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January 11, 2010

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.
2010 IRM3 Distribution Rate Application
Board File No. EB-2009-0250**

This will acknowledge receipt of the Board Staff Interrogatories dated December 15, 2009. Thunder Bay Hydro Electricity Distribution Inc. submits two (2) paper copies of its responses to the Board Staff Interrogatories for the 2010 IRM3 Distribution Rate Application and encloses the following:

1. Responses to the Board Staff Interrogatories
2. Deferral Variance Account Workform V4 20100111
3. OEB 2010 IRM3 Rate Generator 20100111

An electronic copy has been submitted through the OEB's RESS on-line filing system and via email, including a copy to all intervenors. In addition, items 2 and 3 have been provided in Excel format.

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)
Roger Higgin, Econalysis Consulting Services (VECC Consultant)

Responses to Board Staff Interrogatories

2010 IRM3 Electricity Distribution Rates Thunder Bay Hydro Electricity Distribution Inc. ("Thunder Bay") EB-2009-0250

Question

1. Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by Thunder Bay shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued "Regulatory Audit and Accounting Bulletin 200901" which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

Account Description	Account Number	Total Claim
		I = C + D+ E + F + G + H
RSVA - Power (Excluding Global Adjustment)	1588	\$1,228,929
RSVA - Power (Global Adjustment Sub-account)		(47,454)

- a) Has Thunder Bay reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?
- b) Has Thunder Bay made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account workform?

Response

- a) Thunder Bay confirms it has reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009 and ensures that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin. The only issue Thunder Bay addressed was to apply a consistent method of either the billed or accrual basis in the RRR 2.1.1 and RRR 2.1.7 filings. Thunder Bay modified all post Board-approved OEB deferral and variance accounts within the RRR 2.1.7 to the billed basis to match the reporting method of the RRR 2.1.1. Previously, the deferral and variance accounts within the RRR 2.1.7 were reported on the accrual basis. Please note that Thunder Bay has continuously used the balances reported on a billed basis from the RRR 2.1.1 to substantiate a refund or recovery to its customers, including the balances used in the 2010 IRM3 Deferral Variance Account workform.

- b) As mentioned in the response above, Thunder Bay did not have to make any adjustments to the RRR 2.1.1 balances used in the 2010 IRM Deferral Variance Account Workform based on the review of the Regulatory Audit & Accounting Bulletin. However, Thunder Bay did make adjustments to Account 1590, which affected the Total Claim found in the Workform. Please see Thunder Bay's response to Question #5 for more details of this adjustment.

Question

2. Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reasons the Board's original Deferral Variance Account workform was modeled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."

While Enersource's response to the Board staff's submission is still pending Board staff would like to poll Thunder Bay on the above issue.

- a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does Thunder Bay agree that this proposal would be fair to all customers? Why or why not?

- b) If the Board were to order Thunder Bay to provide such a rate rider, would Thunder Bay's billing system be capable of billing Non-RPP the separate rate rider? What complications, if any, would Thunder Bay see with this rate rider?
- c) If Thunder Bay were to be unable to bill in this fashion what would Thunder Bay consider proposing in the alternative?

Response

- a) Thunder Bay does not agree that the proposal to provide a separate disposition rate rider to be applied prospectively to Non-RPP customers for 1588 – Global Adjustment is fair to all customers. In addition to customers moving between RPP and Non-RPP, another potential issue of fairness would be the determination of the denominator in the rate rider calculation.

In normal practice, the denominator would be the billed Non-RPP kWh during 2008, however, since 2008, the billed Non-RPP kWh in 2009 may be materially different for many Distributors due to the transition of MUSH customers no longer being eligible for RPP as of November 1, 2009. In Thunder Bay, although the total number of Non-RPP customers has only increased by 159 customers or 2.3% between Dec. 31, 2008 and November 30, 2009, the November year-to-date consumption has increased by 60.5 million kWh or 14.9% from 2008 to 2009. Since the magnitude of the increase is material, the impact on the "fairness" to all customers is of concern.

Ultimately the fairest methodology would be to dispose of the account to only those customers that contributed to the balance for disposal; however, the costs would outweigh the benefits of this methodology. Therefore, from a practical perspective, given the complexity and the relatively immaterial amount for disposition Thunder Bay is of the opinion that the most cost effective method would be to provide the rate rider to the Non-RPP customers that exist during the horizon of the disposal.

