

**Ontario Energy Board**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c.15 (Schedule B);

**AND IN THE MATTER OF** an Application by Thunder Bay  
Hydro Electricity Distribution Inc. for an order approving just  
and reasonable rates and other charges for electricity  
distribution to be effective May 1, 2009.

---

**INTERROGATORIES OF  
ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")**

**SECOND ROUND**

**January 29, 2009**

---

**THUNDER BAY HYDRO ELECTRICITY DISTRIBUTION INC.  
2009 RATES REBASING CASE  
EB-2008-0245**

**ENERGY PROBE RESEARCH FOUNDATION  
INTERROGATORIES – SECOND ROUND**

**Interrogatory # 32/(TB#1)**

**Ref: Response to Energy Probe Interrogatory # 7 a)**

- a) Please explain how the depreciation expense in 2008 can be less using a three year amortization than if a five year amortization is used.**

**RESPONSE**

*Depreciation expense in 2008 can be less using a three amortization than if a five year amortization was used because of the following:*

- *Five year amortization would include amortization of purchases from 2004 to 2008; a three year amortization would only include amortization for purchases from 2006 to 2008;*
- *Annual computer purchases are not linear. Some annual purchases are higher than others depending on the value of the equipment being replaced.*

- b) Please provide the calculations used to determine the 2009 depreciation expense using a three year amortization for computer hardware.**

**RESPONSE**

*The response to Energy Probe #7a was calculated using basic assumptions as follows:*

1. *Computer additions for 2004 to 2009 were used in the calculation.*
2. *All additions were assumed to be purchased in the first month of each year and therefore each year received either 1/3 or 1/5 amortization.*
3. *Assumed that all 2003 and prior purchases had been fully amortized. (In reality this is not the case because equipment begins to be amortized in the month purchased. Therefore 2003 purchases would still have remaining amortization into 2004. Further, prior to December 2004, computer equipment was amortized over 5 years. Therefore some 2003 purchases would still have remaining amortization into 2009).*

4. Compared the basic 5 year amortization calculated to the basic 3 year amortization calculated to arrive at a net difference.

For more detailed calculations of computer hardware and software actual and budgeted purchases we have recalculated the amortization for 2008 and 2009. Further, we have calculated the net impact between amortizing computer hardware over 5 years vs. 3 years.

As a result of this analysis we have determined that there is a net difference between this calculation and our estimated amortization of \$100,000 (over amortized).

This will be adjusted in the final reconciliation of adjustments.

Our detailed calculation is as follows:

**Thunder Bay Hydro**  
**Computer Amortization Detailed Calculation**

**Computer Hardware 3 yr Amortization**

Amortization on Purchases in	2008	2009	Total Purchases
2003	10,579.49		106,218.09
2004	22,749.88	9,148.08	144,524.94
2005	16,837.16	0.00	87,504.02
2006	27,739.13	11,359.04	83,217.40
2007	13,759.04	13,759.04	41,277.12
*2008	34,259.17	68,518.33	205,555.00
*2009		12,885.00	77,310.00
	<u>125,923.87</u>	<u>115,669.49</u>	<u>745,606.57</u>

**Computer Hardware 5 Year Amortization**

Amortization on Purchases in	2008	2009	Total Purchases
2003	10,579.49		106,218.09
2004	28,904.99	14,790.27	144,524.94
2005	17,500.80	17,500.80	87,504.02
2006	16,643.48	16,643.48	83,217.40
2007	8,255.42	8,255.42	41,277.12
*2008	20,555.50	41,111.00	205,555.00
*2009		7,731.00	77,310.00
	<u>102,439.69</u>	<u>106,031.97</u>	<u>745,606.57</u>

**Net Difference**

<u>(23,484.18)</u>	<u>(9,637.52)</u>
--------------------	-------------------

**Computer Software 3 Yr Amortization**

<i>Amortization on Purchases in</i>	<b>2008</b>	<b>2009</b>	<b>Total Purchases</b>
2003	0.00		0.00
2004	0.00	0.00	5,166.03
2005	38,921.48	0.00	201,600.14
2006	28,362.45	24,112.55	85,087.34
2007	31,964.11	31,964.11	95,892.34
*2008	14,600.09	29,200.17	87,600.52
*2009		17,844.78	107,068.66
	<u>113,848.13</u>	<u>103,121.61</u>	<u>577,249.00</u>
<b>Total</b>	<u>239,772.00</u>	<u>218,791.10</u>	<u>1,322,855.57</u>
<b>Per Rate Filing</b>	<u>294,736.00</u>	<u>310,418.00</u>	
<b>Difference due to estimation of amortization</b>	<u>(54,964.00)</u>	<u>(91,626.90)</u>	
<b>Total difference</b>	(78,448.18)	(101,264.42)	
<b>Say</b>		<u><u>(100,000.00)</u></u>	
* Forecast/Budget			

- c) Please provide the calculations used to determine the 2009 depreciation expense if a five year amortization for computer hardware was used.

