July 13, 2004

Ontario Energy Board
Attn.: Mr. P. O'Dell, Acting Board Secretary
PO Box 2319, 26th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Process for Establishing 2006 Electricity Distribution Rates

Dear Mr. O'Dell,

Thank you for the opportunity to provide initial comments on the "preliminary issues list" provided with your letter of June 16, 2004. As this is the first step in the process, we felt it prudent to provide high-level comments that will be detailed at a later date.

As outlined by Board staff during the two-day consultation of July 6-7, 2004, the main objective of this process is to determine a common cost of service (CoS) methodology to use when setting new revenue requirements for 2006 electricity distribution rates. It was further stated that the 2006 rate application process would primarily be used for re-basing rates prior to the implementation of a second generation performance based rate (PBR) framework. North Bay Hydro Distribution supports this objective and is committed to assisting the Board staff with the development of such a methodology.

As an active member of the Electricity Distributors Association (EDA), we are supportive of the positions submitted by the EDA both during the two-day consultation session of July 6-7, 2004 and in writing. As such, we are submitting comments only on issues that are of importance to North Bay Hydro Distribution. Should there be an inconsistency between the EDA's submission and this submission, the North Bay Hydro Distribution submission is the more accurate representation of our current position.

We are encouraged by the Board Staff's desire to streamline the preparation and review processes for LDC rate applications. North Bay Hydro Distribution supports the concept of using a comparative methodology as a process for identifying items that require further review or more detailed evidence.

While there are numerous factors that can be compared, it is important to define a small list that accurately reflects the issues of importance and then use those factors in combination to determine a rating for any particular LDC. I am confident that the combined knowledge and skill of the Board Staff, the LDCs, and other stakeholders can accomplish this considerable task.

Specifically, the ultimate cost of service for an LDC is based on two main factors: "Where you are and, whom you service". The following list outlines several areas of risk for North Bay Hydro Distribution.

1. Regional economic climate
   - The low economic growth (perhaps decline) in the North Bay Hydro Distribution service area results in higher risk of bad debt, longer collection periods and, load forecast variability.
2. Topography
   - The Canadian Shield, dense forestation and proximity to fresh water lakes in the North Bay Hydro Distribution service area provides for an excellent quality of life but causes significant issues for electrical distribution. Construction costs are elevated due to rock mounts and drilling requirements. Maintenance costs are elevated due to vegetation management and access issues.
3. Customer mix
   - A reliance on a disproportionate number of large general service and intermediate use customers results in higher financial risks.
   - A high penetration rate for natural gas combined with the introduction of alternative fuels (e.g. wood stoves) causes load forecasting variability.
4. Customer density
   - A large percentage of rural distribution adds significant cost pressures (e.g. outage response).
   - Rural distribution is inherently less reliable causing service quality concerns (i.e. negative service quality indicator performance).
   - Low customer density increases the losses on the distribution system (i.e. increased number of transformers, long distribution circuits)
   - Low customer density results in relatively poor asset utilization. A factor that compares the utilization of the assets to the financial resources employed could be very descriptive (i.e. MWh delivered per $ of capital employed).
5. Access to services
   - Large distances from contractors, consultants and service providers combined with relatively low customer density results in the risk of higher costs due to increased travel and accommodation requirements.
   - Mutual aid in the event of large-scale outages is slow due to the large distances between neighboring work centers.
6. Access to trained labour
   - Relatively low compensation, a general lack of trained labour and, a rapidly aging existing workforce lead to significant human resource risks. While this is a generic industry issue, it is accentuated by the geographic location of North Bay and the regional economic climate.
7. Access to material
   - Large distances from suppliers cause higher material and inventory costs.
   - The use of purchasing groups has been utilized to moderate this risk.
8. Weather patterns
   - The longer winter season results in higher risks from snow, freezing rain, poor working conditions, limited access and, load forecast variability.
   - The short construction season results in higher construction and maintenance costs.

These risks form the basis for factors that can be developed for use when comparing different LDCs. While the list is not expected to be exhaustive at this early stage of the analysis, it is representative of the types of factors that will be required.

In the Board Staff presentation on July 6th, 2004 the timeline for this process indicated that there could be a range of one to four months between the timing of the final guidelines being issued and the LDC's deadline to file rate applications. While North Bay Hydro Distribution is prepared to meet the requirements of the Board, a period of four to six months between receiving the filing guidelines and making application would be greatly appreciated.

Additionally, staggering the application dates would greatly improve the efficiency of the review process. We submit that a random process be utilized to select the order of application. This type of process is inherently fair to all involved.

We look forward to working with the Ontario Energy Board and staff in developing an effective and efficient process for establishing distribution rates. In the meantime, if you require any further information, I can be reached by telephone at (705) 474-8100 x.305 or by e-mail at jsnider@northbayhydro.com

Respectfully submitted,

Mr. J. Snider
General Manager