Espanola Regional Hydro Distribution Corporation

EB-2020-0020

Response to Pre-Settlement Clarification Questions

Filed: May 10, 2021

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# Espanola Regional Hydro Distribution Corporation.
# Response to Clarification Questions

## VECC Clarification Questions

### VECC – 42

Reference: VECC 17 c) and VECC 19 a)

Preamble:

VECC 17 c) asked – "What is the basis for the Street Lights update from number of devices to number of connections (e.g., what analysis was undertaken and for what point in time)?" The response provided does not address the question posed which sought to understand how the update from number of devices to number of connections was performed.

VECC 19 a) asked how the reduced Street Light consumption value for 2020 established. The response provided does not address the question posed which sought to understand how the new consumption value of 224,919 kWh was determined.

Question:

a) With respect to VECC 17 c), has ERHDC historically maintained records regarding both the number of Street Light connections and the number of Street Light devices?

b) If not, how was the number of Street Light connections determined and for what point in time?

c) With respect to VECC 19 a), please explain how the new Street Light consumption level of 224,919 kWh was established.

Response:

a) ERHDC has not historically maintained records regarding both the number of Street Light connections and number of Street Light Devices

b) ERHDC completed an internal physical count of the street light connections and devices in 2020 in order to update the number of devices to number of connections.

c) In August 2020, the Township of Sables-Spanish River converted their lights to LED's. The Load profile of the Township of Sables-Spanish River was updated to the following.

## Sables Spanish River

| | |
|---|---|
| Quantity of Streetlights | 320 |
| Demand of Streetlights (kW) | 13.233 |
| Quantity of Connections[1] | 295 |

| Streetlights | | | | | |
|---|---|---|---|---|---|
| Streetlight Type | S/L Wattage | Photoeye W | Total Wattage | Quantity | Total Demand (kW) |
| 33W_XSPSM D HT 2ME 5L 30K7 UL SV N Q4 | 33 | 0.5 | 33.5 | 223 | 7.4705 |
| 47W_XSPSM D HT 2ME 5L 30K7 UL SV N Q9 | 47 | 0.5 | 47.5 | 42 | 1.995 |
| 60W_XSPMD D HT 2ME 12L 30K7 UL SV N Q3 | 60 | 0.5 | 60.5 | 44 | 2.662 |
| 95W_XSPMD D HT 2ME 12L 30K7 UL SV N Q9 | 100 | 0.5 | 100.5 | 11 | 1.1055 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | Totals | | | 320 | 13.233 |

To establish the associated kWh consumption that would correlate to a 13.233 kW load profile, the ratio of previous kWh to kw was applied. See table below for calculation of the ratio of kWh/kw.

| | DemandBilled | CorrectedMetered | CorrectedKW | Ratio of kw/kWh | New Load Profile(Demand Billed) | New kwh (Corrected Metered) |
|---|---|---|---|---|---|---|
| Township of Sables-Spanish River | 41.4 | 14283 | | 0.2899% | 13.233 | 4,565.39 |
| | 41.4 | 14283 | | 0.2899% | 13.233 | 4,565.39 |
| | 41.4 | 14759.1 | | 0.2805% | 13.233 | 4,717.56 |
| | 41.4 | 9315 | | 0.4444% | 13.233 | 2,977.43 |
| | 41.4 | 9625.5 | | 0.4301% | 13.233 | 3,076.67 |
| | 41.4 | 9625.5 | | 0.4301% | 13.233 | 3,076.67 |
| | 41.4 | 13662 | | 0.3030% | 13.233 | 4,366.89 |
| | 41.4 | 14117.4 | | 0.2933% | 13.233 | 4,512.45 |
| | 41.4 | 13662 | | 0.3030% | 13.233 | 4,366.89 |
| | 41.4 | 19251 | | 0.2151% | 13.233 | 6,153.35 |
| | 41.4 | 17388 | | 0.2381% | 13.233 | 5,557.86 |
| | 41.4 | 19251 | | 0.2151% | 13.233 | 6,153.35 |
| | 41.4 | 0 | | | | |
| | OLD | **169,222.50** | | | NEW | **54,089.89** |

This resulted in an updated kWh of 54,089.89 for the Township of Sables-Spanish River. ERHDC then combined this with the existing consumption from the Town of Espanola of 170,857.50 kWh. The difference between 224,919 and 224,949 is due to rounding within the load forecast model.

