



34 Cumberland Street N.  
Thunder Bay, ON P7A 4L4  
tel (807) 343-1111  
www.tbhydro.com

February 23, 2012

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Thunder Bay Hydro Electricity Distribution Inc. ("TBHEDI")  
2012 IRM3 Distribution Rate Application  
Board File No. EB-2011-0197**

---

This letter acknowledges receipt of the Board Staff Submission dated February 13, 2012. TBHEDI submits two (2) paper copies of its responses to the Board Staff Submission for the 2012 IRM3 Distribution Rate Application and encloses the following:

- Responses to the Board Staff Submission
- Appendix A – Decision and Order EB-2002-0035
- Appendix B – TBHEDI's response to Board Staff Interrogatory question #10

An electronic copy has been submitted through the OEB's RESS on-line filing system and via email, including a copy to all Intervenors.

Should you require any additional information, please do not hesitate to contact the undersigned.

Yours truly,

A handwritten signature in cursive script that reads "Cindy Speziale".

Cindy Speziale, CA  
Vice President, Finance

Encl.

cc: Robert Mace, President, Thunder Bay Hydro Electricity Distribution Inc.  
Michael Buonaguro, Counsel for Vulnerable Energy Consumers Coalition (VECC)

**Responses to Board Staff Submission**  
**2012 IRM3 Electricity Distribution Rates**  
**Thunder Bay Hydro Electricity Distribution Inc. ("TBHEDI")**  
**EB-2011-0197**

**Introduction**

TBHEDI originally filed an application with the Ontario Energy Board ("OEB") on November 10, 2011 seeking approval for changes to its electricity distribution rates to be effective May 1, 2012. The application is based on the 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

The purpose of this document is to provide responses to Board Staff's Submission which was based on its review of the evidence submitted by TBHEDI in its original application and interrogatory process.

Below you will find TBHEDI's responses on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Shared Tax Savings;
- Disposition of Deferral and Variance Accounts
- Smart Meter Funding Adder ("SMFA");
- Disposition of Account 1521 – Special Purpose Charge ("SPC");
- Disposition of Account 1562; and
- Lost Revenue Adjustment Mechanism ("LRAM")

**Adjustments to the Revenue-to-Cost Ratios**

The Board's Decision (EB-2008-0245) for TBHEDI's 2009 Cost of Service rate application prescribed a phase-in period to adjust its revenue-to-cost ratios. TBHEDI acknowledges the Board Staff's Submission and agrees that TBHEDI has complied with the filing requirements and the Board's Decision as mentioned above, and thus, has no concern with TBHEDI's revenue-to-cost ratio adjustments.

**Shared Tax Savings**

In its November 10, 2011 submission, TBHEDI submitted the Shared Tax Savings filing module and determined a credit amount of \$422,205 of tax savings out of which \$211,102 (50%) is to be refunded to its customers through a one year rate rider for each rate class.

TBHEDI acknowledges the Board Staff's Submission and agrees that its request to refund \$211,102 to its customers and the resulting calculations of rate riders are in accordance with *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications* and should be approved.

**Disposition of Deferral and Variance Accounts**

In its November 10, 2011 submission, TBHEDI submitted for disposal its December 31, 2010 actual year-end balance for Group 1 Deferral and Variance accounts with interest projected to April 30, 2012 which is a credit of \$2,097,477 to be refunded back to customers. The total for Group 1 accounts is inclusive of the \$138,091 credit balance of the 1588 Global Adjustment sub-account.

TBHEDI acknowledges the Board Staff's Submission and agrees that TBHEDI is eligible for disposal at

this time as the total Group 1 balance results in a claim of (\$0.00222) per kWh, which exceeds the preset disposition threshold. Board Staff has reviewed its Group 1 balances and also concurs that they conform to those reported in its *Reporting and Record Keeping Requirements* filing.

TBHEDI acknowledges the Board Staff's Submission and concurs that TBHEDI has no issues with its request to dispose of its 2010 Group 1 Deferral and Variance Account balances over a one year period and that the credit balance of \$2,097,477 of Group 1 Accounts should be disposed on a final basis.

