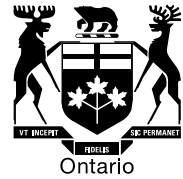


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**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



BY E-MAIL

December 20, 2016

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Thunder Bay Hydro Electricity Distribution Inc.
Application for Rates
Board File Number EB-2016-0105**

In accordance with Procedural Order No. 1 issued on December 5, 2016, please find attached the Ontario Energy Board staff interrogatories on the referenced application filed by Thunder Bay Hydro Electricity Distribution Inc.

Original Signed by

Martin Davies
Project Advisor, Rates
Major Applications

Attachment

cc: Parties to EB-2015-0105

Ontario Energy Board Staff Interrogatories
2017 Electricity Distribution Rate Application
Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay Hydro)
EB-2016-0105
December 20, 2016

1-Staff-1

Upon completing all interrogatories from OEB staff and intervenors, please provide an updated Revenue Requirement Work Form (RRWF) in working Microsoft Excel format with any corrections or adjustments that Thunder Bay Hydro wishes to make to the amounts in the previous version of the RRWF included in the middle column. Entries for changes and adjustments should be included in the middle column on sheet 3 Data_Input_Sheet. Please include documentation of the corrections and adjustments in the final sheet of the model, such as a reference to an interrogatory response or an explanatory note.

1-Staff-2

Ref: Appendix 2-W, Bill Impacts

Upon completing all interrogatories from OEB staff and intervenors, please provide updated bill impacts for all classes at the typical consumption / demand levels (e.g. 750 kWh for residential, 2,000 kWh for GS<50, etc.), reflecting any changes made during the interrogatory process.

1-Staff-3

Ref: Responses to Letters of Comment

Following publication of the Notice of Application, the OEB received a number of letters of comment. Sections 2.1.9 of the Filing Requirements states that distributors will be expected to file with the OEB their response to the matters raised within any letters of comment sent to the OEB related to the distributor's application. If the applicant has not received a copy of the letters, they may be accessed from the public record for this proceeding.

Please file a response to any matters raised in the letters of comment referenced above. Going forward, please ensure that responses are filed to any subsequent matters that may be raised in any further letters filed in this proceeding. All responses must be filed before the argument (submission) phase of this proceeding.

1-Staff-4

Ref: E1 p. 10

At this reference, it is stated that the components of Thunder Bay Hydro's Corporate Strategy have been in place for a number of years and align well with the objectives of

the Renewed Regulatory Framework for Electricity (RRFE). The Long Term Corporate Goals as identified in the Strategy are stated as follows:

- Ensure that the health and Safety of our Employees and the Public is the Utility's first Priority;
- Provide a reliable supply of electricity to the residents and businesses of Thunder Bay;
- Protect and grow the value of the utility to our Shareholder.

Earlier, at the above reference, Thunder Bay Hydro lists the four RRFE outcomes, the first of which is "Customer Focus: services are provided in a manner that responds to identified customer preferences."

- a) Please discuss why Thunder Bay Hydro believes that the long term corporate goals of its strategy referenced above align well with the "Customer Focus" RRFE outcome, specifically discussing how the strategy supports the provision of services in a manner that responds to identified customer preferences.
- b) Please explain how Thunder Bay Hydro incorporated identified customer preferences into its strategy, or if it did not do so, please discuss any plans Thunder Bay Hydro has to do so in preparing future Corporate Strategies.

1-Staff-5

Ref: E1 pp. 12-13

At the above reference, Thunder Bay Hydro outlines its approach to customer engagement and notes the following:

In general, the result of the above discussion aligned well with the direction already unfolding within the Distribution System Plan (DSP). However, Thunder Bay Hydro has specifically implemented a program to address comments from these engagement activities. The Grid Modernization Plan (Appendix D of the DSP, Exhibit 2, and Attachment 2-B) was developed with regard to positively impacting the reliability and general performance of the grid in targeted areas. This initiative is in response to small commercial and large user's preference for ensuring reliability.

- a) Please state to what extent identified customer preferences were incorporated into the preparation of Thunder Bay Hydro's DSP versus obtaining confirmation upon completion of the DSP of customer alignment with these preferences.
- b) Please state whether in the absence of Thunder Bay Hydro's customer engagement activities, the DSP would have contained a grid modernization plan. If yes, please explain how the existing plan was modified as a result of customer input, if not, please explain why not.
- c) With respect to the preference of small commercial and large users for reliability, please state whether Thunder Bay Hydro discussed reliability/cost tradeoffs with

these customers. If yes, please provide a summary of these discussions including the tradeoffs provided, or if not, please explain why not.

1-Staff-6

Ref: E1 p. 13

At the above reference, it is stated that:

Thunder Bay Hydro plans to initiate a Local Advisory Council ("LAC"). The purpose of the LAC will be to keep a representative group of customers apprised of Thunder Bay Hydro's activities, future plans and allow for opportunities to provide feedback and suggestions on those activities and plans. The LAC will be based on the Patient Advisory Model ("PAM") implemented by the Thunder Bay Regional Health Sciences Centre. The PAM has been instrumental in providing input and feedback during development and implementation of any policy impacting patients.

Please provide more detail as to how the PAM was instrumental in providing input and feedback during the development and implementation of patient policy and how Thunder Bay Hydro would envisage applying this experience to its own circumstances.

1-Staff-7

Ref: E1 p. 13

At the above reference, it is stated that "Specific customer engagement around the actual business plan does not occur."

Please state how the DSP and the actual business plan are integrated to take into account the results arising from Thunder Bay Hydro's customer engagement activities. If this is not the case, please explain.

1-Staff-8

Ref: E1 p. 15

At the above reference, it is stated that:

The 20 year rolling Capital Expenditure infrastructure replacement plan is a key component of the Distribution System Plan: maintain the plan for the immediate 3 years (2016-2018) in detail; maintain the next 7 years (2019-2025) in a planning state; establish the final 10 years (2026-2035) in a conceptual state. The plan is to reflect the Utility's strategy of managing annual distribution system investment in order to ensure the long-term reliability and sustainability of the system.

Please discuss whether and how customer rate impacts are incorporated into the 20 year rolling capital expenditure replacement plan.

1-Staff-9

Ref: E1 p. 16

At the above reference, it is stated that “For the past several years, a focus on operational effectiveness has generated substantial efficiencies.”

Please state where these efficiencies were generated and provide quantification of the magnitude of these efficiencies and their impact on customer rates.

1-Staff-10

Ref: E1 p. 30

At the above reference, it is stated that “Thunder Bay Hydro has also made a number of administrative cost efficiencies. For example, bill printing costs decreased in 2015 by 43% as result of Thunder Bay Hydro’s procurement process.”

Please provide additional details as to how the procurement process resulted in the achievement of these savings.

1-Staff-11

Ref: E1 p. 32, Table 1-9: Cost Benchmarking Summary

Please provide an explanation of the increase in the differential shown in the above referenced table between actual total cost and predicted total cost from \$2.7 million or 8.6% in 2015 and \$3.2 million or 9.8% in 2017. Please state whether or not Thunder Bay Hydro would expect this trend to continue in future years. Please discuss in the context of the substantial efficiencies achieved referenced on page 16 of this section.

1-Staff-12

Ref: E1 p. 35

At the above reference, Thunder Bay Hydro’s rate minimization model is discussed and it is stated that:

The spirit of this principle is to keep electricity rates as low as possible and to encourage economic development by foregoing debt and dividend payments. The note payable to the City of Thunder Bay was set up without any provision for the payment of interest or the repayment of principal. Additionally, the Corporation of the City of Thunder Bay does not seek a dividend from Thunder Bay Hydro.

- a) Please state whether or not the effect of the note payable to the City of Thunder Bay being set up without any provision for the payment of interest or the repayment of principal means that this debt is an equity equivalent. If this is not considered to be the case, please explain why.

- b) Please discuss whether Thunder Bay Hydro believes that it will be able to maintain the rate minimization model in future years, given anticipated spending requirements and if so why. If not, please discuss how it might be expected to change and the timing of any such changes.

1-Staff-13

Ref: E 1/p. 35

At the above reference, it is stated that:

The spirit of this principle is to keep electricity rates as low as possible and to encourage economic development by foregoing debt and dividend payments. The note payable to the City of Thunder Bay was set up without any provision for the payment of interest or the repayment of principal. Additionally, the Corporation of the City of Thunder Bay does not seek a dividend from Thunder Bay Hydro.

How does Thunder Bay Hydro ensure that capital is being efficiently allocated if Thunder Bay Hydro's cost of capital is subsidized by its shareholder?