- b) Thunder Bay is capable and does not foresee any complications with its billing system in billing a separate rate rider to current Non-RPP customers if ordered by the Board.
- c) As mentioned in b) Thunder Bay is able to bill in the fashion proposed by the Board.

Question

3. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the billing determinants identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed Customers or Connections			Billed kWh	Billed kW
	A	B	C		
Residential	44,635	350,217,935			
General Service Less Than 50 kW	4,466	144,258,193			
General Service 50 to 999 kW	511	305,337,414	718,710		
General Service 1,000 to 4,999 kW	19	194,477,088	561,149		
Unmetered Scattered Load	437	1,786,004			
Sentinel Lighting	176	146,789	402		
Street Lighting	13,091	10,616,947	31,276		

- a) Please identify if these values are from the Thunder Bay 2009 Cost of Service Application or 2008 RRR reported values.
- b) If the above are from the 2008 RRR values, please explain why Thunder Bay has not used the 2009 RRR CoS values.

Response

- a) The values above are from the Thunder Bay 2009 Cost of Service Application.
- b) As mentioned above, the values from the Thunder Bay 2009 Cost of Service Application were used in the table above.

Question

4. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the Billed kWh for Non-RPP customers identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed kWh for Non-RPP customers
	D
Residential	49,825,053
General Service Less Than 50 kW	14,589,977
General Service 50 to 999 kW	192,232,176
General Service 1,000 to 4,999 kW	187,468,942
Unmetered Scattered Load	500,081
Sentinel Lighting	0
Street Lighting	4,460,047

- a) Please identify if these values estimated values or actual values and specify the applicable period.

- b) If the above values are estimated please explain why Thunder Bay is unable to determine actual.
- c) As discussed in the question above Board staff have proposed a Non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would Thunder Bay support using the numbers above as the most reasonable denominator to be used for rate determination.
- d) If Thunder Bay were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does Thunder Bay believe that the rider be applied to customers in the MUSH sector? If not, would Thunder Bay have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

Response

- a) The values identified above are actual values billed between January 1, 2008 and December 31, 2008.
- b) As mentioned above, Thunder Bay was able to determine the actual Billed kWh for Non-RPP customers in 2008.
- c) If the Board Staff's proposal of a Non-RPP customer rate rider for disposition of the 1588 – Global Adjustment is accepted, Thunder Bay believes the most reasonable denominator to be used for rate determination would be actual Billed kWh for Non-RPP customers in 2009 as opposed to 2008 values. In 2009, factors such as the economic downturn, Conservation and Demand Management measures, and the transition of "designated customers" off of RPP have potentially impacted the Billed kWh in 2009 for Distributors. As stated in Question #2a above, Thunder Bay's billed Non-RPP kWh for November year-to-date has increased 14.9% from 2008 to 2009.
- d) Thunder Bay believes that if a separate rate rider was established to dispose of the balances of the 1588 – Global Adjustment sub-account, the rate rider should not be applied to customers in the MUSH sector. However, Thunder Bay also believes that any other customer that was paying RPP on December 31, 2008 and switched to a retailer or market price during 2009 should not be eligible for the separate rate rider. Ultimately it would be unfair to all customers to both include and exclude the MUSH sector without considering all customers that switched off of paying RPP. With that being said, Thunder Bay does not have the billing capability to exclude these customers that switched from RPP to a retailed or market price. The billing system calculates charges based on their current status (ie) on RPP or Non-RPP, and thus, Thunder Bay cannot exclude current Non-RPP customers that were previously RPP customers on a certain date without the exercise becoming a manual and labour intensive process. In order to overcome the billing system's constraints, Thunder Bay would apply the rate rider to all current Non-RPP customers and then manually reverse the rate rider for those customers that had been price protected as at December 31, 2008. Of Thunder Bay's 7,063 customers that were signed up with a retailer or paying market price as at

November 30, 2009, 159 were either paying RPP on December 31, 2008 or signed up as a new customer in 2009. Thus, as discussed in Question #2a above, Thunder Bay believes that it would be an onerous exercise to manually exclude 159 customers from the application of the separate rate rider.