**VECC – 43**

Reference: Staff 32 b) 2021 Filing Requirements_Chapter 2 Appendices_IRR_Response, Appendix 2-JC

Preamble:

Staff 32 b) states: "For Large General Service Customers, the meters are manually read but are being transitioned to interval meters and will be read electronically in 2021".

Questions:

a) Over what period of time are Large General Service customers being transitioned to interval meters?

b) What are the annual savings in metering reading costs attributable to the elimination of the manual reading of Large General Service customers' meters?

c) Are these savings reflected in the forecast 2021 meter reading costs per Appendix 2-JC?

Response:

a) The Large General Service customers were transitioned to interval meters from July 2020 to January 2021.

b) The cost to do the manual reads is approximately $350/mth total and are performed by staff. It takes 1 staff member about 4 hours to read all the meters. The geographical locations of the meters are in Massey, Webbwood and Espanola.

c) These savings are not reflected in the forecast 2021 meter reading costs per Appendix 2-JC. Currently there are still 6 meters that require manual meter reads, therefore there wont be any savings.

**VECC – 44**

Reference: Staff – 35 2021 RRWF_20210325, Load Forecast Tab

Preamble:

Question:

a) The customer class kWh and kW values used in Staff-35 do not match those in ERHDC's 2021 Load Forecast. Please explain and revise the response as necessary.

Response:

a) There was an error in the tables pasted in OEB Staff 35. An older version was pasted in. The table has been revised and pasted below.

**RATES - Low Voltage Adjustment**

| Customer Class | LV Adj. Allocated | Calculated kWh | Calculated kW | Volumetric Rate Type | LV/ Adj. Rates/kWh | LV Adj. Rates/ kW |
|---|---|---|---|---|---|---|
| Residential | 218,049 | 32,639,692 | | kWh | 0.0067 | |
| GS < 50 kW | 61,274 | 10,191,190 | | kWh | 0.0060 | |
| GS >50 to 4999 kW | 89,764 | 15,482,365 | 38,559 | kW | | 2.3280 |
| Sentinnel | 124 | 24,258 | 67 | kW | | 1.8371 |
| Street Lighting | 1,188 | 224,919 | 660 | kW | | 1.7996 |
| Unmetered and Scattered | 693 | 115,182 | | kWh | 0.0060 | |
| TOTALS | 371,092 | 58,677,605 | 39,286 | | | |

This has resulted in a slight change to the Low Voltage Rates. Therefore, an updated Tariff Schedule and Bill Impact Model has been filed in excel format with these responses.

**VECC – 45**

Reference:

VECC 39 ERHDC's Load Forecast Model, Purchased Power Model Tab 2021 Filing Requirements_Chapter 2 Appendices_IRR_Response, Appendix 2-R

Preamble: N/A

Question:

a) Are the historical 2015-2019 purchased power values used in the Load Forecast Model (see Purchased Power Model Tab, Cells B154-B158) meant to represent the sum of the A(1) value and the embedded generation value per VECC 39.

b) If yes, why don't the 2019 values reconcile?

c) If not, what is the basis for the purchased power values used in the Load Forecast model?

Response:

a) Yes.

b) In 2019, there is a slight variance of 13,844 kWh. When ERHDC filed a RRR update, it found that 13,844 was missing in the amount of consumption reported for embedded generation. This was updated in the RRR filing and the Chapter 2 Filing Requirements, Appendix 2-R. ERHDC missed including this in the updated Load Forecast model. This has been updated with the most recent load forecast submitted with these clarification responses.

c) N/A.

# OEB Staff Clarification Questions

## 2-Staff – 43

Reference: 2-Staff-14

Question:

In table Staff-14 of Espanola Hydro's response, there is a line item "Remaining increase" that accounts for $53,300 of the increase in Espanola Hydro's O&M from 2015 to 2019. Please explain what this amount represents.

