

Barrie Hydro Inc.  
Board Staff Interrogatories  
Re: Procedural Order No. 7  
February 26, 2010  
Deferred PILs Combined Proceeding  
EB-2008-0381

**Barrie Hydro Inc. (Barrie)**

- BH1. Re: Issue #2:** What is the adjusted balance of deferred PILs in account 1562 that Barrie is now requesting for disposition as at February 28, 2010?
- BH2.** Please provide the PILs continuity schedule that supports this amount.
- BH3.** Barrie has submitted SIMPIL and other models in evidence. If Barrie now has a new set of models other than those already filed that supports this requested amount, please file the active Excel versions in evidence.
- BH4.** Prior to the August 2009 non-transcribed meeting with parties, Board staff provided Barrie with completed SIMPIL models for Barrie for the years 2001 through 2005 and a summary or PILs continuity schedule of the variances produced from these models.  
Please file these active Excel models on the public record. Please explain why and where Barrie disagrees with staff's interpretations of the SIMPIL methodology as displayed in these models.
- BH5. Re: Issue #1:** Should the stand-alone principle be applied when determining the allocation of the following tax attributes for federal and Ontario tax purposes: business limits; capital thresholds and deductions (exemptions); and eligibility for the small business deduction? That is, should the regulated distributor (licensed utility) use 100% of the tax attributes when calculating the regulatory PILs and SIMPIL true-up entitlements?  
**a)** Please explain with reference to Barrie's PILs tax evidence.
- BH6. Re: Issue #3:** One Example: Ontario Capital Tax (OCT) and Large Corporation Tax (LCT) were meant to be trued up if there was a capital tax rate or threshold deduction change after the Board's decision and during the intervening period until the next decision.  
**a)** Does Barrie believe that Ontario Capital Tax and Large Corporation Tax should be trued up for income tax purposes in the SIMPIL methodology? That is, should the difference between the accrual for accounting purposes and the deduction from the actual tax returns be included in the list of items on which the income tax SIMPIL true-up variance is calculated? Please explain.
- BH7. Re: Issue #4:** On May 27, 2009 in answer to staff interrogatories (IR) #6 and #9 shown below, Barrie responded as follows:

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*IR#6: Please confirm that there is no adjustment for changes in regulatory assets in the fourth quarter 2001 SIMPIL reconciliation. Please explain the assumptions that Barrie made for its 2001 tax returns that resulted in no addition or deduction for regulatory assets in SIMPIL.*

*Response: "Barrie Hydro ("BH") did use the regulatory assets in the Ministry filing of our tax returns. BH determined regulatory asset/liabilities should not be included in the PILs filing, due to the fact that these are not considered when setting the PILs Proxy and only represent a timing difference of when income tax is paid."*

*IR#9: Please confirm that there are no adjustments for changes in regulatory assets in the 2002 SIMPIL reconciliation. Please explain the assumptions that Barrie made for its 2002 tax returns that resulted in no addition or deduction for regulatory assets in SIMPIL.*

*Response: There are no adjustments for changes in our regulatory assets for 2002, as discussed in [IR] BH6. It was felt that the write off of our regulatory asset is only a timing issue and should not be part of the PILs submission.*

In its SIMPIL evidence, EnWin has included the movement in regulatory assets to calculate the balance in 1562 to be recovered from or refunded to ratepayers. The variance is material to the total amount applied for recovery.

**a)** Does Barrie believe that EnWin should include the movement in regulatory assets in the determination of the PILs balance in 1562 to be recovered from or refunded to ratepayers? Please explain.

**BH8. Re: Issue #5:** Barrie calculated the amount recovered from customers as the billed amount. Barrie used the PILs "rate slivers" from the PILs application filing models to calculate the amount that represents billed to customers and submitted Sch\_10\_BH39 in evidence on May 27, 2009.

**a)** Does Barrie believe that this method is the best method to use? Please explain.

**b)** Please provide a table that shows how Barrie calculated the rate slivers used in Sch\_10\_BH39 with reference to the applications that support this rate component.

**BH9. Re: Issue #6:** Barrie responded to staff's IR #40 on May 27, 2009 as follows.

*IR# 40: Please describe how Barrie extracted the PILs amounts from unbilled revenue during the period 2001 through December 31, 2006.*

*Response: Distribution rates containing PILS commenced March 1, 2002. The amounts shown in the continuity schedule are PILS collected on actual billed amounts, no true up for unbilled was performed on a monthly basis. You will note that the continuity schedule shows amounts collected from customers in May & June 2006, these amounts are calculated on consumption prior to May 1, 2006 which was not*

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*actually billed to the customer until May and June. In effect these two months are the "catch up" for unbilled at April 30, 2006.*

- a) Does Barrie believe that this is the only method to deal with unbilled revenue for purposes of the SIMPIL calculations? Are there other alternatives that could also be considered? Please explain.
- b) If the information is not available by an applicant to calculate unbilled revenue as at April 30, 2006, how does Barrie believe this should be treated?

**BH10. Re: Issue # 7:** If a regulated distributor has a service company or parent company that provides services to the LDC, and the service company or parent charges the distribution utility for labour including all overhead burdens, does Barrie believe that the change in the post-employment benefit liability should be reflected in the distributor's PILs reconciliations? Please explain.

**BH11. Re: Issue #8:** The materiality threshold incorporated into the SIMPIL models can produce perverse results. In *Halton Hills'* evidence in its 2004 SIMPIL TAXREC2, the accounting bad debt expense was added back, and because it was above the materiality threshold it generated a tax provision on the amount. However, the deduction for the tax deductible bad debt expense was below the materiality threshold and was ignored in the true-up calculations. The net amount between the accounting number and the actual tax deductible amount should be considered in the calculation.