### **Smart Meter Funding Adder ("SMFA")**

In its November 10, 2011 submission, TBHEDI applied to extend its current approved SMFA of \$1.97 per metered customer per month beyond its sunset date of April 30, 2012. On January 31, 2012 TBHEDI submitted a final smart meter recovery application (EB-2012-0115) to dispose of its related costs as at December 31, 2011 and applied for a rate rider for incremental costs up until its next Cost of Service Application in which TBHEDI will rebase its rates in 2013. TBHEDI has requested for the extension of the \$1.97 per metered customer per month until the rate riders are approved and become effective via EB-2012-0115. TBHEDI believes this request adheres to the Board's rate-making principles of effectiveness and stability for both the Distributor and its customers. Maintaining status quo until the final smart meter recovery application is approved will reduce volatility and rate shock.

TBHEDI acknowledges that Board Staff makes no submission on whether the SMFA should be continued or not but is cognizant that TBHEDI has filed an application for the final recovery of smart meter costs.

### **Disposition of Account 1521 – Special Purpose Charge ("SPC")**

In its original application, TBHEDI requested to dispose of a debit balance of \$206,141 in Account 1521 which is comprised of the audited principle and carrying charge balances as at December 31, 2010. In response to Board Staff interrogatory question #9, TBHEDI revised its balance to include the unaudited adjustments for recoveries that occurred in 2011 and related carrying charged forecasted to April 30, 2012. The revised balance of Account 1521 for disposition is determined to be a debit of \$34,737.

TBHEDI acknowledges that Board Staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances; however, also notes that the Board has approved the disposition of unaudited balances in Account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

TBHEDI concurs with Board Staff that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012, which results in a debit balance of \$34,737. TBHEDI also agrees that this balance should be disposed of on a final basis and over a one year period.

## **Disposition of Account 1562**

In response to Board Staff's interrogatories, on January 31, 2012 TBHEDI updated its filed evidence and revised the final PILs amount to receive from its customers to a debit balance of \$328,040 consisting of a principal debit amount of \$125,162 and related debit carrying charges of \$202,878.

There are 3 issues that Board Staff has addressed in its Submission:

### *Issue 1: Start Date of Recording the 2001 and 2002 PILs Proxy Entitlements*

Board Staff suggested in interrogatories that the PILs proxy should be pro-rated for the period from May 1, 2002 (the effective date for 2002 rates) to March 31, 2004, or 23 months effectively reducing TBHEDI's funding for PILs by \$655,427. TBHEDI has recorded its entitlement to the 2001 PILs proxy starting on October 1, 2001 and the 2002 PILs proxy on January 1, 2002. This is consistent with the guidance as prescribed by the Board in the APH as acknowledged by Board Staff on Page 6 in its Submission dated February 13, 2012 and is consistent with the filings in EB-2008-0381 Deferred PILs Combined Proceeding

TBHEDI acknowledged that it did file an amended application on February 21, 2002 for its rates to become effective for May 1, 2002; however, this request never indicated that TBHEDI was forgoing any entitlement to PILs funding. The Board Decision and Order (EB-2002-0035) dated April 5, 2005 specifically approved adjustment to its distribution rates for the 2001 deferred Payments in Lieu of Taxes (PILs), \$576,475 and the 2002 Payments in Lieu of Taxes PILs, \$1,389,805 (the sum of the amounts on pages 3 and 6 of the Decision, attached as **Appendix B**). The rates were effective May 1, 2002; however, there is nothing in this decision that would indicate that TBHEDI was entitled to any less than the full proxy amounts referred to above. As acknowledged by Board Staff, "Thunder Bay was subject to PILs for the whole period starting from October 1, 2001 and never indicated that they were not seeking recovery for PILs in this period" (EB-2011-0197 Board Staff Submission dated February 13, 2012, Page 7).

TBHEDI respectfully reiterates its response to Board Staff Interrogatory #10e on Page 16 that TBHEDI does not consider Board Staff's PILs proxy calculation to fairly reflect the 2002 Board Decision; that it is not consistent with the findings in EB-2008-0381 Deferred PILs Combined Proceeding and that TBHEDI believes that its entitlement to the 2001 PILs proxy should start on October 1, 2001 and its entitlement to the 2002 PILS proxy should start on January 1, 2002 (see **Appendix B** for TBHEDI's entire response to Board Staff Interrogatory #10).