**RESPONSE**

See response to #32 b above.

- d) Please provide the calculations used to determine the 2009 depreciation expense for computer software.

**RESPONSE**

The 2009 depreciation expense used in the rate filing was calculated based on 2008 amortization, adjusted for expected purchases and equipment expected to be fully depreciated during 2009.

**Interrogatory # 33/(TB#2)**

**Ref: Response to Energy Probe Interrogatory # 8 i) & # 25 f)**

- a) Please confirm that total amortization allocated to other accounts totals \$538,946.79 in 2009.**

**RESPONSE**

*This is confirmation that total amortization allocated to Overhead Departments or capital was \$538,946.79 in 2009.*

- b) Please confirm that of this total, \$243,380.00 is allocated to capital expenditures and the remaining \$295,566.79 is allocated to OM&A accounts.**

**RESPONSE**

*This is to confirm that of this total \$245,380.00 is allocated to capital expenditures and the remaining \$295,566.79 is allocated to OM&A accounts.*

- c) Please confirm that the OM&A figure shown in Exhibit 4, Tab 1, Schedule 1, Table 1 for 2009 of \$12,340,964 includes \$295,566.79 that has been re-allocated from amortization expenses.**

**RESPONSE**

*This is to confirm that the OM&A figure shown in Exhibit 4, Tab 1, Schedule 1, Table 1 for 2009 of \$12,340,964 includes \$295,566.79.*

- d) Please confirm that the total capital additions shown in Exhibit 2, Tab 2, Schedule 1, Table 4 for 2009 of \$7,620,832.50 includes \$243,380 that has been re-allocated from amortization expenses.**

**RESPONSE**

*This is to confirm that the total capital additions shown in Exhibit 2, Tab 2, Schedule 1, Table 4 for 2009 of \$7,620,832 includes \$243,380.*

**Interrogatory # 34/(TB#3)**

**Ref: Response to Energy Probe Interrogatory # 9**

- a) **How has Thunder Bay Hydro determined which volumes (kWhs) are subject to the “remainder” commodity price? Is there a relationship between these “remainder” volumes and rate classifications?**

**RESPONSE**

*Thunder Bay Hydro has determined which volumes (kWhs) are subject to the “remainder” commodity price as follows:*

*Total weather normalized predicted kWh purchases less RPP eligible purchases (estimated based on the 2007 actual rate classification allocation of total purchases) equaled the “remainder”. The “remainder” is calculated on a rate class basis.*

*In responding to this question, we noted that we did not adjust for the fact that the MUSH sector will not be eligible for RPP beginning May 2009. This error represented maximum kWh of 213,669,802 at a rate difference of  $\$0.01484 = \$3,170,860 \times 15\% = \$475,629 \times 1.91\% = \$9,085$  adjustment to revenue requirement.*

- b) **Does Thunder Bay Hydro have any customers that are market participants? If yes, is Thunder Bay Hydro billed for their kWh consumption? If not, has any reduction in the cost of power been made to reflect the market participant(s)?**

**RESPONSE**

*No, Thunder Bay Hydro does not have any customers who are market participants.*

**Interrogatory # 35/(TB#4)**

**Ref: Response to Energy Probe Interrogatory # 13**

- a) **Please explain why the December 31 year end customers for the residential, GS < 50, GS > 50 to 999, streetlights and unmetered loads shown in this response do not match the 2007 customers shown in Tables 2 and 8 in Exhibit 3, Tab 2, Schedule 1.**

**RESPONSE**

*The customer/connection numbers in Tables 2 and 8 in Exhibit 3, Tab 2, Schedule 1 are based on customer billings for the year versus customers at December 31<sup>st</sup> of the year.*

- b) Are the tables in Exhibit 3, Tab 2, Schedule1 that involve customer numbers or average use per customer figures based on year-end customers or on a weighted average for the year?

**RESPONSE**

*See above response.*

- c) If the response to (b) is weighted average, please provide the 2008 customer numbers on the same basis as those provided in Tables 2 and 8 of Exhibit 3, Tab 2, Schedule 1.