Question

5. Ref: 2010 IRM Deferral Variance Total Claim

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Regulatory Assets - Continuity Schedule Final

	Account Number	Total Claim
Account Description	I = C + D + E + F + G + H	
LV Variance Account	1550	0
RSVA - Wholesale Market Service Charge	1580	(689,753)
RSVA - Retail Transmission Network Charge	1584	(305,348)
RSVA - Retail Transmission Connection Charge	1586	1,132,365
RSVA - Power (Excluding Global Adjustment)	1588	(1,228,929)
RSVA - Power (Global Adjustment Sub-account)		(47,454)
Recovery of Regulatory Asset Balances	1590	149,162
Disposition and recovery of Regulatory Balances Account	1595	0
Total		(989,955)

- a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board's website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you if need be.
- b) Please confirm if these are the final balances for disposition. If not the final balances please provide amended workform to support final balances for disposition.
- c) Please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify the sources and reason for variances.
- d) Please confirm that Thunder Bay has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If

Thunder Bay has used other practices in the calculation please explain where in the filing and why.

- e) Please confirm that Thunder Bay has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If Thunder Bay has used other calculations please explain where in the filing and why.
- f) Please confirm that Thunder Bay has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If Thunder Bay has not complied with this requirement please explain why not?

Response

- a) Attached please find the amended Deferral Variance Account Workform V4.
- b) Except for Account 1590, Thunder Bay confirms that the balances above are the final balances for disposition. Thunder Bay has revised the balance within Account 1590 and the revision can be found in the amended Deferral Variance Account Workform V4. Please see Thunder Bay's response to Question #5f for the reasoning behind the change to Account 1590.
- c) Below is a reconciliation of the final balance for disposition to the 2008 year end account balance reported in the RRR filing.

Account Number	RRR Filing Amount as of Dec-31-08	Transfer of Board approved amount to 1595 (2009 COS)	Projected Interest on Dec 31 -08 balance from Jan 1, 2009 to Dec 31, 2009	Projected Interest on Dec 31 -08 balance from Jan 1, 2010 to April 30, 2010	Total	Final Balance for Disposition	Variance
	A	B	C	D	E = A+B+C+D	F	G = F-E
1550	0	0	0	0	0	0	0
1580	(2,810,246)	2,129,452	(7,724)	(1,235)	(689,753)	(689,753)	0
1584	(972,792)	671,317	(3,339)	(534)	(305,348)	(305,348)	(1)
1586	470,332	647,640	12,409	1,984	1,132,365	1,132,365	0
1588	(1,388,912)	175,232	(13,146)	(2,102)	(1,228,929)	(1,228,928)	0
	287,796	(334,484)	(660)	(106)	(47,454)	(47,454)	1
1590	115,011	0	(1,464)	(234)	113,313	113,313	(0)
1595	0	0	0	0	0	0	0
Total	(4,298,811)	3,289,157	(13,924)	(2,227)	(1,025,805)	(1,025,804)	0

- d) Thunder Bay confirms that it has complied with and applied correctly the Board's accounting policy and procedures for calculation of the final disposition balance above.

- e) Thunder Bay confirms that it has used the simple interest calculation as required by the Board using the Board's prescribed interest rates.
- f) Thunder Bay confirms that it has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 to the amount approved by the Board in the 2009 Cost of Service Application, which was transferred to Account 1595.

On the contrary, during its analysis for this question, Thunder Bay became aware that the December 31, 2004 balance that the Board approved for disposal and was transferred to Account 1590, was not in compliance to the Board's document mentioned above. Recoveries had been applied to the total claim, and thus, carrying charges had been calculated on the carrying charges since inception of the disposal. As a result, Thunder Bay restated its quarterly RRR 2.1.1 from Q2 2006 through to Q3 2009 such that it is now in compliance with the Board's 2006 Regulatory Assets Transactions document. Consequently, the change in the 1590 Account balance resulted in an increase to the total claim for disposal in the Deferral Variance Account Workform V4 such that Thunder Bay has now surpassed the \$0.001/kWh threshold for disposal. If approved by the Board, the resulting disposal would return a total of \$1,025,804 back to its customers.

Please refer to the attached Deferral Variance Account Workform V4 and Tab J2.5 of the OEB 2010 IRM3 Rate Generator file to review the additional rate rider. Thunder Bay requests that the duration of the rate rider be over one year.

