NORTH BAY HYDRO

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March 1, 2010

Delivered by Courier

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

Attention: Kirsten Walli
Board Secretary

Re: North Bay Hydro Distribution Limited (EB-2009-270)
2010 Electricity Distribution Rate (Cost of Service) Application
Responses to 2nd Round Supplemental Interrogatories

Dear Ms. Walli:

Please find attached a complete copy of the School Energy Coalition's second round of supplemental interrogatory responses.

In accordance with Procedural Order No. 2, two hard copies of this submission will be sent via courier. An electronic copy of this submission in PDF format will be submitted through the Ontario Energy Board's Regulatory Electronic Submission System.

An electronic copy of the submisson in PDF format will be forwarded via email to the Intervenors as follows:

Energy Probe
a) David MacIntosh, Energy Probe
b) Randy Aiken, Aiken & Associates

Donald Rennick

a) Donald Rennick, Independent Participants

School Energy Coalition

a) John De Vellis, Shibley Righton LLP
b) Wayne McNally, Ontario Education Services Corporation

Vulnerable Energy Consumers Coalition

a) Michael Buonaguro, Public Interest Advocacy Centre
b) William Harper, Econalysis Consulting Services Inc.

These responses are respectfully submitted for the Board's review and consideration.

Sincerely,

Original signed by

Cindy Tennant
Finance Manager
North Bay Hydro Distribution Limited
(705) 474-8100 (310)

NORTH BAY HYDRO DISTRIBUTON LTD.

2010 RATE APPLICATION

EB-2009-0270

SCHOOL ENERGY COALITION INTERROGATORIES 2ND ROUND

27. Ex. 2: in the pre-filed evidence, 2009 capital additions were estimated to be $8.3 million. Please provide actual 2009 capital additions as of the latest date for which actual are available. Please provide an updated estimate for the remaining months

Response:

Please refer to NBHDL's interrogatory response for Energy Probe Question # 5 (Appendix A).

28. Ex. 4: please provide actual 2009 OM&A as of the latest date for which actual are available. Please provide an updated estimate for the remaining months.

Response:

Please refer to NBHDL's interrogatory response for Energy Probe Question # 15 (Appendix B).

29. Ref. SEC IRR#15:

(a) The original question asked for a explanation for the large decrease in Other income and Expenses, from $803,512 in 2008 to $141,229 in 2010. The response provided simply gave a breakdown of the revenue. Please explain the large decreases in revenue from: 'Affiliate Administration Fee'; and, 'Interest & Dividend Income', for all three sub-categories (Affiliate Interest/Investments/Bank Deposits).

Response:

Affiliate Administration Fee - Please refer to NBHDL's interrogatory response for Board Staff Question #14.

Affiliate interest has decreased due to the Promissory note of $1,332,950 from North Bay Hydro Services being assigned to North Bay Hydro Holdings in December 2008. Please refer to Exhibit 3, pg 27 and to Appendix 3 (b) of the application.

Investment interest is decreasing due to the decrease in interest rates from the 2008 actual of 4% to the projected 2010 of .96%. The rate used for 2010 was April 2009 actual rate. The investment principle is staying constant.

Bank deposit interest is decreasing due the decrease in the bank balance and the decrease in interest rates from 2010 projected to the 2008 actual. The average bank balance in 2008 was $11.3 million the projected average balance for 2010 is $5.7 million.

30. Ref: SEC IRR#24. The Report of the Board on Cost of Capital states, at pp. 53-54, as follows:

> For affiliate debt (i.e., debt held by an affiliated party as defined by the Ontario *Business Corporations Act, 1990*) with a fixed rate, the deemed long-term debt rate at the time of issuance will be used as a ceiling on the rate allowed for that debt.
>
> For debt that has a variable rate, the deemed long-term debt rate will be a ceiling on the rate allowed for that debt. This applies whether the debt holder is an affiliate or a third-party.
>
> The deemed long-term debt rate will be used where an electricity distribution utility has no actual debt.
>
> For debt that is callable on demand **(within the test year period)**, the deemed long-term debt rate will be a ceiling on the rate allowed for that debt. **Debt that is callable, but not within the period to the end of the test year, will have its debt cost considered as if it is not callable;** that is the debt cost will be treated in accordance with other guidelines pertaining to actual, affiliated or variable-rate debt.
>
> A Board panel will determine the debt treatment, including the rate allowed based on the record before it and considering the Board's policy (these Guidelines) and practice. The onus will be on the utility to establish the need for and prudence of its actual and forecasted debt, including the cost of such debt.

NBHD has stated in SEC IRR #24(a) that the Promissory Note issued to the City of North Bay is not callable within the test year. Therefore:

(a) Please state why, given the statement in the Report of the Board that debt that is callable "but not within the test year" will be treated as if it is not callable, the Promissory Note should not be treated as if it is not callable;

(b) Whether or not the Note is callable, the Report of the Board states that the deemed interest rate is the ceiling rate. Therefore, please state why the nominal rate on the Note, 5%, should not be used for rate making purposes.

(c) The Report of the Board also states that for affiliate debt that is not callable on demand, the ceiling is the Board's deemed long-term debt rate **at the time of issuance**. Please provide the Board's deemed long-term interest rate as of March 2003.

Response:

a), (b) and (c)

Based on further review of The Report of the Board on Cost of Capital dated December 11, 2009, NBHDL, would agree that the Promissory Note issued to the City of North Bay is not callable within the test year. However, as stated above *"For affiliate debt (i.e., debt held by an affiliated party as defined by the Ontario Business Corporations Act, 1990) with a fixed rate, the deemed long-term debt rate at the time of issuance will be used as a ceiling on the rate allowed for that debt."* The deemed long-term debt rate at the time of issuance was 7.25%. It is NBHDL's interpretation that the ceiling on the debt rate associated with the Promissory Note is 7.25%. Since the Report of the Board on Cost Capital is very recent there is minimal experience, if any at all, in how the Board has implemented the report. As a result, NBHDL is unsure what the appropriate debt rate should be on the Promissory Note, for rate setting purposes, considering the wording of the Cost of Capital Report. It is NBHDL's current expectation that the debt rate on the Promissory Note assigned by the Board would be between 5% to 7.25%

31. Ref: SEC IRR#26(a):

(a) The Report of the Board on Cost Allocation refers to "the ceiling" and states that distributors that are above the ceiling value are "not required to make changes to their current MSC to bring it to or below this level at this time." Please explain, however, how NBHDL's proposal to further increase the MSC for the GS>50kW rate class, when the MSC for that class is already above the ceiling, is consistent with the Board Report.

Response:

As stated in response to SEC IRR#26(a) it is NBHDL's position that the Board has not yet established a ceiling for the MSC. It would appear to NBHDL that the issue of the appropriate ceiling and related issue of the proper fixed/variable split is still under review as part of the distribution rate review process. In addition, considering the Board has approved MSC in recent rebased/cost of service rate applications that are above the MSC reference suggests to NBHDL that a ceiling for the MSC has not yet been established.

Also, as per the Board's website, the Board has recently retained Pacific Economics Group Research to review Ontario's existing revenue adjustment/cost recovery mechanisms that are applied to electricity and natural gas distributors and analyse these mechanisms in comparison with selected alternative approaches used elsewhere whereby distributors recover approved revenues regardless of energy volumes sold. These "volume neutral" revenue adjustment mechanisms will include 'revenue decoupling' and alternative rate design approaches such as 'straight fixed variable' rates. The approaches highlighted for consideration must be consistent with Ontario's regulatory context,