**RESPONSE**

	Residential	General Service < 50 kW	General Service > 50 to 999 kW	General Service > 1000 to 4999 kW	Streetlights	Sentinel Lights	Unmetered Loads	Total
Consistent with Rate Filing - 2008	45,052	4,419	503	19	13,135	148	454	63,527
*	233	33	2					

*\*Customers receiving one extra bill in 2008. The evidence in the Rate Filing was an estimation of the "FTE" for the customers. Timing of billings may vary year over year and some years may have an extra bill causing the FTE for that particular year to increase. The "FTE" concept, although useful in forecasting based on a number of historical periods cannot be viewed in isolation.*

**Interrogatory # 36/(TB#5)**

**Ref: Response to Energy Probe Interrogatory # 14 b)**

**Please provide the breakdown of the \$439,000 in interest and dividend income for 2009 into two components: the first based on the net regulatory liability balance and the second based on the average cash balance excluding the net regulatory liabilities.**

## **RESPONSE**

*Thunder Bay Hydro has never paid a dividend. The full \$439,000 represents interest income.*

<i>Total interest income</i>	<i>\$439,000</i>
<i>Interest income-average net regulatory liability (NRL) balances</i>	<i><u>\$150,000</u></i>
<i>Interest income on the average cash balance excluding NRL</i>	<i>\$289,000.</i>

*Thunder Bay would also like to point out that the interest rate has dropped considerably since our evidence was filed and the interest income revenue offset is overstated. Thunder Bay's estimate of interest income today based on the existing interest rate would be revised from \$439,000 to \$195,000. Should the OEB order disposition of Regulatory balances, this would reduce further to approximately \$130,000 (based on a repayment over three years).*

*Thunder Bay is revising the interest income component of Revenue Requirement to the \$195,000. This revision will be reflected in the final adjustment to the Revenue Deficiency calculation.*

### **Interrogatory # 37/(TB#6)**

#### **Ref: Response to Energy Probe Interrogatory # 18**

**The response indicates that Thunder Bay Hydro pays for the Board of Directors for its parent company, Thunder Bay Hydro Corporation. However, the evidence at Exhibit 4, Tab 3, Schedule 4 (Shared Services) does not appear to reflect any services provided to Thunder Bay Hydro or any costs paid by Thunder Bay Hydro to any of its affiliates.**

**Please provide a complete list of services received by and their associated costs to Thunder Bay Hydro from all affiliates in 2007 through 2009.**

## **RESPONSE**

*Although, our response to the question may seem to have contradicted the evidence at Exhibit 4, Tab 3, Schedule 4 (Shared Services) filed, the information did not come to light until the specific question was raised. Thunder Bay Hydro does not receive any services from Thunder Bay Hydro Corporation, although as noted above, the Board costs for Thunder Bay Hydro Corporation are in the OM&A costs for Thunder Bay Hydro. The costs will be removed in the final reconciliation of adjustments.*



*There are no services received by Thunder Bay Hydro from Thunder Bay Hydro Utility Services Inc., Thunder Bay Hydro Energy Services Inc., Thunder Bay Renewable Power Incorporated or Thunder Bay Hydro Corporation.*

*Thunder Bay Hydro does pay for services provided by the Corporation of the City of Thunder Bay as originally noted in the evidence and the amounts over the \$50,000 threshold have been included in OEB Interrogatory #16.*

**Interrogatory # 38/(TB#7)**

**Ref: Response to Energy Probe Interrogatory # 20 b)**

**Please confirm that the 2008 year-to-date figure of \$113,767 provided is for the full year.**

**RESPONSE**

*This is to confirm that the 2008 year-to-date figure of \$113,767 provided is for the full year.*

**Interrogatory # 39/(TB#8)**

**Ref: Response to Energy Probe Interrogatory # 22 c)**

**The question asked for a breakout of the 2009 cost of service application costs. The response indicates that costs appear to be a total of \$99,000, one-third of which has been included in the 2009 revenue requirement.**

- a) Please provide a breakout of the \$99,000 in costs associated with the 2009 cost of service application into categories such as legal, consulting, intervenor costs, etc.**

**RESPONSE**

*The \$99,000 was an estimate based on discussions with consultants. Given that 2008 was the first year for the Cost of Service Applications on a forward test year basis, the amount is an estimate based on the best information we had at the time. Thunder Bay Hydro did not break out the detail of the costs.*

- b) How much of the forecasted cost is associated with a technical conference and oral hearing?**

**RESPONSE**

*As noted above, Thunder Bay Hydro did not break out the detail of the costs into the various categories. Based on our incremental costs to date and our best estimate of the costs still to be incurred, we believe that the \$99,000 is still our best estimate of the costs exclusive of a technical conference and oral hearing.*

**Interrogatory # 40/(TB#9)**

**Ref: Response to Energy Probe Interrogatory # 25 f)**

- a) What is the relationship between the reduction in additions to the CCA schedule of \$90,418 (employee future benefits capitalized), the addition to accounting income of \$124,437 shown in Table 2 of Exhibit 4, Tab 3, Schedule 1 and the figures shown in Table 5 of Exhibit 4, Tab 2, Schedule 4?**

**RESPONSE**

*The \$124,437 represents the Post Retirement Benefits expensed but not paid within the required days subsequent to December 31<sup>st</sup> and therefore, they are not tax deductible. The \$325,338 in Exhibit 4, Tab 2, Schedule 4, Table 5, represents the Post Retirement Benefits expensed net of the amount capitalized. The \$325,338 less the \$200,901 expected to be paid in 2009, equals the \$124,437 added back in Exhibit 4, Tab 3, Schedule 1.*

- b) Why is there no deduction from accounting income related to employee benefit plans shown in Table 2 of Exhibit 4, Tab 3, Schedule 1?**

**RESPONSE**

*There is no deduction from accounting income related to employee benefit plans shown in Table 2 of Exhibit 4, Tab 3, Schedule 1, because the full expense was already deducted from accounting income. Therefore, only the non-tax deductible portion needs to be added back on the applicable table.*

**Interrogatory # 41/(TB#10)**

**Ref: Response to Energy Probe Interrogatory # 24 d)**

- a) **Please explain the significant difference between the taxable capital in 2007 and the rate base for 2007.**

**RESPONSE**

*Taxable Capital additions for PILS reporting in addition to rate base are as follows:*

<i>Regulatory Balances</i>	<i>\$5,004,941</i>
<i>Employee Future Benefits</i>	<i>\$2,477,300</i>
<i>UCC/NBV differences</i>	<i>\$6,197,385</i>
<i>Goodwill/CEC</i>	<i>\$ 123,536</i>
<i>Customer Deposits</i>	<i>\$2,022,708.</i>

- b) **Does the taxable capital calculated for 2006 and 2007 include any deferred revenues and/or other reserves not allowed as deductions for income tax purposes? If yes, please provide a reconciliation between these additions to taxable capital and the 2007 financial statements. Do any of these additions to taxable capital relate to deferral and/or variance accounts or regulatory assets?**

**RESPONSE**

*See above.*

- c) **Please provide the calculation for the net paid-up capital based on the 2009 pro forma financial statements shown in Appendix B to Exhibit 1, Tab 3, Schedule 2. Please provide a reconciliation between the calculated net paid-up capital and the accounts shown in the pro forma financial statements for 2009.**

**RESPONSE**

*The amounts would not vary significantly from the previous years as in the pro forma financial statements working capital balances were assumed to have remained the same and the RSVA variances likewise were assumed to remain the same with the exception of carrying charge adjustments.*

**Interrogatory # 42/(TB#11)**

**Ref: Response to Energy Probe Interrogatory # 25 e) & f)**

- a) Please explain the rationale for not including the capitalized amortization amounts in the additions to the CCA schedules.**

**RESPONSE**

*Amortization does not exist in the PILS regime. The PILS equivalent is capital cost allowance. A portion of the accounting amortization included in the asset cost is deducted from the additions to current year capital assets so that the cost that will be written-off as capital cost allowance will be exclusive of the accounting amortization.*

*Alternatively stated, capitalized amortization is not included in additions to the CCA schedules because Thunder Bay Hydro is already receiving the full CCA deduction from the original capital asset purchase. Therefore if the capitalized CCA was added to the pool we would be getting an additional tax deduction for a non cash expense.*

*For example if an asset worth \$5,000 was purchased, this addition would be added to the CCA pool. Assume that both the accounting and CCA annual depreciation is \$500. If we capitalized \$200 of this expense, \$300 would have been expensed in our OM&A. For tax purposes the \$300 is added back and the \$500 is deducted. If the \$200 was added to the CCA pool we would be receiving an additional tax deduction for an amount that we never actually purchased.*

- b) Please confirm that Thunder Bay Hydro has not included the value of capitalized depreciation as part of the additions to the CCA since it became subject to PILS. If this cannot be confirmed, please indicate when Thunder Bay Hydro began the policy of not including the value of capitalized depreciation as part of the additions in the calculation of the CCA.**

**RESPONSE**

*Thunder Bay Hydro had been incorrectly including capitalized amortization into the CCA pool from 2001 to 2003. Effective 2004, the tax treatment had been corrected.*

- c) For each year in which Thunder Bay Hydro did not include the value of capitalized depreciation in the additions to the CCA, please provide the value of the capitalized depreciation that is comparable to the \$234,426 shown for 2008 and \$243,380 for 2009.**

**RESPONSE**

2004 - \$178,000  
2005 - \$196,712  
2006 - \$196,001  
2007 - \$217,801.