### *Issue 2: Use of Board-approved Rates for PILs Recovery*

TBHEDI confirms that its Unmetered Scattered Load (USL) customers were billed at the approved PILs rate sliver at the General Service <50 kW class rates from 2002 to 2005. Since the USL billed consumption is less than 1% of the total General Service <50 kW consumption for these years and were billed at the same rate slivers, TBHEDI combined the kWh consumption and recoveries together for simplicity.

TBHEDI confirms that it has not billed its Sentinel Lighting customers although PILs rate slivers had been approved for this rate class from 2002 to 2005, thus, no funds were recovered from these customers. To date, TBHEDI has had less than 200 sentinel lighting connections.

### *Issue 3: Excess Interest True-Up Calculations*

TBHEDI confirms that the charge for IESO Prudential's is a stand-by fee for providing, but not drawing on, a line of credit. Also, TBHEDI confirms that non-payment of invoices to the IESO has never been an issue to the utility. As a result, no adjustment is required to the PILs continuity schedule.

### **Lost Revenue Adjustment Mechanism ("LRAM")**

The following is a reproduction of TBHEDI's response to Vulnerable Energy Consumers Coalition's Final Submissions dated February 23, 2012 as it believes the response addresses Board Staff's LRAM issues as well.

## **Response to the Vulnerable Energy Consumers Coalition (VECC) Final Submission 2012 IRM Distribution Rate Application Thunder Bay Hydro Electricity Distribution Inc. ("TBHEDI") EB-2011-0197**

The Board Staff submission dated February 13, 2012 recognized that the Board in its Decision and Order EB-2008-0245 dated June 3, 2009, denied the specific CDM adjustment in Thunder Bay Hydro Electricity Distribution Inc.'s load forecast. Board staff also noted that this "does not necessarily mean that no CDM savings are imputed in the final forecast approved by the Board" (Page 10 of the Board Staff Submission in EB-2011-0197 dated February 13, 2012).

Upon reviewing EB-2008-0245, the original application, the ensuing interrogatories, responses and the Decision and Order, the following is clear:

1. TBHEDI submitted a load forecast which included a specific CDM adjustment (EB-2008-0245 Exhibit 3, Tab 2, Schedule 1, Page 9 of 20). (see **Appendix A**)
2. TBHEDI submitted an LRAM claim (EB-2008-0245, Exhibit 8, Tab 1, Schedule 10, Page 7 of 16). (See **Appendix B**)
3. The Board denied the CDM adjustment (Decision and Order dated June 3, 2009 of EB-2008-0245, Page 7). (See **Appendix C**)
4. The Board allowed the LRAM claim (Decision and Order dated June 3, 2009 of EB-2008-0245, Page 18). (See **Appendix D**)
5. The Board in its Findings did not make mention of the LRAM claim in its explanation of denying the specific CDM adjustment (Decision and Order dated June 3, 2009 of EB-2008-0245, Page 7). (See **Appendix C**)
6. The Board in its Findings did not make mention of the specific CDM adjustment to the load forecast in its explanation of allowing the LRAM claim (Decision and Order dated June 3, 2009 of EB-2008-0245, Page 18). (See **Appendix D**)

There is no discussion within the Board's Decision and Order that suggests that CDM savings, as Board staff have implied, were "imputed" (Page 10 of the Board Staff Submission in EB-2011-0197 dated February 13, 2012), attributed or otherwise allowed in the final approved forecast. In fact, the

Board stated quite simply that it “will not accept the 9.7 GWh adjustment for CDM impacts” (EB-2008-0245 Decision and Order, June 3, 2009, Page 7). The sole explanation was that there was “insufficient evidence to support the conclusion” (EB-2008-0245 Decision and Order, June 2009, Page 7).

As a result, it must be concluded that CDM savings were not imputed in the final forecast approved by the Board. Subsequently, an additional conclusion that must be drawn, and that was previously upheld by the Board EB-2010-0115 (Decision and Order dated March 28, 2011) (See **Appendix E**), is that it is still appropriate to allow the LRAM claim currently before the Board in EB-2011-0197.