Response:

The other significant increases were in pole rental fees charged by Hydro One and Bell as well as inflationary increases between 2015-2019 as noted below.

| | | |
|---|---|---|
| Remaining increase | | $53,300 |
| Pole Rental increase Hydro One | $4,000 | |
| Pole Rental increase Bell | $2,800 | |
| Inflationary increase (2.1%, 1.9%, 1.2%, 1.5%) | $38,029 | $44,829 |
| Minor variances in various accounts | | $8,471 |

**2-Staff – 44**

Reference: 2-Staff-10, 2-Staff-7

Question:

a) In Espanola Hydro's revised Chapter 2 Appendices, OEB staff notes that, although the 2020 balances in the 2-BA fixed asset continuity schedule have been updated for 2020 actuals, the 2021 opening balances have not yet been updated to reflect the revised 2020 closing balances. Please correct the 2021 opening balances (for both cost and accumulated depreciation).

b) In tab 2-ZB, the calculation of the transmission (network and connection in rows 37-62) costs should be revised to reflect the fact that Espanola Hydro has separate RTSR charges for interval and non-interval metered customers. Please add entries for interval-metered customers. (The cells in column A can be edited to add "General Service > 50 Interval-metered entries for the transmission charges).

c) In tab 2-ZB, please update the rates for "Wholesale Market Service" to 0.0034 and "RRRP" to 0.0005.

Response:

a) The 2021 opening balances have been corrected and are reflected in the Chapter 2 Appendices filed in live excel format with these clarification responses. The updated appendices are titled "ERHDC 2021 Filing Requirement Chapter 2 Appendices IRR Clarification Response 20210414"

b) Currently, GS>50 customers are being charge the RTSR network and connection rate at the non-interval metered rate. Therefore, the presentation in tab 2-ZB would be accurate to reflect that all consumption for GS>50 customers would be billed at $1.9526 and $1.7589 respectively. The recent finalization of the installation of MIST meters will cause most of these customers to be updated to the interval metered rate.

c) The "Wholesale Market Service Charge" and the "RRRP" charge have been updated in tab 2-ZB. This is reflected in the live excel model "ERHDC 2021 Filing Requirement Chapter 2 Appendices IRR Clarification Response 20210414" filed with these clarification responses.

**2-Staff – 45**

Reference: 1-Staff-1, Chapter 2 Appendices 2-H

Question:

Espanola Hydro updated its other revenues. Introduced in the revised model is Account 4405 "Interest and Dividend Income" with -$5,000 in 2021. Please explain what makes up the -$5,000 balance in the test year and why it is significantly lower than prior years.

Response:

Account 4405 consists of interest from DVA accounts and other interest/dividend income. The following chart summarized those amounts from 2017-2020.

| OEB Account and Descrption | 2017 | 2018 | 2019 | 2020 | | 4 year avera | 3 year average |
|---|---|---|---|---|---|---|---|
| 4405.1.00.00 Interest/Dividend Income | -$3,125.36 | -$6,346.44 | -$29,234.32 | -$3,031.98 | | -$10,434.53 | -$4,167.93 |
| 4405.2.00.00 Interest - Carrying Charges - DVA | -$32,252.80 | -$54,870.97 | -$68,591.63 | -$66,286.55 | | N/A | N/A |

With regards to other interest/dividend income, there was a one-time occurrence of funds sitting in trust and earning interest in 2019 associated directly with the North Bay Hydro acquisition of ERHDC. This is not expected to recur in the test year or at any time in the future.

Removing this amount from the historical average (2017, 2018 and 2020) results in average ERHDC dividend and interest income of $4,168. This amount was rounded up to $5,000.

**3-Staff – 46**

Reference 1: Staff-20

Reference 2: Exhibit 3, page 5

Question:

Espanola Hydro confirmed that it intends to charge street lights based on a per-connection rather than per-device basis.

In Exhibit 3, it states that the forecast reflects this change from devices to connections starting in 2020. It explains that forecast reflects 1062 devices in 2019 and 799 connections in 2020.

a) Has Espanola Hydro already changed its billing practice from devices to connections?

b) In either case, when did the change happen, or when is it proposed to happen?

Response:

a) ERHDC has not changed its billing practices from devices to connections.

b) It is awaiting final approval in this application.

**3-Staff – 47**

Reference: VECC-39

Question:

Espanola Hydro has subtracted embedded generation from delivered energy from Hydro One when calculating the supply facility loss factor.

a) Please confirm whether the Wholesale delivered to the distributer A(1) also included embedded generation, and if so, whether it would also need to be removed when determining the supply facilities loss factor.

b) Please explain why embedded generation should be removed from purchases when it forms part of overall supply to Espanola Hydro.

Response:

a) A(1) included embedded generation. A(1) is the total of embedded generation and the amount delivered to ERHDC from Hydro One, which includes Hydro Ones losses. Cell G is calculated by dividing 60,045,035 by 57,482,828. The 60,045,035 is the amount available for use by all ERHDC customers. It includes the amount delivered by Hydro One exclusive of their loss (59,083,418) and the amount from embedded generation (975,461).

b) Embedded generation is not removed from purchases. The response in VECC 39 was meant to show how it is included in purchases.

## 3-Staff – 48

Reference 1: Load Forecast Model

Reference 2: Staff-38

Question:

The response to Staff-38 provides details on long term load transfers in calculating the loss factors. The load forecast model does not address Long Term Load Transfers.

a) Please provide the monthly amount of long-term load transfers from January 2010 to December 2018.

b) Please confirm that the wholesale purchases in the load forecast include embedded generation.

c) Please provide a revised load forecast which adjusts wholesale purchases for long term load transfers such that only wholesale for the purpose of serving Espanola Hydro's customers is captured.

Response:

a) ERHDC does not have the requested data

b) The wholesale purchases in the load forecast included embedded generation.

c) As mentioned in response a), ERHDC does not have the requested data. ERHDC did not believe the impact of removing the net long term load transfer ("LTLT") consumption significant on the load forecast. Please see the chart below for the overall percentage of consumption the LTLT represents.

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Net Long Term Load Transfer | 215,101 | 212,588 | 178,345 | 175,647 | 89,012 | - | - |
| Purchases | 64,467,199 | 61,027,107 | 59,711,876 | 58,757,254 | 60,659,212 | 61,089,144 | 59,478,232 |
| Percentage of Total Consumption | 0.33% | 0.35% | 0.30% | 0.30% | 0.15% | 0.00% | 0.00% |

**4-Staff – 49**

Reference: 4-Staff-28

Question:

In the cost breakdown of the PUC Services Agreement, there are two line items, one named “Contract SSMPUC 30%” and the other named “Contract SSMPUC 70%.” Please explain what these line items represent.

Response:

These two lines represent an allocation of a portion of the service agreement costs to the Customer Billing (5315) and Collecting (5320) accounts.

**5-Staff - 50**

Reference: VECC-29, VECC-30, Chapter 2 Appendices 2-OB, Revenue Requirement Workform

Question:

Espanola Hydro updated 2-OB to include two new loans with TD.

a) Please explain the nature of these two loans and their purpose.

b) Espanola Hydro's weighted actual long-term debt rate in 2-OB is 2.94% but is shown as 2.92% in the Revenue Requirement Workform. Please confirm which is the correct value and correct the models as necessary.

Response:

a) These two loans were missed in the original submission. They are to assist with ERHDC's capital requirements in 2020 and 2021.

b) The 2.92% included in the revenue requirement workform is accurate. The update has been made to the "ERHDC 2021 Filing Requirement Chapter 2 Appendices IRR Clarification Response 20210414" filed in live excel format.

**8-Staff – 51**

Reference: 8-Staff-37, Tariff and Bill Impact Model

Question:

As noted in the response to 8-Staff-37, the correct primary loss factor is 1.0567. However, OEB staff notes that the new Tariff in the Tariff and Bill Impact Model has not been updated to reflected the correct primary loss factor of 1.0567. Please ensure that the final version of Espanola Hydro's tariff reflects the correct primary loss factor.

Response:

ERHDC will ensure the final version of the Tariff and Bill Impact model include the correct primary loss factor of 1.0567.