Question

6. Ref: Supplemental Module - Z-Factor Tax Changes

Sheet "F1.1 Z-Factor Tax Changes" of the supplemental module shows Grossed-Up Tax Amount as \$705,382 while the 2009 RRWF sheet "3.Taxes_PILs" shows Grossed-Up Income Taxes as \$724,421.

- a) Please review and advise of the correct amount.

Response

- a) The correct Grossed-Up Tax Amount is \$705,382, which can be found in the final 2009 RRWF submitted to the Board on July 2, 2009. The \$724,421 mentioned above was the Gross-Up Tax Amount reported in an earlier version of the 2009 RRWF, which was submitted to the Board on June 17, 2009.

Question

7. Ref: Supplemental Module - Revenue Offsets Allocation

Sheet "C1.2 Revenue Offsets Allocation" of the supplemental module shows Informational Filing Revenue Offsets

Rate Class	Informational Filing Revenue Offsets A
Residential	821,918
General Service Less Than 50 kW	284,946
General Service 50 to 999 kW	167,866
General Service 1,000 to 4,999 kW	61,102
Unmetered Scattered Load	2,105
Sentinel Lighting	657
Street Lighting	28,459
	<hr/> 1,367,052 <hr/>

- a) Please provide reference to the 2009 Cost of Service application that identifies the above Informational Filing Revenue Offsets.

Response

- a) During the interrogatories of the 2009 Cost of Service application, VECC had requested Thunder Bay to revise its 2006 cost allocation informational filing to exclude the Transformer Ownership allowance (see Question #7c filed by VECC on December 5, 2008). Thunder Bay submitted its response on January 15, 2009 (see page 14 of 22) along with a revised cost allocation informational filing. The miscellaneous revenue reported from this submission was copied into Sheet "C1.2 Revenue Offsets Allocation" of the supplemental module. The Board agreed with this revision in its Decision and Order dated June 3, 2009 on Page 35 when it was stated:

"The Board is satisfied that the revision argued for by VECC with respect to the exclusion of the transformer ownership allowance from cost and class revenues should be adopted."

HST Interrogatory

Question

8. Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010.

In the event that PST and GST are harmonized effective July 1, 2010:

- a) Would the Applicant agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?
- b) Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

Response

- a) Thunder Bay feels quite strongly that the establishment of a variance account to capture the reductions in OM&A and capital expenditures would be fraught with difficulties. Our comments with respect to our ability to accurately capture the information are as follows:
 - Attempting to identify applicable expenditures and code the variance at the source transaction would prove very problematic with our current information systems.
 - The source documents themselves would not identify expenditures which would be subject to the required deferral.
 - Not all transactions that will be subject to HST would have been originally subject to PST.
 - Thunder Bay has no control over nor is it, to the best of our knowledge, legislated that suppliers pass on their savings as a result of a reduction in PST. Therefore, we would be setting up a liability based on an assumption that 100% of the supplier's savings have been reflected in the costs when, in fact, this may not be the case.
 - There is an 8 year post harmonization - large businesses (>\$10M annual taxable sales) will be restricted from recovering the provincial component of the OHST in respect of certain costs incurred. This will add a level of complexity to any systematic solution.
 - Attempting to calculate this reduction other than on a transactional level would be subjective and difficult to audit. Using a basis such as a monthly HST return to try and calculate an estimated portion to set up in a variance account would, in our opinion, not be supportable.
 - Would the PILS impact of the cost savings be recorded as a debit to the variance account? Would legislated tax rate changes be required to be considered?

Further, expenditures used for rebasing were estimates of cost based on the available information at the time of preparation. There are numerous factors that will contribute to expenses being more or less than originally estimated. One such example would be the requirement to cut or defer budgeted expenditures due to a material decrease in actual revenues as compared to revenues estimated. As noted in Exhibit 1, Tab 2, Schedule 1, page 3 of 6 of Thunder Bay's 2009 COS Application:

“The information presented in this Application is Thunder Bay Hydro’s forecasted results for its 2009 Test Year. Due care and attention has been used in the preparation of the forecast information; however, actual results may vary from forecasts and any variation may be material. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Thunder Bay Hydro.”

- b) Thunder Bay acknowledges that the potential for cost savings may be significant; however, at this time we do not have an alternative that the Board might consider to reflect the reductions in OM&A and capital expenditures if the bill is enacted.