



March 19, 2010

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, ON M4P 1E4
Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Combined PILs Proceeding, EB-2008-0381
Interrogatory Responses**

Enclosed please find EWU's responses to Board Staff's interrogatories filed in the above noted matter.

Yours very truly,

ENWIN Utilities Ltd.

A handwritten signature in blue ink, appearing to read "Andrew J. Sasso".

Per: Andrew J. Sasso

Responses of EnWin Utilities Ltd. (EnWin)

- EW1. Re: Issue #2:** What is the adjusted balance of deferred PILs in account 1562 that EnWin is now requesting for disposition as at February 28, 2010?

RESPONSE

ENWIN is requesting disposition of \$5,293,658 as at December 31, 2007, plus applicable interest to the date of approved disposition, for account 1562. This is the same balance applied for in *ENWIN*'s January 15, 2010 submission.

- EW2.** Please provide or identify in the evidence the PILs continuity schedule that supports this amount.

RESPONSE

Please see Attachment 1 for the PILs continuity schedule that supports this amount. This is the same continuity schedule filed in *ENWIN*'s January 15, 2010 submission.

- EW3.** Has EnWin filed the set of models in evidence which support the amount requested in interrogatory EW1 above? If EnWin now has a new set of models other than those already filed that support this requested amount, please file the active Excel versions in evidence.

RESPONSE

Yes, *ENWIN* has previously filed the set of models in evidence. The only change to the previously filed models is the 2001 SIMPIL model, as set out in response to EW15.

- EW4.** Prior to the August 2009 non-transcribed meeting with parties, Board staff provided EnWin with completed SIMPIL models for EnWin 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 EnWin disagrees with staff's interpretations of the SIMPIL methodology as displayed in these models.

RESPONSE

The question refers to Excel models created and completed by Board Staff. Given that Procedural Order No. 8 invites other parties to file evidence, *ENWIN* submits that Board Staff should itself file these models if Board Staff considers the models to be relevant and material to this proceeding. This would be a

more appropriate process than for *ENWIN* to file evidence accompanied by its objections to its own evidence.

- EW5. 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 EnWin's PILs tax evidence.

RESPONSE

ENWIN's understanding at the relevant times was that inputs for the SIMPIL models' "Ministry of Finance Corporate tax return" columns were to be taken directly from the corresponding information in the corresponding year end tax returns. *ENWIN* completed this information in the SIMPIL models on this basis. Moreover, *ENWIN* understood that the inputs were to match the tax returns and therefore *ENWIN* used the same allocations as applied for in the tax returns.

The small business deduction does not apply to *ENWIN*.

The capital tax deductions were allocated to *ENWIN* as follows during 2001 to 2005 in the actual tax returns and thus input into the SIMPILs models as such.

	Ontario Capital Tax Exemption	Federal Large Corporations Tax Exemption
2001	79%	77%
2002	81%	100%
2003	78%	78%
2004	78%	24%
2005	77%	21%

- EW6. Re: Issue #3:** Has the utility correctly applied the true-up variance concepts established by the Board's guidance?
- a)** How important is the sequence of the Board's guidance in determining how and when to apply that guidance in this proceeding? Please elaborate.
- b)** Does EnWin believe that there is a regulatory hierarchy in the Board's various decisions, handbooks, FAQs, guidelines and instructions? Please elaborate.

RESPONSE

ENWIN has correctly applied the true-up variance concepts during the relevant period through the relevant filings as prescribed by the Board at the time.

The SIMPIL models as originally filed are not only the primary guidance, but the fundamental expressions of the Board's methodology and the principal "underlying documents". The presumption should be that the models were the methodology and that the appropriate application of the models was the appropriate application of the methodology.

Insofar as sequencing and hierarchy are concerned, it is not apparent to *ENWIN* that alternative "guidance documents" are on the record in this proceeding.

If alternative "guidance documents" that should have affected how *ENWIN* completed its SIMPIL filings do enter the record of this proceeding, *ENWIN* would appreciate the opportunity to comment at that time.

EW7. 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 EnWin 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.

RESPONSE

ENWIN's understanding at the relevant times was that inputs for the SIMPIL models' "Ministry of Finance Corporate tax return" columns were to be taken directly from the corresponding information in the corresponding year end tax returns. *ENWIN* completed this information in the SIMPIL models on this basis. The SIMPILs model then used these inputs as set out in the mechanics of the issued models.

EW8. Re: Issue #4: Background

The change in regulatory assets is one of many reconciling items that appear in EnWin's SIMPIL models. Included in this total movement or change in the balance of regulatory assets from year to year is account 1570, Transition Costs.

EnWin requested on June 29, 2004 to be adjourned from its part in the Board's regulatory asset proceeding - Phase 2; and the Board granted the adjournment on June 30, 2004 in Procedural Order No. 4. EnWin wanted to perfect its evidence on transition costs before the Board's review.

In its 2006 EDR application, RP-2005-0020 / EB-2005-0359, EnWin submitted a study prepared by KPMG to support its transition costs that it sought for recovery. EnWin agreed to a recovery amount of \$5,702,290, plus recalculated

interest, as provided in the Settlement Agreement. With interest included this amount was \$7,298,931.

In its Phase 1 regulatory asset recovery application for the first instalment of four, RP-2004-0042 / EB-2004-0028, EnWin disclosed a transition cost amount of \$11,818,330 including interest as at December 31, 2002. In its application RP-2005-0013 / EB-2005-0023 for the second instalment of recovery, EnWin disclosed an amount of \$13,115,474 including interest as at December 31, 2003.

EnWin filed an application in 2007 to adjust its rates for a higher income tax PILs allowance [EB-2007-0522]. In 2006 EDR, EnWin agreed to include only capital tax PILs in rates because it had tax loss carry-forwards to offset taxable income in the 2006 test year. EnWin also found that it had made an error in a prior year tax return by including a deduction of \$5,909,165 (1/2 of \$11,818,330) for capital cost allowance (CCA).

Interrogatories

a) How much did EnWin pay the service company for the CIS system in 2002?

RESPONSE

EnWin paid \$11,818,330 for the CIS system.

b) Please describe how EnWin treated the change or movement in regulatory assets, including transition costs, in its tax returns for 2001 through 2008.

RESPONSE

In *EnWin's* case, the change or movement of regulatory asset balances as reported for financial statement purposes were reported as an addition to net income on Schedule 1 of the tax returns for 2003 – 2005. In 2002, the change or movement in the regulatory assets balance as reported for financial statement purposes was a deduction to net income on Schedule 1 and the transition costs balance was reflected as an addition on Schedule 8 and CCA related was taken. No further CCA was taken on this balance and in 2006; the remaining UCC of the transition cost asset was removed as an adjustment on Schedule 8.

c) Please provide a numerical table that shows the balances in all of EnWin's regulatory asset accounts at October 1, 2001, and at December 31, 2001 through December 31, 2008 and how the net changes from year to year were disclosed in the tax returns.

RESPONSE

Please see Attachment 2 for table showing requested information.

d) The difference in “cost” of the CIS between \$13,115,474 and the settled amount of \$7,298,931 is \$5,816,543 and has been absorbed by the shareholder of EnWin.

- Did EnWin expense this difference of \$5,816,543 in its financial statements and when?
- Did EnWin claim a deduction for this difference in its tax returns, and for which years?

RESPONSE

ENWIN expensed \$6,000,000 in its 2004 financial statements related to transition costs. ENWIN reflected the net income per the financial statements on Schedule 1 of the 2004 tax return. Therefore, this expense was reflected in the opening net income per accounting purposes on the 2004 tax return.

e) Does EnWin believe that this difference should be excluded from the SIMPIL reconciliations since it gave up the right to collection in its Settlement Agreement? If yes, please correct the evidence. If no, please explain the regulatory principles that EnWin relies on for its opinion.

RESPONSE

ENWIN disputes the premise of the question. ENWIN did not give up the right to account 1562 collection in its 2006 EDR Settlement Agreement. Please see Attachment 3 for the 2006 EDR Settlement Agreement.

EW9. Re: Issue #4: In Barrie's evidence in its May 27, 2009 answer to Staff IR#6 Barrie stated the following:

“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.”

