

October 27, 2006

E. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli,

Re: Multi-year Electricity Distribution Rate Setting Plan Cost of Capital (EB-2006-0088) and 2nd Generation Incentive Regulation Mechanism (EB-2006-0089)

Thunder Bay Hydro supports Board staffs' need to meet its Rate Plan commitment and the need to implement an incentive mechanism and we appreciate the opportunity to submit a final response for OEB Board staff consideration.

In line with the Board's design criteria for this project – to include consistency of approach across distributors, ease of implementation by distributors, and reasonable durability (some distributors will be subject to the 2nd Generation IRM for up to three years), Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay Hydro) is pleased to offer final comments. We trust that the following proves to support the Board's objective of establishing a simple, practical and mechanistic incentive rate adjustment mechanism for the plan period.

Cost of Capital

We request that the Board give special consideration to LDCs in the situation where existing approved return on investment provided for in rates is nil or minimal. These utilities should be provided the opportunity to revise the rate of return to offset the negative impact the change in the cost of capital has, up to the maximum allowed by the Board. This approach would be fair and consistent across distributors.

Thunder Bay Hydro has operated under a "Rate Minimization" model and The City of Thunder Bay, our shareholder, has not required debt interest or dividends to be paid since market opening in May of 2002. Thunder Bay Hydro uses our return on investment to fund our capital program and as such, any change in the capital structure directly impacts on our ability to carry out our program.

2nd Generation IRM

As stated in our opening, we support the need for an incentive mechanism; however, it is difficult for utilities such as ours who are experiencing very flat and/or declining load growth to continue to cut costs without impacting the reliability of our system. Costs are largely fixed over a given range of consumption (infrastructure maintenance does not decrease proportionately with load declines) and a productivity factor will be very difficult for us to achieve.

First, the productivity factor of 1% across all utilities does not produce a consistent and fair treatment in rates. However, given the Board's objectives, it is understandable that a review of every distributor's application is not a feasible alternative. Therefore, we submit, that to be more fair and consistent with distributors and yet remain congruent with Board objectives, there should be a prescriptive methodology that the Board provides. The following table attempts to illustrate that there could be a range of X-factors that the Board could prescribe to consider variant load growth and declines.

| Load Growth/(Decline) | | X-Factor |
|------------------------------|----------|-----------------|
| Range | | |
| | >0.01% | 1.00 |
| (0.50%) | 0% | 0.70 |
| (1.50%) | (0.51%) | 0.50 |
| (2.50%) | (1.51%) | 0.30 |
| (3.50%) | (2.51%) | 0.10 |
| | <(3.50%) | - |

This prescriptive methodology would simplify the rate approval process and allow for fairer treatment of utilities where circumstances may be unique. We submit that the Board should review situations where LDCs can be stratified for various rate application methodologies such that there is a fair and consistent impact to the utilities with each rate adjustment.

Secondly, we disagree with the use of the GDP- PI in the formula and prefer that the Board continue to use the IPI methodology employed in the Board's 1st generation PBR. The use of IPI will produce a consistent factor with previous rate adjustments.

Finally, we request that the Board allow utilities to submit justification for which of the three tranches of rate submission it requires to mitigate any negative impacts of this 2nd generation PBR regime.



Thunder Bay Hydro appreciates this opportunity to comment on the Board proposal and trusts these comments will prove to be useful.

Thank you.

Sincerely,

C. Thomas Wright
Vice President, Finance

CTW/dt

cc: Robert Mace, President