Furthermore, TBHEDI has not rebased since EB-2008-0245 and will not do so until the 2013 rate year. It is through the rebasing year that CDM forecasts are incorporated into the load forecast. TBHEDI looks forward to submitting a fulsome and sufficiently supported specific CDM adjustment at that allowed time. Until then, and in keeping with Section 5.2 of the Board Guidelines for Distributor Conservation and Demand Management (EB-2008-0037), the LRAM application, as it relates to the persisting impacts of 2005 – 2009 programs as submitted, is appropriate and just.

VECC’s Final Submission dated February 13, 2012 stated that “energy savings from TBHEDI’s CDM programs deployed between 2005 and 2009 are not accruable in the year 2009, 2010 and beyond as these savings should have been incorporated in the 2009 load forecast at the time of rebasing” (Final Submissions of VECC, February 13, 2012, Page 7). This was VECC’s position in EB-2010-0115. On Page 3 of TBHEDI’s response to VECC interrogatories dated November 26, 2010 in EB-2010-0115 it states:

“TBHEDI’s claim is based solely on the argument that the OEB should approve a continuation of the LRAM stemming from EB-2008-0245 as a result of the OEB’s decision to not allow the conservation and demand management adjustment portion of TBHEDI’s load forecast at that time.

To reiterate the claim in this filing, TBHEDI’s distribution rates should have been adjusted for the load reductions as submitted; however, the load forecast reduction was not approved, and therefore, the fundamental principle in Section 5.2 of the Guidelines EB-2008-0037 (that the LRAM accrual ceases at the point of distribution rate adjustment) is null and void.”

Subsequently, TBHEDI’s position was accepted by the Board and the continuation of the LRAM was allowed at that time. In the Decision and Order in EB-2010-0115 on Page 10 it is stated that “the Board continues to endorse the principle of LRAM, which is that distributors are to be kept whole for revenue that they have forgone as a direct consequence of implementing CDM programs.” (See **Appendix E**) TBHEDI respectfully submits that this is the reasonable and just conclusion to be applied to its LRAM claim in EB-2011-0197.

TBHEDI would also at this time reassure VECC that in TBHEDI’s 2013 Cost of Service application a fulsome and sufficiently supported specific CDM adjustment will be incorporated into the load forecast.

*All of which is respectfully submitted*

1  
2

**Table 5**  
**Predicted Purchases Before and After Adjustments**

(GWh)	Predicted Before Adjustments	Adjustments	Predicted After Adjustments
2006	1,075.7	-1.5	1,074.2
2007	1,092.3	-31.4	1,060.9
2008 (WN)	1,096.8	-59.9	1,036.9
2009 (WN)	1,099.4	-59.9	1,039.5

3 The following table outlines the sources of the manual adjustments made to the forecast.

4  
5

**Table 6**  
**Manual Adjustment to Forecast**

(GWh)	Great West	Agricore	Northern Wood	CDM	Total
2006				1.5	1.5
2007	14.9	1.6	2.1	12.9	31.4
2008 (WN)	23.1	5.0	19.0	12.9	59.9
2009 (WN)	23.1	5.0	19.0	12.9	59.9

6 With regards to Great West, annual energy sales including losses has reduced by 14.9 (GWh) in  
 7 2007. Based on actual 2008 information from January to April it is expected the energy  
 8 consumption will be reduced by 23.1 (GWh) in 2008 which is also the assumed reduction in  
 9 energy for the 2009 forecast. There has been a significant reduction in energy usage for Great  
 10 West since May of 2007, the month they announced an indefinite shutdown.

11

12 With regards to Agricore, annual energy consumption in 2007 has reduced by 1.6 (GWh) in  
 13 2007, including losses. Based on actual 2008 from January to April it is expected the energy  
 14 consumption will be reduced by 5.0 (GWh) in 2008 which is also the assumed reduction in  
 15 energy for the 2009 forecast. This reduction is a result of the decommissioning of one terminal,  
 16 and significant drop in activity at other terminals at Agricore.



