

**Board Staff Interrogatories  
PILs Combined Proceeding  
EB-2008-0381**

**ENWIN Utilities Ltd.**

**Missing Information**

**EW1.** The 2001 SIMPIL filing to the Board and the tax returns for 2003 have not been provided. Please provide the missing documents.

Please see attachment EW1 for a copy of the 2003 tax return. A copy of the 2001 SIMPIL filing has been included as part of the response in EW2.

**SIMPIL Excel Models**

**EW2.** EnWin has relied on Excel worksheets to create some of the information in the Deferred PILs account 1562 continuity schedule. Please provide the “live” unlocked Excel worksheets for each tax year 2001 through 2005.

SIMPIL spreadsheet for the years 2001, 2003, 2004, and 2005 are provided in a live unlocked version in attachments EW2 2001, EW2 2003, EW2 2004 and EW2 2005.

The SIMPIL spreadsheet for 2002 is not provided in Excel format as EWU only has a hard copy of this filing and has provided this file in pdf format in the original submission.

**Income Tax Rates**

**EW3.** Please confirm that the maximum and minimum tax rates shown in the table below are correct for the years shown. The gross-up rate does not include the surtax rate of 1.12% because the surtax can be offset against the Large Corporation Tax.

<b>Maximum Income Tax Rates in Percentages</b>						
	<b>2001 4<sup>th</sup> Quarter</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Federal	27.00	25.00	23.00	21.00	21.00	21.00
Federal Surtax	1.12	1.12	1.12	1.12	1.12	1.12

Ontario	12.50	12.50	12.50	14.00	14.00	14.00
Combined Rate	40.62	38.62	36.62	36.12	36.12	36.12
Gross-up Rate	39.50	37.50	35.50	35.00	35.00	35.00

Minimum Income Tax Rates in Percentages						
	2001 4 <sup>th</sup> Quarter	2002	2003	2004	2005	2006
Federal	12.00	12.00	12.00	12.00	12.00	12.00
Federal Surtax	1.12	1.12	1.12	1.12	1.12	1.12
Ontario	6.00	6.00	5.50	5.50	5.50	5.50
Combined Rate	19.12	19.12	18.62	18.62	18.62	18.62
Gross-up Rate	18.00	18.00	17.50	17.50	17.50	17.50

EWU confirms that the maximum and minimum tax rates shown in the above tables are correct for the years shown.

#### **Ontario Capital Tax (OCT) Variances Result in Income Tax True-up Items 2001-2005**

**EW4.** Please confirm that OCT is deductible for income tax purposes.

EWU confirms that OCT is deductible for income tax purposes. This deduction is shown on schedule 1 of the T2 Corporate tax return.

**EW5.** Please confirm that in the Board's methodology net income is not a true-up item.

EWU has historically applied the Board's methodology, whatever it might have been as pertaining to a particular filing. EWU notes that the Board's methodology, as expressed in the various SIMPIL and PILs models has varied

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over time both in the apparent theory (e.g. what data the model asks for) and the implementation of that theory (e.g. what the model does with that data). EWU is not in a position to audit the theory or implementation of the Board's methodology. At the conclusion of this proceeding, EWU will once again apply the Board's methodology, whatever it might be as pertaining to new or re-filed data.

- EW6.** Please confirm that the difference between the accounting accrual for OCT and the actual amount as calculated in the CT23 tax return is not a timing or permanent difference and is deductible for income tax purposes.

EWU confirms that the difference between the accounting accrual and amounts calculated in the CT23 tax return is not a timing or permanent difference and actual OCT is deductible for income tax purposes.

- EW7.** Please explain why EnWin believes that a variance caused by OCT in the SIMPIL income tax reconciliation TAXREC schedules should be borne by the ratepayers.

EWU has historically applied the Board's methodology, whatever it might have been as pertaining to a particular filing. EWU notes that the Board's methodology, as expressed in the various SIMPIL and PILs models has varied over time both in the apparent theory (e.g. what data the model asks for) and the implementation of that theory (e.g. what the model does with that data). EWU is not in a position to audit the theory or implementation of the Board's methodology. At the conclusion of this proceeding, EWU will once again apply the Board's methodology, whatever it might be as pertaining to new or re-filed data.

EWU's SIMPIL models do not reflect any regulatory Ontario capital tax variance.

