BOARD STAFF SUPPLEMENTARY INTERROGATORIES

Great Lakes Power Transmission LP

Transmission Rate Application (Test Year 2010)

EB-2009-0408

March 26, 2010

Supplementary Interrogatory S1 – Corporate Cost Allocation

Reference:

S1.(1) Response to Board Staff Interrogatory 10

Requests:

Is the figure of $1,034/hr for executive costs a typo? If not please provide an explanation and arithmetical reconciliation as to how GLPT arrives at this number. If the figure includes travel costs, or other incidentals please indicate why these would not already be captured in an existing Account for travel expenses.

Supplementary Interrogatory S2.-. Natural Business Growth

Reference:

S2.(1) Response to Board Staff Interrogatory 12

Requests

(i) GLPT did not answer the question in the Response to Board Staff Interrogatory 12, part (ii). Staff asked for GLPT to **define** "Natural Business Growth". Staff did not ask whether or not it was occurring. Please define this term and provide concrete examples of what items GLPT would and would not consider "Natural Business Growth" in the context of this proceeding and recent reorganization.

(ii) Please explain why the growth in staffing levels and OM&A, in particular at the OSCC, would have occurred regardless of the sale of GLPDI.

(iii) In the Response to Board Staff Interrogatory 12, part (vii), please confirm if the incremental OM&A from 2009 to 2010 due to "natural business growth" is a permanent increase, or a temporary increase related to work programs at GLPT. Does GLPT expect work programs to decrease in 2011 and beyond to lower levels than those recorded in the test year application?

Supplementary Interrogatory S3

Reference:

S3.(1) Response to Board Staff Interrogatory 18

Requests:

(i) Please provide an explanation and table which provides a summary of the evolution with respect to office complex allocation percentages. The table should clearly show 12% allocation as the starting point, and progress through to the 52% allocation to GLPT as applied, providing with each change an approximate date that the change took place, and the specific driver(s) behind the increase.

(ii) Please provide the square footage of the building being used by GLPT at 12% allocation and contrast it with the 52% allocation. Please quantify the amount of space allocated to GLPT which is sitting idle, i.e. if GLPT has allocated excess building capacity. Does Algoma Power Inc. have a similar allocation of excess building capacity for future growth?

(iii) Please provide the square footage of the facility that is occupied by the OSCC in both absolute terms and as a percentage of the total internal office square footage.

Supplementary Interrogatory S4 – Staff levels and Compensation
Reference:
S4.(1) Response to Board Staff Interrogatory 21
Requests
(i) With reference to the second table provided at the Response to Board staff Interrogatory 21, part (iii), on what basis are the non-inflationary increases of 4.7% for "Union employees" in 2008-2009, as well as the non-inflationary increase of "Non-Union" employees" of 10.6% for 2008-2009 and, and 7.4% for 2009-2010, considered reasonable increases in light of the economic environment cited by and faced by the utility in these operating years?
(ii) The Response to Board staff Interrogatory 21, part (vi), did not respond directly to the original Board staff Interrogatory 21, part (vi). Please reproduce the 19% and 40% figures mathematically based on the explanation provided. If a mathematically based response to provide this calculation is not possible, please provide an explanation as to why the calculation cannot be provided?
(iii) With reference to Response to Board staff Interrogatory 21, part (ix), please confirm that any increases in addition to the 3% inflationary figure as a result of job class progressions may occur and are in no way automatic or guaranteed increases to the 3% figure presented.

Supplementary Interrogatory S5 – Employee Incentive Plan
Reference:
S5.(1) Response to Board Staff Interrogatory 23
Requests
(i) Please provide further explanation as to how the table provided in Response to Board Staff Interrogatory 23, part (ii) is intended to be interpreted.

For instance it appears that if "Business Performance" is met 43.5% of the time for 2006, does this mean 56.5% of the time this objective was not met? Or is the appropriate interpretation if "Business Performance" for 2006 is at the 43.5% level with a weighting of 30%, that this would represent an exceeding of the objectives, on a weighted basis? (i.e., 0.435/0.3)
(ii) In general, a company that consistently meets or exceeds its incentives may have its targets set too low. Targets that are too easily achievable generally do not provide the necessary incentive for performance improvement. Conversely, targets that are set too high result in unattainable levels of achievement and foster a defeatist attitude among employees. Generally, good performance incentives are said to be "tight but attainable". Please comment on the level of achievement of GLPT's performance/incentive plan with reference to the passage above.
(iii) Can the chart be interpreted that GLPT has been progressively worse performing on "Business Performance" since 2006? Please comment on GLPT's performance as portrayed in the chart provided.

(iv) Based on Response to Board Staff Interrogatory 23, part (iv), can GLPT confirm that it has no idea what its performance is compared to other utilities? If GLPT does not compare itself to other utilities, then how does GLPT reasonably set and monitor its incentive plan and ensure that it implements strategies consistent with good utility practice and/or industry-wide practices?

(v) In Response to Board Staff Interrogatory 23, part (iii) GLPT indicates that the goal is to have "employees achieve an average of 100% of incentive pay over their employment lifetime." Please explain fully what this means and provide an example using a typical GLPT employee.

Supplementary Interrogatory S6 – Benchmarking Compensation Costs

References:

S6.(1) Response to Board Staff Interrogatory 25
S6.(2) Response to Board Staff Interrogatory 6(i) plus Appendix
S6.(3) First Quartile Consulting Report, page 2, Graph 1 and 2

Requests:

(i) The list of companies provided at Reference S6.(2) forms the panel of companies which were mapped at Reference S6.(3). The companies were plotted on the graphs in quartiles rather than as individual companies.

Please provide updated versions of Graphs 1, 2, 3, and 4 at Reference S6.(3), to depict in the updated Graphs for each individual company its metric in each of the Graphs and denote that company by its alphanumeric identification. Please indicate as specific footnotes to the tables if the information for certain companies from the panel are not available for any of the plots requested.

(ii) In Response to Board Staff Interrogatory 25, part (v), GLPT states that:

"[The] decision to sell its distribution assets to Great Lakes Power Distribution Inc. (GLPDI) did not create upward pressure on total compensation or ***staffing levels at the time of the asset sale****." (emphasis added)"*

Did the sale of the assets have an effect on total compensation or staffing levels in the period ***after*** the asset sale?

Supplementary Interrogatory S7 – Impacts on FTE Re Establishment of GLPT

Reference:

S7.(1) Response to Board Staff Interrogatory 28

Requests:

(i) With reference to the Response to Board Staff Interrogatory 28, part (i) (b), please demonstrate how there has been "increased productivity relating to GLPT specific duties" for the stated new positions given that directly traceable costs for these activities have approximately doubled from previous figures. Is it not the case that comparative productivity has *decreased* on account of the increased costs regardless of any improved focus? Is GLPT using some other criteria to define productivity? Please provide an explanation and reasoning for such explanation.

(ii) With reference to the Response to Board Staff Interrogatory 28, part (i) (b), please provide evidence which shows that accounting personnel have been reduced by 50% without a proportionate decrease in workload.

Supplemental Interrogatory S8 – Allocation of Scada Equipment

Reference:

S8.(1) Response to Board Staff Interrogatory 38

Requests:

(i) With reference to Response to Board Staff Interrogatory 38, part (ii), please provide the accompanying forecasted dollar amount that is attributed to the 5% allocation of costs of the OSCC for "contact service". Is this allocation for both capital and operating costs? Please explain.

(ii) With reference to Response to Board Staff Interrogatory 38, part (ii), please provide any evidence GLPT has to support its claim that the original response that the historical allocation between transmission and distribution functions at the GLPL OSCC was 5%. (Presumably this means 95% was allocated to transmission functions.) Similar to the Navigant Report, were any professional studies performed to confirm that this allocation was/is appropriate? If not, please provide the basis for this allocation.

Supplementary Interrogatory S9 – Structure of GLPT LP

Reference:

S9.(1) Response to Board Staff Interrogatory 45

Preamble:

Board Staff Interrogatory 45 asked why management chose a partnership structure for GLPT LP rather than a corporation like that of the two owners. The Response to that Board Staff Interrogatory 45 referenced to another Response to Board Staff Interrogatory 47 ii). The response stated that another holding within Brookfield Infrastructure Holdings (Canada) Inc. ("BIH") was structured as a partnership, a partnership structure simplifies tax return filing requirements within a group of related entities, and a partnership structure facilitates the sharing of losses within a related group of entities. The response did not address any tax advantages or disadvantages for GLPT LP (for specifically the Applicant) being structured as a partnership.

Questions/Requests:

(i) What are the advantages for tax purposes for GLPT LP (for specifically the Applicant) being structured as a partnership rather than a corporation, or a division of a corporation, as suggested by GLPT in the Response to Board Staff Interrogatory 47 ii)?

(ii) What are the disadvantages for tax purposes for GLPT LP (for specifically the Applicant) being structured as a partnership rather than a corporation, or a division of a corporation, as suggested by GLPT in Response to Board Staff Interrogatory 47 ii)?

Supplementary Interrogatory S10 – Structure of GLPT LP

Reference:

S10.(1) Response to Board Staff Interrogatory 46

Preamble:

Board Staff Interrogatory 46 asked what other corporate structures were considered and rejected for the Transmission Business of the former GLPL and reasons for the rejection of other structures. Response to that Board Staff Interrogatory 46 referenced the Response to Board Staff Interrogatory 47 ii). The response stated that the partnership result is no different than had BIH held its share of the business assets of GLPT and Island Timberlands LP directly as separate divisions in the same corporation. The response did not specifically state the other corporate structures that were considered and did not provide reasons for the rejection of any alternative structure.

Questions/Requests:

(i) In the Response to Board Staff Interrogatory 47 ii), GLPT stated that:

> *"the result is no different than had BIH held its share of the business assets of GLPT and Island Timberlands directly as separate divisions in the same corporation."*

Please outline the reasons for the rejection of this structure. Why did GLPT not state specifically that it considered structuring GLPT as a division of a corporation, or as another specific structure? Please outline the other structures that were considered and the reasons for rejection of these other structures, in particular from a tax planning standpoint.

Supplementary Interrogatory S11 – Cost Recovery Principles

Reference:

S11.(1) Response to Board Staff Interrogatory 48

Preamble:

Board Staff Interrogatory 48 i) asked whether the Applicant believed that costs not incurred or not expected to be incurred in its normal business operations should be recovered from Ontario's ratepayers and to explain why, with reference to the Applicant bearing the burden of proof and ensuring that costs are reasonable and prudently incurred, as quoted in the Preambles to that Board Staff Interrogatory 48. The Response to Board Staff Interrogatory 48 cited that "in strict legal theory it is the partners who are the relevant parties in contracts entered into by a partnership." The response did not specifically address whether the requested tax provision in the proposed revenue requirement was "reasonable and prudently incurred" and did not "bear the burden of proof" to support these costs. The Response to Board Staff Interrogatory 48 stated that the **partners** of the Applicant and not the applicant itself had reasonably expected to incur these costs. No reference to "prudently incurred" costs was made by the Applicant in the response. The response did not state why these costs should be recovered from Ontario's ratepayers.

Questions/Requests:

(i) Please state how the Applicant, and not its owners, bears the burden of proof and actually incurs "reasonable and prudently incurred" costs with respect to the requested tax provision in the proposed revenue requirement. Please explain why these costs should be recovered from Ontario's ratepayers.

(ii) Please provide the case law references that describe what the Applicant is characterizing as "strict legal theory". The Applicant has stated that in "strict legal theory" it is the partners who are the relevant parties in contracts entered into by a partnership.

