

February 26, 2007

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
26<sup>th</sup> Floor - 2300 Yonge Street  
Toronto, ON M4P 1E4

**Re: Thunder Bay Hydro Electricity Distribution Inc. Licence ED2002 –0529  
Notice of Appeal of Vary Order Issued December 29, 2006  
File Number: EB-2007-0580**

Dear Ms. Walli:

Please be advised that Thunder Bay Hydro Electricity Distribution Inc. wishes to appeal the Vary Order dated December 29, 2006 under section 42.01 of The Ontario Energy Board's Rules of Practice and Procedures. We realize that the requirements are that the appeal be made within 20 calendar days of the Vary Order. We ask the Board's indulgence regarding this late appeal since we believe that there are extenuating circumstances.

We discovered the error in the Vary Order shortly after it was received. On January 5, 2007 we had extensive discussions with Board staff concerning the best method to resolve the error and meet our January 26, 2007 deadline for filing the 2007 IRM Adjustment worksheet. As a result of those discussions, we tried to rectify the error in the Vary Order with our 2007 rate filing information. The Board, upon the receipt of our rate filing notified us that we needed to appeal the Vary Order and substantiate the lost revenue.

We hope to satisfy the Ontario Energy Board's request with this appeal. We are including with this submission a revised "ThunderBay\_2006EDR\_Vary Order Amended" that, we believe correctly states the rates that should have been in effect since May 1, 2006.

The Vary Order worksheets indicate that the net calculated revenue would provide TBHEDI with \$16,084,325. We do not dispute this amount. However, the composition of the revenue requirement includes \$237,438 in revenue from the Large Use (>5000 kW). As pointed out in previous rate filings, we did not anticipate having any revenue from this class. We included it because we did

want to establish an Approved Large Use (>5000 kW) Rate since we had three customers that were close to the parameters for the Large Use (>5000 kW). The load data that was included for that Large Use (>5000 kW) customer was a hypothetical load over and above our historical load data that was included in that rate filing. As a result the Net Calculated Revenue in the Vary Order is only \$15,846,887 (\$16,084,325-\$237,538). The Revenue Requirement in the Vary Order is \$15,924,940. This amount plus the amount required for SMIP of \$159,385 totals \$16,084,325, thus leaving a shortfall of \$237,438.

As mentioned above, please find attached an amended version of the 2006 EDR Model that was used to support the Vary Order issued on December 29, 2006. The model has been amended in the following places:

- A request for a Large Use (>5000 kW) rate has been removed from Worksheet 6-1
- Rate class "Other >1000<3000" has been changed to "Other >1000<5000" on Worksheet 6-1
- All references to Large Use (>5000 kW) have been removed on Worksheet 6-2; specifically customer count and kW for 2002, 2003 and 2004
- Removed Regulatory Assets Rate Riders (\$) per kW for Large Use (>5000 kW) on Worksheet 8-4
- Deleted all Retail Transmission Rates per kW (network and connection) for Large Use (>5000 kW)
- Removed all rates for Large Use (>5000 kW) on Worksheet 8-7

During our recent discussions with Board staff, we were asked to review the statistics provided on worksheet 6-2 of the 2006EDR rate model. They were concerned that the kW/customer was not consistent for the years 2002, 2003 and 2004. We have reviewed these statistics and make the following comments:

1. The statistics for 2002 may not be accurate. This was the year that we reconfigured our collection of data on May 1 when the market opened and unbundled rates were implemented. It is quite possible that there could have been coding errors for that period.
2. We believe the statistics for 2003 and 2004 are accurate. The calculation of kW/customer may be faulty. We move customers from class to class after an annual review. The statistics for those customers stay in the class that they were accumulated. As a result, the customers reported for each class may not relate entirely to the statistics collected for that period.
3. In future we will endeavour to try and track customer useage when a customer changes a class.

We are including a revised 2007 IRM Excel Model workbook that includes the revised 2006 rates in Worksheet 3 (2006 Tariff sheet). The "Bill Impact" analyses provided by this workbook demonstrates the 2007 rates that need to be in effect if the 2006 rates were correctly set and the percentage increase that would have resulted had those rates been in place.

In addition, we are also submitting the following data to support a Rate Rider to the 2007 Rate Classes that will allow us to collect the revenue shortfall for May 1, 2006 to April 30, 2007 period that resulted from the rate error:

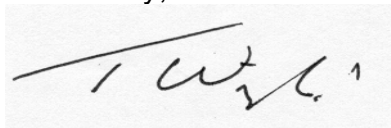
Schedule "A" - Reconciliation of Revenue As a Result of Vary Order – Revenue Shortfall details the revenue that needs to be recovered for the period May 1, 2006 to December 31, 2006. This amount totals \$69,902.

Schedule "B" – Revenue Adjustment details the shortfall of revenue from the various Rate Classes as a result of the inclusion of Large Use (>5000 kW) revenue that we will not receive. This amount totals \$237,438. It also incorporates the shortfall in revenue as per Schedule "B" and calculates the total shortfall of \$307,338. The final column in Schedule "B" calculates the monthly adjustment required from each rate class. It is this amount that we are requesting to be included in our 2007 IRM as a rate rider.

We are also submitting various Rate Impact Analyses that will illustrate the effect of such a rate rider. Schedule C (1) illustrates the percentage increase in rates from the Vary Order to the rates that should have been on the Vary Order. Schedule C (2) illustrates the percentage increase in rates from the Vary Order to the 2007 Rate Adjustment without a rate rider. Schedule C (3) illustrates the percentage increase from the Vary Order to the 2007 Rate Adjustment with a rate rider. A review of the Rate Impact Analyses indicate that the 2007 rate increase for a Residential Customer using 1000kW monthly will be 2.26% or, including the rate rider, 3.46% using the original 2006 Vary Order. If the rates in the Vary Order were adjusted to the rates that would have allowed us to meet our revenue requirements the increases would be 1.47% and 2.67% respectively.

We trust this appeal will meet with the Board's approval.

Yours truly,

A handwritten signature in black ink, appearing to read "C. Thomas Wright", is written over a light gray rectangular background.

C. Thomas Wright, C.A.  
Vice-President, Finance

CTW/dt

Enclosures.