ORILLIAPOWER
Energizing Our Community

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December 2, 2009

Delivered by Courier and by RESS

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Orillia Power Distribution Corporation - Board File No: EB-2009-0273
2010 Electricity Distribution Rate Application

Please find attached the response to the School Energy Coalition interrogatories in the above-noted proceeding.

Respectfully submitted,

John F. Mattinson P. Eng.
President & Secretary
Orillia Power Distribution Corporation

EB-2009-0273

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Orillia Power Distribution Company for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2010.

INTERROGATORIES

of the

School Energy Coalition

1. Please confirm that the Applicant has 26 schools operated by publicly funded school boards in its franchise area. Please advise how many schools are in each of the GS<50 and GS>50 classes.

OPDC RESPONSE:

Orillia Power's cannot confirm SEC's count of 26 schools. Our records show that we have 20 schools operated by publicly funded school boards in its franchise area. Of the 20 schools, 14 are classified as GS>50 and 6 are classified as GS< 50.

2. Ref. Ex. 1, Tab 2, Schedule 2, pg. 5: Are the rates of return shown in Table 1-3 provided on a rate-regulated basis? If not, please provide OPDC's rate of return on a rate-regulated basis from 2007.

OPDC RESPONSE:

The rates of return shown in Table 1-3 are not determined on a rate-regulated basis. However, OPDC's debt/equity capitalization ratio is very similiar to the rate-regulated deemed capitalizaiton ratio for the period 2007 to 2013. As a result, the rates of return on a rate-regulated basis would be comparable to those shown in Table 1-3.

3. Please advise whether the 2010 Budget presented to the Board of Directors on July 23, 2009 has been approved? If any amendments to the budget were made by the Board of Directors, please itemize them.

OPDC RESPONSE:

OPDC wishes to confirm that the 2010 Budget presented to the Board of Directors on July 23, 2009 was approved on the date presented. No amendments to the budget were made by the Board of Directors.

4. Please file the Applicant's current strategic plan or multi-year business plan, or similar document. If the Applicant's plan is contained in a plan for the holding company, or the corporate group, or the shareholder Orillia Power Corporation and/or the Corporation of the City of Orillia, please provide that full upstream plan.

OPDC RESPONSE:

OPD prepares a financial planning model that highlights the impact on our financial results of the company's strategy over a five year period going forward. The results of those plans have been included in Appendices 1-G and 1-I. of Exhibit 1. No other formal strategic plan is prepared for OPDC.

5. Ref: Ex. 1, Appendix 1-L. With respect to OPDC's financial statements:

(a) Please explain why a $4 million dividend was paid in 2008, despite earnings of $602,000. The payment resulted in a reduction in retained earnings from $245,000 to -$3,153,000.

(b) Please advise the total of any dividends paid, or planned, in 2009 and 2010.

OPDC RESPONSE:

Response to (a):
OPDC normally declares dividends once a year subsequent to audited financial results being available for the previous year. In 2008, two dividends were declared and paid totaling $4,000,000. The first one was for $500,000 and was based on the prior year end results and existing cash needs as is our normal practice. The second dividend was a onetime special dividend of $3,500,000.

The purpose of the onetime special dividend was to transfer excess cash not needed for the general operation of the distribution corporation and move the distribution corporation's debt equity ratios closer to 60% debt, 40% equity in line with the Energy Board's rate making process. Note that this excess cash was not originally generated from operations but had been left with the LDC upon incorporation as part of the Bill 35 incorporation and transfer by-law process back in Nov. 2000.

As part of that process, cash in the amount of $4,903,000 was transferred from the City to OPDC. It was recognized at the time that more cash was being transferred into the distribution business than was likely needed to operate the business efficiently in the long run. This was done however to provide a temporary cash "cushion" given the tremendous uncertainty surrounding the opening of the spot energy market. The rules of the market being developed at that time require LDC's to bridge finance customer energy purchases based on spot market pricing exposing the LDC to significant and unpredictable cash needs on a monthly basis.

In 2008, a determination was made to pay what was considered excess cash required to run the ongoing LDC operation as a dividend.

