

**THUNDER BAY HYDRO ELECTRICITY DISTRIBUTION INC.
RP-2005-0020 / EB-2005-0419
BOARD STAFF INTERROGATORIES**

Main Application

1. Reference: Last Paragraph of Page 1 and First Paragraph of Page 2 of your amended application letter dated November 1, 2005 under the heading "Request for Intermediate Rates": You state that out of the three customers that had demand loads in excess of 5,000 kW, one customer has been changed to a lower class, one customer is seeking a change to a lower class and that the third customer's forecasted load profile indicates that it too will change to a lower class. As a result, Thunder Bay Hydro Electric Distribution Inc. ("TBHEDI") anticipates that it will experience a loss of annual revenue on these three customers in the amount of \$353,230.92. Please provide an analysis of the \$353,230.92 amount in terms of the impacts of the estimated loss in load (kW, kWh) and rate components.

2. Reference: Paragraphs 2&3 / Page 2 of your amended application letter dated November 1, 2005 under the heading "Request for Intermediate Rates": You state that to offset the loss of revenue of \$353,230.92, TBHEDI is applying for approval to implement rates for an intermediate class, for all customers with a demand of more than 3,000 kW and less than 5,000 kW. You also state that a comparison of bills using "current rates" to the rates that TBHEDI is applying indicates that the monthly energy bill will drop from \$126,663 to approximately \$126,520 or have a bill impact of -0.11%. Please clarify if the "current rates" in this sentence refer to current Large User rates, if the rates that TBHEDI is applying for refer to Intermediate Class rates and if the amount of \$126,520 applies to all of the three customers.

3. Reference: Paragraph 4 / Page 2 of your amended application letter dated November 1, 2005 under the heading "Request for Intermediate Rates": You state that worksheet "10-4 DIST. RATES-RECONCILED" of 2006 EDR Model indicates that there is an unreconciled full precision difference of \$225,109, representing the revenue from the Large User class that you do not expect to collect. You also indicate that TBHEDI wants the approval of a Large User class in the event that customer does attain a demand load in excess of 5,000 kW. Please clarify if the difference of \$225,109 relates to one customer or more than one customer which may attain a demand load in excess of 5,000 kW. Also, please clarify if there is any relationship between the amount of \$353,231 indicated in interrogatory no. 1, the amount of \$126,663 (or \$126,520) indicated in interrogatory no. 2,

and \$225,109 mentioned in this interrogatory. If so, please provide a reconciliation of these amounts.

4. Reference: Sheet “10-1 RATES SCHEDULE (Part 1)” of the amended 2006 EDR Model: The proposed rate schedule for the “General Service – Intermediate Use (3000 – 5000 kW)” indicates that:

Monthly Service Charge will be: \$5,263.41 and;

Distribution Volumetric Rate will be: \$1.4688 / kW.

Please justify these rates by comparing them to those of the “General Service over 50 kW (1000 – 3000 kW)” and “General Service – Large Use (over 5000 kW)”. Also, please explain why the Regulatory Asset (per kWh) rate component is left out from the proposed Intermediate Use rate.

5. Reference: 4th Paragraph / Page 3 of your amended application letter dated November 1, 2005 under the heading “Weighted Debt Rate” and Sheets “3-4 WEIGHTED DEBT COST (Input)” & “3-2 COST OF CAPITAL (Input)” of the amended 2006 EDR Model:

You state that your shareholder has agreed that no interest will be payable on the outstanding loan and that therefore a nominal 0.01% is used on Sheet “3-4 WEIGHTED DEBT COST (Input)”. Also, Sheet “3-2 COST OF CAPITAL (Input)” indicates that TBHEDI proposes a Return on Equity of 2.93%, resulting in a cost of capital of 1.47%. Although according to Page 31 and Chapter 5-1 of the 2006 Electricity Distribution Rate Handbook TBHEDI may elect a return on equity of less than the maximum allowable 9.00%, the use of 2.93% results in foregoing an allowable cost of capital of approximately \$2,164,000 ($\$71,314,672$ [rate base] \times 0.5 [deemed equity ratio] \times (9.00% - 2.93%) = \$2,164,400). Please comment if the reduction in revenue of about \$2,164,000 will have any negative impact on TBHEDI’s maintenance and capital expenditure programs.

6. Reference: Balance Sheet and note 7 to audited financial statement 2004: According to note 7 with respect to Long-term note payable for \$33,490,500, “the non-interest bearing note is payable to The Corporation of the City of Thunder Bay (sole shareholder of Thunder Bay Hydro Corporation, TBHEDI’s parent company). Principal repayment in the next twelve months is expected to be \$nil.” Please comment if during 2005 any principal repayments have been made by TBHEDI and if also during 2006 principal repayment is expected to be \$nil.
7. Reference: Rate Base for EDR Model and Sheet “2001 Schedule 7-2 FMV” of 2006 Tax Model: According to its 2006 Tax Model filing, TBHEDI has applied for October 1, 2001 Fair Market Value (“FMV”) Bump. Please state whether or not TBHEDI has undertaken any revaluation of its rate

base as a result of the FMV bump of October 1, 2001. If TBHEDI has undertaken such a revaluation, please provide details of all material impacts on its application, including revenue requirement and rate impacts.

