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Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Re: EB-2006-0088 (Cost of Capital) and EB-2006-0089 (2nd Generation IRM) – Written Comments of the London Property Management Association on Staff's Draft Report dated June 19, 2006

These are the comments of the London Property Management Association ("LPMA") on the Draft Staff Report dated June 19, 2006 on Proposals for Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. Three paper copies have been provided and an electronic copy has been e-mailed to the Board Secretary.

Cost of Capital

1. page 8/9 – Staff notes that the current common equity ratio for natural gas distributors is about 36%. Why has staff ignored Natural Resource Gas Limited (current equity ratio of 50%) in this statement? This needs to addressed and clarified, otherwise the Staff statement is incorrect.

2. page 9 – Staff recommend discontinuing the size-related capital structure in favour of a common structure. Does this mean Staff is recommending a common equity component and a common return on equity for all distributors, regardless of size, and more importantly, regardless of risk? This should be clearly stated and the rationale addressed.

3. page 9/10 – What is the rationale for using forward rates instead of forecasts of 10 or 30 year bonds? This should be clearly spelled out.

4. page 10 – Staff states that an annual review would not necessarily result in distributor ROEs being re-based each year. Please confirm, however, that it is Staff's proposal that the change in the ROE each year would have an impact on the incentive calculation shown in Section 3 of the Staff proposal. If confirmed, this should be clearly indicated on page 10.

5. page 10 – Staff proposes to use 50 basis points allowance for floatation and other transaction costs. It is not clear if the a utility would be required to use actual floatation and transaction costs for re-basing and if so, why 50 basis points should be used in non-rebasing years.

6. page 11 – The paper states that existing debt will be carried forward at the existing debt rate. Is this the existing actual debt rate (which may include affiliate debt at higher than Board approved rates) or the existing deemed debt rate from the 2006 rate filings and decisions?

7. page 11 – it should be explained, with an example, why the rate on long-term debt would be set annually.

8. page 12 – Why is there no recommendation or prescribed rate associated with preference shares? All other rates (long term debt, short term debt and return on equity) appear to be set by formulae or rules, so the rate on preference shares stands out as an anomaly in the Staff report. This should be explained.

9. Table 4 – It is not clear that if the actual long term debt component of rate base is in excess of 60% (or 64% if there are no preference shares) how short term debt would be treated. For example, would short-term debt be negative (as is the current case for gas utilities where there deemed equity component plus actual long term debt is more than their total rate base)

10. General – It is unclear from the Staff report whether or not utilities will be expected to move their actual capital structure to that shown in Table 4, or whether Table 4 is for regulatory purposes only and utilities would be free to have whatever capital structure they want.

11. General – How does the Staff proposal relate to non-profit and/or non-share capital corporations? This should be identified.

12. page 13 – It is unclear whether the adjustment factor will take into account income tax changes related to the change in the capital structure and/or debt rates. This should be clarified.

<u>Incentive Regulation</u>

1. page 14 – The report states that payments in lieu of taxes (PILS) would be a separate calculation after the income is derived from the adjustment. It is unclear what the adjustments related to PILS would be. Would the adjustments only be related to the changes in the capital structure and/or the debt rates referenced in point #12 above, or whether the tax adjustments would reflect changes in capital tax rates, corporate tax rates (provincial and federal) and small business corporate tax rate adjustments that have been or may be proposed by the federal and provincial governments.

2. page 15 – base rates in the 2006 EDR were calculated based on an assumption related to tax rates ad rules and a 2006 PILS/taxes variance account was established to track a number of potential differences. These variance accounts were for 2006 only.

a) How does the Staff report propose to deal with the true up to 2006 rates to take these differences into account before applying the price cap mechanism to 2006 rates?

b) Should there be an additional component to the formula, T, to account for known tax changes that are being tracked in the 2006 variance accounts?

c) What is the proposal to deal with known tax changes that are scheduled for 2007 through 2010?

d) What is the proposal to deal with tax changes that occur in 2007 through 2010 that are not known at this time or not known at the time of the calculation of the formula in each year?

A section on these issues should be included in the Staff report.

3. page 17 – Does the Staff proposal consider any impact of the potential double counting of the cost of capital through the K factor and the GDPPI ? This should be discussed.

4. page 17 - It is not clear now the growth rate in the GDPPI will be calculated. Is it based on the most recent actual data available from Statistics Canada at the time of the calculation of the price cap or is it based on some consensus forecast? Is it based on annual or quarterly data?

5. page 17 – It is not clear how the calculation of the GDPPI growth rate will be done if historical data is used. Will it be the annualized growth for the most recent quarter or the year over year growth of the most recent quarter, or the growth of the average of the last 4 quarters over the previous 4 quarters, etc.

6. page 17 - Statistics Canada data is revised on a regular basis after it is initially released. Does Staff propose to use revised data from year to year or to base the formula on the GDPPI use for the previous year?

Sincerely,

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