In terms of the overall approach, the Company argued that the proposed “top down” approach is appropriate because it has been used by Toronto Hydro and accepted by the Board in previous applications; and because Thunder Bay has the data required for this type of calculation, such as the exact amount of kWhs purchased from the IESO and others for use by customers of Thunder Bay. In Thunder Bay’s view, Energy Probe’s “bottom up” approach is problematic in that the monthly billed kWhs required for each class is dependant on other monthly variables such as billing cycle meter reading schedules which may include consumption from a previous month. Also, Thunder Bay suggested that relating billed monthly amounts to a variable such as heating degree days is not logical since the resulting regression model would attempt to relate heating degree days in a month to the amount billed in the month, not the amount consumed.

### **Board Findings**

The Board accepts Thunder Bay’s load forecast, subject to two adjustments. The Board will not accept the 9.7 GWh adjustment for CDM impacts. The Company based this adjustment on the difference between forecast and actual load. The Board finds there is insufficient evidence to support the conclusion that the difference is in fact attributable to CDM impacts.

The Board will not adopt the adjusted (distribution) loss factor as proposed by VECC. The Board finds Thunder Bay’s explanation of the use of the total loss factor to adjust the forecast to be reasonable. However, the Board will not accept either Thunder Bay’s or Energy Probe’s total loss factor numbers. The Board notes that the calculation supporting the 4.7% figure proposed by Thunder Bay includes purchases and billings over the eight year period 2000 to 2007, whereas the most recent five years are used to establish the factors approved on the Tariff sheet. Also, since Thunder Bay has forecasted no large customers as part of its test year customer base the Board finds that it would be appropriate for Thunder Bay to apply the approved Tariff sheet total loss factor for secondary metered customers below 5,000 kW only. The Board addresses the level of the loss factors later in this Decision. The Board notes that Thunder Bay has provided no rationale for why the total loss factor used to convert the load forecast to billing quantities should not be the same total loss factor that appears on its Tariff sheet.

The Board will not adopt the recommendation by Energy Probe that the 2004 Hydro One NAC data be used. There are some shortcomings to Thunder Bay’s forecast approach, a number have been noted by the intervenors in addition to Energy Probe’s

suggested reduction, Thunder Bay proposed that a 10% reduction of the amounts sought for the 2007 delivery year would be appropriate as 2007 is the year that the independent third party review was made part of the CDM Guidelines. It was Thunder Bay's position that the reduction is appropriate only for those programs funded by third tranche CDM dollars, since the OPA has asserted that its programs have undergone third party evaluations.

Thunder Bay submitted that its total LRAM and SSM amount for the 2007 delivery year is \$167,446. If OPA programs are excluded, the total LRAM and SSM amount for the 2007 would be \$117,168. If a 10% reduction were applied to this total, Thunder Bay stated that this would reduce the total LRAM and SSM amount for the 2007 delivery year by \$11,717, which the Company stated would be appropriate.

### Board Findings

The Board accepts Thunder Bay's proposal to reduce its requested LRAM and SSM claim by \$11,717 in the absence of a third party review. The Board approves the recovery of the LRAM and SSM total of \$477,380 by means of the three-year volumetric rate riders proposed by Thunder Bay.

### PAYMENTS IN LIEU OF TAXES ("PILs")

Thunder Bay forecasted a PILs allowance of \$970,138 for 2009, composed of \$800,672 for combined Federal and Provincial Income Taxes and \$169,466 in Capital Taxes, as shown in the following table<sup>8</sup>.

**Summary of Actual and Proposed PILs Allowance**

<i>Description</i>	2006 Board				
	Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
<b>Income Taxes</b>	\$ 1,092,369	\$ 1,109,218	\$ 737,431	\$ 655,911	\$ 800,672
<b>Large Corporation Tax</b>	\$ 21,095				
<b>Ontario Capital Tax</b>	\$ 235,550	\$ 230,440	\$ 218,391	\$ 165,897	\$ 169,466
<b>Total Taxes</b>	\$ 1,349,014	\$ 1,339,658	\$ 955,822	\$ 821,808	\$ 970,138

Thunder Bay provided a summary of its actual and estimated PILs in response to Board staff interrogatory #30. Further information on specific details and issues of Thunder Bay's PILs were provided in response to Board staff interrogatory #30 and Energy Probe interrogatories #24 and #25.

<sup>8</sup> Exhibit 4 / Tab 3 / Schedule 1

**Review and Disposition of Lost Revenue Adjustment Mechanism (“LRAM”)**

In its original filing, Thunder Bay sought approval to recover a total LRAM claim of \$386,136 over a one year period.

