June 23, 2009

Board Staff Comments
Thunder Bay Hydro Inc.
2009 Cost of Service
(EB-2008-0245)

Draft Rate Order (“DRO”) documentation and
Revenue Requirement Work Form (“RRWF”)

On June 3, 2009, the Board issued its Decision and Order (the “Decision”) on Thunder Bay Hydro Inc.’s (“Thunder Bay’s”) 2009 cost of service application. The Decision required Thunder Bay to submit its Draft Rate Order within fourteen days of the issuance of the Decision. Thunder Bay submitted its Draft Rate Order and supporting documentation on June 17, 2009. The following are staff’s comments regarding Thunder Bay’s Draft Rate Order. Board staff is also aware of the comments submitted by the Vulnerable Energy Consumers Coalition (“VECC”) and Energy Probe Research Foundation (“Energy Probe”).

While Board staff makes the following submissions, and requests that Thunder Bar submit certain additional or corrected material, Board staff is of the view that the impact on the proposed revenue requirement and distribution rates is, in all likelihood, minimal.

Payments in Lieu of Taxes (“PILs”)

Board staff acknowledges, and concurs with, the submission of Energy Probe with respect to the treatment of accelerated CCA for computer hardware and software in accordance with the 2009 Federal Budget.

2009 Load Forecast

Board staff submits that the revised load forecast, which was revised to reflect the adjustment to the loss factor, appears anomalous in some respects. There does not appear to be a loss factor adjustment to the load forecast for unmetered customer classes: Streetlights, Sentinel Lights and Unmetered Loads. Board staff submits that Thunder Bay should confirm or correct this, with adequate explanation.

Further, the adjustments for other classes appear to vary over a range from 0.15% to 0.21%. If there is a reason for different adjustments in different classes, it should be explained. In the alternative, Board staff submits that the calculations should be corrected.

Revenue-to-Cost Ratios

Staff concurs that the proposed rates for Unmetered Scattered Load ("USL") are appropriate. In its Decision, the Board accepted that the USL revenue-to-cost ratio should remain at its existing level. The proposed rates are 5.1% above the existing approved rates, which is consistent with the Decision in this regard.

However, it is not readily apparent that the revenue-to-cost ratio attained with the approved rates is consistent with the Board's findings at p. 36 of the Decision. Board staff submits that it would be helpful if Thunder Bay were to include an explanation of how the approved ratio is reflected in the ratios shown on p. 12 of the documentation. The underlying cause of the discrepancy appears to be the CDM forecast, in which about 25% of the USL load is assumed to be conserved in the original forecast, but not in the revised forecast. This, in turn, affects the forecast of revenues but does not affect the cost allocation study. With revenues of $70,203 and allocated costs of $50,317, the calculated ratio is over 140%, different from both 115%, as provided in response to VECC IR # 7c), and 111% as originally proposed. To reiterate, Board staff is suggesting better documentation, and not any changes, unless necessary, in the rates proposed.

Rate Design

Board staff concurs with VECC that Thunder Bay has not provided adequate schedules to allow parties to satisfactorily replicate the derivation of the proposed rates from the revenue requirement through cost allocation and fixed/variable splits. Board staff believes that Thunder Bay's calculations appear reasonable, but it would assist staff and other parties if additional information could be provided. Specifically, Board staff submits that Thunder Bay should augment the revenue-to-cost tables shown on p. 12, or provide a separate additional table, showing the fixed/variable split of class revenues and the determination of base distribution fixed and volumetric rates, net of the smart meter funding adder.

Deferral and Variance Accounts / Regulatory Asset Rate Riders

Board staff concurs with the proposed rate riders to be applied over a period of 22 months.

Allocation of Forgone Revenue Rate Rider

Board staff notes that Thunder Bay has calculated a rate rider to collect the incremental revenue requirement for two months, corresponding to May 1 to June 30, 2009, and has proposed rate riders to collect that amount over a period of two months (from July 1 to August 31, 2009). Thunder Bay has proposed that both fixed and volumetric rate riders would be used to collect the foregone incremental revenue requirement. With respect to the fixed rate rider, Board staff notes VECC's comments about how Thunder Bay allocates the incremental revenues collected between distribution (Account 4080) and smart meter funding (account 1555), as shown in the last two columns of the table on page 15 of the draft rate order submission.

Board staff agrees with VECC's comments about the allocation of the $1.97 for the funding adder. Since Thunder Bay's current rates include the existing funding adder of $0.27, the incremental smart meter revenues should be $1.70 per month for metered customers, the difference between the new funding adder of $1.97 and the existing one of $0.27. The allocation to Distribution of the rate rider, for metered customer classes, should be similarly adjusted. Board staff provides the following table of what it believes should be the proper allocation.

Customer Class	Fixed Rate Rider Allocation			
	As Proposed (Draft Rate Order, p. 15, right columns)		Corrected, as proposed by Board staff	
	Distribution	Smart Meter	Distribution	Smart Meter
Residential	($0.4600)	$1.97	($0.1900)	$1.70
GS < 50 kW	$0.6100	$1.97	$0.8800	$1.70
GS > 50 kW	$31.8800	$1.97	$32.1500	$1.70
GS 1000-4999 kW	$472.6000	$1.97	$472.8900	$1.70
Streetlighting	$0.9102		$0.9102	
Sentinel Lights	$0.3141		$0.3141	
Unmetered Scattered Load	$0.4368		$0.4368	

Revenue Requirement Work Form ("RRWF")

Subject to any revisions necessary to address comments in the submissions of staff and intervenors, Board staff is generally satisfied with the RRWF that accompanies Thunder Bay's draft rate order. However, Board staff submits that Thunder Bay should resubmit the RRWF to address the following:

1. The Microsoft Excel version of the RRWF submitted by Thunder Bay Hydro has links for various input cells on sheets A. Data Input and 7. Bill Impacts to other rate models that Thunder Bay has used for its application and draft rate order. The RRWF should be a stand-alone model. Board staff does not see the need for Thunder Bay's detailed rate models. However, if there is a need to show sub-calculations with explanations to give context to the numbers shown in the RRWF, then Thunder Bay should do so.
2. On sheet A. Data Input, under Other Revenues, Thunder Bay has not shown revenues for Specific Service Charges and Late Payment Charges, but has aggregated these in with Other Distribution Revenue and Other Income and Deductions. This presentation does not correspond with the application. Board staff submits that Thunder Bay should properly show the disaggregation of Other Revenues by the categories requested in the RRWF; however, Board staff acknowledges that the amount of $1,497,790 shown, in total, for Other Revenue complies with the application and Board Decision..

- All of which is respectfully submitted. -