Preamble:

Board Staff Interrogatory 48 ii) asked that given the Board's objectives to protect the interests of consumers with respect to prices, and to promote economic efficiency and cost effectiveness in the industry, what were the assumptions and evidence that the Board should consider in approving recovery of the tax costs that will not be incurred by the regulated utility. The Response to Board Staff Interrogatory 48 ii) referenced the fact that a partnership does not constitute a distinct legal person. The response stated that:

> *"…the standalone principle should be invoked such that only BIH's income earned from the regulated transmission business is taken into consideration when determining relevant income tax costs in respect of the transmission business."*

The Board's objectives were not addressed by the Applicant in its response. The response did not address the fact that the tax costs will not be incurred by GLPT LP, the regulated utility.

Questions/Requests:

(iii) Given the Board's objectives to protect the interest of consumers with respect to prices and to promote economic efficiency and cost effectiveness in the industry, why should the Board approve a tax provision in GLPT LP's revenue requirement when these costs will not be incurred? The Applicant should specifically reference these Board objectives in its response.

(iv) Why should the standalone principle be invoked when the partnership will not actually incur tax costs?

Supplementary Interrogatory S12 – Public Interest

Reference:

S12.(1) Response to Board Staff Interrogatory 49

Preamble:

Board Staff Interrogatory 49 i) asked whether it is in the public interest of Ontario ratepayers that such ratepayers should pay for notional taxes that will not be incurred by GLPT LP since management chose its structure to be a non-taxable entity. The response referenced the Response to Board Staff Interrogatory 48 i) and ii). The response to the Interrogatory referenced "strict legal theory" such that it is the partners who are the relevant parties in contracts entered into by a partnership. The response to the Interrogatory referenced the fact that a partnership does not constitute a distinct legal person. The response to the Interrogatory stated that:

> *"… the standalone principle should be invoked such that only BIH's income earned from the regulated transmission business is taken into consideration when determining relevant income tax costs in respect of the transmission business."*

These responses did not specifically reference the public interest of Ontario ratepayers.

Question/Request:

(i) Please explicitly reference the public interest of Ontario ratepayers as to whether it is in their interest that such ratepayers should pay for notional taxes that will not be incurred by GLPT LP.

Preamble:

Board Staff Interrogatory 49 ii) asked why Brookfield believes it is in the public interest of Ontario ratepayers that in all likelihood the distributions to the ultimate unitholders of GLPT LP may reside outside of Ontario, and the Ontario government may not get the benefit of tax revenues on such distributions. The Response to Board Staff Interrogatory 49 ii) stated that:

> *"both partners of GLPT are taxable Canadian corporations and as such incur tax liabilities..."*

That response also indicated that distributions paid by BIH are paid after tax. The response did not specifically reference the fact that the Ontario government may not get the benefit of tax revenues on distributions to the ultimate unitholders of GLPT LP. It is not clear from that Response to Board Staff Interrogatory 49 ii) why it is stated that BIH distributions are paid after tax when BIH does not pay any tax.

Questions/Requests:

(ii) Please explain how the Ontario government will get the benefit of tax revenues on distributions to the ultimate unitholders of GLPT LP.

(iii) Why is the Applicant referencing in its Response to Board Staff Interrogatory 49 ii) that all distributions by BIH are paid after tax, and that both partners of GLPT are taxable Canadian corporations, when in the Response to Board Staff Interrogatory 55 f) BIH did not pay any income taxes in 2007 and 2008 and in the Response to Board Staff Interrogatory 55 e) GLPT Inc. did not pay any income or capital taxes in 2007 and paid nominal taxes 2008 (less than $150 of total federal, provincial, and capital taxes)?

Supplementary Interrogatory S13 – Regulatory Precedent in Ontario

Reference:

S13.(1) Response to Board Staff Interrogatory 50

Preamble:

Board Staff Interrogatory 50 asked if GLPT believed that there is a precedent in Ontario for its request to receive a tax proxy in the revenue requirement of a regulated entity that is not taxable and to state the precedent. The Response to Board Staff Interrogatory 50 stated that GLPT believed that there is no other regulated utility in Ontario that is a limited partnership and there is no precedent in Ontario.

That response also stated that as noted in Response to Board Staff Interrogatory 47 ii) (which referenced the GLPL Distribution decision [EB-2007-0744]):

> *"…the Board has established a tax allowance in an analogous circumstance of business divisions, which are in themselves not taxable entities."*

Board staff is not clear on why the Applicant is referring to the EB-2007-0744 decision as an "analogous circumstance" and indicating that a business division, such as GLPL's Distribution division in EB-2007-0744, is not a taxable entity. Board staff is also unclear on this statement in light of references in Great Lakes Power Limited's 2007 electricity distribution rate application, Reply Submission, June 2, 2008 [EB-2007-0744] which stated the following:

- Page 21 "The GLPL Distribution [*Division*] as a regulated entity creates a tax burden for GLPL Corporate."

- Page 22 "GLPL's distribution net income forms part of GLPL's corporate net income and therefore forms part of GLPL's corporate taxable income."

- Page 24 "At issue is the manner in which GLPL Distribution accounts for and reports for tax purposes the revenue it earns for distributing electricity in a particular year. The accounting and reporting of revenues for income tax purposes must be determined. If in a particular year GLPL Distribution on a stand alone basis reports taxable income, then GLPL Distribution would be entitled to a tax allowance."

<u>Questions/Requests;</u>

(i) With the above references to the EB-2007-0744 Reply Submission in mind, why does the Applicant believe that the EB-2007-0744 decision is an "analogous circumstance" to the Applicant's circumstance, particularly since:

a) the corporate structures of a division and a limited partnership are different; and

b) GLPL Distribution was established to be taxable in EB-2007-0744 and in this proceeding the Applicant has established that GLPT LP is not taxable. (Reference Exh.1/Tab3/Sch1/GLPT LP's 2008 audited financial statements/Note 13 on page 13: "…the Partnership is not subject to income taxation…")

Please explain why the Applicant agrees or disagrees with these statements.