- EW8.** Would EnWin agree that net income should be adjusted for the OCT variance and not taxable income? In other words, the OCT variance should not be part of the true-up reconciliation.

EWU has historically applied the Board's methodology, whatever it might have been as pertaining to a particular filing. EWU notes that the Board's methodology, as expressed in the various SIMPIL and PILs models has varied over time both in the apparent theory (e.g. what data the model asks for) and the implementation of that theory (e.g. what the model does with that data). EWU is not in a position to audit the theory or implementation of the Board's methodology. At the conclusion of this proceeding, EWU will once again apply the Board's methodology, whatever it might be as pertaining to new or re-filed data.

**Employee Post Employment Benefits Accounting Accrual and Actual Payments 2001-2005**

**EW9.** In each of the SIMPIL reconciliations for 2001 through 2005 there are additions and deductions for post employment benefits. These amounts represent the total liability at the beginning and end of each tax year. For each year please provide a schedule that shows the non-deductible accounting accrual for the individual year and the deductible actual amounts paid to employees for the same year.

Please see attachment EW9.

**EW10.** For each year 2001 through 2005 please provide the number of full time employees actually directly employed by EnWin, the regulated utility.

The FTE numbers shown in the table below represent EWU's best estimate of its FTEs at the time. Due to different timing and allocation issues, these numbers may not be comparable and may not reflect the exact FTE counts used for actuarial or other purposes.

	2001	2002	2003	2004	2005
Number of FTE's	119	120	101	107	105

**EW11.** Please explain why the dollar value of the additions and deductions are correct in relation to the actual number of employees directly employed by the regulated utility.

The post employment liability and post employment expense are determined by an annual actuarial valuation and assessed each year based on actual number of current employees and actual number of retirees. Therefore, the value of any additions and deductions would be correct as it relates to actual employees directly employed (and retirees) of the regulated utility.

**EW12.** Please provide the actual actuarial valuations of post-employment benefits for EnWin, the regulated utility, for the period 2001-2005.

Please see attachment EW12.

**EW13.** Where material changes in the post employment accounting accruals have occurred between years, please explain the cost drivers of these changes.

No material changes in the post employment accounting accruals for the post employment expense have occurred between years. Post employment expenses are updated annually based on the actuarial valuations performed by independent experts. These valuations are updated for discount rates, claims, benefits paid, number of active employees and retirees, etc. in accordance with accepted actuarial practice.

- EW14.** Have employees retired on an actual basis consistent with the assumptions in the actuarial valuations? For example, if the actuary assumed normal retirement to be 60 years of age, have employees been retiring at 60 years of age?

Yes, employees have retired on an actual basis consistent with the assumptions in the actuarial valuations. The actuarial assumptions for assumed retirement ages have been between 57 and 59. EWU's actual experience during that same time period has been an average retirement age of 57, which is consistent with the actuarial assumptions.

## **2002 SIMPIL**

- EW15.** A deduction of \$4,738,247 is shown on TAXCALC in cell I110 under the caption of "Items Capitalized for Regulatory Purposes". Please describe the nature of the deduction and why it is appropriate in the reconciliation.

This deduction represents the balances of some regulatory assets accounts. As noted and clarified throughout this proceeding, there appears to be a consensus that there should not be any reconciling items included in the SIMPIL filings related to regulatory assets, for purposes of entries into the Deferred PIL's account. This deduction was included here to mirror the regulatory asset treatment on the tax return.

- EW16.** What tax treatment did EnWin choose for disclosing regulatory assets in its tax returns?

In general, regulatory assets were being deferred for book (accounting) purposes, but were expensed for tax purposes as they were incurred. Any net change in regulatory assets balances year over year was therefore adjusted accordingly on schedule 1 of the tax returns.

- EW17.** A material deduction of \$1,226,183 for unbilled revenue adjustment appears on TAXREC2 in cell E111. Please explain why this is a valid true-up item.

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This represents a correction of an error in 2001 that was made through retained earnings in 2002. This error overstated net income in 2001 and therefore, was required to be adjusted in 2002 as a deduction to net income.

- EW18.** On TAXREC cell E74 please explain the entry for the adjustment to income for lease payments in the amount of \$423,144. Why is this addition to income necessary in the reconciliation?

