Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

February 13, 2012

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Thunder Bay Hydro Electricity Distribution Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0197**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Thunder Bay Hydro Electricity Distribution Inc and to all other registered parties to this proceeding.

In addition please remind Thunder Bay Hydro Electricity Distribution Inc that its Reply Submission is due by February 23, 2012.

Yours truly,

Original Signed By

Sunny Swatch
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Thunder Bay Hydro Electricity Distribution Inc.

EB-2011-0197

February 13, 2012

Board Staff Submission
Thunder Bay Hydro Electricity Distribution Inc.
2012 IRM3 Rate Application
EB-2011-0197

Introduction

Thunder Bay Hydro Electricity Distribution Inc ("Thunder Bay") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 10, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Thunder Bay charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Thunder Bay.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Thunder Bay. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Thunder Bay confirmed certain errors and provided Board staff with the necessary information to make corrections to the models.

Thunder Bay is proposing to adjust the revenue to cost ratio of the General Service 50 – 999 kW rate class from 66.28% to 73.14%. The additional revenue resulting from this adjustment is applied to the Residential, GS<50 kW, USL and Sentinel Lighting classes.

Board staff has no concerns with Thunder Bay's proposed adjustments as they are consistent with the Board's decision on Thunder Bay's last cost of service application, EB-2008-0245.

Thunder Bay completed the Shared Tax Saving filing module and determined a credit amount of $422,205 of tax savings out of which $211,102 (50%) is to be refunded to customers through one year rate riders for each rate class.

Board staff submits that Thunder Bay's request to refund $211,102 to its customers and the resulting calculations of rate riders are in accordance with *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements") and should be approved.

Thunder Bay's 2010 actual year-end balance for Group 1 Deferral and Variance accounts with interest projected to April 30, 2012 is a credit of $2,097,477 to be refunded back to customers. The total for Group 1 accounts is inclusive of the $138,091 credit balance of 1588 Global Adjustment sub-account. The total Group 1 balance results in a claim of -$0.00222 per kWh, which exceeds the preset disposition threshold. As a result, Thunder Bay is eligible to dispose of Group 1 accounts at this time and has applied to do so over a one year period.

Board staff reviewed Thunder Bay's Group 1 balances and found that they conformed with those reported in its *Reporting and Record Keeping Requirements* filing. Consequently, Board staff has no issues with Thunder Bay's request to dispose of its 2010 Group 1 Deferral and Variance Account balances over a one year period as it is in accordance with the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report*. Board staff submits that the credit balance of $2,097,477 of Group 1 Accounts should be disposed on a final basis.

Thunder Bay is applying to extend its current approved smart meter funding adder ("SMFA") of $1.97 per metered customer per month beyond its sunset date of April 30, 2012.

Thunder Bay had initially requested to dispose of a debit balance of $206,141 in Account 1521. This balance comprises of the audited principal balance as at December 31, 2010 including carrying charges to the same date. In response to Board staff interrogatory #9, Thunder Bay revised its total balance of Account 1521 for disposition to a debit of $34,737.06. This revised balance is unaudited and is inclusive of adjustments for recoveries that occurred in 2011 and carrying charges forecasted to April 30, 2012.

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances provided in Thunder Bay's interrogatory response are not audited. Board staff notes that the Board has approved the disposition of unaudited balances in account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012, which results in a debit balance of $34,737.06. Board staff submits that this balance should be disposed on a final basis and over a one year period.

Board staff makes no submission on whether the smart meter funding adder should be continued or not. However, Board staff notes that Thunder Bay filed an application for the final recovery of smart meter costs on January 13, 2012. Once the Board makes a decision in that proceeding the resulting tariff of rates and charges will replace the one that will result from this application. If the Board approves Thunder Bay's request for the extension of its current SMFA then this SMFA would expire once the new tariff from the smart meter cost recovery application is issued.

Board staff makes detailed submissions on the following matters:

- Disposition of Account 1562; and
- Lost Revenue Adjustment Mechanism ("LRAM").

Account 1562 – Deferred Payments in Lieu of Taxes ("PILs")

Background

The PILs evidence filed by Thunder Bay in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[1] Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence Thunder Bay applied to receive from customers a debit balance of $500,023 consisting of a principal debit amount of $267,524 and related debit carrying charges of $232,499.

On January 31, 2012, Thunder Bay updated its filed evidence and revised the final balance to $328,040.

