



Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3Y4
tel.: (416) 367-6000 fax: (416) 367-6749
www.blgcana.com

JAMES C. SIDLOFSKY
direct tel.: 416-367-6277
direct fax: 416-361-2751
e-mail: jsidlofsky@blgcana.com

March 21, 2007

Delivered by Courier and E-mail

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: North Bay Hydro Distribution Limited
Self-Nomination Request to the Ontario Energy Board (the “OEB”) for
Rebasing in 2008**

Introduction:

We are counsel to North Bay Hydro Distribution Limited ("North Bay Hydro") in the above-captioned matter. The OEB's March 12, 2007 Report on an "LDC Screening Methodology to Establish a Rebasing Schedule for Electricity LDCs" (the "Report") sets out certain criteria that the OEB will use in determining the year in which each of Ontario's local electricity distribution companies ("LDCs") will be rebased – the OEB currently anticipates rebasing LDCs in three groups of approximately 30 LDCs, with each group being rebased in one of 2008, 2009 or 2010.

The rebasing process will require LDCs to file forward test year applications in the year preceding the year in which their rebasing will be implemented. Section 3 of the Report sets out the criteria to be considered by the OEB in considering the year in which an LDC will be rebased. Section 3.3 (Self-Nomination) provides:

“This criterion gives LDCs an opportunity to provide information directly to the Board concerning exceptional circumstances that they consider may not otherwise come to the Board's attention that could significantly affect the Board's decision about the year for rebasing the LDC. By this means an LDC may inform the Board of its justification for rebasing for a particular year. Examples of potential justification through a self-nomination could include expected major differences between the year to be rebased and the forward test year that add urgency to the need for review, such as a worsening financial condition that may not be evident from historical data filed with the Board.

Any expression of interest through a self-nomination should be done in the form of a letter stating the year of rebasing preferred and the distributor's justification for self-nomination. Distributors should consider self-nomination for 2009 or 2010, as well as 2008. The letter should be provided to the Board Secretary by the date set out in Section 4.0 below.”

Vancouver
Toronto
Ottawa
Montréal
Calgary



BORDEN
LADNER
GERVAIS

In accordance with Section 3.3 of the Report, North Bay Hydro takes this opportunity to self-nominate for rebasing in 2008 – North Bay Hydro would therefore be part of the first group of LDCs to be rebased.

Grounds for North Bay Hydro Self-Nomination for Rebasing in 2008:

North Bay Hydro seeks rebasing in 2008 for the following reasons:

1. North Bay Hydro has experienced a significant increase in its capital asset base from the 2004 adjusted figures to actual 2006 balances. This is due for the most part to the construction and completion of a distribution substation in 2006, the cost of which exceeded \$1.1 million. North Bay Hydro applied for a Tier 1 rate base adjustment in its 2006 Electricity Distribution Rate Application in the amount of \$575,000 for this project. With the effect of the ½ year rule, only approximately \$288,000 was added to North Bay Hydro's rate base in 2006, with adjustments for depreciation. Further, the component costs for certain assets (transformers) has increased significantly (by over 30% in some cases) over 2006. Increases of this nature far exceed normal inflationary increases and would suggest that the current rate base is undervalued.

North Bay Hydro respects the OEB's reasons for having applied the ½ year rule, but North Bay Hydro's concern is that the assumption underlying the rule – that is, that the assets would not have been in service for the entire first year of operation – can only be applicable to that first year. In subsequent years, the assets would clearly have been in service for the entire year, but unless the rate base is adjusted by adding the remainder of the value of those assets to it after the first year, North Bay Hydro will continue to be denied the full return on the asset until its rate base is reset, and the impacts of the ½ year rule will continue to grow.

While this situation would ideally be addressed prior to 2008, North Bay Hydro requests the opportunity to rebase in 2008, as it appears that this may be its first opportunity to have the full value of those assets included in its rate base.

2. Maintaining the reliability of North Bay Hydro's distribution system requires the construction of a new substation. Construction will commence in 2007, with completion anticipated for 2008.

In light of the foregoing, North Bay Hydro submits that it is in the best interest of its customers to rebase in 2008 rather than to defer rebasing, in order to smooth any resulting rate increases. If North Bay Hydro cannot rebase until 2010, the resulting impact on rates may be significant. This smoothing will also serve to ensure a stable revenue stream to fund the required capital program rather than cause financial uncertainty.

Summary:

In light of the foregoing, North Bay Hydro respectfully requests that the OEB place North Bay Hydro in the first group of LDCs, to be rebased in 2008.



BORDEN
LADNER
GERVAIS
—

We trust that this letter meets the OEB's requirements with respect to self-nomination requests. Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky

JCS/dp

cc: E. Chirico, North Bay Hydro
J. Snider, North Bay Hydro

::ODMA\PCDOCS\TOR01\3513113\2