**9-Staff – 52**

Reference: VECC-37

Question:

In VECC-37, Espanola Hydro indicated that it would be requesting a new DVA related to increased costs arising from Bill 257 (if enacted) and would file a draft accounting order to support its proposal.

a) Please provide the draft accounting order.

b) In accordance with the OEB's Chapter 2 Filing Requirements, any new deferral/variance account must satisfy the three criteria of Causation, Materiality and Prudence. Please provide a discussion on how Espanola Hydro's proposed new DVA satisfy these three criteria.

Response:

a) The draft accounting order will be provided once complete.

b) ) In accordance with the OEB's Chapter 2 Filing Requirements, any new deferral/variance account must satisfy the three criteria of Causation, Materiality and Prudence. Please provide a discussion on how Espanola Hydro's proposed new DVA satisfy these three criteria.

ERHDC is requesting approval for an accounting order to establish a new deferral account ("DVA") as indicated in response to the interrogatory VECC-37. This new DVA is related to the possible impacts to ERHDC's costs resulting from the recent Bill 257, *Supporting Broadband and Infrastructure Expansion Act, 2021*, which enacts the *Building Broadband Faster Act, 2021* ("BBFA").

On April 12, 2021, Bill 257 received Royal Assent. The BBFA, which is now enacted, includes changes that will impact ERHDC's costs. Section 8 of the BBFA provides that:

> "8 (1) The proponent and the distributor or transmitter may agree on the apportionment of the actual cost of the work.
>
> (2) If no agreement is reached, the actual cost of the work shall be apportioned in accordance with, (a) the prescribed rules; or (b) such requirements under the *Ontario Energy Board Act, 1998* as are prescribed for the purposes of this clause."

In addition, the *Ontario Energy Board Act, 1998* ("OEB Act") has been amended as a result of Bill 257 and the new Section 104.3 provides that:

> "104.3 (1) The Lieutenant Governor in Council may make regulations governing the development of, use of or access to electricity infrastructure for the purposes of this Part, including,
>
> […]
>
> (d) governing charges or costs for the development of, use of or access to electricity infrastructure to which this Part applies and governing the amounts of the charges or costs, including fixing the amounts, setting maximum or minimum amounts or prescribing methods or techniques for determining amounts or maximum or minimum amounts"

As such, these changes as a result of Bill 257 imposes material financial consequences on ERHDC that are not addressed in its base rates. Specifically, it includes provisions that would result in possible increases in utility costs to facilitate broadband attachments as well as possible changes to Pole Attachment charges for broadband connections. This would result in material additional costs for the utility that are not included in base rates.

Based on the foregoing, the OEB's eligibility criteria for new DVAs are met:

*Causation* - *The forecasted expense must be clearly outside of the base upon which rates were derived.*

- The proposed deferral account is intended to capture the financial impacts of legislative changes from Bill 257 during the IRM plan term. Consequently, the amounts would be recorded in the deferral account would be clearly outside of the base upon which ERHDC's rates will be derived.

*Materiality* - *The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.*

- Although it is too early to forecast what the exact incremental costs will be as it will be defined by regulations that will be subsequently introduced, we propose to use ERHDC's materiality threshold of $50,000 (as set out in Section 2.1.4.14 in Exhibit 1) as the basis. ERHDC proposes that the materiality of the amounts in this new DVA will be assessed at disposition and must exceed $50,000 in aggregate over the IRM plan term. These incremental costs would have a material impact on ERHDC's revenue requirement.

*Prudence. The nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.*

- The revenue impact is in consideration of the exceptional requirements and remedies set out in Bill 257, and it is therefore reasonable for ERHDC to record this financial impact in an OEB-approved deferral account, and to seek recovery in a future proceeding.

A draft accounting order for the proposed deferral account, which includes a description of the mechanics of the account, examples of the general ledger entries and the proposed manner in which to dispose of the account will be provided once it is complete.

**9-Staff – 53**

Reference: VECC-41, RTSR Workform, DVA continuity schedule

Question:

In VECC-41, Espanola Hydro explained that Low Voltage Account charges had been erroneously been recorded in Account 1586 – RTSR Connection Charges. The large balance in Account 1586 is partially offset by the credit balance in the Low Voltage Account.

a) Please detail the amounts that were incorrectly recorded in Account 1586 and revise the DVA to reflect the corrected balances in Accounts 1586 and 1550.