The adjustment represents an adjustment to income for tax purposes related to the difference between tax and the accounting treatment of a capital lease. This addition to net income is required in the reconciliation to increase net income for the difference in the revenue recognition treatment of a capital lease versus an operating lease, where the full revenue stream would be recognised into income.

### **2003 SIMPIL**

- EW19.** In TAXCALC, cell I138 shows an income tax rate of 38.62%. Please confirm that the correct income tax rate should be 36.62%. Also please confirm that an income tax true-up will result when the correct rate is used.

EWU confirms that the correct income tax rate should be 36.62% for 2003. When the correct rate is used in the 2003 SIMPIL model, there is no change to the income tax true up amount.

- EW20.** In TAXCALC, cell I175 shows a rate of 37.50% for the gross-up calculation. Please confirm that the correct rate for the gross-up calculation should be 35.50%. Also, please confirm that the grossed-up income tax true-up will change when the tax rate is changed.

EWU confirms that the correct rate for the gross up calculation should be 35.50%. When the correct rate is used in the 2003 SIMPIL model, there is no change to the grossed- up income tax true up amount.

- EW21.** Please confirm that the adjusted total deferral account entry will be less than the amount filed, assuming that no other adjustments are made for other items in TAXCALC.

When the change in tax rates was made to the SIMPIL 2003 model, there was no change in the deferral account entry, due to the mechanics of this particular year's model.

- EW22.** Please confirm that the change in regulatory assets is a positive amount (addition) of \$1,570,874 as shown on TAXREC2 cell E46.

EWU confirms that the change in regulatory assets is a positive amount and an addition on the TAXREC2, cell E46.

- EW23.** Since the rate recovery of regulatory assets did not begin until 2004, please explain how this positive addition for regulatory assets to taxable income arose. Please provide a numerical table of regulatory assets and the changes from 2002 that agrees with the audited financial statements to assist in the explanation.

As noted above in EW16, the amount reflected in the SIMPILs filing mirrored the regulatory asset treatment on the tax return. This positive addition reflects the net reduction in regulatory assets from 2002 to 2003. As also noted above in EW15, it has been determined that any adjustments for regulatory assets should not be reflected in the SIMPILs model for use in calculating entries in the Deferred PILs account.

- EW24.** On TAXREC2 cell E44 please explain the entry for the adjustment to income for lease payments in the amount of \$437,880. Why is this addition to income necessary in the reconciliation?

Please see response to EW18.

## **2004 SIMPIL**

- EW25.** Please confirm that the change in regulatory assets is a positive amount (addition) of \$10,129,795 as shown on TAXREC cell E77.

EWU confirms that the change in regulatory assets is a positive amount and an addition on the TAXREC, cell E77.

- EW26.** Since the rate recovery of regulatory assets did not begin until 2004, please explain how this positive addition for regulatory assets to taxable income arose. Please provide a numerical table of regulatory assets and the changes from 2003 that agrees with the audited financial statements to assist in the explanation.

Please see response to EW23.

- EW27.** On TAXREC cell E75 please explain the entry for the adjustment to income for lease payments in the amount of \$397,769. Why is this addition to income necessary in the reconciliation?

Please see response to EW18.

## **2005 SIMPIL**

**EW28.** Please confirm that the change in regulatory assets is a positive amount (addition) of \$4,855,908 as shown in TAXREC cell E66.

EWU confirms that the change in regulatory assets is a positive amount and an addition on the TAXREC, cell E66.

**EW29.** Was the amount of \$4,855,908 used in the true-up reconciliation in TAXCALC? Please provide a numerical table that agrees with the audited financial statements to assist in the explanation.

The change in regulatory asset amount of \$4,855,908 was not used in the true-up reconciliation. This amount is shown on TAXREC cell E66, however it does not actually flow down into the true up variance calculation shown on TAXCALC, cell I133 and therefore this item is not having any impact on the deferral account entry.

**EW30.** On TAXREC2 cell E45 please explain the entry for the adjustment to income for lease payments in the amount of \$439,689. Why is this addition to income necessary in the reconciliation?

Please see response to EW18.

## **PILs Taxes Paid to the Ministry of Finance and/or OEFC from 2001 through 2008**

**EW31.** Please provide a table that compares the PILs tax proxy amount used in the continuity schedule before gross-up, and after gross-up, that were included in rates with the amount paid to the Ministry of Finance or the OEFC for each tax year 2001 through 2008. Please calculate the differences in each year. Please cross-add the table to show the totals for the period 2001 through 2008. Notices of Reassessment should be incorporated into the year affected by the reassessments.