In the 2006 EDR Board Report in Chapter 7 on page 61 it states:

“A PILs tax provision is not needed for the recovery of deferred regulatory asset costs, because the distributors have deducted, or will deduct, these costs in calculating taxable income in their tax returns.”

On page 4 of the Board's decision on EnWin's 2007 application EB-2007-0522 the Board stated:

“However, the provision for PILs should reflect the proper input with respect to Regulatory Assets. The Board has previously determined that Regulatory Asset recoveries should not be included in the PILs calculation for rate setting purposes.”

As regulatory assets were recovered by rate riders from 2004 through 2009, the balance in the PILs 1562 account has been affected by these recoveries only

up to April 30, 2006. In EnWin's SIMPIL evidence, regulatory assets have been used to create a material portion of the PILs 1562 receivable from ratepayers.

a) In light of Barrie's response above, the Board's decision in EB-2007-0522 and similar evidence in many other rebasing applications that have come before the Board, why does EnWin believe that this timing difference should be recovered from ratepayers as at April 30, 2006?

RESPONSE

ENWIN is not familiar with the circumstances or evidence of Barrie Hydro. It is likely that Barrie Hydro was commenting on its own experience and insights and not the experience of and guidance received by *ENWIN*. There is no basis for the Board to find the assertions of any individual LDC in relation to its own affairs, including Barrie Hydro or *ENWIN*, to be prescriptive or even persuasive in respect of another LDC's affairs.

The Board's 2006 EDR Board Report applies to 1592 PILs, not 1562 PILs. Further, *ENWIN* submits that it was not the Board's intention in the report to provide retrospective guidance or direction. Finally, the 2006 EDR Board Report cannot be applied retroactively.

The Decision in EB-2007-0522 was issued January 4, 2008 and for the reasons set out above in respect of the 2006 EDR Board Report, is not relevant to this proceeding.

ENWIN's filed tax returns for the "SIMPIL years" included *ENWIN's* regulatory assets. The SIMPIL methodology as expressed in the SIMPIL models required *ENWIN* to reflect its tax return in the SIMPIL models. Accordingly, regulatory assets were included in *ENWIN's* completed SIMPIL models. *ENWIN* filed its SIMPIL models with the Board as required. The SIMPIL filings were not rejected by the Board and to the best of current *ENWIN* management's recollection and knowledge, *ENWIN* was not aware of any alternative requirement to exclude regulatory assets from its SIMPIL models during the SIMPIL period (i.e. 2001-2006).

EW10. Re: Issue #5: EnWin has calculated the amount recovered from customers as the billed amount. In its evidence filed on January 15, 2010, EnWin used the PILs “rate slivers” from the PILs application filing models to calculate the amount that represents billed to customers. Does EnWin believe that this method is the best method to use? Please explain.

RESPONSE

This is the approach that *ENWIN* followed in its most recent evidence. It is one reasonable method that was acceptable and within the Board’s methodology at the time of the SIMPIL filings.

EW11. Re: Issue #6: In April 2009 in response to staff IR EW #46 EnWin replied as follows.

IR# 46: Please describe how EnWin extracted the PILs amounts from unbilled revenue during the period 2001 through December 31, 2006.

Response: 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.

a) Does EnWin 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.

RESPONSE

In *ENWIN*’s most recent evidence of January 15, 2010, the PILs collected from customers was calculated based on PILs rate slivers times billed quantities. Billed quantities represent all usage with an end date occurring in that particular month. It is one reasonable method to deal with unbilled revenue. There may be many other acceptable and reasonable ways to deal with unbilled revenue based on information available to particular LDC’s during that time period.

b) If the information is not available by an applicant to calculate unbilled revenue as at April 30, 2006, how does EnWin believe this should be treated?

RESPONSE

This does not apply to *ENWIN*’s application. *ENWIN* notes that the Board has taken the position in its December 2009 decision that the methodology in place at the time is the methodology that is acceptable. *ENWIN* is open to the possibility that there may be a range of acceptable implementations of a particular methodology or even a range of methodologies that are acceptable to the Board for any given filing.

EW12. 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 EnWin believe that the change in the post-employment benefit liability should be reflected in the distributor's PILs reconciliations? Please explain.

RESPONSE

ENWIN's understanding at the relevant times was that inputs for the SIMPIL models' "Ministry of Finance Corporate tax return" columns were to be taken directly from the corresponding information in the corresponding year end tax returns. ENWIN completed this information in the SIMPIL models on this basis.

The post retirement liability is treated as a reserve in the tax return and therefore reflected as such on the book to tax adjustments required on the TAXREC sheet of the model. The reserve (i.e. post-employment benefit liability) balance at the beginning of the year is deducted from accounting income and the ending balance is added to accounting income in the calculation of taxable income. This treatment is consistent with the treatment in ENWIN's tax returns. The reserve amounts for post-employment benefit liability only represents the liability associated with employees of the LDC.

EW13. Re: Issue #8: The materiality threshold incorporated into the SIMPIL models can produce perverse results. In Halton Hill's 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.

RESPONSE

This does not appear to arise in ENWIN's application.

- b) If EnWin believes that the materiality threshold should be retained in the model, how should the materiality threshold be applied to determine which amounts should be trued up to avoid the situation described above? Please explain.

RESPONSE

This does not appear to arise in *ENWIN's* application.

EW14. 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?

RESPONSE

ENWIN used the tax rates from the tax returns to populate the SIMPIL fields that required tax rates.

- 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.

RESPONSE

If the methodology reflected in the SIMPIL models or elsewhere in the contemporary Board guidance provided for true-up of Investment Tax Credits, then those are appropriate true-ups.

- 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 should EnWin determine the appropriate income tax rate to use in the true-up calculations when there is no taxable income?

RESPONSE

ENWIN used the legislated tax rate from the tax returns and submits that this is an appropriate methodology.

EW15. Re: Issue #10: EnWin 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, EnWin 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, EnWin filed the 2001 SIMPIL model. In that document there was no true-up amount in the continuity schedule in the 2002 column.

In its evidence of May 27, 2009, Barrie showed what it had filed in the 2001 SIMPIL under RRR. In that document there was a true-up amount of \$136,041 which it 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 EnWin consider the Issue #10 treatment described above to be inconsistent with that done by Barrie for Issue #11? Please explain.

RESPONSE

There was an input error in the 2001 SIMPIL model. An amount of \$90,000 was input as Capital Tax, but should have been input as Large Corporation Tax. *ENWIN* has corrected the 2001 SIMPIL model and has enclosed it as Attachment 4. The continuity schedule in *ENWIN*'s most recently filed evidence, which is resubmitted as Attachment 1, is correct.

EW16. Re: Issue #12: In its 2005 SIMPIL model continuity schedule, EnWin 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 \$668,760 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 EnWin believe that its disclosure reflects the correct interpretation of the SIMPIL methodology? Please explain.

RESPONSE

This is the approach that *ENWIN* followed in its most recent evidence. It is one reasonable method that was acceptable and within the Board's methodology at the time of the SIMPIL filings.

ENWIN's understanding is that the SIMPIL methodology used what might best be labelled "SIMPIL years". The SIMPIL years did not necessarily align with any given calendar years. The SIMPIL years started October 1, 2001 and ended April 30, 2006. The SIMPIL models that pertained to the SIMPIL years were numbered 2001-2005.

The question seems to imply that there ought to have been a 2006 SIMPIL filing or some treatment of January 1, 2006-April 30, 2006 that differs from *ENWIN*'s treatment. *ENWIN* is not aware of that alternative methodology, but is open to the possibility that both *ENWIN*'s application of the methodology and

some other methodology could both be appropriate based on the Board's guidance at the time.

EW17. 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 and EnWin have shown the amortization of financing fees in their SIMPIL evidence.

a) Does EnWin consider the amortization of financing fees to be interest expense? Please explain.

RESPONSE

This is the approach that *ENWIN* followed in its most recent evidence. It is one reasonable method that was acceptable and within the Board's methodology at the time of the SIMPIL filings.

b) Should this cost be included in interest expense for the purpose of the interest claw-back calculations? Please explain.

RESPONSE

This does not appear to arise in *ENWIN's* application. *ENWIN's* deemed interest expense appears to have always exceeded *ENWIN's* actual interest expense, thus resulting in "0" for interest claw-back calculations.