[1]Spreadsheet implementation model for payments-in-lieu of taxes

Submission

Issue 1: Start Date of Recording the 2001 and 2002 PILs Proxy Entitlements

In its PILs 1562 continuity schedule, Thunder Bay recorded its entitlement to the 2001 PILs proxy starting on October 1, 2001 and the 2002 PILs proxy on January 1, 2002 which is consistent with the APH. However, due to its amended application for rate adjustment filed on February 21, 2002, the effective date of the 2002 rates including the 2001 and 2002 proxies was delayed to May 1, 2002 at the request of Thunder Bay.

Board staff suggested in interrogatories that the PILs proxy should be pro-rated for the period from May 1, 2002 (the effective date for 2002 rates) to March 31, 2004, or 23 months. The sum of the 2001 PILs proxy of $576,475 and the 2002 PILs proxy of $1,389,804 is $1,966,279. The rates were determined based on a twelve month rate year which implies a monthly PILs proxy amount of $163,857 ($1,966,279/12) for the 23 months. Using this monthly entitlement, the total PILs Proxy for the period shown would be $3,768,701 ($163,857 x 23).

Thunder Bay has shown recoveries of $3,810,182 for the same period of May 1, 2002 to March 31, 2004 in its continuity schedule. The monthly PILs proxy calculated above was used to determine the proxy amounts in this table.

Recoveries in Rate Period	Amount of Recoveries	PILs Proxy
2002 - billings for 8 months only	1,308,312.80	1,310,852.67
2003	2,001,495.57	1,966,279.00
2004 – Jan.1 – Mar. 31	500,373.89	491,569.75
	$3,810,182	$3,768,701

Thunder Bay responded that it did not consider Board staff's PILs proxy calculation to fairly reflect the 2002 Board decision and that Thunder Bay believes that its entitlement to the 2001 PILs proxy should start on October 1, 2001 and its entitlement to the 2002 PILs proxy should start on January 1, 2002, as originally filed.[2]

2 IRR_Board Staff_20120131.pdf, Interrogatory 10 e), pdf page 16.

Board staff is aware that Thunder Bay elected a Target Rate of Return on Common Equity of 1.31% and not the standard 9.88%.[3] While this mitigated rates at the time, Thunder Bay wants to recover more PILs from ratepayers now in 2012 by choosing to record the PILs proxies at dates earlier than May 1, 2002. However, Board staff recognizes that Thunder Bay was subject to PILs for the whole period starting from October 1, 2001, and never indicated that they were not seeking recovery for PILs in this period.

Issue 2: Use of Board-approved Rates for PILs Recovery

Board staff asked in interrogatories #11, 12 and 13 to provide the PILs recoveries calculation worksheet that uses the rate classes from the 2002, 2004 and 2005 rate order, and number of customers, kWh/kW billed and the associated fixed and variable rate slivers from the RAM.

In response to Board staff interrogatories, Thunder Bay prepared a PILs recoveries calculation worksheet. Unmetered scattered load customer class (USL) was not listed as one of the components of the billing worksheet, although the 2002, 2004, and 2005 Board decisions include USL as one of the rate categories.This was identified as being the same as GS<50kW rates which have associated PILs rate slivers. Sentinel Lighting was also included as one of the rate categories in the Board decisions and was also entered in the billing worksheet; however there were no billing determinants entered. According to the PILs recovery worksheet, Thunder Bay did not recover any amount related to PILs from the Sentinel Lighting customer class although it had an approved PILs rate sliver for that rate class.

Board staff notes that the amount of PILs recovered from the USL and Sentinel Lighting class may not be significant but if Thunder Bay actually billed USL and Sentinel Lighting customers with its Board-approved rates, then it did recover some amount of money related to PILs that it has not disclosed, or properly explained in its interrogatory replies.

Board staff submits that Thunder Bay should clearly explain, a) whether it billed USL and Sentinel Lighting customers using Board-approved rates; and, b) if it did bill USL and Sentinel Lighting customers, why it has not disclosed the associated PILs dollar recoveries in its evidence.

3 2001-2005 SIMPIL models, sheet REGINFO.

Issue 3: Excess Interest True-up Calculations

When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in the TAXCALC worksheet as an extra deduction in the true-up calculations.

Thunder Bay replied to Board staff's interrogatories and provided a table that discloses the components of its interest expense for the period 2001 to 2005.[4] The Board-approved maximum deemed interest expense was $435,057.

Year	Interest on LTD**	Interest on Customer and Retailer Deposits	IESO Prudential Charges	Other	Total
2001	$ 900,756	$ 40,757	$ -	$ -	$ 941,513
2002	$ 457,000	$ 33,511	$ 206,304		$ 696,815
2003	-$ 457,000	$ 49,316	$ 121,426	$ 2,375	-$ 283,883
2004	$ -	$ 41,371	$ 85,093	$ 1,376	$ 127,840
2005	$ 1,954	$ 41,082	$ 70,919	$ 8,890	$ 122,845
	$ 1,954	$ 165,280	$ 483,742	$ 12,641	$ 663,617

**Note that the 2001 amount is the annual and what is on the Ministry of Finance Filings is the October to December 2001 expense.