Response to (b):
OPDC has paid a dividend of $800,000 in 2009 and is not planning to pay any further dividends in 2009. Dividends paid in 2010 will be determined after 2009 year end results are finalized and approved by OPDC's Board at that time. Based on 2009 projected net earnings results as evidenced in Appendix 1-N, it is expected that this dividend would be approximately $300,000.

OM&A

6. Ex. 4: Bad debt expenses

The 2010 bad debt expense forecast, while significantly reduced from 2009, is 87% higher than 2008. Please:

(a) Provide an up to date forecast for the 2009 bridge year.

(b) Provide any analysis or evidence used to develop the 2010 forecast.

(c) State whether the 2010 forecast is expected to continue during the IRM period or whether OPDC expects a return to pre-2009 levels after 2010.

OPDC RESPONSE:

Response to (a):
As of November 27, 2009 the forecast for bad debt expense for the 2009 bridge year is $215,000.

Response to (b):
Exhibit 4 Appendix 4-A provides substantial evidence to support the worsening economic and employment conditions in the service area, which are expected to have a negative impact on bad debts expense. As noted in the question, the 2010 bad debt expense forecast, while significantly reduced from 2009, is 87% higher than 2008.

In addition to the evidence provided in Exhibit 4, Appendix 4-A, more recent data from Statistics Canada indicate that out of 40 census metropolitan areas in Ontario, Orillia had the highest year over year increase in Employment Insurance beneficiaries at a staggering 152%. Unfortunately, this supports the assertion that the economic and employment continue to worsen in this area and at this point, there are few positive indicators for the employment situation for 2010 and beyond.

Further exacerbating this situation will be the application of the Harmonized Sales Tax (HST) which is slated to be added to hydro bills beginning July 1, 2010, adding an additional 8% to customer's bills.

Although the 2010 forecast is up from the 2008 figure, it should be noted that 2010 is not out of line with the results that were experienced in 2004 through 2006.

Response to (c):
The value forecasted for 2010 is expected to continue during the IRM period as the economic recovery in the region is expected to be very slow and it is unclear at this stage, when it will even begin to improve. Further hampering the outlook for economic and employment recovery is the fact that many of the job losses (as evidenced in Exhibit 4-A) involve the closure of American branch plants that have moved production back to American factories or elsewhere. In this type of situation, even if the economy begins to recover, these jobs rarely return.

Although there has been limited new job creation in the region, most new employment has been in the retail and service sectors, which historically have paid significantly less than the manufacturing jobs which have recently disappeared.

7. Employee costs:

(a) Under the new incentive plan incentive pay increased significantly in 2008. For unionized staff, the payout is expected to total 1.6% of base wages, compared to 0.3% in 2007 (before the plan was implemented). Please state whether the new plan was taken into consideration in developing the base wage rate increases that were negotiated in 2007.

OPDC RESPONSE:

The union was aware an employee performance plan was in process of being developed, however it was finalized subsequent to union negotiations being concluded for 2007 base wage year.

When looking at percentages, it is also important to keep in mind the total dollars subject to the analysis. The employee performance plan resulted in a total of approximately $20,000 being paid to union members for the 2008 year which represents 0.26% of OPDC's total revenue requirement.

8. Ex. 4, Affiliate Charges: please provide, in confidence if necessary, 2007, 2008 and pro forma 2009 financial statements for Orillia Power Generation Corporation.

OPDC RESPONSE:

Orillia Power Generation Corporation ("OPGC") is a corporation which is engaged in a competitive business. Its financial statements are not publicly disclosed. The public disclosure of information regarding the financial position of OPGC, both current and projected, could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interest of OPGC since it may affect its relationships with financial services providers and assist competitors in obtaining information with respect to its activities that is not normally accessible to the public.

The OEB's Practice Direction on Confidential Filings (the "Practice Direction") recognizes that these are among the factors that the Board will take into consideration when addressing the confidentiality of filings. They are also addressed in section 17(1) of the Freedom of information and Protection of Privacy Act ("FIPPA"), and the Practice Direction notes (at Appendix C of the Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential. OPDC has requested OPGC's consent to the placement of the OPGC financial statements on the public record, and OPGC has requested that the documents be kept in confidence.

