Gerry Hilhorst, P. Eng.
VP, Regulatory Affairs

WATERLOO NORTH HYDRO INC.
300 Northfield Drive East
Waterloo ON N2J 4A3
Telephone 519-888-5550
Fax 519-886-8592
E-mail ghilhorst@wnhydro.com
www.wnhydro.com

October 11, 2006

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2006-0088/89 Waterloo North Hydro's Response to OEB's Questions on Cost of Capital and 2nd Generation Incentive Regulation for Electricity Distribution Companies

In response to the Questions from the OEB on the Cost of Capital and 2nd Generation Incentive Regulation for Electricity Distribution Companies, Waterloo North Hydro Inc. (WNH) supports the response of the Electricity Distributors Association (EDA) on behalf of its Local Distribution Company members.

WNH has the following comments, additional to the EDA's response, on Question # 1 Access to Capital:

1. *Access to Capital (addressed to distributors)*

   Please provide any information available on situations where your distribution utility has experienced difficulties in obtaining financing for capital investments on reasonable terms. What reasons were given for the inability to raise capital or on unreasonable (i.e. above-market rates)?

   WNH is concerned with the future potential impact of the Board Staff's proposed changes. In order for LDCs required to move to a 60/40 debt equity structure from a 50/50 debt equity structure, they may be required to acquire third party debt. Currently some commercial lenders have required subordination of municipal debt as part of their banking covenants. If municipal debt is converted to third party debt, subordination of debt will no longer be acceptable. This may cause an LDC to be offside with their banking covenants. WNH also notes that an LDC, faced with upcoming lumpy capital expenditures (i.e. Transformer Station, Smart Meters) and the associated borrowing required, may find that it is not able to meet its banking covenants.

1. *Access to Capital (addressed to distributors) - continued*

   In discussions with our financial lender (written comments will not be available); the financial community is watching this proceeding with great interest and assessing its impact on future dealings with LDCs. Lack of flexibility, for LDCs who have had to move to a 60/40 debt equity structure, was a main concern expressed. This lack of flexibility may limit access to capital and the ability to absorb unexpected changes easily.

If there are any questions, please contact myself, Gerry Hilhorst, at 519-888-5550, ghilhorst@wnhydro.com.

Yours truly,

Via e-mail only

Gerry Hilhorst, P.Eng
VP, Regulatory Affairs