As shown in tab 5 of the RTSR workform, Espanola Hydro's total billed connection charges for one year is approximately $270k. Espanola Hydro last cleared its 2013 Account 1586 balances in its 2015 IRM application, which means that the current balances in account 1586 being requested for disposition reflect 6 years (2014-2019) of accrued balances. The total amount of $930,863 being requested for disposition averages to approximately $155k per year.

b) OEB staff notes that, even if the full credit amount in Account 1550 is applied against the Account 1586 balance, this would still be $711,229 or $118,538 per year. This appears significant considering the underlying total RTSR connection charges Espanola Hydro would be billed by Hydro One in a year would only be $270k ($119k is over 40% of this). Please explain the reason for the large amounts recorded in Account 1586.

Response:

a) ERHDC has provided a chart below to show the amount of erroneously recorded charges within 1550 and 1586 from 2014 – 2019.

| | Adjustment | |
|---|---|---|
| Year | 1586 CN | 1550 LV |
| 2014 | -$75,863.24 | $75,863.24 |
| 2015 | -$102,069.36 | $102,069.36 |
| 2016 | -$128,889.50 | $128,889.50 |
| 2017 | -$137,160.72 | $138,900.55 |
| 2018 | -$135,276.84 | $135,276.84 |
| 2019 | -$144,116.71 | $144,116.71 |
| | -$723,376.37 | $725,116.20 |
| Originally Submitted in DVA Continuity Schedule | $930,863.26 | -$219,633.95 |
| Revised Balance | $207,486.89 | $505,482.25 |

The revised balance for 1586 is a collection from customers of $207,486.89. The revised balance for 1550 is a collection from customers of $505,482.25. This totals $712,969.14 which is a variance of $1,740.14 from the originally submitted DVA continuity schedule. ERHDC will provide a final revised continuity schedule to accompany this update.

b) The balance has now shifted from the 1586 CN to 1550 LV account. In, ERHDC 2012 application, the low voltage rate was under calculated. This created a variance starting in 2012 and continuing every year. ERHDC last disposed of the balance in 1550 in 2015 which reflected year end balances for 2013. Since 2013, the charge from hydro one for common ST Lines continues to increase significantly which can be seen in the adjustment chart in response a).

## **Other Clarifications**

Reference: Exhibit 5 page 5, Staff-31(a)

Preamble:

Espanola Hydro stated that it expects to finalize in 2021 a promissory note with North Bay Hydro Distribution Limited for $230,000.

Question:

Has Espanola Hydro finalized the terms of this promissory note? If yes, please provide a copy of the promissory note.

Response:

In the original response in to Staff-31(a), ERHDC stated that it will provide a copy of the promissory note as soon as it is available.

Please find attached to these clarification responses at Attachment 1, a promissory note with North Bay Distribution Limited for $230,000.

## Attachment 1 – Promissory Note with North Bay Hydro Distribution Limited

**CAD 230,000** **Effective as of APRIL 8, 2021**

# PROMISSORY NOTE

**NOW THEREFORE FOR VALUE RECEIVED** the undersigned, Espanola Regional Hydro Distribution Corporation (the "**Borrower**") hereby promises to pay to North Bay Hydro Distribution Limited, its successors and assigns (collectively, the "**Lender**") on demand, the principal sum of two hundred and thirty thousand dollars (CAD 230,000) in lawful money of Canada (the "**Principal**"), together with interest then due and owing in accordance with this Promissory Note.

The Borrower is an affiliate, as such term is defined in the Ontario Energy Board's ("**OEB**") *Affiliate Relationship Code*, of the Lender. The Principal was used exclusively by the Borrower to make interest payments on a loan from TD Bank to the Borrower.

