

# **Board Staff Supplemental Interrogatories 2010 Electricity Distribution Rates Orillia Power Distribution Corporation EB-2009-0273**

## **General**

### **1. Responses to Letters of Comment**

Following publication of the Notice of Application, has the Applicant received any letters of comment in respect of this application? If so, please confirm that a reply was sent by the Applicant in response to such comments and if so, please file copies of such responses with the Board. If not, please explain why a response was not sent and state if the Applicant intends to respond and file a copy of the response if and when such response is given.

### **2. Manager's Summary**

Ref: Responses to interrogatories

- a) Based on the first and second round of interrogatories from all parties, please submit an updated Microsoft Excel file containing the revenue requirement work form.
- b) Please provide a listing of all changes made to the Applicant's original application (by exhibit), including an updated derivation of its revenue requirement, PILs calculation, base rates, rate adders/riders, and bill impacts.

## **Exhibit 2: Rate Base**

### **3. Conditions of Service**

Refs: Exhibit 2 / 4 / 3 / p2

In this exhibit the Applicant makes reference to Acts, Regulations, Codes and Guides.

- a. Please identify any rates and charges that are included in the Applicant's conditions of service and provide an explanation for the nature of the costs being recovered.
- b. Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2008 and the revenue forecasted for the 2009 bridge and 2010 test years.

- c. Please explain whether, in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet.

#### **Exhibit 4: Operating Costs**

##### **4. Regulatory Costs**

Ref: Board staff interrogatory No. 26

The introduction and part a) of Board staff interrogatory No. 26 read:

"In Table 4-7 the Applicant breaks down the components of its regulatory costs and identifies "Operating expenses associated with staff resources allocated to regulatory matters (Regulatory Officer and New Engineering Staff.)" as the component responsible for the largest increase; i.e. an increase from \$100,299 in 2008 to \$198,000 in 2010.

- a) Please explain why this component of regulatory cost is expected to effectively double in two years."

The Applicant responded:

"The primary factor influencing the increase in regulatory costs is the need to add a staff member in the engineering department in order to adequately address the increased regulatory requirements and regulatory reporting. In particular, the proposed new engineering technician will be focused on ensuring compliance with Regulation 22/04."

Please expand on the response provided including:

- a. Provide a description together with annual person-hours of those activities that have been newly-required since 2008 when the existing resources would appear to have performed the work, and
- b. Comment on the appropriateness of performing the additional work on overtime or with part-time assistance.

##### **5. Shared Services / Corporate Cost Allocation**

Ref: Board staff interrogatories No. 29 and No. 33

The introduction and part a) of Board staff interrogatory No. 33 read:

"In Schedule 3, page 6 the Applicant provides information regarding the sale of the sub transmission line segment. In Table 4-12 the Applicant shows the allocation of shared services staff to itself and Orillia Power Generation Corporation (OPGD). In Exhibit 4 / 5 / 1 / pp1-9 the Applicant discusses the bases on which shared services costs are allocated and explains that OPGD expects to complete a connection from the Matthiasville plant to the Hydro One transmission system.

- a) Please explain how the allocation of shared services costs between the Applicant and OPGD was modified in light of the sale of the sub transmission line segment."

The Applicant responded:

"It was not necessary to modify the allocation of shared services between OPDC and OPGC in light of the sale of the sub transmission line segment. Employees of OPGC

are not part of the calculation of OPDC FTE count for shared services. OPGC employee costs are charged 100% to OPGC. Contract work performed between the companies is billed using fully allocated cost plus a rate of return. There are no intercompany contract services related to the sub transmission line included in the application for 2010.”

In response to Board staff interrogatory No. 29 c) that concerned the sale of the sub transmission line, the Applicant stated: “The expected annual maintenance savings, based upon average maintenance spending over the past six years, is identified as \$50,000 per year. These savings have been reflected in the application.”