Supplementary Interrogatory S14 – Taxation of Uniholders

Reference:

S14.(1) Response to Board Staff Interrogatory 51

Preamble:

Board Staff Interrogatory 51 i) asked for the split between the return of capital and income on the distributions from GLPT LP in 2008, in dollars and percentages. The Response to Board Staff Interrogatory 51 i) referenced the fact that no SIFT tax is applicable to distributions by GLPT LP. That response stated that

> *"a partnership's entire income for the year will be taxed in the hands of the partners regardless of whether any actual cash distributions are made."*

That response indicated that the taxation of partnership income is independent of the partnership's cash distribution policies. That response did not state how the payments from the Applicant are structured to its owners and how these payments were characterized for tax purposes.

Question/Request:

(i) How were the payments from the Applicant structured to its owners in 2008 and 2009? How was it characterized for tax purposes? Please provide a breakdown in dollars and percentages between income, return on capital, and draw on capital.

Preamble:

Board Staff Interrogatory 51 ii) asked for the planned or actual distribution splits between the return on capital and income from GLPT LP for 2009 though 2013, in dollars and percentages. The Response to Board Staff Interrogatory 51 ii) referenced the fact that no SIFT tax is applicable to distributions by GLPT LP so the split between return of capital and income is not relevant. That response did not state how the payments from the Applicant are structured to its owners and how these payments were characterized for tax purposes.

Question/Request:

(ii) How will the payments from the Applicant be structured to its owners for 2009 through to 2013? How will it be characterized for tax purposes? Please provide a breakdown in dollars and percentages between income, return on capital, and draw on capital.

Preamble:

Board Staff Interrogatory 51 iii) asked the Applicant to demonstrate how tax will be paid by the partners of GLPT LP, in light of the fact that distributions to the partners will likely be a return of capital and no tax will be paid. Response to Board Staff Interrogatory 51 iii) stated that any distributions of cash by GLPT LP to the partners should have no impact on the taxability of the partnership income in the hands of the partners. The tax impacts of the cash distributions were not discussed.

Question/Request:

(iii) Please describe the tax implications of the cash distributions by GLPT LP to the partners with references to the differences between income, return on capital, and draw on capital.

Supplementary Interrogatory S15 – Corporate Organization Structure

Reference:

S15.(1) Response to Board Staff Interrogatory 52

Preamble:

Board Staff Interrogatory 52 asked for the split between return of capital and income on the distributions from Brookfield Infrastructure Partners LP to the public unitholders in 2006, 2007, and 2008, in dollars and percentages. The Response to Board Staff Interrogatory 52 stated that the split between income and returns of capital is not relevant to the partnership.

That response referenced an extract from BIP's public declarations but did not specifically provide the exact reference. That response indicated that distributions received by the unitholders reduce the tax cost of Brookfield Infrastructure Partners units.

However, that response did not state that that this is similar to a return on capital, where tax on the distributions paid is deferred until the unit is sold. The response did not indicate what the reduction of tax cost was for the unitholders in 2006, 2007, and 2008, in dollars and percentages.

Questions/Requests:

(i) Please provide the exact reference document including page number for "BIP's public declarations" stated in the response to Staff IR #52.

(ii) What was the reduction of tax cost of the units for the Brookfield Infrastructure Partners LP unitholders in 2006, 2007, and 2008, due to distributions paid by the LP, in dollars and percentages? Does the Applicant agree that a reduction of tax cost is similar to a return on capital?

(iii) As the "ultimate" unitholders of GLPT LP are the unitholders of Brookfield Infrastructure Partners LP, and distributions paid to these unitholders are a reduction of tax cost of the units (effectively deferring tax to be paid), why is it in the best interests of Ontario ratepayers to pay for a notional tax cost in GLPT LP's revenue requirement when the Ontario government may not get in the future the benefit of tax revenues paid by the unitholders?

Supplementary Interrogatory S16 – Tax Evidence Provided in the Application

Reference:

S16.(1) Response to Board Staff Interrogatory 54

Preamble:

Board Staff Interrogatory 54 asked the Applicant to provide the audited financial statements for GLPL Transmission Division for the years ended December 31, 2005 and 2006. The audited financial statements for the year ended December

31, 2006 were not filed in response to Board Staff Interrogatory 54 or in the original application.

Request:

(i) Please file the audited financial statements for the year ended December 31, 2006 for GLPL Transmission Division.

Supplementary Interrogatory S17 – Tax Returns

Reference:

S17.(1) Response to Board Staff Interrogatory 55

Preamble:

Board Staff Interrogatory 55 a) asked for the federal T2 and Ontario CT23 signed tax returns, and all supporting schedules, and the federal and Ontario Notice of Assessment and any Notice of Reassessment (with Statement of Adjustments) for the corporation that owned the GLPL Transmission division for the 2006, 2007, and 2008 tax years. The tax returns and some notices of assessment were filed, however the audited financial statements which accompanied the tax returns filed with The Canada Revenue Agency were not filed.

Questions/Requests:

(i) Please provide the audited financial statements which accompanied the tax returns filed with The Canada Revenue Agency and the Ministry of Finance for the corporation that owned the GLPL Transmission division for the 2006, 2007, and 2008 tax years. If the audited financial statements are viewed as confidential by the Applicant, please state exactly where in the audited financial statements that competitive information is being disclosed.

(ii) The Applicant stated in its response to the IR that “GLPT is seeking copies of GLPL’s Ontario notices of assessment for 2006, 2007, and 2008, as well as GLPL’s 2006 federal notice of assessment from its parent.” Please provide such notices of assessment. Please provide any federal and Ontario notices of reassessment.