## 1) Interest rate pricing and payment

a) The interest rate (the "**Interest Rate**") shall be equal to the prime rate. For the purposes of this Promissory Note, prime rate is defined as the Bank of Canada's prime rate of interest expressed as a rate per annum and cross referenced against TD Bank's prime rate, which rate may be adjusted from time to time. Notwithstanding the foregoing, in the event the prime rate is greater than the OEB's deemed long-term debt rate ("**Deemed Rate**", as published in the OEB's Cost of Capital Parameter Updates), the Interest Rate shall be equal to the Deemed Rate then in effect.

b) Interest shall accrue and be calculated monthly in arrears and shall be payable to the Lender on the first business day of each month (each, an "**Interest Payment Date**").

c) If interest is not paid on the Interest Payment Date, the Principal shall continue to bear interest at the applicable interest rate and overdue interest shall bear interest at the same interest rate, compounded monthly, and be payable on demand.

d) In this Promissory Note, each rate of interest which is calculated with reference to a period (the "**deemed interest period**") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. Interest shall be calculated using the nominal rate of calculation, and will not be calculated using the effective rate method of calculation or any other basis that gives effect to the principle of deemed reinvestment of interest.

## 2) Repayment of Principal

a) Prior to April 8, 2024 the Borrower has the option to pay only interest, and as of April 8, 2024 the Principal, and any outstanding interest thereon, shall be due and payable upon demand by the Lender (whether in instalment payments comprising Principal and interest or a lump sum amount).

b) The Borrower may at any time prepay any or all of the Principal outstanding under this Promissory Note, without penalty or bonus, together with interest that has accrued on the prepaid amount to the prepayment date and that has not been paid prior to such date. Any prepayment made will be applied first, to the payment of interest on the outstanding Principal to the date of such payment, and second, to the payment of the outstanding Principal then due.

c) All amounts due under this Promissory Note will be payable by bank draft, cheque or wire transfer, in lawful money of Canada in accordance with the instructions provided by the Lender as at repayment.

**3) Apportionment of risk**

a) In the event the Borrower fails to pay interest on the Interest Payment Date or defaults in its performance of any other term hereof, the balance of the outstanding Principal under this Promissory Note, together with any interest, shall immediately become fully due and payable upon demand by the Lender.

b) The Borrower and the Lender hereby waive presentment, demand and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Promissory Note.

**4) Dispute resolution**

a) Where any dispute arises between the parties as to the interpretation of any provision of this Promissory Note or as to the determination of any matter hereunder and the dispute cannot be resolved by negotiation between the parties, then the matter or dispute shall be submitted to arbitration as herein provided by any party giving notice to the other party. Within fifteen (15) days of receipt of the notice requesting an arbitration, the parties will jointly appoint one arbitrator to conduct the arbitration. If the parties cannot agree on the arbitrator, such arbitrator shall be appointed by a judge of the Superior Court of Ontario upon the application of either party.

b) The arbitration shall be governed by the Ontario *Arbitration Act (1991)*. The determination of the arbitrator shall be in writing and shall be final and binding on all parties hereto.

c) The cost of the arbitration shall be borne by the parties on their separate account, or as directed by the arbitrator in its final decision.

**5) General**

a) No amendment, supplement or waiver of any provision of this Promissory Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless it is in writing, makes express reference to the provision affected thereby and is signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

b) This Promissory Note shall be binding upon the Borrower and its successors and assigns and shall enure to the benefit of the Lender, its successors and assigns, provided however that the Borrower shall not assign any rights or obligations with respect to this Promissory Note without prior written consent of the Lender, acting in its sole and absolute discretion.

c) All notices and demands provided for herein shall be in writing and shall be personally delivered, delivered by facsimile, electronic mail or mailed by prepaid registered mail to the Lender or to the Borrower in accordance the instructions provided by either party. Any notice or demand so personally delivered or delivered by facsimile or electronic mail shall be deemed to have been validly made and effectively given and received on the date of such delivery, provided such notice or demand was delivered prior to 5:00 PM on a business day in Ontario, failing which, the notice or demand shall be deemed to have been delivered the following business day. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.

d) This Promissory Note constitutes the entire agreement between the parties with respect to the subject matter and supersede all prior agreements, negotiations, discussions, undertakings, representations, warranties and understandings, whether written or oral.

e) This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

*[Signature page follows.]*

**IN WITNESS WHEREOF** the undersigned have duly executed this Promissory Note.

**ESPANOLA REGIONAL HYDRO**
**DISTRIBUTION CORPORATION**

______________________________
Name: Matt Payne
Title: President and CEO

______________________________
Name: Melissa Casson
Title: Vice President of Finance