**Interrogatory # 43/(TB#12)**

**Ref: Response to Energy Probe Interrogatory # 8 f)**

**The response indicates that contributions and grants are composed of cash contributions and contributions-in-kind.**

- a) **Please provide a breakout of the contributions and grants shown for 2006 and 2007 in Exhibit 2, Tab 2, Schedule 1 between cash contributions and contributions-in-kind.**

**RESPONSE**

	<b>2006</b>	<b>2007</b>
<i>Cash contributions</i>	\$602,324.32	\$691,598.49
<i>Contributions in kind</i>	442,944.00	261,776.00
<i>Total</i>	<u>\$1,045,268.32</u>	<u>\$953,374.49</u>

- b) **Please provide the same breakout of the actual contributions and grants for 2008 based on the most recent information available. Please also indicate what year-to-date period these figures are for if they do not reflect the full year.**

**RESPONSE**

*Total cash contributions to December 31, 2008 are \$1,095,369.41. Information with regards to contributions in kind for 2008 has not been fully reviewed and costed.*

**Interrogatory # 44/(TB#13)**

**Ref: Response to Energy Probe Interrogatory # 14**

**The information provided was not a complete list of the accounts shown in Exhibit 3, Tab 3, Schedule 1 as was requested.**

**RESPONSE**

*The table prepared was inadvertently cut-off. Here is the full table showing the two accounts as mentioned above.*

<b><u>Other Distribution Revenue</u></b>		<b>2008 Bridge</b>	<b>YTD</b>	<b>YTD for 2007</b>	<b>Comments</b>
		<b>(\$'s)</b>	<b>Figures</b>	<b>Same basis as 2008</b>	
Retail Services Revenues	4082	\$ 71,800	\$ 66,069	\$ 80,964	
Service Transaction Requests (STR) Revenues	4084	\$ 3,400	\$ 2,590	\$ 6,180	
Rent from Electric Property	4210	\$ 436,300	\$436,733	\$ 443,900	
Other Utility Operating Income	4215	\$ 131,500	\$129,861	\$ 124,728	
Other Electric Revenues	4220	\$ 2,521	\$ 2,120	\$ 304	Net Billings to November
Late Payment Charges	4225	\$ 282,000	\$272,798	\$ 274,296	
Miscellaneous Service Revenues	4235	\$ 308,700	\$324,326	\$ 323,492	
Provision for Rate Refunds	4240	\$ -		\$ 0	
Gain on Disposition of Utility and Other Property	4355	\$ -		\$ 8,799	
Revenues from Non-Utility Operations	4375	\$ 155,000	\$169,306	\$ 206,114	Billings to November
Expenses of Non-Utility Operations	4380	\$ (83,267)	\$(127,941)	\$ (111,917)	Costs to November
Miscellaneous Non-Operating Income	4390	\$ 127,544	\$ 112,776	\$ 186,991	
Interest and Dividend Income	4405	\$ 439,000	\$ 404,664	\$ 464,923	To Nov (estimate Dec entry (Nov's interest) plus accrual for Dec to be slightly lower than Oct actual of \$35K given the drop in rate - \$60K total)
<b>TOTAL</b>		<b>\$ 1,874,498</b>	<b>\$1,793,303</b>	<b>\$ 2,008,774</b>	

**Please provide the corresponding information as requested in Interrogatory # 14 for accounts 4390 (miscellaneous non-operating revenue) and 4405 (interest and dividend income).**

**RESPONSE**

*See above.*

**Interrogatory # 45/(TB#14)**

**Ref: Response to Board Staff Interrogatory # 25**

**The response related to account 1950 (power operated equipment) indicates that there should be depreciation associated with the additions of \$10,000 in 2008. Why is there no depreciation in 2008 associated with the opening balance of the assets, which are not fully depreciated? Please provide the additional depreciation expense associated with the opening balance in this account for 2008.**

**RESPONSE**

*There should have been \$358 worth of depreciation in 2008 related to the opening balances of account 1950 (power operated equipment).*