Accordingly, OPDC requests that the OPGC financial statements be kept confidential. OPDC is prepared to provide copies of the OPGC financial statements to parties' counsel and experts or consultants provided that they have executed the OEB's form of Declaration and Undertaking with respect to confidentiality and that they comply with the Practice Direction, subject to OPDC's right to object to the OEB's acceptance of a Declaration and Undertaking from any person. In keeping with the requirements of the Practice Direction, OPDC is filing a confidential unredacted version of the OPGC financial statements . The unredacted versions of the documents have been placed in a sealed envelope marked "Confidential".

Cost of Debt

9. OPDC is requesting the deemed long-term debt rate, on the basis that its Promissory Note issued to the City of Orillia is calleable on demand. The Note, however, is only calleable as follows: on March 31 of each year the City, on six months' written notice to OPDC, may demand repayment of 20% of the principal amount.

(a) Please state whether the City has provided OPDC written notice that it demands 20% repayment by March 31, 2010.

(b) If the City has not provided notice referred to in paragraph (a) above, then the Note is not calleable for 2010, and the earliest demand repayment date, of 20% of the principal amount **if** the City provides notice on or before September 30, 2010, is **March 31, 2011**. Please comment.

(c) The Note also states that the interest rate is determined by reference to the Royal Bank of Canada interest rate on 270 day term deposits exceeding $8,000,000. Please state what the nominal rate of interest under the terms of the Promissory Note is for 2010.

OPDC RESPONSE:

Response to (a):
OPDC did not receive written notice by September 30, 2009 demanding 20% repayment on March 31, 2010.

Response to (b):
OPDC agrees with the logistics of the statements outlined in question (b). As the deadline for giving notice for repayment of 20% on March 31, 2010 has now passed, the earliest call on the note could now be March 31, 2011.

Having said that, OPDC does not feel the nature of the note is other than described. The fact that the City chose not to call the note this year does not mean that the note is not a callable note. Over a period of time, OPDC could be required to negotiate for third party debt at interest rates existing at the time of the call.

Response to (c):
The note states that the interest rate was to be established every five years using the RBC reference mentioned above; however this reference point is no longer relevant. City of Orillia Council changed the method of determining the interest rate on the note in December 2005.

The method established going forward was approved by Council By-Law 2005-184. On a go forward basis, the rate determined by the Ontario Energy Board as the appropriate deemed rate for long term debt was to be used as the effective interest rate on the promissory note each time rates were rebased.

For the May 1, 2006 rebasing period, as indicated in Table 5-1 of the 2006 EDR Handbook, the deemed long term debt interest rate for LDCs < 100 million was 6.25% . This is the rate of interest that has been paid on the note until the next rebasing period (May 1, 2010) as can be seen in Ex. 5 Tab1 Sch. 2 Table 5-2.

As the latest known deemed long term debt rate established by the Ontario Energy Board is 7.62%, this is the rate assumed for 2010 long term debt. Should that rate change prior to finalization of OPDC's 2010 rates, OPDC expects to use the updated rate at the time final rates are determined.

Cost Allocation

10. Ex. 7: Please:

    (a) explain whether OPDC intends on any further movements in revenue to cost ratios towards 100% after 2010. If not, why not?

    (b) explain whether and when London Hydro intends to move all rate classes towards 100% revenue to cost ratios.

    (c) Please provide the revenue by rate class assuming Streetlighting is moved to 70% revenue to cost ratio in 2010.

    (d) Ex. 8, Table 8-2: Please explain what the left most column ("Total Revenue Requirement 2010 Cost Allocation") in the table represents. Is this the revenue requirement divided on the basis of 100% revenue to cost ratios?

OPDC RESPONSE:

Response to (a):
OPDC intends to move the revenue to cost ratio for the Street Light class to 70% by the end of 2012. The additional revenue from Street Light class will be used to reduce the revenue to cost ratio for the GS > 50 kW class.

Response to (b):
Once the revenue to cost ratios for all rate class are within the Board's range OPDC does not plan on making any further adjustments until directed by the Board.

Response to (c):
The following table provides the revenue by rate class assuming Streetlighting is moved to 70% revenue to cost ratio in 2010.