Thunder Bay has stated in its response to Board staff interrogatories that "TBHEDI's position has been that interest on long-term debt was the only amount that was required to be included in the excess interest true-up calculations." Thunder Bay did not report total interest expense as per the audited financial statements which include interest on customer security deposits, IESO prudentials and other interest as seen in the table above in the excess interest calculation.

The Board decided in EB-2011-0174 that Hydro One Brampton's interest expense used to calculate the interest claw-back variance should not include interest on customer deposits.[5] To the best of Board staff's knowledge, the Board has not yet decided if interest on IESO prudentials should be included in interest expense for the SIMPIL claw-back variance calculations.

4 Responses to Board Staff Interrogatories dated January 31, 2012/PDFpg22.
5 EB-2011-0174, December 22, 2011, pg9-10

Board staff submits that Thunder Bay should clarify if the interest on IESO prudentials is a stand-by fee for providing, but not drawing on, a line of credit. If Thunder Bay confirms that the IESO has drawn down the line of credit because of non-payment of commodity invoices, then Board staff submits that this interest expense relates to debt and should be included in the interest claw-back variance calculations. If a revision has been made to the SIMPIL claw-back calculations, then Board staff also submits that Thunder Bay should update the PILs continuity schedule and balance to be collected from customers.

Lost Revenue Adjustment Mechanism ("LRAM")

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

Thunder Bay had originally requested to recover a total LRAM claim of $242,551. Thunder Bay updated its LRAM claim in response to VECC IR #2(d) by removing lost revenues associated with CFLs and LEDs for its 2006 Every Kilowatt Counts program and Third Tranche programs. Thunder Bay is now requesting approval of an updated LRAM claim of $232,860 over a one-year period. The lost revenues include the effect of CDM programs implemented from 2005-2010.

Submission

Issue 1: Persisting impacts of 2005-2009 programs and 2009 lost revenues

Thunder Bay has requested the recovery of an LRAM amount that includes lost revenues in 2009 for 2009 CDM programs and for the persisting impacts from 2005-2008 CDM programs in 2009. Thunder Bay has also requested recovery of the persisting lost revenues from programs delivered from 2005-2009 in 2010.

Board staff notes that Thunder Bay's rates were last rebased in 2009.

Board staff notes that the CDM Guidelines state the following with respect to LRAM claims:

> Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time[6].

Board staff also notes that in its Decision and Order on Hydro One Brampton's 2012 IRM application (EB-2011-0174), the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing.

In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate.

Thunder Bay stated that "In 2009 TBHEDI attempted to argue for a reasonable forecast of its current CDM activities at that time in its COS application. However, the Board found that TBHEDI did not provide enough evidence in its 2009 load forecast pertaining to CDM activities and therefore did not allow the CDM Portion of the load forecast as per page 7 of the Decision and Order EB-2008-0245 dated June 3, 2009."[7]

Board staff notes that the fact that a load forecast was adjusted by the Board does not necessarily mean that no CDM savings are imputed in the final forecast approved by the Board. However, Board staff does recognize that the Board denied a specific adjustment associated with CDM. Thunder Bay may want to highlight in its reply whether the issue of an LRAM application was addressed in its cost of service application or in the Board decision.

---

6 Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)
7 EB-2011-0197, Responses to Board Staff Interrogatories, Interrogatory # 8a

In the absence of the above information, Board staff does not support the recovery of the requested lost revenues in 2009 for 2009 CDM programs, persisting lost revenues from 2005-2008 CDM programs in 2009 or the persisting lost revenues from 2005, 2006, 2007, 2008, and 2009 CDM programs in 2010 as these amounts should have been built into Thunder Bay's last approved load forecast.

Issue 2: LRAM - 2010 programs

Board staff notes that Thunder Bay has not collected the lost revenues associated with CDM programs delivered in 2010, a year where Thunder Bay was under IRM. Board staff supports the approval of the 2010 lost revenues, as these lost revenues took place during an IRM year and Thunder Bay did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Thunder Bay provide an updated LRAM amount that only includes lost revenues from 2010 CDM programs in 2010 and the subsequent rate riders. This will allow for the issuance of the final rate order on a timelier basis if the Board is inclined to approve only the lost revenues associated with the 2009 and 2010 programs.

All of which is respectfully submitted