EW18: Re: Issues #: 14, 15, 16, 17, 18, 19, 20, 21, 22.

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

RESPONSE

14) In *ENWIN's* case, transferring to account 1595 would be preferable as compared to transferring to account 1590 because *ENWIN* is currently seeking disposition of account 1590 in its 2010 IRM Application, EB-2009-0221. For this practical administrative reason, it would be clearer to track account 1562 to account 1595.

15) Disposition of *ENWIN's* account 1562 should be final in this proceeding. If *ENWIN* were to receive any reassessments for those years, subject to materiality considerations, *ENWIN* submits that it should approach the Board at that time for guidance.

16) In *ENWIN's* recent refilling of its evidence, it recalculated its interest charges. *ENWIN* submits that the methodology it used was appropriate

and notes that it has not received any interrogatories questioning its approach. *ENWIN* would intend to apply the same methodology to calculate interest carrying charges in the event that its principal variances were recalculated.

- 17) *ENWIN*'s interpretation of the SIMPIL methodology was that it was appropriate for *ENWIN* to record its most current tax filing at the time of filing the SIMPIL model.
- 18) *ENWIN* took the approach of recording the repealing of the Large Corporation Tax for January 1 to April 30, 2006 in account 1562.
- 19) Since the revenue requirement is used to allocate PILs, this allocation basis that *ENWIN* proposes to dispose of its balance. *ENWIN* proposes to use the revenue requirement allocation as it is in place at the time of setting the rate rider as opposed to using a revenue requirement allocation(s) from an earlier SIMPIL year(s).
- 20) *ENWIN* originally requested disposition over 2 years when disposition was sought in EB-2008-0227. However, that request was part of a broader disposition request during the Cost of Service proceeding. In this proceeding, a fresh consideration of resulting impact to customers and *ENWIN* will be required. Given the amount currently sought, disposition over 1 to 2 years appears appropriate in *ENWIN*'s case.
- 21) The Board's methodology, as most recently expressed in the EDDVAR Report, addresses forecasted interest carrying charges and applicable rates. There does not appear to be a reason to depart from this methodology.
- 22) To recover the final amount, *ENWIN* proposes to use "volumetric charges" for most of its customer classes, with the exception of "per connection charges" for its USL, Street Lighting and Sentinel Lighting classes.

Attachment 1

[illegible]

Attachment 2

Enwin Utilities Ltd.
PILs TAXES - EB-2008-0381

Board Staff IR EW8

**Balance of Regulatory Asset (Liabilities)*
*as reported for financial statement purposes**

	Oct 2001	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008
Balance as reported in audited F/S		-	16,556,577	14,985,703	4,855,908	(731,759)	(504,000)	(5,010,000)	(9,717,000)
Reported in Tax Return as adjustments to Schedule 1 for change in regulatory assets			(4,738,247)	1,570,874	10,129,795	4,855,908	-	-	-
Reported in Tax Return on Schedule 8 - addition of transition costs			11,818,330						
Reported in Tax Return on Schedule 8 - CCA on transition costs			5,909,165						
Reported in Tax Return on Schedule 8 - removal of UCC of transition costs							5,818,330		

Note: all balances shown are amounts as reported on audited financial statements, not RRR filings

Attachment 3

Settlement Proposal
Filed: February 15, 2006

RP-2005-0020
EB-2005-0359

**ENWIN POWERLINES LIMITED
2006 ELECTRICITY DISTRIBUTION RATES APPLICATION**

**ENWIN POWERLINES LIMITED
REGULATORY ASSET APPLICATION**

**RP-2005-0020
EB-2005-0359**

SETTLEMENT PROPOSAL

This Settlement Proposal is filed with the Ontario Energy Board ("the Board") for the Board's consideration in respect of the 2006 EDR Application (the "EDR Application") of EnWin Powerlines Limited (the "Applicant") and the Regulatory Asset Application (the "Regulatory Asset Application") of the Applicant. Both applications are collectively referred to as "the Applications". A Settlement Conference was conducted on February 8 and 9 of 2006 in accordance with Rule 31 of the Board's *Rules of Practice and Procedure* and the Board's *Settlement Conference Guidelines*. The Settlement Proposal arises from the Settlement Conference.

PARTIES

The following parties (the "Parties") participated in the settlement discussions and are in agreement with this Settlement Proposal:

- EnWin Powerlines Limited;
- Consumers Council of Canada (the Council);
- Energy Probe Research Foundation (Energy Probe);
- The School Energy Coalition (SEC);
- Vulnerable Energy Consumers Coalition (VECC).

Ontario Energy Board Staff ("Board Staff") participated in the Settlement Conference but indicated at the outset of the Settlement Conference that Board Staff would not be a signatory to any Settlement Proposal amongst the Parties. Board Staff did play a major role in working with the Parties to flesh out the Issues and to achieve a Settlement Proposal which was acceptable to all the Parties.

Hydro One Networks Inc. is taking no position with respect to any of the Issues in the EDR Application and the Regulatory Asset Application.

Canadian Cable Telecommunication Association (CCTA) was an intervenor in the EDR Application and Regulatory Asset Application. CCTA withdrew its intervention on December 20, 2005.

THE ISSUES

The Settlement Proposal deals with all of the issues on the Board's Issues List (the "Issues") outlined in the Board's Procedural Order No. 3 issued January 25, 2006. The Issues include the following:

1. Regulatory Assets Application
 - 1.1 Reasonableness of Transition Costs
 - 1.2 Transition Cost-Affiliate Issue
 - 1.3 Storm Costs
 - 1.4 Remaining Regulatory Asset Account Balances
2. 2006 Distribution Rate Application
 - 2.1 Tier 1 Adjustments
 - 2.2 Affiliate Costs and Revenues
 - 2.3 Large Use 3TS and Ford Annex Rates
 - 2.4 Capital Structure and Costs
 - 2.5 PILs
 - 2.6 Retail Transmission Rates
 - 2.7 Specific Service Charges
 - 2.8 Regulatory Cost Variance Account

THE SETTLEMENT PROPOSAL

There is a complete settlement on each of the Issues.

a) Background to the Settlement Proposal

In Procedural Order No. 2 issued November 28, 2005, the Board stated (at paragraph 9) that "Parties are advised that any settlement proposal should be structured such that settlement for each issue is separable and able to be accepted or rejected by the Board independently from any other issue."

The Parties acknowledge the Board's request that Issues be resolved on a severable basis. However, in order to reach the Settlement Proposal now before the Board, the Parties agreed on a comprehensive approach whereby settlement of the entire package of Issues forms the basis of the settlement. The Parties agreed to compromise on certain positions they held in order to reach a settlement on all of the Issues. While the Board has the authority to separate and only accept settlement of a subset of the Issues, it is the request of the Parties that the Settlement Proposal be accepted in its entirety so as to reflect the intentions of all the Parties to this Settlement Proposal.

This Settlement Proposal was prepared in accordance with Rule 32 of the Board's *Rules of Practice and Procedure* and the *Settlement Conference Guidelines*. The Settlement Proposal accordingly describes the agreements reached on the Issues, including the rationale, and provides a direct and transparent link between each settlement issue and the supporting evidence in the record to date. In this regard, the Parties agree that the evidence provided in the Settlement Proposal Supporting Materials along with the Applicant's previously filed evidence is sufficient to support the Settlement Proposal. Moreover, the quality and the detail of the supporting evidence together with the corresponding rationale will allow the Board to make findings on the Issues.

b) Settlement Proposal Supporting Materials

The Applicant has prepared the additional supporting materials accompanying the Settlement Proposal in order to give further explanation to the Intervenor and to provide explanation for the Board on the recommendation of Board Staff. The material has been prepared by the Applicant and provided to the Intervenor and Board Staff.

c) Detail of the Settlement Proposal

1.0 REGULATORY ASSETS APPLICATION

1.1 Is the revised claim by EnWin of \$97.21 per customer for Account 1570 Transition Costs reasonable?

Settlement: There is a complete settlement of Issue 1.1 on the following basis:

The Applicant will reduce its Transition Costs claimed in Account 1570 by a further 10% to an amended amount of \$5,702,290.20 plus applicable interest. Interest on the reduced principal amount shall be calculated at the same rate previously used in the Regulatory Asset Application.