The purpose of this table is to demonstrate the impact of the regulatory asset treatment in the tax returns and in rates for the periods where costs were incurred, followed by the five-year collection period ending in 2008.

Please see attachment EW31.

## **PILs Continuity Schedule**



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Board-approved PILs Tax Proxy or Allowance

**EW32.** Please provide the calculations to show how EnWin determined the Board-approved PILs proxy amount included in rates for each year 2001 through 2006.

Please see attachment EW 32.

**EW33.** Please provide the Board decisions that support the PILs proxy amounts for each year.

Enclosed at attachment EW33 are copies of the Board Decision for 2002 rates (which includes support and reference for the 2001 and 2002 PILs proxy amounts), and the Board Decision for 2005 rates (which includes support for the 2005 PILs proxy). The 2003 proxy is represented by the 2001 and 2002 tax proxy amounts referenced in the Board's decision on the 2002 rates. The Board decision for the 2004 rates does not reference a PILs proxy amount and therefore is not included.

**EW34.** If the PILs proxy amount used in the continuity schedule does not appear in the Board decision, please provide the PILs, RUD and/ or RAM models that generated the rate schedules which EnWin implemented.

As referenced in EW33, only the 2004 Board decision did not contain a PILs proxy reference. Therefore, the relevant sheets from the 2004 RAM model supporting this amount are included in attachment EW34.

Fourth Quarter 2001 PILs Proxy Tax Allowance

**EW35.** Did EnWin include the 2001 proxy in the Board-approved proxy amount for each period through March 31, 2004?

Yes, EWU did include the 2001 proxy in each period through March 31, 2004 (in 2002, the 2001 proxy was shown under the 2001 year).

**EW36.** Did EnWin true-up the fourth quarter 2001 proxy in 2003 and in 2004? If not, does EnWin think there should be a true-up beyond 2002? Please explain.

EWU has historically applied the Board's methodology, whatever it might have been as pertaining to a particular filing. EWU notes that the Board's methodology, as expressed in the various SIMPIL and PILs models has varied over time both in the apparent theory (e.g. what data the model asks for) and the implementation of that theory (e.g. what the model does with that data). EWU is not in a position to audit the theory or implementation of the Board's methodology. At the conclusion of this proceeding, EWU will once again apply

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the Board's methodology, whatever it might be as pertaining to new or re-filed data.

#### Four-month Period January 1 to April 30, 2006

**EW37.** Did EnWin calculate any true-up or deferral account variance adjustments for this four month period which ended the PILs regime that started under PBRI? If no, please explain why.

No, EWU did not calculate any true-up or deferral account variance adjustments for this 4 month period. No amounts were calculated as these have been historically derived from the SIMPILs model and there was not one required for submission for the 2006 calendar year. In addition, the 2006 tax year was addressed as part of the 2006 EDR applications. The 2006 tax year would form part of the 1592 regime and should not be reflected in account 1562.

#### Tax Returns, Notices of Assessment, Notices of Reassessment

**EW38.** Did EnWin file amended tax returns for any years from 2001 through 2006?

Yes, EWU files amended tax returns for 2005 and 2006.

**EW39.** Did EnWin use the final tax returns, Notices of Assessment and Notices of Reassessment for each year in determining the balances in the continuity schedule? If not, how were the changes caused by assessments or reassessments reflected in this continuity schedule?

No, EWU did not use the amended tax returns or reassessments in determining the balances in the continuity schedules, as these amounts were not known or refiled until 2008.

#### Retroactive Repeal of Federal Large Corporation Tax (LCT) effective on January 1, 2006

**EW40.** Please provide the calculations of the (\$57,108) LCT amount in the 2006 column.

This amount was calculated as 4/12 of the 2005 Grossed up LCT value of \$171,323 for the Jan – Apr 2006 period.

#### Carrying Charges

**EW41.** Please describe how EnWin determined the carrying charges. Has EnWin used the Board's prescribed interest rate methodology?

EWU determined carrying charges using the traditional simple interest method which is based on the opening monthly balance times the applicable interest rates. This treatment is in accordance with the Board's prescribed interest rate methodology.