Preamble:

Board Staff Interrogatory 55 d) asked for the federal T2 and Ontario CT23 signed tax returns, and all supporting schedules, and the federal and Ontario Notice of Assessment and any Notice of Reassessment (with Statement of Adjustments) for Great Lakes Power Transmission Inc. (“GLPT Inc.”) and Brookfield Infrastructure Holdings (Canada) Inc. (“BIH (Canada) Inc.”) for the 2006, 2007, and 2008 tax years. The tax returns and some notices of assessment were filed, however the audited financial statements which accompanied the tax returns filed with The Canada Revenue Agency were not filed.

Questions/Requests:

(iii) Please provide the audited financial statements which accompanied the tax returns filed with The Canada Revenue Agency and the Ministry of Finance for GLPT Inc. and BIH (Canada) Inc. for the 2006, 2007, and 2008 tax years. If the audited financial statements are viewed as confidential by the Applicant, please state exactly where in the audited financial statements that competitive information is being disclosed.

(iv) The 2007 BIH (Canada) Inc. Ontario Notice of Assessment was not filed as stated. The Applicant stated that other notices of assessments had not been received yet from the taxation authorities. Please provide the 2007 BIH (Canada) Inc. Ontario Notice of Assessment. Please provide the federal and Ontario notices of assessment for GLPT Inc. for 2007 and 2008. Please provide the federal and Ontario notices of assessment for BIH (Canada) Inc. for 2008. Please provide any federal and Ontario notices of reassessment.

Supplementary Interrogatory S18 – Difference in Tax Values of Assets

Reference:

S18.(1) Response to Board Staff Interrogatory 60

Preamble:

Board Staff Interrogatory 60 i) asked for the fair market value in dollars for tax purposes of the transmission assets on, or about, March 12, 2008. The Response to Board Staff Interrogatory 60 i) stated that the fair market value of the transmission assets on March 12, 2008 for tax purposes is dictated by the net book value of the fixed assets, which was $210.4 million. Staff is unclear why the Applicant stated that the fair market value of the transmission assets for tax purposes was "dictated by the net book value of the fixed assets."

Question/Request:

(i) Does the Applicant believe that it is a true statement that *"the fair market value of the transmission assets on March 12, 2008 for tax purposes is dictated by the net book value of the fixed assets…"*, as stated in the Response to Board Staff Interrogatory 60 i)? Please explain.

(ii) Does the Applicant agree that the statement quoted in (i) above is contradictory to the statement made in the prefiled evidence on Exh. 4/Tab3/Sch.2/Page 5/Lines 13-14. This statement in the prefiled evidence states *"… the tax value of the assets to GLPT going forward is higher than GLPL's closing balance."*

Please provide explanation of the seemingly contradictory statements shown above.

Preamble:

Board Staff Interrogatory 60 iii) and iv) asked for the tax values in dollars of the assets sold by GLPL on or about March 12, 2008 and for the tax values in dollars of the assets purchased by GLPT LP on or about March 12, 2008.

Questions/Requests:

(iii) Why is the opening UCC of assets purchased approximately $48 million greater than the closing UCC of assets sold?

(iv) Please explain how the Response to Board Staff Interrogatory 60 iv) impacts the numbers provided in that same Response to Board Staff Interrogatory 60 part iii) and part iv) – please provide detailed calculations.

This statement by the Applicant in the Response to Board Staff Interrogatory 60 iv) stated that:

> *"…under Canadian tax law, the maximum UCC that can be added from the purchase of depreciable assets from a related party is the original cost to the vendor plus 50% of any capital gains realized by the vendor upon the sale."*

Please provide the tax reference material that supports the above quoted statement.

Supplementary Interrogatory S19 – Accounting and Tax Asset Values

Reference:

S19.(1) Response to Board Staff Interrogatory 61

Preamble:

Board Staff Interrogatory 61 ii) asked who was the regulator that approved the comprehensive revaluation of $78,941,000 to be included in rate base. The Applicant stated in its response that:

> *"neither the AOP [APH] nor GAAP required that assets and liabilities that had been previously valued in accordance with GAAP be revalued for purposes of establishing APH accounts."*

The Applicant did not list the regulator that approved the comprehensive revaluation in rate base.

Question/Request:

(i) Please state the regulator that knowingly approved the comprehensive revaluation of $78,941,000 in rate base.

Preamble:

Board Staff Interrogatory 61 iii) asked for the Decision that approved the comprehensive revaluation of $78,941,000 to be included in rate base. No decision reference was provided.

Question/Request:

(ii) Please state the decision reference that approved the comprehensive revaluation of $78,941,000 in rate base.

Preamble:

Board Staff Interrogatory #61 v) asked whether the treatment (of the Applicant requesting to disregard the implications of the tax revaluation for regulatory tax purposes) was not inconsistent with what was done before with the previous comprehensive revaluation of $78,941,000 for accounting and regulatory purposes that was apparently included in rate base. The Applicant stated in its Response to Board Staff Interrogatory 61 v) that "GLPT does not believe the tax treatment of the two transactions to be inconsistent." In the prefiled evidence (Exh. 4/Tab 3/Sch.2/Pg. 4-6), the Applicant is requesting to disregard the implications of the tax revaluation for regulatory tax purposes. It is stated In Exh. 4/Tab 3/Sch.2/Pg. 6/Lines 18-19 that:

> *"the transaction is effectively neutral for both accounting and tax purposes in the eyes of the ratepayer."*

Questions/Requests:

(iii) Although the 1996 transaction was not recognized as a taxable transaction by The Canada Revenue Agency, this comprehensive revaluation of

$78,941,000 was apparently added to rate base, and it is unclear whether this bump up was included in the UCC used to calculate CCA in prior proceedings. This higher CCA could have been used to calculate a lower tax proxy in EB-2005-0241.