Rationale: The Intervenor took the view that other LDCs had, as part of the regulatory asset application process for minimal review, been required to take a reduction of 10% of their claimed Account 1570 Transition Costs. Therefore, the Intervenor took the position that the Applicant should also be required to reduce the amount it submitted for prudently incurred transition costs by a further 10%

and are prepared to accept the resulting transition costs on the basis of this adjustment.

Evidence: The following evidence supports this settlement:

Regulatory Asset Application: Tab B, pages 4-7, Tabs D and H.

Answers to Interrogatories, Volume 1

Board Staff Interrogatory 19, page 6.
Board Staff Interrogatories 28-36, pages 11-18.
School Energy Coalition Interrogatory 5, page 3.

Answers to Interrogatories, Volume 2

Board Staff Interrogatory 32, page 8.
Board Staff Interrogatories 5 and 10, page 1.

1.2 Does the incurrence of the transition costs through affiliate EnWin Utilities raise any issues that would impact on the reasonability of the claim?

Settlement: There is a complete settlement of Issue 1.2 on the following basis:

Rationale: The affiliate incurred costs to develop a Customer Information ("CIS") System on behalf of the Applicant. The affiliate sold the CIS System to the Applicant at cost with no markup. The Intervenor took note of the fact that the Applicant, pursuant to the KPMG CIS Cost Review Report, which is found at Tab D of the Regulatory Asset Application, applied for a substantially reduced amount of transition costs. In addition, by way of this Settlement Proposal, the Applicant is agreeing to a further 10% reduction in transition costs.

Evidence: The following evidence supports this settlement:

Regulatory Asset Application: Tab B, pages 4-7, pages 11-12, paras. 47-50, Tabs D and H.

Answers to Interrogatories, Volume 1

Board Staff Interrogatory 10, page 3, Tab B.
Board Staff Interrogatory 19, page 6.
Board Staff Interrogatories 28-36, pages 11-18.
School Energy Coalition Interrogatory 5, page 3.

Energy Probe Research Foundation Interrogatory 4, page 3, and Interrogatory 6, page 6.

Answers to Interrogatories, Volume 2

Board Staff Interrogatory 5, page 1.
Board Staff Interrogatory 10, page 1.
Board Staff Interrogatory 32, page 8

1.3 Is the \$1.2 million being claimed by EnWin in Account 1572 related to 2002 ice storm losses appropriate for recovery and reasonable in amount, and is the proposed method of allocation (per customer) appropriate?

Settlement: There is a complete settlement of Issue 1.3 on the following basis:

The Parties agree that the recovery of storm costs should be granted as requested in the Regulatory Asset Application, both in terms of quantum claimed and proposed allocation among all customers.

Rationale: The record provided evidence of the extraordinary nature of the January 31, 2002 storm. The effects of the January 31, 2002 storm were widespread and therefore allocation across all customers was deemed to be a reasonable way to allocate these costs, although admittedly not the only way to allocate them. The Applicant provided further evidence demonstrating that the 2002 storm budget of \$220,000 had been exhausted by other storms that occurred during the 2002 year exclusive of the January 31, 2002 storm.

Evidence: The following evidence supports this settlement:

The Applicant has provided additional evidence at Tab 4 of the Settlement Proposal Supporting Materials which describes the storm costs in 2002 separate and apart from the costs incurred for the January 31, 2002 storm.

Regulatory Asset Application: Tab B, page 11, para. 46, pages 11-12, paras. 47-50, Tabs G and I.

Answers to Interrogatories, Volume 1

Board Staff Interrogatory 24 at page 8.
Energy Probe Research Foundation Interrogatories 7-9, pages 8-11.
School Energy Coalition Interrogatory 4, page 2

Settlement Proposal Supporting Materials:

Tab 4

1.4 Are the remaining account balances being claimed appropriately calculated?

Settlement: There is a complete settlement of Issue 1.4 on the following basis:

The Parties agree that the remaining account balances being claimed are appropriately calculated.

Rationale: In reviewing the Regulatory Asset Application and the Applicant's Answers to Interrogatories, the Intervenor takes no issue with the calculation of the remaining account balances.

Evidence: The following evidence supports the settlement:

Regulatory Asset Application: Tab B, pages 8-15, paras. 34-52, Tab F.

Answers to Interrogatories, Volume 1

Board Staff Interrogatories 3-9, pages 1-2.
Board Staff Interrogatories 37-42, pages 19-22.
School Energy Coalition Interrogatory 1, page 1.
School Energy Coalition Interrogatory 6, page 3.

Answers to Interrogatories, Volume 2

Board Staff Interrogatories 12-17, pages 5-8.

Answers to Interrogatories, Volume 3

School Energy Coalition Interrogatory, page 1.

2.0 2006 DISTRIBUTION RATE APPLICATION

2.1 TIER 1 ADJUSTMENTS

2.1.1 Are the components and amounts of the Tier 1 Adjustments applied for appropriate?

Settlement: There is a complete settlement of Issue 2.1.1 on the following basis:

The components and amounts of the Tier 1 Adjustments applied for are appropriate.

Rationale: Having reviewed the Applicant's Tier 1 Adjustments, the Intervenor's are satisfied that the Applicant has made all applicable Tier 1 Adjustments in accordance with the requirements of the 2006 EDR Handbook (the "Handbook"). Further, the Intervenor's are satisfied that the one non-routine/unusual Tier 1 Adjustment made by the Applicant in the amount of \$578,355 with respect to regulatory costs, and more particularly pertaining to legal, professional and consulting costs related to, among other matters, the review of the Applicant's regulatory asset balances following the adjournment of the Applicant's Phase 2 Regulatory Assets application in 2004, is reasonable. The amount attributable to regulatory proceedings remaining in the Applicant's revenue requirement (exclusive of the Applicant's \$141,400 Tier 1 adjustment for OEB annual dues and other fees paid to energy regulators) is \$225,067, pertaining to matters such as consulting and legal fees for the Applicant's Phase 1 Regulatory Asset application in early 2004, the balance of the 3TS/Ford Annex application (discussed below), the Board's 2006 EDR process and intervenor costs. The Tier 1 Revenue Adjustment in the (revised) amount of \$625,843 on account of payments to be made by the Applicant's affiliate, EnWin Utilities Ltd., for the use of the Applicant's CIS system, is also accepted by the Intervenor's as an appropriate adjustment. This adjustment is addressed in greater detail below in the context of Issue 2.2. This settlement agreement is without prejudice to the Parties in future proceedings challenging the amount of 2006 regulatory costs recoverable from ratepayers if the Board approves a regulatory cost deferral account.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Exhibit B, Tab 3
Schedules 3-1 and 3-2

Answers to 2006 EDR Interrogatories:

Board Staff Interrogatories 9-13, Tab 1, pages 17-21.
Board Staff Interrogatory 15, Tab 1, page 23.
Consumers Council of Canada Interrogatory 2, Tab 2, page 5.
Consumers Council of Canada Interrogatories 6-7, Tab 2, pages 9-10.
Consumers Council of Canada Interrogatory 9, Tab 2, pages 12-13.
Energy Probe Interrogatory 1, Tab 3, page 1
School Energy Coalition Interrogatory 2, Tab 4, page 3.

2.2 AFFILIATE COSTS AND REVENUES

2.2.1 Are the costs that EnWin seeks to recover for services from its affiliates reasonable?

2.2.2 Are the revenues that EnWin receives from affiliated companies for use of EnWin's CIS system, sentinel light maintenance and other services reasonable?

Settlement: There is a complete settlement of Issues 2.2.1 and 2.2.2 on the following basis:

The costs that the Applicant seeks to recover for services from its affiliates, and the revenues that it receives from affiliated companies for use of the Applicant's CIS System, sentinel light maintenance and other services are reasonable for the purposes of establishing electricity distribution rates effective May 1, 2006.

The Intervenor accept that the Applicant has adopted a cost allocation methodology developed by KPMG for use by the Applicant and affiliates and the resulting costs are reasonable.

Prior to filing its next distribution rate application, the Applicant shall conduct a study and prepare a report related to affiliate costs and revenues and transfer pricing arrangements (the "Affiliate Report"). The Affiliate Report shall be provided to the Board and the Intervenor as part of the Applicant's next rate application. The Applicant will undertake a tender for consultant services for the

Affiliate Report. The Applicant will contact the Intervenor in the EDR Application and seek from them input into the issues the Intervenor would like addressed in the Affiliate Report. The Applicant will consider, but will not be required to adopt, the Intervenor's suggestions.

