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August 11, 2006

Ms. E. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P IE4

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 Electricity Distribution Inc. (Thunder Bay Hydro) is pleased to provide comments to the Board Staff's Discussion Paper entitled "Staff Discussion Paper on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors" distributed on July 25, 2006.

2.0 Cost of Capital

Thunder Bay Hydro, a municipally owned utility, currently operates under a rate minimization model and such we earn a minimum rate of return in an effort to attract economic investment to our community. In addition, our shareholder has agreed to provide us with an interest-free loan. We do not anticipate requesting a rate of return to the maximum allowed. The impact of the proposals in the staff paper, if adopted, would cause us undue hardship as it reduces any allowance for cost of capital; hence, significantly reducing our revenue requirement. The Board should consider this case and any LDC in a situation where existing return in rates is nil or minimal. These utilities should be provided the opportunity to revise rates so as to increase current Rates of Return to partially offset the negative impact of the change in capital structure. Failing to do so, would cause considerable hardship imposed on the utility. In addition, any consideration for these utilities would only seek to enhance rate stability for their rate payers.

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3.3.5 X-factor

The productivity factor of 1% across all utilities causes a considerable burden to utilities that are currently experiencing negative load growth and demand on their system. We would ask that the particular circumstances of Northwestern Ontario be considered during this period as a result of reduced demand due to closing plants related to the forestry industry.

We would encourage Board staff to run a few scenarios using selected LDC data, to test what impact its proposals may have on the financial viability of LDC's who currently do not maximize their allowed rate of return or are in a position of negative growth.

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

Thank you.

Sincerely,

C. Thomas Wright, CA
Vice President, Finance

Copy Robert Mace