



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Thunder Bay Hydro Electricity Distribution Inc.

EB-2007-0880

January 31, 2008

INTRODUCTION

Thunder Bay Hydro Electricity Distribution Inc. (TBHED) submitted an application on October 31, 2007, seeking approval for changes to the rates that TBHED charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 25, 2007, TBHED filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff after its review of the evidence submitted by TBHED.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

TBHED proposes to reduce its RTR — Network Service Rate by approximately 10% and increase its RTR — Line and Transformation Connection Service Rate by about 37% for all customer rate classes. In addition, TBHED proposes to dispose of the forecast balances in variance accounts 1584 and 1586 as at April 30, 2008 through a one-year rate rider.

Discussion and Submission

To derive the proposed adjustments to their RTR, TBHED determined the cost/revenue ratios for network and connection respectively. The calculated cost/revenue ratios for network and connection were then applied to existing retail network and connection rates to derive the proposed adjustments to the RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate.

Board staff is unclear on how the cost/revenue ratios were derived since no calculations or explanations were provided. Staff notes that while TBHED proposes to reduce its RTR — Network Service Rate by approximately 10%, the decrease in the wholesale transmission network charges payable to the IESO have declined by 18% effective November 1, 2007. Similarly, TBHED proposes to increase its RTR — Line and Transformation Connection Service Rate by about 37% while average wholesale transmission connection charges have declined by 5%.

TBHED proposes to dispose of the forecast balances in variance accounts 1584 and 1586 as at April 30, 2008 through a one-year rate rider. Staff is unclear on how the forecast balances were derived, whether they include interest, and on what basis the forecast variance account balances were allocated by rate class.

Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize

fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as TBHED applies for its distribution rates to be rebased, which is scheduled to occur in 2009.

All of which is respectfully submitted.