IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Thunder Bay Hydro Electricity Distribution Inc. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective May 1, 2009.

SUBMISSIONS

OF THE

SCHOOL ENERGY COALITION

Overview

1. These are the submissions of the School Energy Coalition in the application by Thunder Bay Hydro Electricity Distribution Inc. ("Thunder Bay") for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.

Cost of Capital

2. Thunder Bay's weighted average cost of capital, before tax, is 1.91%, comprising a requested allowed rate return on equity of 3.75% and an average cost of long-term debt of 0.21%. [Exhibit 5, Tab 1, Schedule 2, pg. 2] This is obviously far below the WACC of most other utilities and its requested return on equity is far below the Board-approved level. SEC

accepts Thunder Bay's explanation that the requested return on capital is a rate minimization measure, and commends the utility for taking these actions.

OM&A

3. Thunder Bay's controllable OM&A expenses for 2009, after the adjustments made by Thunder Bay in response to various interrogatories, represent a 8.5% increase over 2006 actual and a 13.7% increase over 2006 Board approved. The increase has meant an increase in OM&A per customer during that time, as is shown below:

Thunder Bay OM&A per Customer

	2006 Board approved	**2006 actual**	**2007**	**2008**	**2009**
Controllable OM&A	$10,502,737	$11,008,239	$12,051,634	$11,919,481	$11,949,581
# of Customers/ Connections	63,087	63,087	62,977	63,155	63,335
OM&A/customer	$166.48	$174.49	$191.37	$188.73	$188.67

4. As stated, Thunder Bay has agreed to adjust its original controllable OM&A from $12,340,964 to $11,949,581, a reduction of $391,383. Absent the proposed reductions in controllable OM&A, Thunder Bay's 2009 OM&A per customer would have been $194, a significant increase over past years. SEC therefore believes that the reductions are appropriate.

5. In addition, SEC agrees that 2009 rebasing costs, PCB removal costs, and one-time meter reading costs should be amortized over four years instead of three, as suggested by Energy Probe. This would result in a further reduction in OM&A of $42,333.

Vegetation Management

6. Thunder Bay's vegetation management costs (account 5135- overhead distribution lines and feeders) are increasing substantially in 2009 over 2008. Thunder Bay has explained that the reason is due to the fact that "regular scheduled forestry practices for line clearing were downsized in the past resulting in vegetation growing relatively unchecked into power lines causing many unscheduled power interruptions and increasing the safety risk to the public and power line workers." [Exhibit 4, Tab 2, Schedule 2 p. 4]

7. In general, SEC is concerned about accelerated spending in the test years as a result of under-spending in historical years. The average expenditure for this function from 2006 to 2008 was $427,974. The 2009 proposed expenditure of $716,115 therefore represents a 67% increase over the 2006-2008 average. However, as Thunder Bay has already made reductions to its revenue requirement in the form of its return on equity, and has also agreed to other reductions in its controllable OM&A expenses, SEC will not make a recommendation for further reductions in this area.

Rate Base and Capital Expenditures

8. SEC notes that two of Thunder Bay's major capital projects in the last two years have come in considerably under-budget. These are the Frankwood rebuild, which is discussed in the pre-filed evidence, and the Kam River crossing, the under-spending for which is not discussed. However, the evidence shows that the actual expenditures for this project ($438,801- see Energy Probe IR#4(b)) were considerably lower than the budgeted amount of $801,129 [see Ex. 2-2-3, p. 2]. With respect to the Frankwood project, Thunder Bay explained in the pre-filed evidence that, since it was the first large-scale complete rebuild, "a sizeable contingency was included in the budgeted amount." [ibid.]

9. It appears, however, that Thunder Bay has also included a contingency amount for its 2009 capital projects. These amounts total $417,014 ($289,306 for three identified projects set out in the pre-filed evidence and a further $127,708 for "All Other Infrastructure Capital"- see Energy Probe IR#5(a) and (b)] SEC believes that that is not appropriate and submits that the capital expenditure budget should be reduced by $417,014.