1-Staff-14

Ref: E1 p. 55

At the above reference, it is stated that "The capital budget forecast 2016 and 2017 is based on the DSP and Thunder Bay Hydro's capacity to obtain external financing."

Please discuss whether or not Thunder Bay Hydro's capacity to obtain funding would be seen as placing any limitations on its ability to achieve its DSP now or in the future.

1-Staff-15

Ref: E1 Utility Pulse Report p. 41

At the above reference, the table "Percentage of Respondents indicating that they had a Billing problem in the last 12 months" indicates that Thunder Bay Hydro went from a zero percent level for this indicator in 2013 and 2014 to 12% in 2015, which exceeded the National average of 9%. Please provide an explanation for the 2015 increase.

1-Staff-16

Ref: E1 Utility Pulse Report pp. 60-61

At the above reference, customers are classified into the categories "Secure," "Favourable," "Indifferent" and "At Risk."

- a) Please state whether there are criteria other than those outlined at the above reference for determining that specific customers should be placed in each of these categories. If so, please state what they are

- b) Please discuss the significant decrease in Thunder Bay Hydro customers falling into the “Secure” and “favourable” categories between 2012 and 2015 and the significant corresponding increase (from 50% to 66%) of customers falling into the “Indifferent” category, providing any reasons as to why this shift has occurred.

1-Staff-17

Ref: E1/p. 55/T 1-24 and E2/p. 40/T2-17

At the first reference above, the 2017 “Capital Expenditures requested” are stated as being \$11,113,764 for the 2017 Test year.

At the second reference above, the “2017 Plan” capital expenditures are stated as \$12,440,063.

Please reconcile these two numbers.

1-Staff-18

Ref: E1/Attachment 1-L Audited Financial Statements 2014.

At the above reference, Note 11: Share Capital states that “During the year, 950,000 common shares were issued to Thunder Bay Hydro Corporation for cash consideration of \$950,000.”

- a) Please state why this was done and whether any similar equity infusions are anticipated over the next five years.
- b) Please state whether or not this transaction also involved Thunder Bay Hydro Corporation issuing an equivalent amount of shares to the City of Thunder Bay. If this was not the case, please state how Thunder Bay Hydro Corporation financed the \$950,000 investment in its subsidiary.

1-Staff-19

Ref: E1/p. 39 & Attachment 1-R.

At the first reference above, Thunder Bay Hydro’s Bill Impact Survey is discussed. The second reference presents the results of the survey.

- a) Please provide a printout of the survey in the form that customers who responded to it would have received it.
- b) Please state whether or not this survey was designed by Thunder Bay Hydro, or whether any of the consultants used in Thunder Bay Hydro’s other customer engagement efforts were involved in its preparation. If any outside consultants were used, please state who the consultants were and the extent of their roles. If not, please explain why not.

- c) Question 8 of the survey makes a reference to the “remaining \$0.22 per customer per month,” but none of the other questions appear to include specific bill amounts. Please state whether customers were asked about other components of customer per month costs and if so what the responses were. If not, please explain the context in which Question 8 was asked.
- d) Question 7 asked customers whether they would like to see the tree trimming program done over five years, as proposed, or over seven years. Please state whether customers answering this question were provided with any information about the bill impact differentials of spreading this program over seven, as compared to five years.

1-Staff-20

Ref: E1/ Attachment 1-E.

The above reference is Thunder Bay Hydro’s 2014 Scorecard. It shows that both of the Conservation & Demand Management targets were not met.

Please provide a more detailed explanation than that contained with the Scorecard (on page 5 of 7) as to why these targets were not met, by how much they were not met, and whether or not Thunder Bay Hydro expects this to continue into the future and why or why not this would be the case.

1-Staff-21

Ref: E1 Utility Pulse Report p. 96

At the above reference, results are shown for Ontario LDCs for the customer responses to the question “Which of the following items are you willing to pay more for per month” and a list of items follows.

- a) Please state whether or not customers were given any information about the costs of the items shown on either an absolute or relative basis. If such information was provided, please state what this information was. If not, please explain why not.
- b) Please state whether or not any disaggregated data by distributor exists with respect to the response to this question. If yes, please provide the responses for the applicant. Please also comment on the extent to which there was any variability in the responses across the province between distributors and is so the extent of it.

1-Staff-22

Ref: E1 Attachment 1-M 2015 Annual Report, p.7

At the above reference, a long term load transfer arrangement with Hydro One is discussed and it stated that:

The Ontario Energy Board has issued an order that these arrangements end. This requires an extensive reconciliation of capital assets that was started in 2015. It will conclude with the transfer of some customers to Hydro One and others from Hydro One to us.

- a) Please summarise any costs that are included in the present application related to the long term load transfer and the reconciliation of capital assets referenced above.
- b) Please state whether or not it is anticipated that the long term load transfer arrangements will be ended within the next five years and, if so, whether the impact of ending these arrangements for Thunder Bay Hydro would be expected to be significant. If yes, please explain how significant and if no, please explain why not.

2-Staff-23

Ref: E2/p. 58

At the above reference, SAIDI and SAIFI statistics are shown for the years 2011 to 2015. Both of these indicators appear to be significantly lower for 2014 than the other four years.

Please explain why this was the case.

2-Staff-24

Ref: App. 2 – DSP – S 5.1.1: Investment Categories, p. 8

	OEB Example Drivers	OEB Example Projects	Thunder Bay Hydro Drivers	Thunder Bay Hydro Projects/Activities
System Renewal	Assets/asset systems at end of service life due to: <ul style="list-style-type: none"> • Failure • Failure risk • Substandard performance • High performance risk • Functional Obsolescence 	Programs to refurbish/replace assets or asset systems; e.g. batteries, cable (by type) cable splices, civil works, conductor, elbows & inserts, insulators, poles (by type), physical plant, relays, switchgear, transformers (by type).	Assets/asset systems at end of service life due to: <ul style="list-style-type: none"> • Failure • Failure risk • Functional Obsolescence 	<ul style="list-style-type: none"> ~ A16 Small Pole Replacements ~ A17 Lines Safety Reports ~ A18 Transformer and Switch Replacements ~ A22 Operations Safety Reports ~ Part B Projects – Voltage Conversions, 25kV Pole Replacements, Underground Replacements

Please explain why Project A22 Operations Safety Reports is treated as a capital investment rather than an operating cost.

2-Staff-25

Ref: App. 2 – DSP – S 5.2.1.1: Key Elements of the DSP, p. 16

At the above reference, it is stated on the subject of system renewal investments that:

System Renewal investments involve replacing and/or refurbishing assets to extend the original service life of the assets and thereby maintain the ability of the distribution system to provide customers with electricity. These investments are necessary to prevent large

populations of assets from reaching the end of their useful life, leading to a decline in reliability performance and increase in risks to Thunder Bay Hydro employees and the public.

- a) Please provide concrete examples of how “useful life” is calculated for each asset class.
- b) Does Thunder Bay Hydro plan to replace all assets prior to their calculated “End of Useful Life”, regardless of the actual condition of the assets?
- c) Does Thunder Bay Hydro have assets in operation beyond their calculated “end of useful life” that are still in acceptable operating condition?
- d) Does Thunder Bay Hydro utilize a “Run to Fail” operating methodology on any asset classes or specific groups of assets for which the consequence of failure can be considered as non-critical?
 - i. If yes, please identify these asset classes or groups of assets.
 - ii. If no, please confirm that “Run to Fail” is considered as a good utility practice for specific asset classes and groups of assets in non-critical or low consequence applications.

2-Staff-26

Ref: App. 2 – DSP – S 5.2.1.2: Sources of Cost Savings Expected, p. 18

At the above reference, it is stated that:

- Continued asset condition assessment is expected to provide information allowing Thunder Bay Hydro to determine the most appropriate pace and level of investment for renewal of its assets. This will lead to an optimized level of reactive versus proactive levels of replacements of infrastructure. Cost efficiencies are expected to be realized with the reduction in unexpected replacement of equipment on premium time.
- Life Extension Programs can reduce costs when compared to replacement programs. An example of life-extension programs at Thunder Bay Hydro is the pole transformer painting program, where spare transformers located in the yard that are identified as having rusting, are sanded and painted, extending the life of the asset
- Distribution Automation has the potential to positively impact reliability statistics and increase labour efficiencies. The implementation of the Grid Modernization Plan (found in Appendix D) is expected to automate operations in selected areas and allow for improvements to outage area identification; thusly increasing the effectiveness associated with system patrolling and restoration of outages in those areas.
- Any voltage conversion work that occurs in conjunction with the line rebuilds will have a positive impact on the reduction of line losses (I²R)
- Through the system renewal and voltage uprating process, Thunder Bay Hydro will be reducing inventory requirements of 4kV materials and equipment. These savings will not be fully realized until the end of the conversion process whereby all 4kV stock items can be removed.
- The retirement of Grenville, Mountdale and Hardisty 4kV substations over the forecast period will eliminate the O&M costs associated with maintaining and operating these stations. As detailed in section 5.3, these assets are at the end of their useful lives and

as a result further capital investments will be avoided for the buildings and equipment associated with these stations.