In this proceeding, the implications of the tax revaluation for regulatory tax purposes is requested to be disregarded, thus the ratepayers do not get the benefit of a higher UCC and CCA, and lower requested tax proxy.

(iv) Please explain why this is not an inconsistency of treatment.

Does the Applicant agree that ratepayers have been paying higher rates since 1996 due to the comprehensive revaluation of $78,941,000 of fixed assets being included in rate base? Please explain why the Applicant agrees or disagrees with the statement.

(v) Does the Applicant agree that the comprehensive revaluation of $78,941,000 was not generated from building assets, but rather that the acquirer (Brascan) incurred these costs in buying the underlying assets at a premium over the underlying book value? Please explain why the Applicant agrees or disagrees with the statement.

(vi) Does the Applicant agree that the excess of the $78,941,000 over the underlying value of the fixed assets for regulatory purposes should have been shown as goodwill and excluded from rate base in prior proceedings and in this current proceeding? Please explain why the Applicant agrees or disagrees with the statement.

(vii) Does the Applicant agree that the last rates approved for Great Lakes Power Limited, prior to RP-2001-0035, was in 1995, prior to the comprehensive revaluation of $78,941,000 that occurred in 1996? Please explain why the Applicant agrees or disagrees with the statement.

(viii) Does the Applicant agree that RP-2001-0035 was the first rate case before any regulator to determine the revenue requirement for Great Lakes Power Limited's Transmission Division, subsequent to the comprehensive revaluation of $78,941,000 which occurred in 1996? Please explain why the Applicant agrees or disagrees with the statement.

(ix) If the Applicant does not agree with the previous Question/Request, i.e., in (viii) above, please provide the rate case reference and provide the reference within the case that disclosed the comprehensive revaluation.

(x) Does the applicant agree that the rate base disclosed in RP-2001-0035, Schedule 2, Transmission Revenue Requirement, for the year ending December 31, 2000 was $125,625,000 and included the comprehensive revaluation of $78,941,000? Please explain why the Applicant agrees or disagrees with the statement.

(xi) Does the Applicant agree that this comprehensive revaluation of $78,941,000 was not disclosed in RP-2001-0035? Please explain why the Applicant agrees or disagrees with the statement. If the Applicant does not agree, please provide the reference in RP-2001-0035 or in a prior proceeding which disclosed the comprehensive revaluation.

Supplementary Interrogatory S20 – Redevelopment Project

Reference:

S20.(1) Response to Board Staff Interrogatory 65
S20.(2) Response to SEC Interrogatory 11
S20.(3) Ontario Resource and Transmission Assessment Criteria, Issue 5.0, issued by the Independent Electricity System Operator ("IESO")/Section 2.7.1 "The Bulk Power System Contingency Criteria"/pages 7-8

Preamble:

(1) In Reference S20.(1) (Response to Board Staff Interrogatory 65), part (i), the Applicant stated in part that:

> *"The Redevelopment project can be broken down into two sub projects: (1) Equipment replacement and (2) Station re-configuration.*
>
> *For the equipment replacement portion of the project, these costs are all "non-discretionary" based on the fact that the drivers for replacement are:*
>
> - *Inadequate Voltage Ratings*
> - *Inadequate Fault interrupting ratings "*

(2) In Reference S20.(2) (Response to SEC Interrogatory 11), Question (c), it is stated that:

> *"Project need is described at Exhibit 2, Tab 1, Schedule 1 at pp. 14-19. To date, through continuous monitoring, GLPT has identified the following performance issues:*
>
> *• Bus Connection Overheating - Infrared scans identified thermal issues on a number of bus connections. Where possible, connections were replaced. However, due to the existing bus configuration limitations, access to certain connectors was not possible and the connections have not been replaced. GLPT continues to monitor this situation.*
>
> *• Insulator Cracking - It has been identified that 63 station strain bus insulators were cracked. 30 of the 63 were replaced. The other 33 cannot be replaced due to the existing station configuration limitations. (See Exhibit 2, Tab 1, Schedule 1, p. 17).*
>
> *• Breaker Heating - It was identified that a connection between a bushing and bus conductor on Circuit Breaker 492 was overheating. The breaker was taken out of service, repaired and placed back into service."*

(3) In Reference S20.(3), page 8, second paragraph lists the seven (7) severe contingencies that the bulk system should withstand.

Questions/Requests:

(i) In regard to Reference S20.(2) and Preamble (2), please give details on the period of time needed and the effort level expected to replace the remaining bus connections referred to.

(ii) In regard to Reference S20.(2) and Preamble (2), please give details on the period of time needed and the effort level expected to replace the remaining 33 station strain bus insulators referred to.

(iii) To justify the replacement of 115 kV equipment/facilities at Third Line TS, did GLPT's staff or its consultants perform an assessment of the existing configuration and the system elements (breakers, buses…etc) within it, simulating the seven (7) contingencies as stated in Reference S20.(3), page 8, second paragraph? If such a study was completed please provide it. If such a study was not carried out, please explain why this was not undertaken? and how long would it take to complete such a study?

Supplementary Interrogatory S21 – Redevelopment Project

Reference:

S21.(1) Response to Board Staff Interrogatory 65

S21.(2) Ontario Resource and Transmission Assessment Criteria, Issue 5.0, issued by the Independent Electricity System Operator ("IESO")

Preamble:

(1) In Reference S21.(1), the Applicant stated that

> *"For the station reconfiguration portion of the project, these costs are also classified as "non-discretionary" as it falls under both the need to satisfy obligations specified by Regulatory Organizations as well as addressing equipment loading issues. Specifically, transmitters are required to satisfy all applicable standards when modifying or building new facilities."*

Questions:

(i) In regard to Reference S21.(1) and Preamble (1), please indicate where in the Report it is stated that the reconfiguration of an existing station has to comply with the requirements in Reference S21.(2), which GLPT is citing as justification for classing the "Station Reconfiguration" as "non-discretionary".