Regulatory Assets

8. Reference: Sheet “1. Dec. 31, 2004 Reg. Assets” of Regulatory Asset Model:

Please verify that the December 31, 2004 balances submitted on Sheet 1 of the regulatory assets worksheet (including carrying charges) are consistent with the audited balances as submitted in the April 2005 filing, requirement 2.1.7 of the Board’s Reporting and Record-Keeping Requirements (RRRs).

Please confirm that the January 2005 filing, requirement 2.1.1 of the Board’s RRRs, has been updated to reflect any subsequent adjustments made to the April 2005 filing (requirement 2.1.7) as required by the RRRs, in regards to the Regulatory Asset accounts.

9. Reference: Sheet “1. Dec. 31, 2004 Reg. Assets” of Regulatory Asset Model and Sheet “6-2 DEMAND, RATES (Input)” of 2006 EDR Model:

The table “2004 Data By Class” of the Sheet “1. Dec. 31, 2004 Reg. Assets” of Regulatory Asset Model shows the following kW demand data for 2004:

General Service > 50 kW Time of Use.....	549,270
Intermediate User.....	0
Large User.....	<u>139,820</u>
Total kW Demand.....	<u><u>689,090</u></u>

The table “Demand Data - kW” [under Column R for 2004] of the “6-2 DEMAND, RATES (Input)” of 2006 EDR Model shows the following kW demand data for 2004:

General Service > 50 kW Time of Use [1000 – 3000 kW].....	228,794
Intermediate User [3000 – 5000 kW].....	510,542
Large User.....	<u>60,000</u>
Total kW Demand.....	<u><u>799,336</u></u>

Please explain the reason for the difference of 110,246 kW between the total demands of 689,090 kW and 799,336 kW as shown above.

Payment in Lieu of Taxes**10. Reference: Sheet “Test Year Sch 8 and 10 UCC&CEC” of 2006 OEB Tax Model:**

Please confirm that the Building amount of \$2,369,219 should be designated CCA Class 3 and not Class 4 as indicated. (A building or other structure, or part thereof, that is not specifically included in another class is included in Class 3 if acquired by the taxpayer before 1988.)

11. Reference: Sheet “Test Year Tier 1&2 UCC and CEC” of 2006 OEB Tax Model and Sheet “ADJ 1 (Rate Base- Tier 1)” of 2006 EDR Model:

According to Sheet “ADJ 1 (Rate Base- Tier 1)” of 2006 EDR Model, there is a Tier 1 Adjustment of \$549,000 for CDM, whereas no Tier 1 Adjustments have been shown on Sheet “Test Year Tier 1&2 UCC and CEC” of 2006 OEB Tax Model. Please explain the reason for this difference.

12. Reference: Sheet “Test Year Schedule 8 CCA” of 2006 OEB Tax Model:

Please confirm that Building amount of \$2,369,219 should be designated CCA Class 3 and the CCA rate should be 5%. Please provide explanation for the exclusion of rate in cell I27.

13. Reference: Sheet “Test Year Sch 13 Tax Reserves” of 2006 OEB Tax Model and audited 2004 financial statements

The sheet “Test Year Sch 13 Tax Reserves” does not contain any reporting on Allowance for Doubtful Accounts. The Schedule of Expenses of TBHEDI’s audited 2004 financial statement reports Bad Debts of \$404,453 for year 2004. Please confirm that TBHEDI does maintain an Allowance for Doubtful Accounts. If this is the case, please identify the opening and closing balances for Allowance for Doubtful Accounts for 2004 and explain why these amounts are not reported as tax reserve. If amounts for Allowance for Doubtful Accounts are required to be disclosed, please provide complete details of the value to be reported.

The sheet “Test Year Sch 13 Tax Reserves” does not contain any reporting on Post Employment Benefits. The comparative Balance Sheet of TBHEDI’s audited 2004 financial statement reports Employee Future Benefits of \$2,167,552 for December 31, 2004 and \$2,167,888 for

December 31, 2003. Please explain why these amounts are not reported as tax reserve. If amounts for Employee Future Benefits are required to be disclosed, please provide complete details of the value to be reported.

14. Reference: Sheet "Test Year OCT, LCT" of 2006 OEB Tax Model:

According to cell D175 of this sheet, there is an adjustment of \$90,900 for Non-Distribution Elimination. Please provide an explanation for this amount.