- Standardized Designs are expected to minimize engineering and installation requirements of projects by limiting material diversity. Thunder Bay Hydro is part of the Utilities Standard Forum ("USF") group to standardize installation drawings for use in the projects in this DSP.
- Devices such as portable tablets and the use of web-based applications are expected to replace paper-based data collection and are expected to improve operational efficiency, reduce the possibility of data translation errors, and provide labour savings in data entry.

a) Please quantify the expected annual operational savings that will result from implementation of the following cost saving sources:

- a. Continued asset condition assessment
- b. Life Extension Programs
- c. Distribution Automation (Grid Modernization Plan)
- d. Voltage conversion work
- e. Inventory requirement reduction
- f. Retirement of Grenville, Mountdale and Hardisty 4kV substations
- g. Standardized Designs
- h. Use of portable tablets and web-based applications

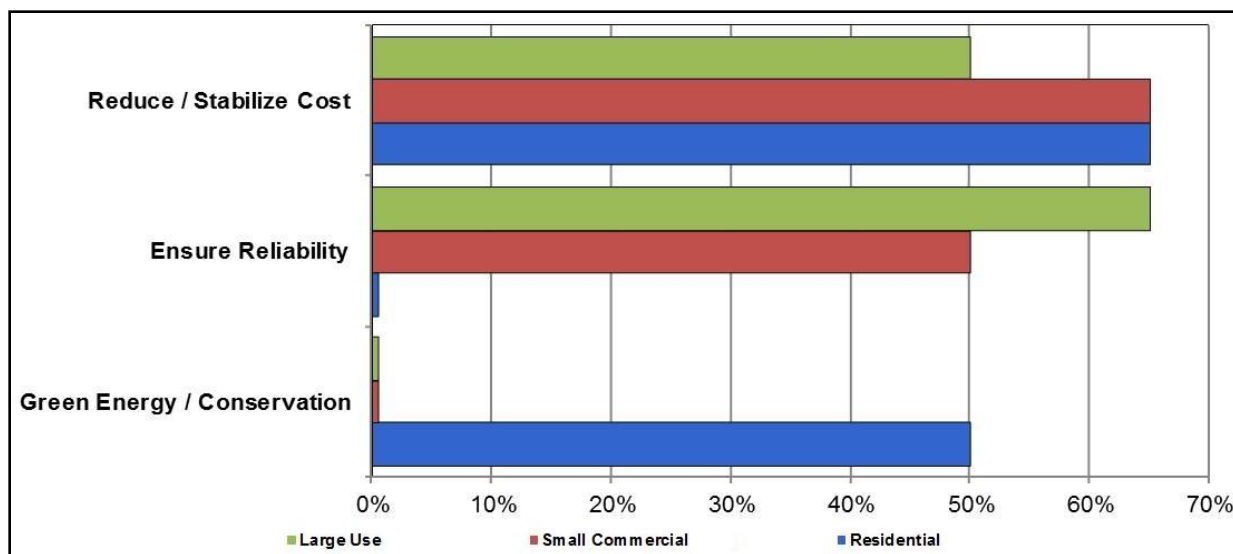
b) Are the trends in capital and O&M spending related to achieving these cost savings being tracked?

- i. If yes, please provide this information.
- ii. If no, please describe the steps being taken by Thunder Bay Hydro going forward to ensure adequate tracking and reporting of O&M spending and cost savings trends for future cost of service filings.

2-Staff-27

Ref: App. 2 – DSP – Figure 5.2.2-3 – Decision Partners: Electricity Industry Top Priorities, p. 23

At the above reference, the following table is shown:



- a) Residential customers have indicated that ensuring reliability is not a high priority for them, while large use and small commercial clients have expressed a much greater interest in ensuring reliability. Does Thunder Bay Hydro skew its capital investments to provide large use and small commercial clients enhanced reliability relative to residential customers?
- If yes, is this fact explicitly taken into account in rate setting? Please provide details.
 - If no, should Thunder Bay Hydro consider adapting its capital investments to ensure reliability to commercial and large use customers, given the feedback received, assuming that the incremental costs could be appropriately identified and allocated?

2-Staff-28

Ref: App. 2 – DSP – S 5.2.2.3: Consultation with Third Party Attachers, pp. 27-28

At the above reference, it is stated that:

Where the above scenario cannot be achieved, (for instance where a third party is targeting a large renewal/upgrade project that does not coincide with Thunder Bay Hydro's efforts) Thunder Bay Hydro asks that the third party provides detailed plans well in advance of the proposed project so that Thunder Bay Hydro can effectively determine the appropriate investment level to allow the project to proceed.

Recent investment by a telecommunication firm (Tbaytel) exemplifies this scenario. Tbaytel has provided Thunder Bay Hydro with their plans to target investments in areas where poles have not been scheduled for replacement in the 5-10 year horizon. The impact to Thunder Bay Hydro is an increase in expenditures in make-ready-work as part of Customer Recoverable System Modifications. In order to minimize these impacts,

Thunder Bay Hydro has been working closely with Tbaytel using a co-ordinated approach to capital planning. In this way Tbaytel is now able to enter neighbourhoods to install fibre while Thunder Bay Hydro is also working to replace aging infrastructure. See Appendix G on the media release of these co-ordinated efforts.

- a) Are all capital costs associated with the accelerated structure replacements described in the Tbaytel example and any similar third party projects fully recoverable from the third party?
 - i. If no, please describe the unrecoverable cost thresholds that Thunder Bay Hydro uses to determine which third party projects to support and which to decline.
- b) Are there any potential rate impacts arising from any recently completed or newly planned third party projects? If yes, please provide details.

2-Staff-29

Ref: App. 2 – DSP – S 5.2.3.1: Metrics to Monitor DSP Process Performance, p. 30

At the above reference, it is stated that:

There is one measure expected by the Chapter 5 filing requirements, but Thunder Bay Hydro has not yet developed a mechanism for measuring or tracking. This measure is;

- Cost-Efficiency and Effectiveness with respect to planning quality

- a) Has Thunder Bay Hydro consulted with other LDCs that have already developed a Cost-Efficiency and Effectiveness metric? If yes, please provide details.
- b) Is Thunder Bay Hydro missing any information or processes that would be required to develop such a metric?

2-Staff-30

Ref: App. 2 – DSP – S 5.2.3.1: Metrics to Monitor DSP Process Performance, Operational Effectiveness – IV. System Reliability Indicators, pp 34-45

At the above reference, it is stated that:

SAIDI (Including and Excluding LOS)

The system average interruption duration index (SAIDI) is an indicator of system reliability that expresses the average length of outage customers experience in the year. All planned and unplanned interruptions of one minute or more are used to calculate this index. It is defined as the total hours of power interruptions normalized per customer served and is expressed as: normalized per customer served and is expressed as:

$$\text{SAIDI} = \frac{\text{Total Customer Hours Interruptions}}{\text{Total Number of Customers Served}}$$

Thunder Bay Hydro's target for SAIFI is 3.03 under normal operating conditions.

Please confirm that, in accordance with *Figure 5.1.5-1 2015 Preliminary Scorecard* found on Page 14 of the DSP, the above bolded statement should be replaced with the following revised statement, or if not, please explain:

"Thunder Bay Hydro's target for SAIDI is 1.92 under normal operating conditions"

2-Staff-31

Ref: App. 2 – DSP – S 5.2.3.1: Metrics to Monitor DSP Process Performance, Operational Effectiveness – VI. Cost Control, p.36

At the above reference, it is stated that:

Total Cost per km of Line

An evaluation by the Pacific Economics Group LLC ("PEG") on behalf of the OEB produces a cost per kilometer of line metric. This measure sums the total capital and operating costs and divides the cost figure by the kilometers of line that Thunder Bay Hydro operates to serve its customers.

Total costs include annual operating and capital costs. Operating costs are the costs associated with the maintenance, inspection and operation of Thunder Bay Hydro's distribution assets, customer and general administration costs. Capital costs include enhancement, betterments and replacement of capital assets that are required each year. Capital costs tend to fluctuate depending on the need to replace existing capital assets and additional infrastructure to support growth and develop.