The Board’s Guidelines for Electricity Distributor Conservation and Demand Management (the “CDM Guidelines”) issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM.

The Board’s Decision on LRAM in the Horizon application (EB-2009-0192) stated that distributors are to use the most current input assumptions which have been adopted by the Board when preparing their LRAM applications as these assumptions represent the best estimate of the impacts of the programs.

In response to interrogatories from VECC, Thunder Bay confirmed that its LRAM claim is twofold. The first claim is for an extension of the LRAM claim originating in EB-2008-0245 stemming from 2005 to 2007 CDM activities. This amount is \$307,075. The second part of Thunder Bay’s LRAM claim is \$79,061 and comes from 2008 CDM activities that persist into 2009 and 2010. Also, in response to VECC interrogatory #3b, Thunder Bay discovered a persistency error in its original submission in the Summer Sweepstakes Program which would effectively reduce the overall 2008 LRAM claim of \$79,061 to \$61,897.

In its submission, VECC was concerned about Thunder Bay’s use of Best Available Input Assumptions as required by the Board’s TRC Guidelines Section 7.3 and the Board’s Letter, dated January 29, 2009, regarding its adoption of the OPA Measures and Assumptions List. VECC noted that the lack of an independent third party review may have resulted in a continuation of outdated input assumptions. VECC submitted that it was unable to provide any assistance to the Board as to whether the LRAM claim is accurate or not.

Board staff also submitted that it appeared as though Thunder Bay has not used the most recently published OPA Input Assumptions list when calculating its entire LRAM claim. Board staff submitted that Thunder Bay makes no reference to using the most recently published OPA Input Assumptions list when calculating lost revenues from its 2005 to 2007 CDM programs. Board staff further submitted that the Board should direct Thunder Bay to recalculate its LRAM claim using the most recently published OPA Input

Assumptions List and re-file the updated amounts for approval.

In its Reply Submission, Thunder Bay recalculated the LRAM claim for 2005 to 2007 CDM programs using the most recently published OPA Input Assumptions List. The new LRAM amount for that time period is \$194,006. As a result, the revised total LRAM claim requested for recovery is \$255,903 to be collected over a period of one year.

The Board continues to endorse the principle of LRAM, which is that distributors are to be kept whole for revenue that they have forgone as a direct consequence of implementing CDM programs. The Board is of the view that the most current OPA Measures and Assumptions List, as updated by the OPA from time to time, represents the best estimate of losses associated with a distributor's CDM programs.

The Board approves the recovery of the revised LRAM amount of \$255,903 which is consistent with the principles set out in the Horizon Decision. The Board approves the recovery by means of a volumetric rate rider over a 1 year period.

### **Late Payment Penalty Litigation Costs**

In this application, Thunder Bay requested the recovery of a one time expense of \$160,239 related to the late payment penalty ("LPP") costs and damages resulting from a court settlement that addressed litigation against many of the former municipal electricity utilities in Ontario.

On October 29, 2010 the Board commenced a generic proceeding on its own motion to determine whether Affected Electricity Distributors<sup>1</sup>, including Thunder Bay should be allowed to recover from their ratepayers the costs and damages incurred as a result of the Minutes of Settlement approved on April 21, 2010 by the Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice (Court File No. 94-CQ-r0878) and as amended by addenda dated July 7, 2010 and July 8, 2010 in the late payment penalty class action and if so, the form and timing of such recovery. This proceeding was assigned file No. EB-2010-0295.

On February 22, 2011, the Board issued its Decision and Order and determined that it is appropriate for the Affected Electricity Distributors to be eligible to recover the costs and damages associated with the LPP class action in rates. The decision set out a listing of

---

<sup>1</sup> As defined in the Board's Decision and Order EB-2010-0295

# APPENDICES

The Applicant applied to adjust its distribution rates for the following:

- Input Price Inflation (IPI) and Productivity Factor as provided for in the Performance Based Regulation (PBR) Plan.
- the second of three installments of the utility's incremental Market Adjusted Revenue Requirement (MARR), \$387.
- the 2001 deferred Payments in Lieu of Taxes (PILs), \$372,382.
- the 2002 Payments in Lieu of Taxes (PILs), \$1,518,344.
- a change in the Applicant's late payment penalty and a provision for the revenue losses incurred by this change, \$219,098.