Rationale: The Parties recognize that issues related to affiliates are a concern across the electricity distribution sector. In the Settlement Proposal Supporting Materials, the Applicant has provided further material that addresses the relationship between the Applicant and its affiliates and the reasonableness of the Applicant's current costs and revenues in respect of services purchased from, shared with and provided to its affiliates. The Applicant has agreed to conduct a study related to affiliate costs and seek input from the intervenors on areas of interest and concern.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Exhibit B, Tab 6, pages 5-6
Schedules 6-8, 6-9 and 6-10

Answers to 2006 EDR Interrogatories:

Board Staff Interrogatories 6-8, Tab 1, pages 12-16, and Attachment B to the Interrogatory Responses.
Board Staff Interrogatory 10, Tab 1, page 18.
Board Staff Interrogatory 22, Tab 1, page 31, and Attachment C to the Interrogatory Responses.
Board Staff Interrogatory 25, Tab 1, page 34.
Board Staff Interrogatory 29-33, Tab 1, pages 38-42.
Consumers Council of Canada Interrogatory 8, Tab 2, page 11.
Energy Probe Interrogatory 4, Tab 3, page 5
School Energy Coalition Interrogatory 2, Tab 4, page 3.
School Energy Coalition Interrogatory 6, Tab 4, page 7,
Attachments F and G to the Interrogatory Responses, and

Settlement Proposal Supporting Materials:

Tab 6

2.3 LARGE USE 3TS AND FORD ANNEX RATES

2.3.1 Are the rates charged to these two classes through the use of the separate model proposed by EnWin adequately justified and reasonable?

Settlement: There is a complete settlement of Issue 2.3.1 on the following basis:

The Parties have settled this issue on the basis that the rates charged to these two classes through the use of the separate model proposed by the Applicant are adequately justified and reasonable. However, intervenors believed that the allocation of O&M to these two classes was likely understated. To address this, Intervenor requested, and the Applicant has agreed to, the addition of a total of \$50,000 to the annual O&M for the 3TS and Ford Annex classes in the same proportion as the ratio between the O&M for the 3TS and Ford Annex classes in the Rate Application. The \$50,000 will be deducted for the O&M component of the revenue requirement for the Applicant's remaining customer classes (ie. those other than the 3TS and Ford Annex classes).

Rationale: These rate classes were established by a Decision and Order of the Board in 2004, which followed applications by the Applicant in 2001 (suspended by operation of the *Electricity Pricing, Conservation and Supply Act, 2002* ["Bill 210"]), and in 2003, with the approval of the Minister. The customers in these classes are served by dedicated transformer stations constructed and owned by the Applicant. The establishment of new customer classes in order to recover the costs associated with these transformer stations which were not included in the initial unbundling process undertaken as part of the Applicant's initial rate unbundling and design in 2000, was recommended by Board Staff. In 2001, EnWin Powerlines approached OEB staff for assistance in determining how the costs associated with the four transformer stations might best be recovered. A copy of a letter sent by EnWin Powerlines to OEB staff on December 6, 2001 confirming the discussions that took place at a meeting on October 10, 2001 between EnWin Powerlines representatives and OEB staff, which confirms that "The discussion that took place with Board staff identified the need to separate these transformation assets for rate making purposes in order to have a level playing field with other Local Distribution Company's who do not own transformation assets and also to

reflect accurate costs for the remaining customer base and those customers for whom the dedicated facility was built", accompanies the supplementary narrative contained at Tab 3 of the Settlement Proposal Support Materials. The OEB staff recommendation was that EnWin Powerlines make an application to the OEB for the creation of customer classes that would enable EnWin Powerlines to recover the costs associated with the assets serving these customers directly from them.

The treatment of these classes in the Applicant's 2006 EDR Application is consistent with that Decision. These customers will experience a distribution rate decrease in 2006.

The Applicant is filing as part of the Settlement Proposal Supporting Materials further information that provides additional explanation with respect to the creation of these customer classes and the rationale for maintaining the treatment of these customers in accordance with the 2004 Decision. This material is provided at Tabs 2 and 3 of the Settlement Proposal Supporting Materials.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Exhibit B, Tab 1, pages 2-3

Appendix 1-A

Tab C

Tab D - Sheet 2-4, Adjusted Accounting Data (Column E), EnWin 2006 EDR Model,

Answers to 2006 EDR Interrogatories:

Board Staff Interrogatories 3-4, Tab 1, pages 8-10; Attachment A to the Interrogatory Responses; and a copy of EnWin's 2003 Application to the Board with respect to the creation of the 3TS and Ford Annex classes, delivered in response to Board Staff Interrogatory 4.

Board Staff Interrogatories 16-17, Tab 1, pages 24-26.

School Energy Coalition Interrogatory 1, Tab 4, page 2, and Attachments E and H to the Interrogatory Responses.

Settlement Proposal Supporting Materials:

Tabs 2 and 3

2.4 CAPITAL STRUCTURE AND COSTS

2.4.1 Is EnWin's use of short-term debt in place of long-term debt appropriate, or does it create unjustified additional risk?

2.4.2 Should the cost of the \$45.2 million of short-term debt in EnWin's capital structure be incorporated into its deemed debt cost calculation?

2.4.3 Does the significant differential between EnWin's deemed debt rate of 55% and its actual debt rate of 66% pose an unacceptable financial risk to the utility and its customers?

Settlement: There is a complete settlement of Issues 2.4.1, 2.4.2 and 2.4.3 on the following basis:

1. The Applicant shall revise its EDR Application and use the following debt rates; long-term debt at 6.35% and short-term debt at 5.25% based on the Applicant's current capitalization.
2. The Applicant will be converting an appropriate amount of short term debt to long term financing. The Applicant is targeting August 2006 for this change to occur and will advise the Board and Intervenors when it is completed. The agreed upon rate of 5.25% to be applied to the short-term debt component reflects this expectation.
3. The Applicant undertakes to provide to the Board and the Intervenors information evidencing the new debt rates once those new rates are established.
4. The Applicant confirms that it will re-establish the debt/equity ratio as prescribed in the Handbook. The Applicant shall advise the Board when it has done so.

Rationale: The Intervenors raised the issue of the Applicant's variance from the debt/equity ratio prescribed in the Handbook.

The Intervenor also was of the view that the calculation of the Applicant's weighted average debt rate, the calculation of which is set out in Schedule 5-2 to the Rate Application, should incorporate the Applicant's short-term debt in addition to the long term debt currently used in the calculation. The Parties agreed that the rate to be used for the short term debt will be 5.25%. The Applicant has provided evidence contained in the Settlement Proposal Supporting Materials that confirms that the Applicant is in the process of addressing the above-stated financing and structuring issues. In reaching this Settlement Proposal certain commitments as stated above have been made by the Applicant in this regard.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Exhibit B, Tab 5, page 1
Schedule 5-2

Answers to 2006 EDR Interrogatories:

Board Staff Interrogatory 19, Tab 1, page 28.

Settlement Proposal Supporting Materials:

Tab 1

2.5. PILs

2.5.1 Is the 58% increase in the PILs recovery being claimed by EnWin over actual 2004 levels reasonable and justifiable?

Settlement: There is a complete settlement of Issue 2.5.1 on the following basis:

The Applicant will re-run its PILs and EDR Models so as to apply available loss carryforwards against its 2006 income tax PILs liability. The effect will be a decrease in the Applicant's 2006 PILs liability of 22% under actual 2004 levels. For the entire application, including 3TS and the Ford Annex, only Large Corporation Tax and Ontario Capital Tax PILs will be recovered in 2006 rates.

Rationale:

In calculating its 2006 PILs liability in the PILs Model filed with the Application and in updates prior to the Settlement Conference, the Applicant used available loss carryforwards to fully offset its 2005 income tax PILs liability. The Applicant then used available Capital Cost Allowance ("CCA") to offset PILs liability for 2006, but the available CCA was not sufficient to fully offset that 2006 PILs liability.