Performance in this category is measured through benchmarking with other LDC's. Thunder Bay Hydro's target is to achieve and maintain high standards as compared to its peers for lowest total cost per km of line operated.

- a) Please list the LDCs that Thunder Bay Hydro considers to be peers for cost benchmarking purposes.
- b) How does Thunder Bay Hydro determine which other LDCs to select as appropriate peers for this benchmarking?

2-Staff-32

Ref: App. 2 – DSP – S 5.2.3.1: Metrics to Monitor DSP Process Performance, Financial Performance – IX. Financial Ratios, p. 38

At the above reference, it is stated that:

Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio

The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt to equity ratio of 1.5 (60/40).

Thunder Bay Hydro's target is to maintain a solid debt to equity ratio of less than 0.6 to 1. Additionally Thunder Bay hydro has a targeted Debt Service Coverage ratio of greater than 1.2 to 1.

- a) Please explain how Thunder Bay Hydro's debt/equity target relates to the OEB's deemed 60/40 debt/equity ratio.
- b) What are the rate consequences of Thunder Bay Hydro's preferred debt/equity structure?

2-Staff-33

Ref: App 2 – DSP – S 5.2.3.2: Summary of Performance over the Historical Period, Summary of Customer Focus Performance Measures – Customer Bill Impacts, p. 40

At the above reference, the following table is shown:

Line No.	Customer Class	Units	Distribution Rate Change	Total Bill Impact	
			%	\$	%
1	RESIDENTIAL SERVICE CLASSIFICATION - RPP	kWh	14.6%	\$ 2.17	1.57%
2	GENERAL SERVICE LESS THAN 50 kW SERVICE CLASSIFICATION - RPP	kWh	19.5%	\$ 8.67	2.31%
3	GENERAL SERVICE 50 to 999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	kW	3.8%	\$ (80.37)	-0.98%
4	GENERAL SERVICE 1,000 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	kW	3.1%	\$ (1,226.10)	-1.30%
5	LARGE USE SERVICE CLASSIFICATION - Non-RPP (Other)	kW	14.7%	\$ (3,623.58)	-0.73%
6	UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	kWh	10.1%	\$ 0.52	0.67%
7	SENTINEL LIGHTING SERVICE CLASSIFICATION - RPP	kW	20.5%	\$ 2.10	8.34%
8	STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	-13.2%	\$ (2.11)	-9.96%
9	UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	kWh	17.4%	\$ 308.82	1.88%
10	STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	-3.2%	\$ (2,504.22)	-1.78%
11	RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	kWh	21.3%	\$ 4.12	2.96%
12	SENTINEL LIGHTING SERVICE CLASSIFICATION - RPP	kW	15.4%	\$ 7.49	5.85%
12	RESIDENTIAL SERVICE CLASSIFICATION - RPP- Bottom 10th Percentile	kWh	27.9%	\$ 5.38	9.16%
12	GENERAL SERVICE LESS THAN 50 kW SERVICE CLASSIFICATION - Non-RPP (Retailer)	kWh	13.3%	\$ 5.51	1.42%

Table 5.2.3-3 Percentage Customer Bill Impacts 2016 Approved to 2017 Proposed

- a) Please reconcile the difference between Customer Classes in Line Nos. 6 and 9.
- b) Please reconcile the difference between Customer Classes in Line No. 7 and the first line 12.
- c) Are the final three lines all correctly designated as No. 12?
- d) Please provide context for the table and please explain the expected aggregate increase in costs relative to delivered kWh and peak kW.

- e) Under the proposed customer bill impacts described in the above table, are revenues to Thunder Bay Hydro increasing for kWh charges and decreasing for kW charges? If yes, please explain in detail why this is a desirable outcome and the resulting benefits to ratepayers.

2-Staff-34

Ref: App. 2 – DSP – S 5.2.3.2: Summary of Performance over the Historical Period, Summary of Operational Effectiveness Measures – IV. System Reliability Indicators, p. 42

At the above reference, the following table is shown:

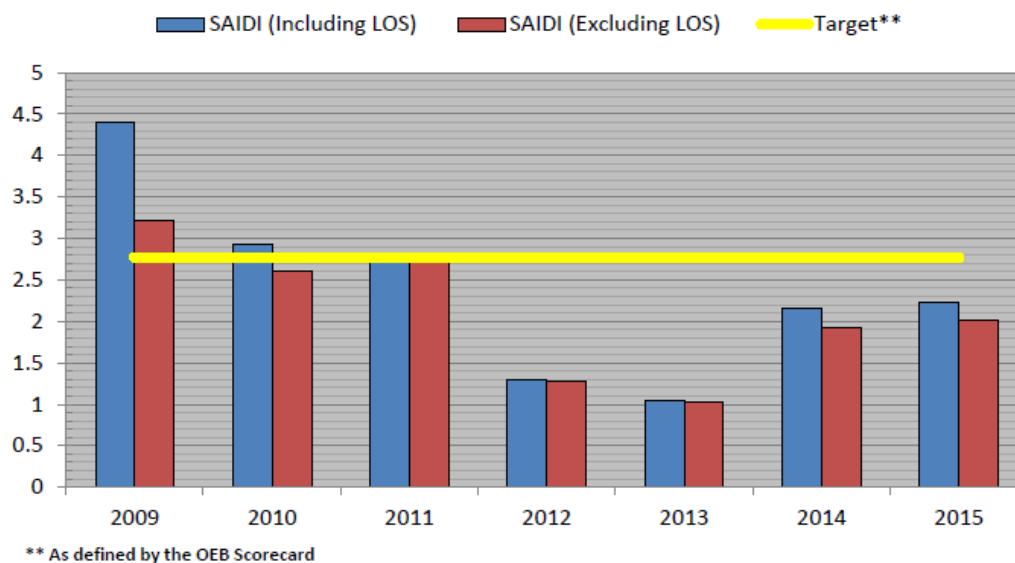


Figure 5.2.3-2 Historical SAIDI Performance

- Please explain the reasons for the comparatively high SAIDI in 2009.
- Please explain the reasons for the step improvement in SAIDI from 2011 to 2012.
- Please explain the reasons for the increase in SAIDI from 2012 & 2013 to 2014 & 2015.

2-Staff-35

Ref: App. 2 – DSP – S 5.2.3.2: Summary of Performance over the Historical Period, Summary of Operational Effectiveness Measures – IV. System Reliability Indicators, p. 44

At the above reference, the following table is shown:

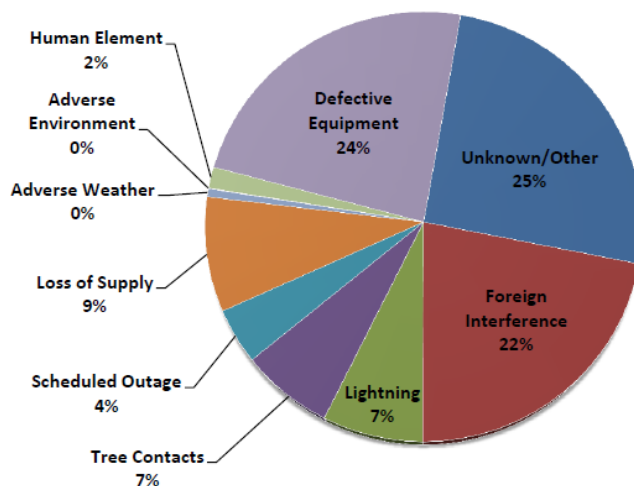


Figure 5.2.3-5 Outage Causes by Duration 2012-2015

- a) Please explain why 25% of outages between 2012-2015 have unknown causes.
 - i. Would a 25% proportion of unknown outage causes be typical among Thunder Bay Hydro's peers?
 - ii. Does Thunder Bay Hydro have any insights as to the likely drivers for the unidentified cause outages?
- b) What steps, if any, is Thunder Bay Hydro taking to identify the causes of such outages going forward?

2-Staff-36

Ref: App. 2 – DSP – S 5.2.3.2: Summary of Performance over the Historical Period, Summary of Operational Effectiveness Measures – V. Asset Management, pp. 44-45

At the above reference, it is stated that:

The Ontario Energy Board has not yet developed a standardized reporting method for DSP progress, and until such time, Thunder Bay Hydro plans to track DSP performance with the following method.

- a) Financial performance measured as plan vs actual expenditures percentage
 - a. Over expenditure >100%
 - b. Under expenditure <100%

- b) Scope Management measured as plan vs actual quantities of assets renewed percentage
 - a. Larger than planned quantities renewed >100%
 - b. Less than planned quantities renewed <100%
- c) These two will factored together for a reported “On-Schedule”, “Ahead of-Schedule” or “Behind-Schedule” performance measure.

Please describe the formula that Thunder Bay Hydro will use to calculate the schedule metrics described in c) above, based upon the expenditure and scope metrics proposed in a) and b) above.

2-Staff-37

Ref: App. 2 – DSP – S 5.2.3.2: Summary of Performance over the Historical Period, Summary of Operational Effectiveness Measures – VI. Cost Control, p. 45

At the above reference, the following table is shown:

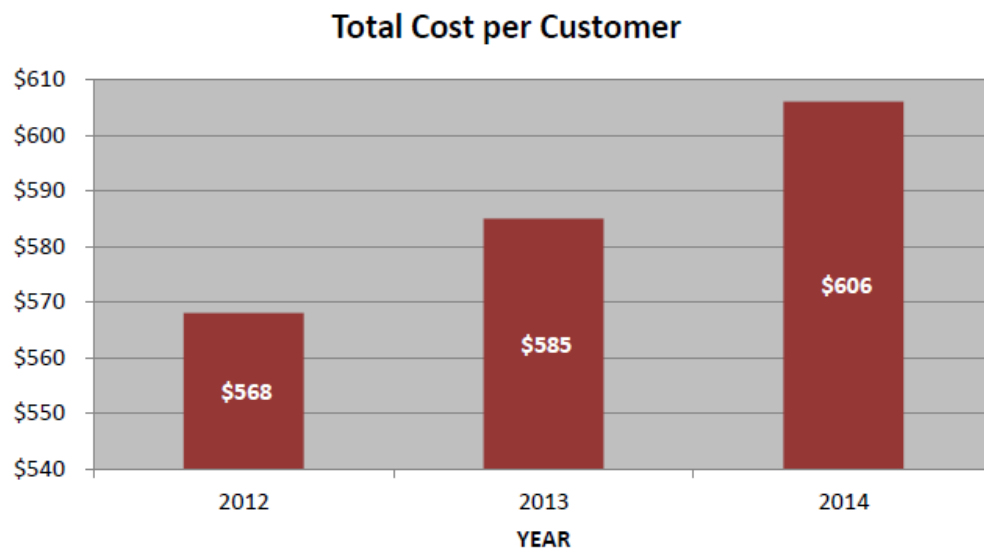


Figure 5.2.3-6 Total Cost per Customer 2012-2014 (2015 not available at time of writing)

- a) Is the 2015 total cost per customer now available?
 - i. If yes, please provide an updated figure showing this information.
 - ii. If no, please provide estimated total cost per customer in 2015.

- b) Thunder Bay Hydro has developed projected rate increases for 2016 & 2017. Please estimate the total cost per customer for 2016 and 2017 using these projected rate increases.
- c) How does Thunder Bay Hydro's cost per customer compare with its peers?

2-Staff-38

Ref: App. 2 – DSP – S 5.3.1.3: Asset Management Strategy, B. Data Sets – iv. Reliability-Based ‘worst performing feeder’ information and analysis, p 59

At the above reference, it is stated that:

Thunder Bay Hydro tracks feeder performance as a composite of all OEB defined outage categories; as well individually by OEB outage category and trends feeder performance overtime. By analyzing the data Thunder Bay Hydro is able to identify the poorest performing feeders annually, as well as feeders that have continually performed poorly. Feeder performance is further analyzed to determine how current programs will impact these statistics and consideration to this fact is given at the time of selecting and prioritizing projects.

- a) Please provide a list of the poorest performing feeders and the feeders that have continually performed poorly.
- b) For the list provided in a), please provide the reasons for the poor performance.
- c) If specific feeders are continually performing poorly, at what threshold does Thunder Bay Hydro decide that a replacement, refurbishment, or operating procedure change is necessary?

2-Staff-39

Ref: App. 2 – DSP – S 5.3.1.3: Asset Management Strategy, C. Process– ii. Asset Condition Assessment, pp. 60-61

At the above reference, it is stated that:

Traditionally, Thunder Bay Hydro has utilized the average age of its assets as an indicator of health of its assets; and more broadly, average age of its wood poles as a proxy for overall system health. Utilizing a TUL of 50 years for its wood poles, Thunder Bay Hydro targeted an average age of 25 years for this asset population. Through detailed analysis, Thunder Bay Hydro determined that 700 poles are required to be replaced annually to obtain a half-

year reduction in age over the same period. This 700 pole replacement target accounts for approximately 70% of Thunder Bay Hydro's system renewal budget annually.

- a) Please provide the justification for Thunder Bay Hydro to pursue the proposed accelerated pole replacement program in terms of expected improvement in system performance indices (SAIDI, SAIFI, CAIDI).
- b) Please provide detailed calculations showing the need for 700 poles to be replaced annually to obtain a half-year reduction in age over the same period.

2-Staff-40

Ref: App. 2 – DSP – S 5.3.1.3: Asset Management Strategy, C. Process– ii. Asset Condition Assessment, p. 62

At the above reference, the following table is shown:

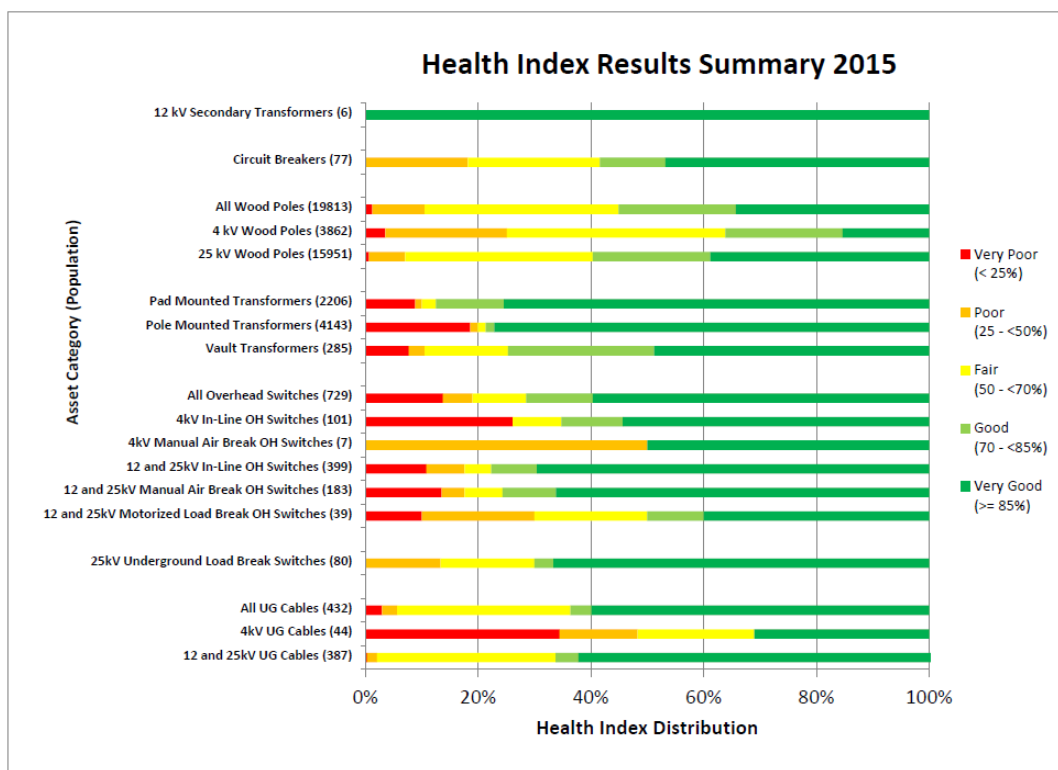


Figure 5.3.1-2 Health Index Results Summary 2015

- a) In Figure 5.3.1-2 above, please confirm that the 12 kV Poles are included with the 25 kW Wood Poles.

- i. If not confirmed, please explain how 12 kV poles are accounted for in this figure.
- b) Please confirm if the total of 432 is correct for All UG Cables (i.e.: 44 UG Cables @ 4 kV plus 387 UG Cables @ 12 & 25kV = 431 UG Cables).

2-Staff-41

Ref: App. 2 – DSP – S 5.3.1.3: Asset Management Strategy, C. Process– ii. Asset Condition Assessment, Table 5.3.5-3 Thunder Bay Hydro Asset Operating Strategy, pp. 63-64

At the above reference, it is stated that:

An overview of the strategy that Thunder Bay Hydro employs within each category is listed below.

