

**COLLUS Power Corp**

**EB – 2010 – 0076**

**FINAL REPLY SUBMISSION**  
**&**  
**RESPONSE TO WRITTEN SUBMISSIONS**  
**(of OEB STAFF & VECC)**

**February 1, 2011**

- 1 1. COLLUS Power Corp (“COLLUS”) is a licensed electricity distributor (ED-  
2 2002-0518) that owns and operates electricity distribution systems that  
3 provide service to the Town of Collingwood as well as the former Towns of  
4 Thornbury, Stayner and Creemore. COLLUS charges distribution service  
5 rates and other charges as authorized by the Ontario Energy Board  
6 (“Board”).
- 7 2. COLLUS filed application, based on the 2010 3<sup>rd</sup> Generation Incentive  
8 Regulation Mechanism filing guidelines, on September 30, 2010 applying  
9 for rates effective May 1, 2011.
- 10 3. COLLUS provides in Section A of this document the response to Board  
11 staff’s submission received on January 17, 2011 and the response to the  
12 Vulnerable Energy Citizen Coalition (VECC) submission received on  
13 January 17, 2011. COLLUS has responded to the Board Staff and VECC  
14 submissions separately. A Summary section is also provided at the end of  
15 this document that will itemize the issues and the COLLUS position as  
16 well as note any other items that pertain to the Application.

# SECTION A

**INTRODUCTION:**

Board staff made written submission on the following matters:

- Harmonized Sales Tax (“HST)
- Shared Tax Savings
- Disposition of Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism (LRAM); and
- Adjustments to the Revenue to Cost Ratios

In addition COLLUS Power will review in this Application regarding:

- Lost Revenue - Bankruptcy

COLLUS will respond on each, using the sub-heading format the Board staff utilized in their written submission, in the following:

## **Haromonized Sales Tax**

1. In the Background section of the Board staff submission on Pages 1 and 2 it provides accurate and applicable portions of information in regards to COLLUS's Harmonized Sales Tax variance account treatment request.
2. In particular COLLUS had requested that Board staff issue more detailed accounting guidance on the HST tracking matter. Board staff correctly state that in December 2010 some accounting guidance has been provided. Board staff refer in their submission that a "simplified approach", for tracking and recording the appropriate amounts into Account 1592, being provided. They explain that this approach is designed to provide administrative cost-saving opportunities. COLLUS submits that although the "simplified approach" provides administrative direction on how to track the HST amounts, it doesn't produce cost-saving opportunities. The "simplified approach" may reduce the net impact however it continues to require extra work to track the HST which still results in incremental costs.
3. COLLUS submits that any incremental costs associated with the tracking of HST under this direction from the Board, be allowed to be recorded into Account 1592. When the next COLLUS Cost of Service application is completed and approved the net amount in 1592 will be shared with our ratepayers on a 50% basis.

## **SHARED TAX SAVINGS**

- 51     **4.** In Board staff's Jan. 17/11 submission they correctly indicate that  
52             COLLUS had calculated, using the OEB models, a refund tax sharing  
53             amount of \$25,877. This is based on the original inputs into Sheet F 1.1  
54             of the 2011 IRM3 Shared Tax Savings Workform.
- 55     5. Board staff further submitted that they have been unable to reconcile the  
56             taxable capital and the regulatory taxable income that COLLUS has  
57             inputted into Sheet F1.1. Board staff stated that in their view COLLUS'  
58             response to Board staff interrogatory No. 4 did not fully address this  
59             issue. They would like further explanation.
- 60     6. In the first part of response to Board Staff Interrogatory No. 4 COLLUS  
61             Power states:
- 62             *"The attached Exhibit 2 is a copy of the correct information that should*  
63             *appear in F1.1 for calculation purposes. The \$613,723 should be*  
64             *\$504,759 as shown in the exhibit. This data is from worksheet F1.1 Z-*  
65             *Factor Tax Changes of the Supplemental Model for the 2010 3rd*  
66             *Generation IRM process".*
- 67     7. In the above response COLLUS Power requested the "Regulatory Taxable  
68             Income" in the sheet F1.1 in the 2011 IRM3 Shared Tax Savings  
69             Workform be updated from \$613,723 to \$504,759. In order to better  
70             understand this request the following response to Board Interrogatory 17  
71             from COLLUS Power's 2010 IRM Rate Application is provided.

72        **8. Board Staff Interrogatory 17.**

73                *Ref: Supplemental Module - Z-Factor Tax Changes*  
74                *Sheet “F1.1 Z-Factor Tax Changes” of the supplemental module*  
75                *shows Grossed-Up Tax amount as \$225,414 while the 2009 RRWF*  
76                *sheet “3.Taxes\_PILs” shows Grossed-Up Income Taxes as \$164,861.*

77                *a) Please review and advise of correct amount.*

78                **COLLUS Response:**

79                *COLLUS Power submits that \$164,861 is the appropriate amount for*  
80                *Grossed-Up Income Taxes. We would also submit that there appears*  
81                *to be a problem with the F1.1 Z-factor tax Changes sheet. Firstly the*  
82                *\$613,723 of regulatory taxable income is correctly adjusted by the*  
83                *26.9% tax rate to get the \$164,861. After that this amount is again*  
84                *‘Grossed up’ by the factor of 26.9% leading to the incorrect amount of*  
85                *\$225,414. Perhaps this is occurring because COLLUS Power has a*  
86                *taxable income of less than \$1,500,000?*

87                *In the 2009 RRWF Sheet 5 Rev\_Suff\_Def the taxable income amount*  
88                *calculates the \$164,862 but doesn’t gross it up any further. But in*  
89                *sheet F1.1 Z-Factor Tax Changes the worksheet does the gross up.*  
90                *COLLUS Power is unsure why but it is the reason for the discrepancy*  
91                *noted above. We submit any adjustment required due to this will not be*  
92                *material and can be dealt with when the Final Rate Order decision is*  
93                *provided.*