Intervenors and Board Staff expressed concern with the large increase in PILs for the test year. In discussion with Intervenors and upon review with KPMG, the Applicant's tax experts, the Applicant has agreed that applying full CCA credits to its PILs liability for 2005 will allow loss-carry-forwards to be saved and applied to the 2006 PILs liability, thereby completely offsetting PILs for 2006. The Applicant notes that this will leave approximately \$1,000,000 in loss carryforwards available for the subsequent rate year, although this estimate is subject to change when the revisions to the PILs Model are finalized. This calculation will be shown at Sheet 7-1 of the Applicant's updated PILs Model, which will be filed together with its revised Rate Model. The Applicant anticipates that its 2007 PILs liability may be in the range of \$3 - \$4 million, and will address this matter in its 2007 distribution rate application.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Tab 7, Schedules 7-1, 7-2 and 7-3, Tab E
Revised PILs Model filed February 7, 2006

Answers to EDR Interrogatories:

Board Staff Interrogatories 46-57, pages 58-70.

Settlement Proposal Supporting Materials:

Tabs 5, 7, 8, 9

2.6 RETAIL TRANSMISSION RATES

2.6.1 Are the proposed changes to retail transmission rates reasonable and justifiable?

Settlement: There is a complete settlement of Issue 2.6.1 on the following basis:

It is agreed that the Applicant may separate its overall Retail Transmission Service Charge for "Connection" into separate Line Connection and Transformation components in the portions of the Applicant's Schedule of Rates and Charges pertaining to the 3TS Class, the Ford Annex Class, and the "Large User-Remaining" Class.

The proposed charges as indicated in the EDR Application shall stand.

Rationale: The Applicant has proposed to (a) separate out the two components of the proposed Retail Transmission "Connection" Charge (i.e. Line Connection and Transformation Connection) for members of its "Large Use-Remaining" class (the total Connection-related RTS Rate would remain the requested \$1.9485/kW); and (b) limit the "Connection"-related charge in the transmission charges applicable to the "Large Use-3TS" and "Large Use-Ford Annex" classes, to the value of the line connection component of the overall "Connection" charge.

One of the members of the Applicant's "Large Use-Remaining" class owns its own transformer station. As a result, at the transmission connection point serving that customer, the Applicant is charged only for network and line connection services, and not for transformation connection services. Because the Applicant does not pay for transformation service at this connection point, it is not appropriate for the Applicant to impose a transformation-related retail transmission service charge on this customer. To date, the Applicant has addressed this situation by charging this customer only the line connection portion of the overall connection charge. As part of its EDR Application, the Applicant wishes to formalize this arrangement by breaking the overall charge for retail transmission connection services down into line connection and transformation connection components for the Large Use-

Remaining Class in the Applicant's schedule of rates and charges that will be approved and issued by the Board.

With respect to the 3TS and Ford Annex customers, unlike the "Large Use-Remaining" customer referred to above, the customers in these two classes do not own their own transformer stations. Instead, they are served from transformer stations owned by the Applicant. However, similar to the "Large Use-Remaining" customer, the Applicant is charged only for network and line connection services at the transmission connection points serving these customers, and not for transformation connection services. Again, because the Applicant does not pay for transformation service at these connection points, it is not appropriate for the Applicant to impose a transformation-related retail transmission service charge on these customers.

As with the "Large Use-Remaining" customer, to date, the Applicant has addressed this situation by charging these customers only the line connection portion of the overall connection charge. As part of its EDR Application, the Applicant wishes to formalize this arrangement by ensuring that only the line connection portion of the overall "Connection" charge is payable by these customers. This will be accomplished by limiting the connection-related rate to the line connection value. To ensure that the basis for this rate is clear, the reference to the "Connection" charge for these two classes should instead be a reference to a "Line Connection" charge. Unlike the case of the Large Use-Remaining class, it will not be necessary to establish a Transformation Connection rate, as no members of these classes are served by transformation assets in respect of which Transformation Connection-related transmission charges would be eligible.

The division of the "Connection"-related charge for these classes into line connection and transformation connection components, and the collection of only the line connection charge in the circumstances set out above, is consistent with the Board's desire (expressed at Section 12.3.2 of the Handbook) to maintain existing RTS rates for 2006.

Evidence: The following evidence supports this settlement:

2006 EDR Application:

Exhibit B, Tab 12, pages 2-5
Tab D - Sheet 8-6, EnWin 2006 EDR Model

Answers to 2006 EDR Interrogatories:

Board Staff Interrogatory 45, Tab 1, page 56.

2.7 SPECIFIC SERVICE CHARGES

2.7.1 Are the proposed specific service charges appropriate?

Settlement: There is a complete settlement of Issue 2.7.1 on the following basis:

The Applicant shall modify its EDR Application to charge the specific charges as proposed in the Handbook with the exception of one charge. The “Disconnect/Reconnect at the meter – after regular hours charge” shall be charged at the amended rate of \$65.00 as proposed by the Applicant.

Rationale: The Intervenors take the position that in the interests of consistency across LDCs, specific service charges should be in accordance with the charges listed in the Handbook except where special circumstances warrant otherwise. In the case of this Disconnect/Reconnect charge delineated above, the Applicant has based its proposed charge on the actual costs to perform the service. These costs are lower than the amount proposed in the Handbook and therefore the amended change proposed by the Applicant should be used.

Evidence: The following evidence supports this settlement:

2006 EDR Application

Schedule 11-1

2.8 REGULATORY COST VARIANCE ACCOUNT

The Parties have agreed that this Issue shall not be dealt with as part of the Applications. The establishment of the regulatory cost variance account is before the Board as part of the Generic hearing (RP-2005-0020/EB-2005-0529) and to deal with this Issue now as part of the Applications, would be premature. The Parties will determine whether this Issue needs to be further addressed subsequent to the Board's decision in the Generic hearing.

2.9 REVISED RATE SCHEDULE

As a result of the Settlement Proposal, changes will be need to be made to the PILs and Rate Models and accordingly a Revised Rate Schedule will need to be prepared. While the changes effected by the Settlement Proposal will effect a downward trend on rates, the new rates will not be available until the PILs and Rate Models are re-run. It is anticipated this will be completed by mid-week the week of February 20, 2006. We will provide the Board with a revised Rate Schedule as soon as it is available.

Attachment 4

	A	B	C	D
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"			
2	REGULATORY INFORMATION (REGINFO)			
3				
4	Utility Name: EnWin Powerlines Ltd.			Amount
5	Reporting period: October 1, 2001 - December 31, 2001			
6				
7	BACKGROUND			
8	Has the utility reviewed section 149(1) ITA to			
9	confirm that it is not subject to regular corporate			
10	tax (and therefore subject to PILs)?		Y/N	Y
11				
12	Was the utility recently acquired by Hydro One			
13	and now subject to s.89 & 90 PILs?		Y/N	N
14				
15	Accounting Year End		Date	31-Dec
16				
17	MARR NO TAX CALCULATIONS			
18	SHEET #7 FINAL RUD MODEL DATA			
19	(FROM 1999 FINANCIAL STATEMENTS)			
20	USE BOARD-APPROVED AMOUNTS			
21				
22	Rate base (wires-only)			161,325,087
23				
24	Common Equity Ratio (CER)			45.00%
25				
26	1-CER			55.00%
27				
28	Target Return On Equity			9.88%
29				
30	Debt rate			7.00%
31				
32	Market Adjusted Revenue Requirement			13,383,529
33				
34	1999 return from RUD Sheet #7			7,316,886
35				
36	Total Incremental revenue			6,066,643
37	Input Board-approved dollar amounts phased-in (generally prorated			
38	on the effective date of the inclusion of MARR in rates)			
39	Amount allowed in 2001, Year 1			2,022,214
40	Amount allowed in 2002, Year 2			2,022,214
41	Amount allowed in 2003, Year 3			2,022,214
42				
43	Equity			72,596,289
44				
45	Return at target ROE			7,172,513
46				
47	Debt			88,728,798
48				
49	Deemed interest amount in EBIT			6,211,016
50				
51	Phase-in of interest - Year 1			4,334,081
52	$((D34+D39)/D32)*D49$			
53	Phase-in of interest - Year 2			5,272,548
54	$((D34+D39+D40)/D32)*D49$			
55	Phase-in of interest - Year 3 (D49)			6,211,016
56				

	A	B	C	D	E	F	G	H	I	J	K	L
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	Initial	Source	Deferral	Deferral	Deferral	Source	M of F	M of F	M of F	Source
2	DEFERRAL/VARIANCE ACCOUNTS		Estimate		Account	Account	Account		Filing	Filing	Filing	
3	TAX CALCULATIONS (TAXCALC)			Foot-	Variance	Variance	Allowance	Foot-	Variance	Variance		Foot-
4	("Wires-only" business - see Tab TAXREC)			note	G-C	Explanation		note	K-G	Explanation	(June)	note
5			\$	#	\$		\$	#	\$		\$	#
6												
7	Utility Name: EnWin Powerlines Ltd.										Column	
8	Reporting period: October 1, 2001 - December 31, 2001										Brought	
9											Forward	
10											From	
11											TAXREC	
12	J) CORPORATE INCOME TAXES											
13												
14	ACCOUNTING INCOME											
15	Regulatory Net Income	1		1A	2,334,775		2,334,775	1B	-8,929,194		-6,594,419	1C
16												
17	BOOK TO TAX ADJUSTMENTS											
18												
19	Additions: To Accounting Income											
20	Depreciation & Amortization	2		2A	1,822,481		1,822,481	2B	4,859		1,827,340	2C
21	Federal Large Corporation Tax	3		3A	0			3B	90,000		90,000	3C
22	Employee Benefit Plans - Accrued, Not Paid	4		4A	0			4B	0		0	4C
23	Change in Tax Reserves	5		5A	0			5B	0		0	5C
24	Regulatory Adjustments	6		6A	0			6B	0		0	6C
25	Other Additions (See Tab entitled "TAXREC")											
26	"Material" Item #1	7		7A	0			7B	0		0	7C
27	"Material" Item #2	7		7A	0			7B	0		0	7C
28	Other Additions (not "Material")	7		7A	0			7B	11,630,828		11,630,828	7C
29	Deductions: From Accounting Income											
30	Capital Cost Allowance	8		8A	-697,972		-697,972	8B	-1,373,400		-2,071,372	8C
31	Employee Benefit Plans - Paid Amounts	9		9A	0			9B	0		0	9C
32	Items Capitalized for Regulatory Purposes	10		10A	0			10B	0		0	10C
33	Regulatory Adjustments	11		11A	0			11B	0		0	11C
34	Interest Expense Deemed/ Incurred	12		12A	-1,083,520		-1,083,520	12B	-73,070		-1,156,590	12C
35	Other Deductions (See Tab entitled "TAXREC")											
36	"Material" Item #1	13		13A	0			13B	0		0	13C
37	"Material" Item #2	13		13A	0			13B	0		0	13C
38	Other Deductions (not "Material")	13		13A	0			13B	-10,637,047		-10,637,047	13C
39												
40	REGULATORY TAXABLE INCOME		0		2,375,764		2,375,764		-9,287,024		-6,911,260	
41	(sum of above)											
42												
43	CORPORATE INCOME TAX RATE											
44	Deemed %	14	40.6200%	14A	0.0000%		40.6200%	14B	-2.0000%		38.6200%	14C
45												
46	REGULATORY INCOME TAX											
47	Taxable Income x Rate		0		965,035		965,035		-3,634,164		-2,669,129	
48												
49	Miscellaneous Tax Credits	15		15A	0			15B	0			15C
50												
51	Total Regulatory Income Tax		0		965,035		965,035		-3,634,164		-2,669,129	
52												
53												
54												

[illegible]

[illegible]

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
7	Utility Name: EnWin Powerlines Ltd.					
8	Reporting period: October 1, 2001 - December 31, 2001					
9						
10	Note: Carry forward Wires-only Data to Tab "TAXCALC"					
11	Column K					
12	I) CORPORATE INCOME TAXES					
13	(Input unconsolidated financial statement data					
14	submitted with tax returns as applicable)					
15	Revenue	1	3,059,687		3,059,687	
16	Other Income	2	732,238		732,238	
17	Expenses					
18	Administration	3	-8,339,856		-8,339,856	
19	Distribution	4			0	
20	Operations and Maintenance	5	-129,148		-129,148	
21	Depreciation and Amortization	6	-1,827,340		-1,827,340	
22	Municipal Property Taxes	7			0	
23	Ontario Capital Tax	8			0	
24	Federal LCT	9	-90,000		-90,000	
25						
26	Net Income Before Interest & Income Taxes EBIT	10	-6,594,419	0	-6,594,419	1C
27						
28	BOOK TO TAX ADDITIONS:					
29	Depreciation & Amortization		1,827,340	0	1,827,340	2C
30	Federal Large Corporation Tax		90,000	0	90,000	3C
31	Employee benefit plans-accrued, not paid				0	4C
32	Change in tax reserves				0	5C
33	Regulatory adjustments				0	6C
34	Other additions "Material" Item #1				0	7C
35	Other additions "Material" Item #2				0	7C
36			1,917,340	0	1,917,340	
37	<i>Other Additions:</i> (From T2 S1)					
38	Recapture of CCA				0	7C
39	Non-deductible expenses:				0	7C
40	Club dues and fees				0	7C
41	Meals and entertainment		6,000		6,000	7C
42	Automobile				0	7C
43	Life insurance premiums				0	7C
44	Company pension plans				0	7C
45	Advertising				0	7C
46	Interest and penalties on taxes				0	7C
47	Legal and accounting fees				0	7C
48	Debt issue expenses				0	7C
49	Capital items expensed				0	7C
50	All crown charges, royalties, rentals				0	7C
51	Deemed dividend income				0	7C
52	Deemed interest on loans to non-residents				0	7C
53	Deemed interest received				0	7C
54	Development expenses claimed				0	7C
55	Dividend stop-loss adjustments				0	7C
56	Dividends credited to investment account				0	7C
57	Investment tax credit				0	7C
58	Financing fees deducted in books				0	7C
59	Foreign accrual property income				0	7C
60	Foreign affiliate property income				0	7C
61						

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
62	Federal reassessment amounts				0	7C
63	Gain on settlement of debt				0	7C
64	Interest paid on income debentures				0	7C
65	Gain on sale of eligible capital property				0	7C
66	Loss on disposal of assets				0	7C
67	Reserves from financial statements- end of year		10,627,065		10,627,065	7C
68	Holdbacks				0	7C
69	Taxable capital gains				0	7C
70	Political donations- book				0	7C
71	Charitable donations- book				0	7C
72	Capitalized interest				0	7C
73	Deferred and prepaid- beginning of year				0	7C
74	Tax reserves deducted in prior year				0	7C
75	Loss from joint ventures				0	7C
76	Loss from subsidiaries				0	7C
77	Limited partnership losses				0	7C
78	Sales tax assessments				0	7C
79	Share issue expenses				0	7C
80	Write-down of capital property				0	7C
81					0	
82	<i>Other Additions:</i>		997,763		997,763	7C
83					0	
84	<i>Total Other Additions</i>		11,630,828	0	11,630,828	7C
85						
86	<i>Total Additions</i>		13,548,168	0	13,548,168	
87						
88	BOOK TO TAX DEDUCTIONS:					
89	Capital cost allowance		-2,071,372		-2,071,372	8C
90	Employee benefit plans-paid amounts				0	9C
91	Items capitalized for regulatory purposes				0	10C
92	Regulatory adjustments				0	11C
93	Interest expense incurred		-1,156,590		-1,156,590	12C
94	Other deductions "Material" Item #1				0	13C
95	Other deductions "Material" Item #2				0	13C
96			-3,227,962	0	-3,227,962	
97	<i>Other deductions: (From T2 S1)</i>					
98	Grossed up Part VI.1 tax (preferred shares)				0	13C
99	Amortization of eligible capital expenditures		-216,133		-216,133	13C
100	Amortization of debt and equity issue cost				0	13C
101	Loss carryback to prior period				0	13C
102	Contributions to deferred income plans				0	13C
103	Contributions to pension plans				0	13C
104	Income from subsidiaries				0	13C
105	Income from joint ventures				0	13C
106	Gain on disposal of assets				0	13C
107	Terminal loss				0	13C
108	Cumulative eligible capital deduction				0	13C
109	Allowable business investment loss				0	13C
110	Holdbacks				0	13C
111	Deferred and prepaids- end of year				0	13C
112	Tax reserves claimed in current year				0	13C
113	Reserves from F/S- beginning of year		-10,401,474		-10,401,474	13C
114	Patronage dividends				0	13C
115	Accrued dividends- current year				0	13C
116	Bad debts				0	13C