ASSET CATEGORY	OPERATING STRATEGY
Power Transformers	Proactive Maintenance
Circuit Breakers	Proactive Maintenance
Wood Poles	Reactive Maintenance
Padmount Transformers	Reactive Maintenance
Pole Mounted Transformers	Reactive Maintenance
Vault Transformers	Reactive Maintenance
Overhead Switches	Reactive Maintenance
Underground Switches	Reactive Maintenance
Underground Primary	Reactive Maintenance
Reclosers	Reactive Maintenance
Metering	Reactive Maintenance
Overhead Primary Conductor	Reactive Maintenance
Underground Secondary Cable	Reactive Maintenance
Underground Secondary Cable	Reactive Maintenance

Table 5.3.1-3 Thunder Bay Hydro Asset Operating Strategy

Engaging Kinectrics has produced a shift in thinking at Thunder Bay Hydro from an age based to a condition based asset condition assessment, which has resulted in a more optimized asset management plan, replacing only those assets which are at end of life.

- a) Has Thunder Bay Hydro been implementing age-based asset replacements up to the present filing?
 - i. If yes, please reconcile that claim with the information in Table 5.3.1-3, which shows a reactive maintenance strategy for most asset types.

- b) Does Thunder Bay Hydro identify end of life assets based upon asset age, asset condition (as determined from field assessments), or a combination of these parameters? Please explain in detail.

2-Staff-42

Ref: App. 2 – DSP – S 5.3.1.3: Asset Management Strategy, C. Process– iv. Project Prioritization and Selection, pp. 65-66

At the above reference, it is stated that:

Process:

Thunder Bay Hydro prioritizes the projects in the capital project database based on several criteria. Criteria such as; overall risk values (generally the risk relative to other projects is considered more heavily than absolute risk); composite health of the assets within a project area (is the project area in good health or poor health overall); project alignment asset management objectives and hence with corporate goals and initiatives; and potential for investment efficiencies (economies of scale, coordination with 3rd parties, etc.) A projects rank is then formulated based on the degree to which it satisfies these criteria and the entire listing is sorted in descending order based on the formulated value for each project. Projects are then selected from this list and the selection is optimized based several key considerations including: the levelized replacement plan identified in the ACA; availability of resources such as personnel, contractors and material; as well as scheduling constraints that limit the amount of certain types of work that can be executed annually. This optimization process ensures that the appropriate quantities of assets are renewed annually to maintain the overall health of the system; and that project costs are not negatively impacted by the timing and availability of resources. The investment priority and pace are set forth from this process and are used to inform Thunder Bay Hydro's DSP.

- a) Is project rank formulated quantitatively using a repeatable objective algorithm, does the process depend upon significant application of judgment by experienced engineering staff, or is the process a hybrid of these approaches? Please explain in detail.
- b) Please provide the prioritized project list from which the projects in this filing were selected.
- c) Is the total capital expenditure determined via a bottom-up process (aggregate cost of all projects determined to be necessary) or a top-down process (only the highest priority projects that fit within a pre-determined capital envelope)?

2-Staff-43

Ref: App. 2 – DSP – S 5.3.2.1: Features of the Distribution Service Area, p. 67

At the above reference, it is stated that:

Economic Growth

A load forecast was completed in in 2016 as a part of the IRRP process and through the process provided Thunder Bay Hydro with insight into the economic trends and variables effecting growth in its distribution system. The economic factors that were determined to have an effect on growth in the service area are listed below:

- Commodity Prices (Timber, Grain, and Metals);
- Unemployment rates
- Consumer Price Index (CPI)
- Inflation

By reviewing these factors and their predictors over the forecast period, Thunder Bay Hydro expects economic growth to be gradual (Inflation of 2.0-2.9 %) over the forecast period. This prediction of slow economic growth is an input into the System Access category investment planning, as projects in this category are expected to remain steady over the 2017-2021 forecast periods.

Please define the relationship between inflation and economic growth as those terms are used in the above paragraph.

2-Staff-44

Ref: App. 2 – DSP – S 5.3.2.3: Asset Condition – Wood Poles, p. 74

At the above reference, the following table is shown:

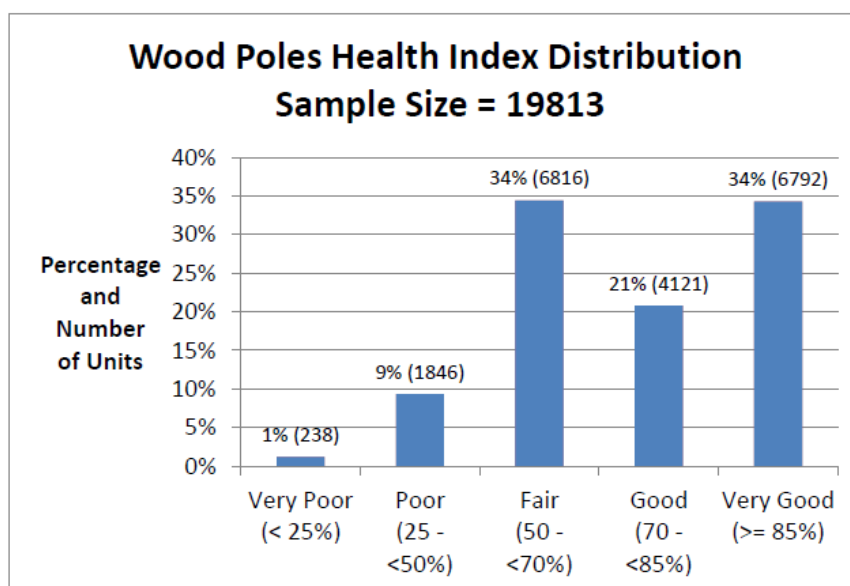


Figure 5.3.2-1 - Kinectrics ACA Wood Pole Health

Please reconcile the wood pole health index distribution with Thunder Bay Hydro's 700 pole per year replacement target.

2-Staff-45

Ref: App. 2 – DSP – App. 2-5.3.2.3 Asset Condition (OEB Filing Req. 5.3.2c):
Underground Cables, pp. 82-83

With respect to the discussion at the above reference:

- a) Is overhead service less expensive to install, maintain and repair than underground cables?
- b) Has Thunder Bay Hydro considered replacing any of its legacy underground cables that are in poor condition with overhead service?
 - i. If not, please describe the constraints that prevent consideration of such an approach.

2-Staff-46

Ref: App. 2 – DSP – Appendix 2-AB, p. 121

At the above reference, the following table is shown:

First year of Forecast Period: 2017

CATEGORY	Historical Period (previous plan ¹ & actual)															Forecast Period (planned)				
	2012			2013			2014			2015			2016 (Bridge Year)			2017	2018	2019	2020	2021
	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual ⁽²⁾	Var					
	\$ '000		%	\$ '000		%	\$ '000		%	\$ '000		%	\$ '000		%					
System Access	(1)	2,864	-	(1)	2,154	-	(1)	2,937	-	(1)	2,412	-	(1)	2,722	-	2,662	2,422	2,432	2,445	2,505
System Renewal	(1)	6,664	-	(1)	5,888	-	(1)	5,994	-	(1)	7,413	-	(1)	7,165	-	8,380	8,818	8,976	9,217	9,261
System Service	(1)	-	-	(1)	-	-	(1)	-	-	(1)	-	-	(1)	-	-	230	300	280	280	300
General Plant	(1)	877	-	(1)	4,246	-	(1)	989	-	(1)	1,345	-	(1)	1,906	-	1,168	1,360	946	901	969
TOTAL EXPENDITURE	-	10,405	-	-	12,287	-	-	9,920	-	-	11,171	-	-	11,793	-	12,440	12,900	12,634	12,842	13,036
System O&M	(1)	6,998	-	(1)	6,803	-	(1)	7,316	-	(1)	7,441	-	(1)	8,034	-	8,026	8,187	8,350	8,592	8,842

Notes to the Table:

1. Historical "previous plan" data is not required unless a plan has previously been filed.

2. Indicate the number of months of 'actual' data included in the last year of the Historical Period (normally a 'bridge' year): 5

Table 5.4.4-1 Appendix 2-AB Capital Expenditure Summary 2012-2021

- a) Please explain the reasons for the large year-over-year step increases in System Renewal project expenditures planned for the following years:
 - i. 2017
 - ii. 2018
 - iii. 2020.
- b) Did Thunder Bay Hydro implement a change in its maintenance or asset replacement strategy in 2015 that led to the significant increase in System Renewal expenditures in that year relative to the 2012-2014 average? Please describe in detail.
- c) Please state whether or not Thunder Bay Hydro can quantify any OM&A savings that are likely to be achieved as a result of its anticipated capital expenditures over the next five years. If yes, please state the magnitude expected for each year. If no, please explain why not.
- d) Based on the historical and forecast System O&M expenditures shown in Figure 5.0.2.4-1 above, OEB staff has calculated the resulting annual percentage expenditure increases as follows:

	4 - Year Historic Actual Expenditures (\$)				Bridge Year	5 - Year Forecast Expenditures (\$)				
	2012 (\$,000)	2013 (\$,000)	2014 (\$,000)	2015 (\$,000)		2017 (\$,000)	2018 (\$,000)	2019 (\$,000)	2020 (\$,000)	2021 (\$,000)
	6,998	6,803	7,316	7,441		8,034	8,026	8,187	8,350	8,592
System O&M										
Annual Growth %	-	-2.8%	7.5%	1.7%	8.0%	-0.1%	2.0%	2.0%	2.9%	2.9%

- i. Please confirm that Thunder Bay Hydro agrees with these calculations, or if not, make any necessary corrections.

