

**DONALD D. RENNICK FOLLOW-UP INTERROGATORIES
NORTH BAY HYDRO DISTRIBUTION LTD.
EB-2010-0102**

2. IRM Deferral & Variance Account.xls – Sheet C1.3

In addition, the sheet indicates a sunset date of April 30, 2011 for the Smart Meter rider, currently being charged at a monthly rate of \$1.47, and the 2011 IRM Rate Generator.xls makes no mention of the Smart Meter Rider in the proposed rate sheet. However, the Manager's Summary indicates that the rider will continue to be collected.

The confusion was caused by the fact that the rider is shown throughout "NorthBay_APPL_IRM3_20101015.pdf" but not in the Residential section of the "2011 IRM Rate Generator.xls" Sheet O2.1 Calculation of Bill Impacts.

4. IRM3 Shared Tax Savings.xls – Sheet F1.3

Only 50% of the assumed tax savings are credited when calculating the proposed rates. Please explain the reasoning for withholding 50% of the tax savings from consumers. The manager's summary indicates that the Board approved the income and capital tax amounts in the 2010 rate application when in fact those tax amounts are simply a function of the revenue and expenditures approved by the Board. The tax savings are simply a result of a reduction in the tax rates and outside the control of the Board and as such should be passed on to consumers in their entirety.

In EB-2007-0606/615

Decision_union_enbridge_tax_risk_management_20080721.pdf many arguments were presented by the Intervenor and Enbridge. In my opinion, the most telling of which was:

The Intervenor also argued that, as a matter of general regulatory principle, consumers should be no worse off under an IR plan than they would be under cost of service regulation. They stated that it is counter-intuitive that at the beginning of the IR period, Union should receive a windfall gain of \$80.5 million. As Professor Wilson agreed, the \$80 million tax reduction is a windfall gain which was caused by events entirely beyond Union's control and had nothing to do with productivity gains initiated by Union.⁶ Under a cost of service regime these cost reductions would flow through to the customer at each cost of service rates application.

The King Solomon approach adopted by the Board in the Enbridge case belies the facts in this application that produce the results that any benefit accruing to the Company, on behalf of company owners, is borne by the company owners themselves. At least in the Enbridge case, the owners and customers are two separate groups.

In the NBHDL case, the owners and customers are the same group of people. In addition, the quality of the delivery of electricity would not be affected by having the ratepayers benefit from the entire tax savings. I would suggest that ratepayers should receive the benefit of 100% of the 2011 – 2014 tax savings of \$630,209

Having said all that, the following is probably the correct way to calculate tax savings which would result in a total tax saving of \$303,872 over the four years. And, which I argue, should be fully reflected in the rates.

Summary - Sharing of Tax Change Forecast Amounts

1. Tax Related Amounts Forecast from Capital Tax Rate Changes

	2010	2011	2012	2013	2014
Taxable Capital	\$44,105,306	\$44,105,306	\$44,105,306	\$44,105,306	\$44,105,306
Deduction from taxable capital up to \$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
Net Taxable Capital	\$29,105,306	\$29,105,306	\$29,105,306	\$29,105,306	\$29,105,306
Rate	0.150%	0.000%	0.000%	0.000%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	\$ 21,650	\$ -	\$ -	\$ -	\$ -

2. Tax Related Amounts Forecast from Income Tax Rate Changes

	2010	2011	2012	2012	2012
Regulatory Taxable Income	\$ 2,313,637	\$ 2,313,637	\$ 2,313,637	\$ 2,313,637	\$ 2,313,637
Corporate Tax Rate	28.72%	28.25%	26.25%	25.50%	25.00%
Tax Impact	\$ 664,477	\$ 653,556	\$ 607,307	\$ 589,885	\$ 578,409
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ 21,650	\$ -	\$ -	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 664,477	\$ 653,556	\$ 607,307	\$ 589,885	\$ 578,409
Total Tax Related Amounts	\$ 686,126	\$ 653,556	\$ 607,307	\$ 589,885	\$ 578,409
Incremental Tax Savings		-\$ 32,570	-\$ 78,820	-\$ 96,241	-\$ 96,241
Sharing of Tax Savings (50%)		-\$ 16,285	-\$ 39,410	-\$ 48,121	-\$ 48,121