Supplementary Interrogatory S22 – Redevelopment Project

Reference:

S22.(1) Exh. 2/Tab 1/Sch. 1/p. 15/lines 1-3

S22.(2) Response to SEC Interrogatory 11

S22.(3) Response to Board Staff Interrogatory 63, Exhibit 10/Tab 1/Sch 2/Appendix 63(i), the Wardrop Report

S22.(4) Exh 2/Tab 1/Sch. 1/p. 23/lines 5-10

S22.(5) Ontario Resource and Transmission Assessment Criteria, Issue 5.0, issued by the Independent Electricity System Operator ("IESO")

Preamble:

(1) In Reference S22.(1), the Applicant stated that:

> *"The circuits, breakers, disconnect switches, bus components (insulators), PTs and protection equipment (relays) are at the end of their typical useful life and are therefore in need of replacement."*

(2) In Reference S22.(2) (Response to SEC Interrogatory 11), Question (d), the Applicant stated that:

"It is GLPT's intention to decommission the existing portion of the 115 kV section of the station as the assets are taken out of service. Where possible, GLPT intends to redeploy assets that are removed from service."

(3) In Reference S22.(3) (The Wardrop report), in the Table on page 25 of 36, the item titled "major matl's – diameter breakers", it shows for <u>Option 2, $2,700,000</u> and for <u>Option 5, $3,060,000</u>

(4) In Reference S22.(4), GLPT stated that:

"Station Expandability - The proposed design provides sufficient space within the station to permit future growth at minimal incremental cost, relative to current project costs. This would relate to any additional 115 kV circuits or a third autotransformer, should the need arise. For example, this would allow the station to accommodate growth arising from the need to connect renewable energy generation facilities."

<u>Questions/Requests:</u>

(i) In regard to References S22.(1) and S22.(2) and the corresponding Preambles (1) and (2), please clarify whether or not GLPT's intention is to redeploy all 15 breakers it now has regardless of the Option that would be implemented?

(ii) With regard to Reference S22.(3), and Preamble (3), please clarify whether the cost estimate shown in page 25 under the item titled "major matl's – diameter breakers" include the cost of breakers in the case of Option 2 and that of Option 5.

(iii) In Reference S22.(3), the layout for Option 2 (on page 9) show that for additions of four new positions, 5 new breakers are needed, and for Option 5 (on page 12) additions of four new positions, 9 new breakers are needed. Given the fact the GLPT stated in Reference S22.(4) that expandability is expected, please provide the cost data by completing the Table below:

Scenario	Option 2 Total Station Cost (for Scenario **(II)**, add cost of **5** new breakers) **$**	Option 5 Total Station Cost (for Scenario **(II)** add cost of **9** new breakers) **$**
(I) **Status Quo** - assume the **existing 15 breakers would be replaced with new breakers**		
(II) **Expansion** - assume additional breakers to accommodate **4 New Positions**		

(iv) Given that the in Reference S22.(5), the IESO report recommends a station layout reflecting (Breaker and a Third Configuration - similar to Option 2), and that GLPT is proposing Option 5 reflecting (Breaker and a Half

Configuration), please provide quantitative analysis to show the cost/benefit analysis for each of the two scenarios and the associated costs (which GLPT will be providing) as outlined in Question (iii) above.

(v) Should the Board ends up classifying this project in total or in part as "Discretionary", how long would it take the Applicant to provide evidence based on economic evaluation of quantitative benefits versus costs to support justification for the Redevelopment Project.

Supplementary Interrogatory S23 – Capital Structure

Reference:

S23.(1) Exh. 5/Tab 1/Sch. 1 – Cost of Capital
S23.(2) Response to Board Staff Interrogatory 92
S23.(3) Response to Board Staff Interrogatory 93
S23.(4) Response to Board Staff Interrogatory 94
S23.(5) Response to Board Staff Interrogatory 95

Preamble:

(1) In Reference S23.(1), GLPT states that it is proposing a deemed capital structure of 57.5% debt and 42.5% equity for the 2010 test year.

(2) In Reference S23.(2), GLPT states that it "has updated its debt/equity structure to a structure of 55/45, in accordance with its actual capital structure, which was also approved for the transmission company in EB-2005-0241." It has provided similar statements in Reference S23.(4), and has used the 55% debt and 45% in the tables shown in Reference S23.(2) and in the filed Revenue Requirement Work Form spreadsheets filed in Reference S23.(5).

(3) In Reference S23.(3), GLPT shows a pro forma "actual" 2010 capital structure of 56.61% debt and 43.39% equity.

Questions/Requests:

(i) Please provide further explanation of why GLPT has changed its proposed capital structure for setting the 2010 revenue requirement and rates to 55% debt and 45% equity.

(ii) If the expected pro forma "actual" structure is expected to be 56.61% and 43.39% as shown in Reference S23.(3), why is GLPT now proposing a 55% debt and 45% equity deemed capital structure in Reference S23.(2) and S23.(4)?

Supplementary Interrogatory S24 – Short-term Debt

Reference:

S24.(1) Exh. 5/Tab 1/Sch. 1 – Cost of Capital
S24.(2) Response to Board Staff Interrogatory 93
S24.(3) Response to Board Staff Interrogatory 94
S24.(4) Excerpt from pages 41-42 of the Reply Submission of Kitchener-Wilmot Hydro Inc., February 10, 2010, in its 2010

Distribution Rates application being considered under Board File No. EB-2009-0267

Preamble:

(1) In Reference S24.(2) part (ii), GLPT states that:

> *Neither GLPT nor its predecessor GLPL has had a short-term debt component in its rate base or revenue requirement for rate-setting purposes. GLPT has not been in front of the Board for rate-setting purposes since 2005, which is prior to the publishing of the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* on *December 20, 2006. This report was GLPT's first experience with a short-term debt component of rate base.*

(2) In Reference S24.(4), Kitchener-Wilmot Hydro Inc. states:

> *81.* ***It is a well understood principle of corporate finance that firms need both a long-term (or permanent) investment in working capital and a short-term or cyclical one.*** *The permanent working capital investment provides an ongoing positive net working capital position, that is, a level of current assets that exceeds current liabilities. This allows KW Hydro to operate with a comfortable financial margin and minimizes the risk of being unable to pay its employees, vendors, lenders, or the government (for taxes). To have a continuous positive net working capital, a company must finance part of its working capital on a long-term basis.*
>
> *82. Beyond this permanent working capital investment, KW Hydro also needs seasonal or cyclical working capital. Since the demand for power and KW Hydro's controllable expenses vary over the course of a year, KW Hydro needs to finance these costs to prepare for their peak sales period and accounts receivable until cash is collected. KW Hydro acknowledges that* ***cyclical working capital can sometimes be financed by short-term debt since the seasonal build-up of assets to address seasonal demand will be reduced and converted to cash to repay borrowed funds within a short predictable period.*** *However, KW Hydro does not accept the suggestion that the cyclical portion of working capital should be used as a proxy for the short-term debt applicable to a utility's capitalization structure. [Emphasis added.]*

Questions/Requests:

(i) Please confirm GLPT's view that its rate base, for rate-setting purposes consists of net fixed assets and an allowance for cash working capital.

(ii) Please confirm GLPT's understanding of whether short-term debt was taken into account in the setting of electricity distribution and transmission rates when GLPT had its rates set under Board File No. EB-2005-0241.

(iii) Please provide GLPT's view on Kitchener-Wilmot Hydro's submission that working capital is composed of both long-term (or permanent) and short-term (or cyclical) components which are funded, or can be funded, respectively by longer-term and short-term debt financing. Please explain your response.

(iv) GLPT's proposal amounts to funding its rate base, including the allowance for cash working capital, through equity and long-term debt only. Please explain in detail how only using longer-term capitalization (equity and long-term) is efficient for financing cyclical or short-term working capital requirements.

(v) Given that the Board has adopted a short-term debt component of rate base for setting the revenue requirement and rates for electricity transmission and distribution sector, as documented in the December 20, 2006 *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, and continued in the December 11, 2009 *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, to reflect, in part short-term funding of at least part of the working capital allowance, should not the Board deem a portion of GLPT's rate base, for rate-setting purposes, as funded by short-term debt.

(vi) If the Board were to deem a portion of rate base as being funded by short-term debt, please provide, with reasons and support, GLPT's estimates of what should be the short-term debt capitalization and the short-term debt rate.

Supplementary Interrogatory S25 – Charge Determinant

Reference:

S25.(1) Response to Board Staff Interrogatory 97,(iv)

Preamble:

(1) In Response to Board Staff Interrogatory 97,(iv), GLPT responded by stating that:

> *As demonstrated in the table in GLPT's response to Board Staff Interrogatory 96 (i), there is very little year-over-year variation in the actual charge determinants of the three pools. The one area where a five year average would have produced an inaccurate figure is in the Transformation Connection pool. In this case, GLPT used a three year average which eliminates the older information that is based on peak load information collected under different circumstances. Therefore, it is GLPT's opinion that the simple average method employed by GLPT is the "best fit technique."*

(2) Board staff is of the view that performing regression analysis on the monthly data provided by GLPT (see Response to Board Staff Interrogatory 97,(i) using the monthly data in the "*live MS-Excel spreadsheet*") is important in order to compare the results proposed by GLPT with the results of a methodology used in various applications including load forecasting.

Questions/Requests:

(i) please provide the results of regression analysis to produce forecasts for the year 2010 performed as follows:

For Network and Line Connection

(a) for the Network Pool and the Line Connection Pool, please use the "66 monthly demand data"[1] provided by GLPT in its Response to Board Staff Interrogatory 97,(i), to perform linear regression which would produce a single forecasted monthly demand for the Network Pool and another single forecasted monthly demand for the Line Connection Pool. Also provide for the two regressions performed, the standard adequacy test results, such as the "R-Square" results...etc.

(b) For each of the two monthly data sets (a Network set and a Line Connection set), repeat the exercise in (a) except this time please attempt non-linear regression techniques and provide for each non-linear model tested the "model's standard adequacy results" such as the "R-Square"…etc.

(c) Compare the non-linear models' results, from (b) above, with results produced in (a) and select the best fit model. Use the monthly result from the best fit model to produce an annual demand[2] for each of the two pools.

For Transformation Connection

(d) For the Transformation Connection Pool please use the "36 monthly demand data"[3] provided by GLPT in its Response to Board Staff Interrogatory 97,(i), and perform a linear regression which would produce a single forecasted monthly demand for the Transformation Connection Pool. Also provide the standard adequacy test results, of the model such as the "R-Square" results…etc.

(e) Repeat the exercise in (d) except please attempt non-linear regression techniques and provide for each non-linear model tested the "model's adequacy results" such as the "R-Square"...etc.

(f) Compare the non-linear models' results, from (e) above, with results produced in (d) and select the best fit model. Use the monthly result from the best fit model to produce an annual demand[4] for the Transformation Connection Pool.

[1] The monthly demand data covers 6 months of 2004, 12 months for each of the following 5 years (2005 to 2009).

[2] The monthly demand multiplied by 12 would produce the annual demand

[3] The monthly demand data for the years 2007, 2008, and 2009. Older data does not reflect the current situation due to sale of Transformation assets to a customer as indicated in the prefiled evidence.

[4] The monthly demand multiplied by 12 would produce the annual demand