost of service rate hearings for all distributors, although rate orders will continue to be issued to distributors under section 78 of the Act during the Plan period.

For purposes of the Plan, electricity distributors will be divided into three groups for rate-making purposes: the 2008 group, the 2009 group and the 2010 group. Rate setting for each group will proceed as follows (with new rates being effective on May 1st of each year):

Rate Group	2007 Rates	2008 Rates	2009 Rates	2010 Rates
2008 Group	Adjustment using 2 nd Generation IRM methodology	Cost of service application and proceeding using cost of capital methodology	Adjustment based on new 3 rd generation incentive rate mechanism	Adjustment based on new 3 rd generation incentive rate mechanism
2009 Group	Adjustment using 2 nd Generation IRM methodology	Adjustment using 2 nd Generation IRM methodology	Cost of service application and proceeding using cost of capital methodology	Adjustment based on 3 rd generation incentive rate mechanism
2010 Group	Adjustment using 2 nd Generation IRM methodology	Adjustment using 2 nd Generation IRM methodology	Adjustment using 2 nd Generation IRM methodology	Cost of service application and proceeding using cost of capital methodology

Proposed Licence Amendments

In its April 27, 2006 letter, the Board also indicated that it would commence a proceeding to amend the licences of electricity distributors to stipulate that, in determining rates, the Board will apply the methods and techniques set out in the two proposed Codes.

The text of the proposed licence amendments is set out in Appendix A to this Notice. The proposed licence amendments would apply to all licensed electricity distributors other than Cornwall Street Railway, Light and Power Company and Dubreuil Forest Products Ltd., two licensed distributors for whom the Board does not currently set distribution rates.

How to Participate

You may participate in this proceeding in one of three ways:

You may send the Board a letter of comment. Your letter should indicate any request to make an oral presentation to the Board, and must be received by the Board no later than **August 18, 2006**.

You may request observer status in order to receive documents issued by the Board in the proceeding. Your request must be made by letter received by the Board no later than **July 31, 2006**.

You may request intervenor status if you wish to actively participate in the proceeding. Your request must be made by letter of intervention received no later than **July 31, 2006**. Your letter of intervention must include a description of how you are, or may be, affected by the proceeding; and if you represent a group, a description of the group and its membership. **If you wish to participate in this proceeding, you must request intervenor status even if you have registered with the Board as an interested party in respect of the consultations regarding the review of the cost of capital (proceeding EB-2006-0088) and the development of the 2nd Generation IRM (proceeding EB-2006-0089).** The Board may choose to hold either a written or an oral hearing. Your letter of intervention should indicate your preference for a written or oral hearing, and the reasons for that preference. The Board may order costs in this proceeding. You must indicate in your letter of intervention whether you expect to seek costs and the grounds for your eligibility for costs. Any costs to be awarded will be recovered from all licensed electricity distributors, other than Cornwall Street Railway, Light and Power Company and Dubreuil Forest Products Ltd., based on their respective distribution revenues.

Need More Information?

Further information on how to participate may be obtained by visiting the Board's website at www.oeb.gov.on.ca or by calling our Consumer Relations Centre at 1-877-632-2727.

Responding to this Notice

In responding to this Notice please reference Board file number EB-2006-0087. It is also important that you provide your name, postal address and telephone number and, if available, an e-mail address and fax number. All communications should be directed to the attention of the Assistant Board Secretary at the address below, and be received no later than 4:45 pm on the required date.

For your convenience, the Board accepts letters of comment by either post or e-mail. Our e-mail address is Boardsec@oeb.gov.on.ca. Please include a reference to Board file number EB-2006-0087 in the subject line of your e-mail.

Letters of intervention and letters requesting observer status must be sent to the Board by regular mail to the address below.

The address of the Board is:

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

Attention: Mr. Peter O'Dell
Assistant Board Secretary

IMPORTANT

IF YOU DO NOT REQUEST TO PARTICIPATE IN ACCORDANCE WITH THIS NOTICE, THE BOARD MAY PROCEED IN YOUR ABSENCE AND YOU WILL NOT BE ENTITLED TO ANY FURTHER NOTICE OF THIS PROCEEDING.

DATED at Toronto, July 7, 2006

ONTARIO ENERGY BOARD

A handwritten signature in black ink, appearing to read 'P. O'Dell', with a long horizontal line extending from the bottom of the signature.

Peter O'Dell
Assistant Board Secretary

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Appendix A

Proposed Licence Amendments

That section of the distribution licence issued to each distributor, other than Cornwall Street Railway, Light and Power Company and Dubreuil Forest Products Ltd., which makes provision for the charging of rates for the distribution of electricity is proposed to be amended by adding the underlined text set out below:

The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board. The Board shall, in determining the Licensee's rates for the distribution of electricity, apply the methods and techniques set out in the Incentive Regulation Mechanism Code and the Cost of Capital Code, whichever is applicable to the distributor in any given year. The Board shall apply those methods and techniques in determining the Licensee's rates for the distribution of electricity that become effective on or after May 1, 2007, and shall continue to apply those methods and techniques for such further period of years as is determined by the Board under the Incentive Regulation Mechanism Code and the Cost of Capital Code.

Section 1 of the distribution licence issued to each distributor, other than Cornwall Street Railway, Light and Power Company and Dubreuil Forest Products Ltd., is also proposed to be amended by adding the following new definitions:

“Cost of Capital Code” means the Code approved by the Board which, among other things, sets out the manner in which an electricity distributor's cost of capital will be established by the Board in determining rates for the distribution of electricity;

“Incentive Regulation Mechanism Code” means the Code approved by the Board which, among other things, sets out an incentive rate adjustment mechanism to be applied by the Board in determining rates for the distribution of electricity;