Considering that OPDC will perform \$50,000 less maintenance work on the sub transmission line segment and, presumably, OPGC will perform \$50,000 more maintenance work on the line segment,

- a. Please confirm that the balance of OPDC/OPGC *support services* provided by the shared services organization remains unchanged with the sale of the line segment, and
- b. In the event that part a. is not confirmed, please estimate the reduction in shared services cost to OPDC.

## 6. Tax Calculation

Ref: Exhibit 4 / 8 / 1 / pp1-4 and Board staff interrogatory No. 36

Board staff requests additional information to that requested in Board staff interrogatory No. 36.

- a. Please show the detailed calculations that resulted in the 17.00% value for “Provincial Income Tax Rates: On the next \$1000,000 clawback of SBD” for the year 2010 as shown in Table 4-25.
- b. Please confirm that under Bill 218 that received third reading on December 9, 2009, a utility having an Annual Taxable Income of \$1,035,000 would calculate its 2010 taxes as shown in the attachment to these supplemental interrogatories: “Attachment 1: Calculation of Income Taxes in 2010”.
- c. If the Applicant did not confirm all steps of the calculation method in the attachment, please provide an in-depth explanation for each step where the Applicant believes a different method is more appropriate.
- d. Please recalculate the Applicant’s taxes using the method that the Applicant considers to be most appropriate.

## **7. Harmonized Sales Tax**

Ref: Exhibit 4 / 8 / 1 / pp1-4

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

- a. Would the Applicant agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?
- b. Are there other alternatives that the Board might consider to reflect the reductions in OM&A and Capex if this bill is enacted?

## **8. Allocation Factors and Calculation of Rate Riders**

Ref: Exhibit 9 / Appendix 9-B / p1 and Board staff interrogatory No. 47

Board staff requests additional information to that requested in Board staff interrogatory No. 47.

- a. Please confirm that with respect to the disposition of the 1588 Global Adjustment sub-account, the Applicant would have the billing capability to effect a separate rate rider for non-RPP customers only.
- b. If the Applicant were to establish a separate rate rider to dispose of the balance of the 1588 Global Adjustment sub-account, please provide the Applicant's views as to whether this rate rider would be applicable to MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers.
- c. If the answer to b) is in the negative, does the Applicant have the capability in its billing system to exclude MUSH sector customers to which the separate rate rider for the disposition of the 1588 Global Adjustment sub-account balance would apply?

## Attachment 1: Calculation of Income Taxes in 2010

### Calculation of Income Taxes In 2010

				Ontario Pro-rated Tax Calculation Jan. to June	Ontario Pro-rated Tax Calculation July to Dec.	Total Ontario and Federal
<b>Number of days</b>						
January 1 to June 30, 2010			181			
July 1 to December 31, 2010			184			
			<u>365</u>			
<b>Annual Taxable Income</b>	<b>\$1,035,300</b>			<b>\$1,035,300</b>		
<b>Small Business Income Limit</b>	<b>\$500,000</b>			<b>\$500,000</b>		
<b>Ontario Tax Rates</b>						
<b>Up to June 30th</b>	9.64%	49.59%	4.78%	49,491		
Small business rate	5.50%					
Small Business Credit	4.14%	49.59%	2.05%	-10,265		
Surtax	4.25%	49.59%	2.11%	11,282		
				<u>50,508</u>		50,508
<b>After June 30th</b>	6.94%	50.41%	3.50%		36,220	
Small business rate	4.50%					
Small Business Credit	2.44%	50.41%	1.23%		-6,150	
					<u>30,070</u>	30,070
						<u>80,578</u>
<b>Ontario effective tax rate</b>				4.88%	2.90%	7.78%
<b>Federal Tax Rates</b>						
General tax rate	18.00%					186,354
Small business rate	11.00%					
Small Business Credit	7.00%					
(Subject to federal grind up to paid up capital of \$15,000,000)						
				<u>50,508</u>	<u>30,070</u>	<u>266,932</u>
<b>Combined effective tax rate</b>						<b>25.78%</b>