Cost Allocation

10. Thunder Bay has proposed moving the revenue to cost ratio for the GS>50kW rate class from 65.96% to 72.98% [Exhibit 7, Tab 1, Schedule 2, p. 3] Although this results in larger distribution rate impacts for this class than for other classes, SEC accepts that it is both necessary

and consistent with the way in which other electricity distributors have approached revenue to cost ratios that are below the Board's minimum level.

11. When asked by VECC why it is not appropriate to move the revenue to cost ratio for GS>50kW and the GS1,000-4,999kW rate class closer to the lower bound of the OEB guidelines, Thunder Bay replied that the distribution rate impact for these rate classes is already 18-20% and therefore its phased in option is the preferable option. [VECC IR#18(a)]

12. While the resulting R/C ratio for the GS>50kW rate class is still below the minimum of the Board's acceptable range, SEC believes Thunder Bay's phased approach is reasonable and consistent with the Board's practice in other electricity distribution rate applications.

13. SEC does not therefore agree with the alternative proposal set out in response to VECC IR#6(b) whereby the revenue to cost ratios for the GS>50kW and GS1,000-4,999kW rate classes are set at 80%. The impact of that scenario would mean a distribution rate increase of 31% for these rate classes [VECC IR#6(b)]. The difference represents a significant additional cost for GS>50kW and GS1,000-4,999kW customers, as shown below:

Rate Class	Total Dx Bill 2008	Total Dx Bill 2009-proposed	Total Dx Bill 2009-VECC scenario [VECC IR#6(b)]

GS>50kW (100kW demand)	$292.89	$351.47	$384.13
GS1,000-4,999kW (3500 kW demand)	$6,660.50	$7,895.07	$8,726.04

14. As is seen in the table below, GS>50kW (100kW demand), who are already facing distribution bill increases from this application of $58.58 per month, would face an additional increase of $32.66 per month under the VECC scenario, for a total increase of $91.24, or 31%. Similarly, a GS1,000-4,999kW customer (3,500kW demand), already facing a distribution bill increase of $1,234, would face an additional increase of $830.97, for a total increase of $2,065.54, or 31%. [see distribution bill sub-total in VECC IR#18(b) vs. totals in Exhibit 8, Tab 1, Schedule 9, Appendix A].

15. A typical residential customer with 1,000kWh of consumption would save $0.88 per month under the revised plan.[1]

16. SEC believes, therefore, that the approach proposed by Thunder Bay is consistent with recent regulatory practice and that the alternative approach set out in the VECC interrogatory response produces unreasonable bill impacts for large general service customers.

1 Please note: the table in the VECC IR is labeled 'Residential- 1,000kWh' but actually shows bill impacts under the VECC scenario for residential customers with 2,000kWh of consumption. Therefore, the distribution bill impacts from the VECC scenario were computed by taking the volumetric rate shown in the interrogatory response, $0.0137 (or $0.0005 in the case of the proposed LRAM & SSM Rider), and multiplying by 1,000kWh.

LRAM and SSM

17. Thunder Bay has requested recovery, in the amount of $574,346 spread over three years, of LRAM and SSM amounts in relation to its conservation and demand management activities. SEC notes that Thunder Bay has followed the decision in the EB-2007-0096 and has not grossed up the SSM amount for taxes. However, Thunder Bay has also not provided an independent review of its program results. Thunder Bay's rationale that the requested recovery represents a small portion of its distribution revenue is, in SEC's submission, not convincing. The sum requested is a large sum and much greater than the amount requested by distributors similar in size to Thunder Bay. Therefore, SEC believes that the requested amounts should not be recovered from ratepayers in the absence of an independent review.

Costs

18. SEC participated responsibly in this proceeding and sought to minimize its costs by cooperating with other ratepayer groups. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 13th day of March, 2009.

John De Vellis
Counsel to the School Energy Coalition