- EW42.** Recalculation of the balances in the continuity schedule will be required because of the updates of the SIMPIL models. How will EnWin calculate the change in the carrying charges? For example, by month or an annual average?

Carrying charges should be recalculated to reflect the carrying charges as they would have been if the balances in the accounts were computed that way from the start. EWU anticipates calculating the change in carrying charges on a monthly basis, subject to direction from the Board.

#### Amount Billed to or Collected from Customers

- EW43.** Please describe how EnWin calculated the amount shown for each year as PILs collected from customers.

PILs collected from customers were calculated using revenue dollars. Specifically, PILs proxy amounts were calculated as a percentage of the class distribution rates. This percentage was then applied to the monthly revenue amounts, by rate class, to get the value of PILs collected from customers.

- EW44.** Did EnWin use the amount billed to customers to represent recoveries from customers? If not, how were the recoveries computed?

Yes, EWU used the amount billed to customers to represent recoveries from customers.

- EW45.** For each year please provide a calculation of recoveries using annual statistics for customer counts, kWhs and kWts to test the accuracy of the amount shown on the schedule.

As described above in EW43, EWU utilised a "percentage of revenue" methodology to allocate and calculate PILs collected from customers. This method was determined to be appropriate at the time given the availability of statistical data and was followed throughout the life of the account. Any difference between these methodologies would be minimal.

- EW46.** Please describe how EnWin extracted the PILs amounts from unbilled revenue during the period 2001 through December 31, 2006.

EWU only factored in unbilled revenue on initial set up of account to determine the amount of PILs collected from customers in 2002. Other unbilled revenue amounts were not taken into consideration annually as the revenue would flow through January of the following year.

**EW47.** Please provide the calculations of the PILs determined to be part of unbilled revenue.

EWU does not have the detailed calculations of the PILs determined to be part of unbilled revenue in 2002. The information would have been derived from detailed queries of revenue and rate information in the EWU customer information system.

#### Final Account Balance for Disposition

**EW48.** What are the principal and interest carrying charge amounts that EnWin requests the Board to approve for collection from, or repayment to, customers? As of which date(s) were these amounts determined?

EWU had filed for recovery of \$10,721,719 in its 2009 COS application. This is represented by a principal balance of \$8,863,811 and interest carrying charges of \$1,857,908. These balances were as at December 31, 2007 with interest forecast to April 30, 2009.

**EW49.** Should interest carrying charges be forecast to a future date of disposition? If so, what date?

Yes, interest carrying charges should be forecast to the date of expected disposition, similar to treatment of recovery of other regulatory asset accounts. As an example, if the Board approves recovery of this account effective November 1, 2009, then interest should be forecast to October 31, 2009.

**EW50.** Over what time period does EnWin expect to recover the balance?

EWU originally proposed to recover the balance over a 2 year period. This time period coincided with the time period over which EWU proposed to dispose of its other regulatory asset amounts and its LRAM and SSM recovery.

**EW51.** What billing determinants does EnWin suggest be used to recover the amount?

EWU suggests that the amounts be recovered over an allocation basis using distribution revenue.

**EW52.** Should the disposition of account 1562 be declared final in this proceeding, or should it be open to future tax reassessments for the period 2001 to 2005 (as per 2006 EDR Handbook)?

The disposition of account 1562 should be declared final in this proceeding.

Compliance with Guidance in Accounting Procedures Handbook (APH)

**EW53.** Has EnWin followed the guidance stated in the Board's April 2003 FAQ throughout the life of account 1562? If no, please explain.

EWU has applied its best understanding of the guidance stated in the Board's April 2003 FAQ throughout the life of account 1562, with any refinements made for improved understanding in the actual year and with restatements of what balances should have been reflected in the applicable years in the continuity schedules.

**EW54.** Has EnWin changed accounting methods outlined in the Board's April 2003 FAQ at any time during life of account 1562? If yes, please explain.

No, EWU has not changed these accounting methods.

**EW55.** How would EnWin suggest clearing the PILs contra account 1563 in conjunction with clearing the 1562 PILs control account?

EWU's only suggestion is that as a result of this proceeding, the Board issue instructions on the methodology and detailed accounting entries required to clear the PILs contra account 1563. The balance in account 1563 is a result of following the guidance in the Board's April 2003 FAQ and in particular, through the application of method 3.