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
117						
118						
119	Exempt income under section 81				0	13C
120	Contributions to environmental trust				0	13C
121	Other income from financial statements				0	13C
122	Charitable donations - tax basis				0	13C
123	Gifts to Canada or a province				0	13C
124	Cultural gifts				0	13C
125	Ecological gifts				0	13C
126	Taxable dividends s. 112, 113 or ss. 138(6)				0	13C
127	Non-capital losses-preceding years				0	13C
128	Net-capital losses- preceding years				0	13C
129	Limited partnership losses- preceding years				0	13C
130	<i>Other deductions:</i>		-19,440		-19,440	13C
131					0	
132					0	
133	<i>Total Other Deductions</i>		-10,637,047	0	-10,637,047	13C
134						
135	<i>Total Deductions</i>		-13,865,009	0	-13,865,009	
136						
137						
138	TAXABLE INCOME		-6,911,260	0	-6,911,260	
139						
140						
141						

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
142						
143						
144	ONTARIO CAPITAL TAX					
145						
146	PAID-UP CAPITAL					
147						
148	Paid-up capital stock		62,547,581		62,547,581	
149	Retained earnings (if deficit, deduct)		-661,369		-661,369	
150	Capital and other surplus excluding				0	
151	appraisal surplus		516,528		516,528	
152	Loans and advances		28,974,310		28,974,310	
153	Bank loans		1,277,305		1,277,305	
154	Bankers acceptances		58,384,755		58,384,755	
155	Bonds and debentures payable				0	
156	Mortgages payable				0	
157	Lien notes payable				0	
158	Deferred credits		11,416,011		11,416,011	
159	Contingent, investment, inventory and				0	
160	similar reserves				0	
161	Other reserves not allowed as deductions				0	
162	Share of partnership(s), joint venture(s)				0	
163	paid-up capital				0	
164	Sub-total		162,455,121	0	162,455,121	
165	Subtract:					
166	Amounts deducted for income tax				0	
167	purposes in excess of amounts booked		-460,165		-460,165	
168	Deductible R&D expenditures and ONTTI				0	
169	costs deferred for income tax				0	
170					0	
171	Total (Net) Paid-up Capital		161,994,956	0	161,994,956	
172						
173	ELIGIBLE INVESTMENTS					
174						
175	Bonds, lien notes, interest coupons				0	
176	Mortgages due from other corporations				0	
177	Shares in other corporations				0	
178	Loans and advances to unrelated corporations				0	
179	Eligible loans and advances to related				0	
180	corporations				0	
181	Share of partnership(s) or joint venture(s)				0	
182	eligible investments				0	
183						
184	Total Eligible Investments		0	0	0	
185						
186						

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
187						
188	TOTAL ASSETS					
189						
190	Total assets per balance sheet		188,969,671		188,969,671	
191	Mortgages or other liabilities deducted from				0	
192	assets				0	
193	Share of partnership(s)/ joint venture(s) total				0	
194	assets				0	
195	Subtract: Investment in partnership(s)/joint				0	
196	venture(s)				0	
197						
198	Total assets as adjusted		188,969,671	0	188,969,671	
199						
200	Add: (if deducted from assets)					
201	Contingent, investment, inventory and				0	
202	similar reserves				0	
203	Other reserves not allowed as deductions				0	
204	Subtract:				0	
205	Amounts deducted for income tax				0	
206	purposes in excess of amounts booked		-460,165		-460,165	
207	Deductible R&D expenditures and ONTTI				0	
208	costs deferred for income tax				0	
209	Subtract: Appraisal surplus if booked				0	
210	Add or subtract: Other adjustments		1	1	2	
211						
212	Total Assets		188,509,507	1	188,509,508	
213						
214	Investment Allowance					
215						
216	(Total Eligible Investments / Total Assets) x					
217	Net paid-up capital		0	0	0	
218						
219	Taxable Capital					
220						
221	Net paid-up capital		161,994,956	0	161,994,956	
222	Subtract: Investment Allowance		0	0	0	
223					0	
224	Taxable Capital		161,994,956	0	161,994,956	
225						
226	Capital Tax Calculation					
227						
228	Taxable capital		161,994,956	0	161,994,956	16C
229						
230	Deduction from taxable capital up to \$5,000,000		-3,951,826		-3,951,826	17C
231						
232	Net Taxable Capital		158,043,130	0	158,043,130	
233						
234	Rate 0.3%		0.3000%	0.3000%	0.3000%	18C
235						
236	Days in taxation year		92	92	92	
237	Divide days by 365		0.2521	0.2521	0.2521	
238						
239	Ontario Capital Tax		119,507	0	119,507	
240						

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
241						
242						
243	<u>LARGE CORPORATION TAX</u>					
244						
245	<u>CAPITAL</u>					
246						
247	ADD:					
248	Reserves that have not been deducted in				0	
249	computing income for the year under Part I		11,416,011		11,416,011	
250	Capital stock		62,547,581		62,547,581	
251	Retained earnings		0		0	
252	Contributed surplus		0		0	
253	Any other surpluses		516,528		516,528	
254	Deferred unrealized foreign exchange gains				0	
255	All loans and advances to the corporation		8,778,122		8,778,122	
256	All indebtedness- bonds, debentures, notes,				0	
257	mortgages, bankers acceptances, or similar				0	
258	obligations		79,905,235		79,905,235	
259	Any dividends declared but not paid				0	
260	All other indebtedness outstanding for more				0	
261	than 365 days		219,230		219,230	
262						
263	Subtotal		163,382,707	0	163,382,707	
264						
265	DEDUCT:					
266	Deferred tax debit balance				0	
267	Any deficit deducted in computing				0	
268	shareholders' equity		-661,369		-661,369	
269	Any patronage dividends 135(1) deducted in				0	
270	computing income under Part I included in				0	
271	amounts above				0	
272	Deferred unrealized foreign exchange losses				0	
273						
274	Subtotal		-661,369	0	-661,369	
275						
276	Capital for the year		162,721,338	0	162,721,338	
277						
278	<u>INVESTMENT ALLOWANCE</u>					
279						
280	Shares in another corporation				0	
281	Loan or advance to another corporation				0	
282	Bond, debenture, note, mortgage, or				0	
283	similar obligation of another corporation				0	
284	Long term debt of financial institution				0	
285	Dividend receivable from another corporation				0	
286	Debts of corporate partnerships that were not				0	
287	exempt from tax under Part I.3				0	
288	Interest in a partnership				0	
289						
290	Investment Allowance		0	0	0	
291						

	A	B	C	D	E	F
1	SECTION 93 PILs TAX GROSS-UP "SIMPIL"	LINE	M of F	Non-wires	Wires-only	Source
2	TAX RETURN RECONCILIATION (TAXREC)		Corporate	Eliminations	Tax	
3	(for "wires-only" business - see s. 72 OEB Act)		Tax		Return	Foot-
4			Return			note
5						#
6						
292						
293	<u>TAXABLE CAPITAL</u>					
294						
295	Capital for the year		162,721,338	0	162,721,338	
296						
297	Deduct: Investment allowance		0	0	0	
298						
299	Taxable Capital for taxation year		162,721,338	0	162,721,338	19C
300						
301	Deduct: Capital Deduction \$10,000,000		-7,658,000		-7,658,000	20C
302						
303	Taxable Capital		155,063,338	0	155,063,338	
304						
305	Rate .225%		0.22500%	0.22500%	0.22500%	21C
306						
307	Days in year		92	92	92	
308	Divide days by 365		0.2521	0.2521	0.2521	
309						
310	Gross Part I.3 Tax LCT		87,940	0	87,940	
311						
312	Federal Surtax Rate		1.1200%	1.1200%	1.1200%	
313						
314	Federal Surtax = Taxable Income x Surtax Rate		0	0	-77,406	
315						
316	Net Part I.3 Tax LCT Payable		87,940	0	165,346	
317	(If surtax is greater than Gross LCT, then zero)					
318						
319						
320						