- ii. Please explain why the System O&M expenditures dropped in 2013 relative to the previous year.
- iii. Please explain the reason for the large step increase of 8.0% in System O&M expenditures in 2016.
- iv. Please confirm that Thunder Bay Hydro's O&M expenditures are expected to compound at an average rate of almost 2% over the forecast period, following a step increase of 8% in 2016.
- v. Please explain why the System O&M expenditures are expected to grow continuously over the forecast period despite the stagnant condition of the local economy and the projected lack of customer growth.

2-Staff-47

Ref: Chapter 2 Appendices, 2-B

As per the accounting instructions provided in Appendix 2-B of the workbook, Appendices 2-CB to 2-CF should only be completed by an applicant if the applicant is reflecting the OEB mandated changes to its depreciation policy for the first time in a rebasing application. Since Thunder Bay Hydro has already reflected this change as part of its last rebasing application EB-2012-0167, completion of the aforementioned appendices is not required as part of the current application. Instead, Thunder Bay Hydro is required to complete Appendix 2-CH.

Please complete and submit Appendix 2-CH for all historical years from 2013 to 2015, in addition to the Bridge Year and Test Year forecasts.

2-Staff-48

Ref: Chapter 2 Appendices, 2-B

As per the accounting instructions provided in Appendix 2-B of the workbook, when completing Appendix 2-BA, if the applicant has already reflected the OEB mandated capitalization and depreciation policy changes in a previous application and adopted IFRS effective January 1, 2015, then Appendix 2-BA should be completed under both MIFRS and Revised CGAAP for fiscal year 2014 (refer to the table provided in the instructions).

Please complete and submit Appendix 2-BA under Revised CGAAP for 2014.

2-Staff-49

Ref: Chapter 2 Appendices, 2-BA

Please reconcile the 2015 PP&E continuity in Appendix 2-BA to the total gross cost and accumulated depreciation balances per Note 4 of the December 31, 2015 audited financial statements. Please ensure that all reconciling items are explained.

3-Staff-50

Ref: E3/pp. 32-33

At the above reference, explanations of variances in other revenue are provided for comparative years. However, no explanations appear to be provided for the comparisons 2014 Actual vs. 2015 Actual and 2015 Actual vs. 2016 Bridge Year.

Please provide the above referenced explanations.

4-Staff-51

Ref: E4/p. 27

At the above reference, it is stated "Given that the union ratification was very recent, Thunder Bay Hydro has not adjusted the 2016 Bridge and 2017 Test Year to reflect the reduction in cost; however, will provide during the interrogatory process."

Please provide this information including a high level summary of its major impacts.

4-Staff-52

Ref: E4/p. 29

At the above reference, Thunder Bay Hydro's compensation system is discussed.

Please state whether or not Thunder Bay Hydro has ever had any studies of its compensation system conducted, either by or for the applicant, e.g compensation benchmarking. If yes, please provide such studies. If no, please explain why not.

4-Staff-53

Ref: E4/p. 32 Table 4-12

At the above reference, FTE and Employee Costs are provided for the period from 2013 to 2017. In the two-year period 2013 to 2015, Total Management Compensation is shown as increasing from \$3,053,778 to \$3,437,661, an increase of 12.6%, while Total Non-Management Compensation in the same period increased from \$9,558,330 to \$9,726,027, an increase of 1.8%.

Please explain this differential including the 12.6% increase in management compensation.

4-Staff-54

Ref: E4/p. 40

At the above reference, Thunder Bay Hydro's shared services and corporate cost allocation is discussed and it is stated that Thunder Bay Hydro does not have a Services Agreement with the City of Thunder Bay.

Please explain why this is the case and whether or not there are any plans to establish such an agreement.

4-Staff-55

Ref: E4/p. 40 and p. 44 Table 4-19

At the first reference above, Thunder Bay Hydro's shared services and corporate cost allocation is discussed and it is stated that Thunder Bay Hydro believes that there is no competitive market that exists for the services it provides its affiliates.

The second reference lists the services that Thunder Bay Hydro is expecting to provide to its affiliates during the 2017 Test year. These include Conservation and Demand Management, Utility Billing Services, Meter Services, IT Services and Corporate/Administrative Costs.

- a) Please explain why Thunder Bay Hydro believes there is no competitive market for these services.
- b) Please explain why fully allocated costs are shown as the pricing methodology for most 2017 services provided, but "Cost + Greater of Bank Prime OR Approved ROE" is stated as the pricing methodology for many services provided to Thunder Bay Hydro Utility Services Inc.

4-Staff-56

Ref: E4/p. 54 & Ontario Energy Board *Filing Requirements for Electricity Distribution Rate Applications – 2016 Edition for 2017 Rate Applications Chapter 2*, July 14, 2016, p.39.

At the first reference, Thunder Bay Hydro discusses its depreciation policy, but does not provide a depreciation policy document.

The second reference, which is the Filing Requirements, states that "The applicant must provide a copy of its depreciation/amortization policy. If not, the applicant must provide a written description of the depreciation practices followed and used in preparing the application."

Please state whether or not Thunder Bay Hydro has a depreciation/amortization policy document of the kind referenced in the Filing Requirements. If yes, please provide this document or explain why it has not been provided. If no, please explain why not and state whether or not the summary contained in the first reference is the extent of Thunder Bay Hydro's depreciation practices followed and used in preparing the application. If not, and in the absence of a policy document, please provide a complete written description of the depreciation practices followed and used in preparing the application.

4-Staff-57

Ref: E 4.16.2, p.75 and Tab 1 (Table 1) of LRAMVA Work Form

The LRAMVA work form is structured so that all entries are used in various related calculations. The 2011 LRAMVA has been claimed in the 2015 Price Cap IR application, including the additional lost revenues associated with the 2011 period in the 2012-2014 LRAMVA disposition.

Please revise the LRAMVA work form by removing the 2011 LRAMVA amounts in Table 1 of Tab 1.

4-Staff-58

Ref: Tab 2 (Tables 2 and 3) of LRAMVA Work Form & EB-2012-0167 Thunder Bay Hydro Electricity Distribution Inc. *Decision and Order* April 18, 2013, App. A 3.3, p. 21

OEB staff notes that there appears to be a discrepancy between the CDM thresholds entered in the LRAMVA work form and the amounts that were approved in the second reference above, the 2013 Settlement Agreement.

- a) Please confirm the CDM threshold applied to the 2012 and 2014 years.
- b) Please update the LRAMVA work form to make the necessary corrections to the CDM threshold, as required, that is applied against the actual lost revenues.
- c) If Thunder Bay Hydro does not believe an update is necessary, please explain.

4-Staff-59

Ref: Tab 4 (Tables 8, 9, 10) of LRAMVA Work Form

- a) Please confirm and explain how the savings from the business retrofit programs were allocated to the GS<50 kW, GS 50-999 kW and GS 1000-4999 kW customers for the 2012, 2013 and 2014 years. In particular, please discuss why the rate class percent allocations could not be provided in the LRAMVA work forms.
- b) Please discuss how the savings from the streetlighting project(s) in 2014 were determined. In addition, please provide documentation or analysis to substantiate the savings claimed.

4-Staff-60

Ref: Tab 4 of LRAMVA Work Form

As Thunder Bay Hydro re-based in 2013, please discuss the appropriateness of claiming the persistence of 2011 savings into the 2013 and 2014 program years.

4-Staff-61

Ref: E 4.13 PILs Calculation Workform

Please update the return on equity % parameter used in the test year PILs calculation workform for the OEB's updated cost of capital parameters effective January 1, 2017.

4-Staff-62

Ref: E 4.13 PILs Calculation Workform & Appendix 2-BA

In performing the calculation of test year taxable income (within the PILs model workform), an amount of \$331,217 is being added back for losses on disposal of assets.