The Applicant also applied for certain new specific service charges relating to change of occupancy and requests for account history.

Copies of the Application and supporting material are available for review at the Board's offices.

While the Board has considered all of the evidence filed in this proceeding, the Board has only referenced the evidence to the extent necessary to provide background to its findings.

- the 2001 deferred Payments in Lieu of Taxes (PILs) amount was adjusted to correct for an understatement of \$204,093.
- the 2002 Payments in Lieu of Taxes (PILs) amount was adjusted to correct for an overstatement of \$128,539.

The Applicant proposed certain new specific service charges. The Board recognizes that cost related charges are an important regulatory principle and there should not be undue subsidization for specific services offered by the Applicant. The Board has not had an opportunity to deal with this issue and other issues related to the specific services offered and fees charged by Ontario's electricity distributors. The Board intends to initiate a comprehensive review of these issues at the earliest opportunity. In the meantime the Board is reluctant to deal with changes to the existing services and charges on a utility-specific and/or piecemeal basis. The Board therefore does not approve the Applicant's proposal to introduce new service charges at this time. In making this finding, the Board considered that the cost and revenue consequences for the Applicant appear to be minor.

Subject to these adjustments, the Board finds that the Applicant's proposals in the Revised Application conform with the Board's earlier decisions, directives and guidelines and the resulting rates are just and reasonable.



Recoveries in Rate Period	Amount of Recoveries	PILs Proxy
2002 – billings for 8 months only	1,308,312.80	1,310,852.67
2003	2,001,495.57	1,966,279.00
2004 – Jan. 1 – Mar. 31	500,373.89	491,569.75
	\$3,810,182	\$3,768,701

- f) Would this approach to determine the PILs proxy for the period from May 1, 2002 be fair to both the utility and its ratepayers? Please explain and include a discussion of the notion of potential “harm” to Thunder Bay.

**Responses**

- a) TBHEDI confirms that it has used the following the APH (page 25 printed below) to record the monthly entitlement to the PILS proxy for 2001 and 2002. The PILS proxy of \$1,389,804 is the proxy for the January to December 2002 period.

***1562 Deferred Payments In Lieu of Taxes***

*A. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end. For a full year each applicable proxy will be divided by 12, and a monthly amount should be posted for each applicable period.*

Additionally Appendix C from Halton Hills Hydro Inc., EB-2008-0381 Deferred PILs Combined Proceeding has treated the Board-approved PILs tax proxy from Decisions in the same fashion as TBHEDI has filed.

Year start:	01/10/2001	01/01/2002	01/01/2003	01/01/2004	01/01/2005	01/01/2006	Total
Year end:	31/12/2001	31/12/2002	31/12/2003	31/12/2004	31/12/2005	30/04/2006	
Opening balance:	= 0	246,317	139,188	-113,126	-233,670	-616,187	0
Board-approved PILs tax proxy from Decisions (1)	+/- 246,317	899,961	1,146,278	961,540	224,990	276,883	3,755,969
PILs proxy from April 1, 2005 - input 9/12 of amount					622,986		622,986
True-up Variance Adjustment Q4, 2001 (2)	+/-	747	0				747
True-up Variance Adjustment (3)	+/-	0	-138,040	-239,140	-179,987	-123,738	-680,905
Deferral Account Variance Adjustment Q4, 2001 (4)	+/-				0		0
Deferral Account Variance Adjustment (5)	+/-	0	0	-40,600	-82,295	0	-122,895
Adjustments to reported prior years' variances (6)	+/-					270,000	270,000
Carrying charges (7)	+/-	4,029	4,526	-4,020	-9,100	-10,071	-14,636
PILs billed to (collected from) customers (8)	-	0	-1,011,866	-798,324	-959,111	-232,679	-4,267,058
Ending balance: # 1562		<u>246,317</u>	<u>139,188</u>	<u>-113,126</u>	<u>-233,670</u>	<u>-616,187</u>	<u>-435,792</u>

Uncollected PILs

NOTE: The purpose of this worksheet is to show the movement in Account 1562 which establishes the receivable from or liability to ratepayers. For explanation of Account 1562 please refer to Accounting Procedures Handbook for Electric Distribution Utilities and FAQ April 2003.