The original intent of the materiality threshold was to reduce the number of reconciling items that the applicant would have to submit evidence to defend.

- a) If evidence on non-material items, other than for policy matters, is not required to be filed in this proceeding, should the materiality threshold be retained in the model given that errors like those identified above are created? Please explain.
- b) If Barrie believes that the materiality threshold should be retained in the model, how should the materiality threshold be applied to determine which amounts should be trueed up to avoid the situation described above? Please explain.

**BH12. Re: Issue #9:** Correct tax rates.

- a) What income tax rate should be used for true-up calculations and how should this rate be determined?
- b) Should Investment Tax Credits, like apprenticeship training, be considered in the determination of the taxes and the tax rate(s) for the SIMPIL true-up calculations? Please explain.

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c) EnWin incurred losses for income tax purposes in 2001 and 2002 and utilized tax loss carry-forwards in 2003, 2004 and 2005 to reduce taxable income to zero.

How would Barrie determine the appropriate income tax rate to use in the true-up calculations when there is no taxable income?

**BH13.** In Barrie's 2001 SIMPIL model submitted in May 2009, the 2001 tax rate should be 40.62% less 1.12%, or 39.50%, for the true-up calculations on TAXCALC based on the methodology. Please explain why this rate was not used. Please provide a corrected model.

**BH14.** In Barrie's 2003 SIMPIL model submitted in May 2009, the 2002 proxy does not agree with the 2002 decision and supporting application model. The tax rate should be 38.62% for 2002 proxy and 36.62% (less 1.12%) for the true-up calculations in 2003. Please explain why this rate was not used. Please file a corrected SIMPIL model.

**BH15. Re: Issue #10:** Barrie has included the 2001 PILs proxy (positive number) in the account 1562 continuity schedule in each period until it was removed from rates. As well, Barrie has shown the amount collected (negative number) from customers by using the 2001 proxy "rate slivers" for the same time period as the proxy remained in rates.

**Re: Issue #11:** For 2002 RRR, Barrie filed the 2001 SIMPIL model. In that document there was a true-up amount of \$136,041 [evidence filed May 27, 2009] which Barrie showed in the continuity schedule in the 2002 column.

The true-up amount of \$136,041 appears only once in the 2002 column. It does not appear in the 2003 column; and no proration of this amount appears in the 2004 column up to the date the 2001 proxy was removed from rates.

a) Does Barrie consider this treatment to be inconsistent? Please explain.

**BH16. Re: Issue #12:** In the 2005 SIMPIL model continuity schedule, Barrie has shown prorated amounts for the PILs proxy and the amount collected for the period January 1 to April 30, 2006. It has also shown the true-up items of \$157,780 from the 2005 tax year SIMPIL RRR filing in the 2006 column. There are no true-up items shown that relate specifically to the 2006 four-month stub period.

a) Does Barrie believe that its disclosure reflects the correct interpretation of the SIMPIL methodology? Please explain.

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- BH17. Re: Issue #13:** Financing fees are included in the all-in cost of debt by Enbridge, Union Gas and Hydro One when they file rate applications. Barrie has shown the amortization of financing fees in its SIMPIL evidence.
- a) Does Barrie consider the amortization of financing fees as shown in its evidence to be interest expense? Please explain.
  - b) Should this cost be included in interest expense for the purpose of the interest claw-back calculations? Please explain.
- BH18. Re: Issue #13:** In Halton Hills' evidence filed on January 8, 2010, the Board's maximum deemed interest, which should have been used in the variance calculation under the established methodology, was replaced with Halton Hills' actual interest expense in the 2003, 2004 and 2005 SIMPIL models. In so doing, Halton Hills eliminated the established methodology for truing up excess interest above the deemed amount.
- a) What is Barrie's understanding of the Board's established methodology regarding the excess interest claw-back and has Halton Hills followed that guidance?
- BH19. Re: Issue #16:** Barrie changed its evidence and recalculated interest carrying charges which are shown on the 2005 SIMPIL model continuity schedule.
- a) How did Barrie recalculate the interest after the principal balances were modified?
  - b) Does Barrie believe that this is the correct method? Please explain.
  - c) Can Barrie suggest another method? Please explain.
- BH20. Re: Issue #18:** The Large Corporation Tax (LCT) was repealed with effect from January 1, 2006. Barrie received \$54,578 for its 2005 LCT PILs proxy as shown in the 2005 SIMPIL model (TAXCALC cell C92). In its PILs continuity schedule Barrie has not shown an entry for the repeal of the LCT during the January 1 to April 30, 2006 period.
- a) Does Barrie consider this to be the correct treatment in accordance with the Board's *FAQ July 2007*? Please explain.
  - b) Does Barrie consider that because of the date of issuance of the FAQ in July 2007, the guidance should not apply to the 2006 stub period? Please explain.
  - c) Expressed another way, how important is the sequence of the Board's guidance in determining how and when to apply that guidance in this proceeding? Please elaborate.
  - d) Does Barrie believe that there is a regulatory hierarchy in the Board's various decisions, handbooks, FAQs, guidelines and instructions? Please elaborate.

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**BH21: Re: Issues #: 14, 15, 17, 19, 20, 21, 22.**

Should Barrie wish to provide its comments to assist the Board with these issues, please do so with reference to each issue number.