Please explain how this reconciles to the NBV of dispositions (excluding CWIP) as presented in the 2017 PP&E continuity in Appendix 2-BA.

4-Staff-63

Ref: E 4.13 PILs Calculation Workform

In performing the calculation of the test year taxable income, an adjustment for the difference between the OPEB accounting expense and actual benefit payments made is included.

Please explain why a similar adjustment is not performed for pensions?

4-Staff-64

Ref: E 4.13 PILs Calculation Workform

- a) In performing the calculation of the test year taxable income, please explain why the net depreciation figure from the 2017 PP&E continuity in Appendix 2-BA is not being added back.
- b) Please provide an explanation as to why it is appropriate to use the gross depreciation figure in this case.

4-Staff-65

Ref: Attachment 4-U

The copy of Schedule 8 of the December 31, 2015 corporate tax return is cut-off.

Please provide a complete version of this schedule.

4-Staff-66

Ref: Attachment 4-U

Schedule 4 of the December 31, 2015 corporate tax return indicates that there was 721,781 of non-capital losses incurred in 2015 that were carried back and applied against taxable income of previous years.

- (a) Please explain the nature and drivers of these losses.
- (b) For regulatory purposes, was consideration given to applying these losses to the bridge and test year PILs calculations? Please explain the rationale for not doing this.
- (c) What would the impact be on the test year PILs had these losses been applied to the calculation?

4-Staff-67

Ref: Attachment 4-U

Schedule 510 of the December 31, 2015 corporate tax return indicates that the company is eligible for certain Ontario Tax Credits (i.e. Apprenticeship).

- a) Please state whether or not these tax credits were considered when preparing the test year PILs calculation, and if so, please explain the rationale for excluding them.
- b) Please state the impact on the Test year PILs had they been included in the calculations.

5-Staff-68

Ref: E5/p. 7.

At the above reference, a credit facility agreement with TD Commercial Bank with a term of 15 years and a rate of 5.27% is shown.

Please provide a copy of this agreement.

5-Staff-69

Ref: E5/Attachment 5-B.

The above reference provides a copy of the demand promissory note in the amount of \$26,490,500.

- a) Please state why this note is only signed by Thunder Bay Hydro and not also by the City of Thunder Bay.
- b) Please provide a summary of the key steps undertaken in April 2013 to put this transaction into effect.

7-Staff-70

Ref: E7/p. 5 and E8/p. 27 Table 8-14.

At the first reference, it is stated that Thunder Bay Hydro intends to establish a Large Use class for a customer who is currently in the General Service > 1000 kW class.

At the second reference, the bill impact for this class is shown as a reduction of 0.73% based on an OEB approved amount of \$496,241.70 and a proposed charge of \$492,618.11.

Please provide an explanation as to how this bill impact was determined, particularly what is meant by an "OEB approved amount" given that this is a proposed new customer class.

9-Staff-71

Ref: E 9.2

- a) Please map/reconcile the closing December 31, 2015 principal and interest account balances as presented in the 2017 DVA Continuity Schedule (EDDVAR) to the detail of Note 3 in the December 31, 2015 audited financial statements (excluding the deferred tax line items).
- b) Please provide explanations for any variances that have not already been explained in Exhibit 9 of the application.

9-Staff-72

Ref: E 9.4.2 Transitioning Class A and B Customers

Please state whether or not Thunder Bay Hydro had any customers who transitioned between Class A and Class B? If so, please update the following

- a) The rate rider calculation for the disposition of Global Adjustments to comply with the new Tariffs and Rate Orders that the OEB issued on December 8, 2016 (for

the January 1, 2017 effective date applications). The Global Adjustment rate rider has now been defined as not applicable to Wholesale Market Participants ("WMP") and customers that transitioned between Class A and Class B in the period of last Global Adjustment disposition to 2015. These transition customers are to be charged or refunded their share of the variance disposed through customer specific billing adjustments. This rate rider is to be consistently applied in accordance with a customer's Class A or Class B classification as at December 31, 2015 and the above noted exception for 2015 transition customers, for the entire period to the sunset date of the rate rider.

- b) The rate rider calculation for the disposition of Class B WMS – Sub-account CBR (2017) as needed to comply with the new Tariffs and Rate Orders that the OEB issued on December 8, 2016 (for the January 1, 2017 effective date applications). The WMS – CBR Class B rate rider has now been defined as not applicable to WMP and customers that transitioned between Class A and Class B in 2015. These transition customers are to be charged or refunded their share of the variance disposed through customer specific billing adjustments. This rate rider is to be consistently applied in accordance with a customer's Class A or Class B classification as at December 31, 2015 and the above noted exception for 2015 transition customers, for the entire period to the sunset date of the rate rider.

9-Staff-73

Ref: E 9.5.2 and 9.5.5

As per the July 14, 2016 Chapter 2 *Filing Requirements for Electricity Distribution Rate Applications - 2016 Edition for 2017 Rate Applications*, distributors with material debit or credit balances in account 1518 RCVA Retail and 1548 RCVA Service are required to provide, among other things, a schedule identifying all revenues and expenses listed by USoA account number that are incorporated into the variances in the account.

Please provide this information for each account.

9-Staff-74

Ref: E 9.5.6 Account 1555 Smart Meter Capital

Thunder Bay Hydro has indicated that the balance of account 1555 as at December 31, 2015 was adjusted in 2016 due to an error and that Thunder Bay Hydro is not currently requesting this account to be disposed. However Note 3 of the December 31, 2015 audited financial statements indicate that the Company expects to request disposition of

the remaining credit balance in its next rate application for rates to be effective May 1, 2017.

- (a) Please confirm that no amounts were over-recovered with respect to the disposition of account 1555.
- (b) Please explain the nature of the above inconsistency with the December 31, 2015 audited financial statements.

9-Staff-75

Ref: E 9.5.8

In support of the disposition of account 1575, Thunder Bay Hydro has completed Appendix 2-EA to present the cumulative transition difference in PP&E as a result of adopting IFRS effective January 1, 2015.

- (a) Balances presented for PP&E under MIFRS do not agree to the detailed MIFRS continuity schedules provided in Appendix 2-BA. Please reconcile Appendix 2-BA to the balances for the corresponding years as presented in Appendix 2-EA and if required, update each as needed.
- (b) Please provide the detailed revised CGAAP continuity schedules for each of the years presented in Appendix 2-EA

9-Staff-76

Ref: E 9.5.8

In the 2016 Bridge year, Thunder Bay Hydro has included an additional amount of \$256,890 within account 1575 related to a constructive obligation for the distribution stations.

- (a) Please explain the nature of this adjustment including an explanation as to why the amount would not have been recorded for accounting purposes under the previous Canadian GAAP.
- (b) Why was such an adjustment not recorded in 2015, the year of transition to IFRS?
- (c) Please provide a description of how this estimated amount was calculated, how the calculation meets the requirement of the underlying IFRS accounting standard, including a discussion of the key assumptions used and why those assumptions are reasonable.

- (d) Please update the return component of the calculation in Appendix 2-EA using the updated cost of capital parameters released by the OEB effective January 1, 2017.

9-Staff-77

Ref: E 9.5.8

As per the July 14, 2016 Chapter 2 filing requirements for electricity distribution rate applications, an explanation for the basis of the proposed disposition period of the Account 1575 rate rider must be provided. In addition, the OEB's determination of the disposition period will be on a case-by-case basis and will be guided primarily by such considerations as bill impacts and the financial impacts.

Please provide the required explanation containing the elements outlined above.

9-Staff-78

Ref: E 9.5.10

As part of the decision and order for EB 2012-0167, the OEB approved the disposition of \$92,434 as a refund to ratepayers related to account 1592. However per the 2017 DVA Continuity Schedule (EDDVAR), it appears that only \$46,217 was disposed. Please explain why the disposition balance is not consistent with the EB-2012-0167 decision and order.

- (a) Please confirm that the required \$92,434 was in fact refunded to ratepayers in full.
- (b) Please explain the nature of the principal and interest adjustments recorded during 2014 for account 1592 and provide justification as to why these adjustments were appropriate.
- (c) Please confirm that the account does not include any activity after April 30, 2013.
- (d) Please provide an analysis of the account balance. Refer to the December 2010 APH FAQs, in particular FAQ #4 for an example of the type of analysis required.
- (e) The explanation provided in Appendix A of the 2017 DVA Continuity Schedule (EDDVAR) related to account 1592 does not address why there is a variance between the December 31, 2015 closing balance in the continuity and the December 31, 2015 balance per RRR 2.1.7, please reconcile the difference and provide an explanation of the differences.