Please identify if Method 1, 2 or 3 was used to account for the PILs proxy and recovery. **ANSWER:**

- (1) (i) From the Board's Decision - see Inclusion in Rates, Part III of the TAXCALC spreadsheet for Q4 2001 and 2002. Please insert the Q4, 2001 proxy in column C even though it was approved effective March 1, 2002. If the Board gave more than one decision in the year, calculate a weighted average proxy.
- (ii) If the Board approved different amounts, input the Board-approved amounts in cells C13 and E13.
- (iii) Column G - In 2003, the initial estimate should include the Q4 2001 PILs tax proxy and the 2002 PILs tax proxy.
- (iv) Column I - The Q4 2001 PILs tax proxy was removed from rates on April 1, 2004 and the 2002 PILs tax proxy remained.
- (v) Column K - The 2002 PILs tax proxy applies to January 1 to March 31, 2005, and the new 2005 PILs tax proxy from April 1 to December 31, 2005.
- (vi) Column M - The 2005 PILs tax proxy will be used for the period from January 1 to April 30, 2006.

- b) TBHEDI's cover letter to the application dated February 21, 2002 requested a May 1, 2002 effective date for the commencement of the collection of the PILs proxy amount. Additionally, as per the top section of worksheet 8. 2002 PILs Proxy Adder Calc, reproduced below, it is clear that the 2002 PILs proxy is the full \$1,389,804.

This schedule allows LDCs to input the calculated value for the 2002 PILs Proxy Estimate. Use the methodology released by the Board on December 21, 2001.

Enter the Estimated Value for the 2002 PILs Proxy \$1,389,804.31

The Table below uses your best estimate of the 2001 statistics for your LDC to allocate the 2002 PILs Proxy Estimate amount and to create the adders in each class.

Ideally, these statistics should agree with those to be filed by your LDC as part of the PBR filing requirements.

- c) TBHEDI does not consider Board staff's PILs proxy calculation to reflect fairly the 2002 Board decision. TBHEDI believes the following to be the correct reflection:

Recoveries in Rate Period	Amount of Recoveries*	PILs Deferral Amount/Proxy
2001- Oct to Dec	0.00	576,475.00
2002 – billings for 8 months only	1,308,312.80	1,389,804.00
2003	2,001,495.57	1,966,279.00
2004 – Jan. 1 – Mar. 31	500,373.89	491,569.75
	\$3,810,182	\$4,424,127.75

\*Please note amounts have not been adjusted for changes made as a result of adjustments made in response to Interrogatory #11.

- d) See table above.
- e) No, TBHEDI does not agree that Board staff's approach would be fair. TBHEDI has filed consistent with the findings in the EB-2008-0381 Deferred PILs Combined Proceeding and to vary from such would be unfair to the utility.

**11) PILs Recoveries**  
**Ref: 2002 RAM Model**

The 2002 application rate adjustment model ("RAM") provided two sheets (sheet 6 and 8) that calculated the rate slivers associated with the 2001 and 2002 PILs proxy amounts approved by the Board for recovery from customers. These rate slivers had both fixed customer charge and volumetric charge elements. In order to correctly determine the amounts recovered from customers, the Applicant must multiply the rate slivers by the appropriate billing determinants.

- a) Please provide the PILs recoveries calculation worksheet that uses the rate classes from the 2002 rate order including unmetered scattered load, number of customers, kWh/kW billed and the associated fixed and variable rate slivers from the 2002 RAM in the PILs recovered worksheets from Thunder Bay's effective date of May 1, 2002 to March 31, 2004.

**Response**

- a) Due to the similarity of Board Staff's Questions #11 through to #13, TBHEDI has prepared one PILs recoveries calculation worksheet which has been attached as **Appendix D**.

TBHEDI had a Board approved fixed and variable PILs charge component effective from May 1, 2002 through to March 31, 2004. TBHEDI did not segregate the fixed and variable PILs charges by rate class from TBHEDI's distribution charges. As a result, the collection amounts, billed kWh/kW and billed customers have all been recognized on a straight line basis using annual statistics. See attached