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BY EMAIL and RESS

February 21, 2017
Our File No. 20160105

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2016-0105 – Thunder Bay 2017 Rates – Oral Hearing

We are counsel for the School Energy Coalition. We are writing this letter to request, on behalf of our clients, that the oral hearing in this matter take place in Thunder Bay.

There are three main reasons for this request.

First, Thunder Bay Hydro is requesting a 17% average rate increase, which would if approved bring their rates from their current level – below provincial averages – to roughly the provincial average. The increase is driven in part by substantial increases in capital and operating costs, and in part by a shift from claiming part of the Board-allowed ROE (7.00% in current rates, approved in EB-2012-0167) to the full Board-allowed ROE (8.78% for 2017).

The increase in ROE generates a deficiency of \$1,071,636. The balance of the deficiency, \$2,266,875, comes mainly from increases in capital and operating costs. The capital spending proposed, for example, is 351% of depreciation, well above industry averages. Operating costs as proposed are 18.9% above the actual OM&A spent in 2013. The latter, a compound annual growth rate for OM&A of just over 4.4%

per year, is particularly problematic because Thunder Bay Hydro underspent Board-approved OM&A in each of the years 2013 through 2015.

As a result of the proposed increases, Thunder Bay Hydro expects to go from 8.2% above predicted costs in 2013, using the Board's benchmarking model, to 9.8% above predicted costs in 2017.

We note that the Application does not involve insignificant amounts of money. As proposed, Thunder Bay Hydro is asking the Board to approve distribution revenues to be collected from customers of more than \$128 million over the next five years, which is \$29 million more than revenue at current rates. To put that in perspective, the entire municipal property tax revenues of the City of Thunder Bay are only \$178 million per year. For the City of Thunder Bay, the approvals requested in this Application are a lot of money.

Thus, the people of Thunder Bay have the right to be concerned that their local distributor may not be controlling its costs as diligently as it could. It is appropriate, in these circumstances, for the public to see the Board at work, testing these proposals vigorously, and making a reasoned determination on just and reasonable rates.

Second, the explanations by Thunder Bay Hydro of the proposed increase, and their performance relative to other LDCs, have been less than clear.

At the Community Day, for example, the CEO of Thunder Bay Hydro said that \$2.8 million of the proposed rate increase was due to the need to invest more in capital assets. This was not correct, as can be seen from the figures above. No mention – none at all – was made of the increase in the ROE level, despite its material impact on rates. The impact of the capital plan itself is actually less than half of that \$2.8 million figure.

In the same presentation, the CEO of Thunder Bay Hydro said that rates had to increase \$234,000 per year due to the OEB's requirement to go to monthly billing. This was not all of the story, since the reduction in the working capital allowance, also mainly the result of monthly billing, reduces rates by \$443,076. Thus, the net impact of monthly billing is actually a reduction in rates of more than \$209,000.

The CEO also characterized the remaining increases in OM&A as almost entirely driven by increases to maintenance of the system. In fact, O&M increased \$750,047 from 2013 Board approved to 2017 Proposed. G&A, on the other hand, is proposed to increase \$710,880 over the same period. No mention was made of G&A increases in the CEO's presentation to the public. (This is even worse if you compare increases from 2013 Actual: O&M is up \$1,222,971, and G&A is up even more, \$1,241,287.)

Finally, the CEO made a point of telling the community members and press there that Thunder Bay Hydro had an “excellent scorecard”, while failing to note that past and forecast costs are well above predicted costs, and getting worse, going up to 9.8% in 2017.

We also note that, in their responses to letters of comment, Thunder Bay Hydro continues to spotlight the Rate Minimization Model, which in the past kept rates in Thunder Bay lower than the rest of the province because less than full ROE was claimed, at the direction of the shareholder, the City. The responses do not point out that almost a third of the proposed rate increase is the direct result of Thunder Bay Hydro, and their shareholder, reducing the impact of that Rate Minimization Model by claiming the full ROE in this Application for the first time. The responses to the letters of comment thus run the risk of misleading some customers. (The same spotlighting of the Rate Minimization Model happened at the Community Day, with the same risk of being misleading.)

In SEC’s submission, one of the roles the Board plays is to provide transparency for the costs of regulated utilities. In this case, SEC believes it is important for the Board to allow the local community to see, not just the presentation of the rate proposals by the utility, but the testing of the utility’s claims through the Board’s rigorous process.

Third, the customer engagement exercise by Thunder Bay Hydro included questions of customers about the OEB. The responses are instructive.

When asked whether they had confidence in the OEB, fully 55% of those surveyed gave the OEB a mark of Medium, and 15% gave the OEB a mark of Low. Only 30% said they had a high degree of confidence in the OEB. The firm that did the survey reported to Thunder Bay Hydro:

“Among the concerns voiced by Interviewees who gave a “Low” or “Medium” degree of confidence rating were past “mismanagement” and lack of regional representation.”

The report also includes several quotes from those interviewed, some of which call the OEB “political hacks” who “don’t know anything about anything other than collecting money for some political party”, and who make “boneheaded decisions”.

While not all of the comments about the OEB were negative (some were positive), and some of the customers surveyed did have a high degree of confidence in the OEB, it is apparent that people in Thunder Bay feel isolated from the regulator, and don’t really understand the thoroughness of the OEB’s activities. This is not surprising. They have never seen the OEB in action. In our view, actually seeing a hearing – watching how the OEB approaches its responsibilities to protect customers - would be enlightening, and would improve the public view of the OEB in Thunder Bay.

The Chair of the Board has stated publicly that the Board should be having more hearings in local communities, and the Board has announced that it plans to do so. Obviously it may not be practical to have all hearings around the province. However, SEC agrees with the Chair that, in the appropriate case, a local hearing is a good idea. While the primary role of the OEB in these cases is to set just and reasonable rates, it is submitted that another role – almost as important – is to provide the public with a window into what their utilities are doing, and how the regulator is protecting their interests.

For the reasons stated above, SEC believes that this is an appropriate case for the Board to hold its public hearing locally.

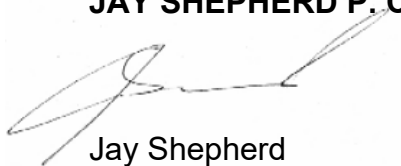
We note that, while the Community Day was sparsely attended, there were press in attendance. Further, the notice for the Community Day was relatively short, but in this case a hearing in April, as currently scheduled, gives ample opportunity to provide lots of notice, including bill inserts if the Board so determines. We would expect that local cable TV may well take the opportunity to carry the hearing live if the Board were willing to allow that, and certainly local TV and radio would report on it.

We also note that Thunder Bay has good facilities for a hearing, both at the Community Day venue and at the University and other educational institutions. There is reasonable accommodation and good transportation in and out, and AV and other support should be readily available locally as well. In total, the incremental cost of a two day local hearing in this case would be less than \$20,000, out of a total budget of \$235,000 for this hearing. Most of that would be saved by LDC staff not being required to travel to Toronto for a hearing, so it would not really be incremental at all.

In our submission, Thunder Bay would be a good opportunity to roll out the local hearing concept, and has the potential to benefit local residents by providing them with a window into what their LDC is planning, and how the OEB is ensuring those plans are in the public interest.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.


Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties