Cost of Capital (EB-2006-0088) and 2nd Generation Incentive Regulation Mechanism (EB-2006-0089)

Guide for Presentations week of September 18 – 22, 2006

COST OF CAPITAL

- Should the Board move off its current cost of capital methodology for determining capital structure, ROE, and debt rates (i.e., the current method as detailed in the 2006 Handbook)? If so, what are the reasons for the Board to do so? If not, what may be the implications, if any, of the Board staying with the current approach? Are there any elements in particular that you believe should change (i.e., capital structure, approach to updating ROE, debt rates, other)?

- The current approach provides for four different deemed capital structures based on the size of the distribution company. What are the advantages and disadvantages to maintaining differentiation? Many parties maintain that distributor size is the best proxy for business risk. Are the business risks for large and small distributors converging or diverging in recent years, and is any trend likely to continue in the future?

- Should the Board provide incentives for new infrastructure investment within the cost of capital methodology? If so, how might the Board do this?

- What are the implications, if any, if distributors relied solely on long-term debt to finance their businesses?

- Should the Board rely on one method for determining the ROE, or should it use a variety of statistical methods? Which method or methods are the most appropriate and why?

- Is there any information from the Canadian financial community that there is a liquidity crisis and that major lenders such as the banks cannot loan money to electricity distributors for capital projects?

- Should the Board impose dividend restrictions if higher ROEs are argued to be needed to attract capital financing? If there is a higher ROE, should the increased revenues be used to finance capital projects from internally generated funds and not be given to pay management bonuses and higher dividends?

- What, if any, concerns would there be if implementation in Cost of Capital changes were delayed until 2008? This would relate specifically to the K-factor in the IRM price cap formula for 2007, which is intended to proxy the changes in the revenue requirement and rates that would result from adjusting the allowed ROE.

- Are there any implementation issues that have not been addressed?

INCENTIVE REGULATION

- There are different views on what elements are important to a successful IR mechanism, even if it is transitional. What elements, if any, do you believe are of particular importance to 2nd Generation IRM (i.e., price escalator, X-factor, Z-factors, off-ramps, earnings sharing, service quality, other)?

- What empirical approaches might be considered to determine an appropriate X-factor, either in common for distribution companies or segmented into groups? What reasons can be provided to include a stretch factor?

- If the cost of capital is adjusted prior to the rebasing of distribution rates, should a mechanism be created to make interim adjustments to rates? If so, what mechanism might be appropriate? Are there any implications to not making interim adjustments?

- Disparate views exist on the efficacy of Z-factors, off-ramps, and earnings sharing mechanisms, in whole or in part, to fairly mitigate company and consumer risk under IRM schemes. What possible consequences should the Board be aware of when determining the use and role of these mechanisms in 2nd Generation IRM?

- Are there any implementation details of 2nd Generation IRM that have not been addressed?