Rate Classification	2010 Rev Requirement After Adjustment with Street Lights at 70% R/C ratio
Residential	$3,984,174
GS <50 kW	$1,433,632
GS>=50 kW	$1,916,588
Street Light	$284,112
Sentinel	$18,282
Unmetered Scattered Load	$21,412
Total	$7,658,200

Response to (d):

It is the revenue requirement by rate class from the updated 2010 cost allocation model. In other words, it is the revenue by rate class at 100% revenue to cost ratios.

11. Exhibit 8: Rate Design

(a) Please explain the extremely high fixed charge for the GS>50kW rate class. It would appear from the ratios that small users within the GS>50kW rate class are paying a disproportionate share of the revenue collected from that class. Please comment.

(b) Please re-do the bill impact summary for the GS>50kW assuming:

(i) A fixed charge for GS>50kW of $200.

(ii) a fixed charge for GS>50kW of $338.04 (the existing rate).

OPDC RESPONSE:

Response to (a):
The proposed fixed charge for the GS>50kW rate class reflects the fixed/variable split assumed in the current rates. The current fixed/variable split is similar to the split that has been in place since the time distribution rates were unbundled from the cost of power.

Response to (b) (i):
See table below which assumes a fixed charge for GS>50kW of $200.00.

GENERAL SERVICE 50 KW AND OVER

VOLUMES			Distribution Portion $$$			Total Bill $$$			Perentage Changes		
kWh	Load Factor	Kw	2009	2010	Change	2009	2010	Change	Distribution 2009 to 2010	Distribution vs Total	Total Bill 2009 to 2010
24,000	56%	60	$543.18	$434.94	($108.24)	$2,354.54	$2,279.22	($75.32)	-19.93%	-4.60%	-3.20%
40,000	56%	100	$679.27	$590.91	($88.36)	$3,698.20	$3,664.70	($33.50)	-13.01%	-2.39%	-0.91%
200,000	56%	500	$2,040.19	$2,150.54	$110.35	$17,134.84	$17,519.48	$384.64	5.41%	0.64%	2.24%
400,000	56%	1,000	$3,741.34	$4,100.08	$358.74	$33,930.64	$34,837.96	$907.32	9.59%	1.06%	2.67%
1,000,000	56%	2,500	$8,844.79	$9,948.70	$1,103.91	$84,318.04	$86,793.40	$2,475.36	12.48%	1.31%	2.94%
1,250,000	56%	3,100	$10,886.17	$12,288.15	$1,401.98	$105,159.76	$108,276.05	$3,116.29	12.88%	1.33%	2.96%
1,600,000	56%	4,000	$13,948.24	$15,797.33	$1,849.09	$134,705.44	$138,748.85	$4,043.41	13.26%	1.37%	3.00%

Response to (b) (ii):
See table below which assumes a fixed charge for GS>50kW of $338.04

GENERAL SERVICE 50 KW AND OVER

VOLUMES			Distribution Portion $$$			Total Bill $$$			Perentage Changes		
kWh	Load Factor	Kw	2009	2010	Change	2009	2010	Change	Distribution 2009 to 2010	Distribution vs Total	Total Bill 2009 to 2010
24,000	56%	60	$543.18	$533.70	($9.48)	$2,354.54	$2,377.98	$23.44	-1.75%	-0.40%	1.00%
40,000	56%	100	$679.27	$663.48	($15.79)	$3,698.20	$3,737.27	$39.07	-2.32%	-0.43%	1.06%
200,000	56%	500	$2,040.19	$1,961.23	($78.96)	$17,134.84	$17,330.17	$195.33	-3.87%	-0.46%	1.14%
400,000	56%	1,000	$3,741.34	$3,583.42	($157.92)	$33,930.64	$34,321.30	$390.66	-4.22%	-0.47%	1.15%
1,000,000	56%	2,500	$8,844.79	$8,449.99	($394.80)	$84,318.04	$85,294.69	$976.65	-4.46%	-0.47%	1.16%
1,250,000	56%	3,100	$10,886.17	$10,396.62	($489.55)	$105,159.76	$106,384.52	$1,224.76	-4.50%	-0.47%	1.16%
1,600,000	56%	4,000	$13,948.24	$13,316.57	($631.67)	$134,705.44	$136,268.09	$1,562.65	-4.53%	-0.47%	1.16%