94 9. In its 2009 COS application, the approved revenue requirement for  
95 COLLUS Power included \$164,862 for income taxes as can be confirmed  
96 in cell I29 of Sheet 3.Taxes\_PILs on the 2009 RRWF. This was based on  
97 an effective tax rate of 26.86% shown in cell I39 of Sheet 3.Taxes\_PILs  
98 in the 2009 RRWF. It is COLLUS Power's assumption that the “2011  
99 IRM3 Shared Tax Savings Work form” model should calculate an  
100 identical grossed up tax amount as was approved in the 2009 COS  
101 decision for 2009. However, as was noted by COLLUS Power in the  
102 2010 IRM Application, with regards to the shared tax savings model,  
103 there appears to be an apparent limitation with the 2011 IRM3 Shared  
104 Tax Savings Work form model.

105 10. When COLLUS Power enters a regulatory taxable income of \$613,723  
106 (Cell L28 of sheet 5. Rev\_Suff\_Def in the 2009 RRWF), in cell G36 of  
107 Sheet F1.1 Z-Factor Tax Changes in the 2011 IRM3 Shared Tax Savings  
108 Work form model, the 2009 Corporate Rate of 26.86% is determined (i.e.  
109 Cell G38 of Sheet F1.1 Z-Factor Tax Changes in the 2011 IRM3 Shared  
110 Tax Savings Work Form model) which is consistent with the 2009 tax rate  
111 approved in the 2009 COS Decision. The 2009 tax impact of \$164,862 is  
112 determined in cell G40 of Sheet F1.1 Z-Factor Tax Changes in the 2011  
113 IRM3 Shared Tax Savings Work form model. The \$164,862 is consistent  
114 with the 2009 income taxes approved in the revenue requirement for  
115 COLLUS Power in its 2009 COS application. However in the 2011 IRM3  
116 Shared Tax Savings Work form model the 2009 value of \$164,862 is  
117 further gross-up to \$225,414 . (i.e. Cell G42 of Sheet F1.1 Z-Factor Tax  
118 Changes of the 2011 IRM3 Shared Tax Savings Work Form model). A  
119 value of \$225,414 is incorrect as it is not consistent with the 2009 income  
120 tax amount approved in the 2009 COS application.

- 121 11. When COLLUS Power enters a 2009 regulatory taxable income of  
122 \$504,759 in cell G36 of Sheet F1.1 Z-Factor Tax Changes in the 2011  
123 IRM3 Shared Tax Savings Work Form model, the model determines a  
124 2009 Gross-up tax amount of \$164,862 (i.e Cell G42 of Sheet F1.1 Z-  
125 Factor Tax Changes) which is consistent with the income tax amount  
126 approved in the 2009 COS application.
- 127 12. The model does not appear to take into account the determination of an  
128 effective tax rate based on utility taxable income, (i.e. utility net income  
129 before taxes net of tax adjustments to accounting income), not regulatory  
130 taxable income. Based on these limitations, COLLUS Power assumed a  
131 2009 regulatory taxable income of \$504,759 which results in the “Total  
132 Tax Related Amounts” for COLLUS Power's consistent with the approved  
133 2009 income tax of \$164,862.
- 134 13. In reviewing the IRM application of Haldimand County Hydro Inc. (HCHI)  
135 (EB-2010-0086) it was discovered that HCHI was able to have the model  
136 revised to reflect their respective Board approved “Total Tax Related  
137 Amounts” which appear to have included an effective tax rate which was  
138 then applied against taxable income. In addition, in reviewing the IRM  
139 application of North Bay Hydro Distribution Limited (NBHDL) (EB-2010-  
140 0102) it appears a similar issue was raised by NBHDL. As a result  
141 COLLUS Power suggests a similar revision be made to its Tax Savings  
142 Sharing Model which would result in a correct PILS amount for 2009 for  
143 which to base 2011 estimated tax savings.



144 14. In the case of COLLUS Power the revision would simply be that the  
145 "Gross-up Tax Amount" shown in row 42 of Sheet F1.1 Z-Factor Tax  
146 Changes in the 2011 IRM3 Shared Tax Savings Work Form model be set  
147 equal to the value in row 40. If this was done, the difference between the  
148 2009 "Total Tax Related Amount" of \$167,763 and the 2011 value of  
149 \$137,114 would be \$30,649 and the refund tax sharing amount would be  
150 \$15,324.

**DISPOSITION OF DEFERRAL & VARIANCE ACCOUNTS**

- 151 15. In the background portion of the Jan. 17/11 submission Board staff  
152 correctly state that COLLUS has determined that the 2009 actual year end  
153 amount for Group 1 accounts doesn't exceed the threshold.
- 154 16. COLLUS is not seeking disposition of the 2009 net amount of \$150,297  
155 and Board staff have stated that there is no issue with this.

**ADJUSTMENT TO THE REVENUE TO COST RATIOS**

- 156 17. COLLUS agrees with the Board staff support for the adjustments.
- 157 18. The Vulnerable Energy Consumers Coalition (VECC) had intervened on  
158 this matter. In their Jan. 17/11 Final Argument submission VECC stated  
159 that based on the clarifications and corrections from the interrogatories,  
160 they were in agreement with the Revenue-to-Cost ratio adjustments.

**LOST REVENUE ADJUSTMENT MECHANISM (LRAM)**

- 161 19. In the Background section of the Board's Jan. 17/11 submission it is  
162 correctly stated that \$201,112 is being sought for recovery for lost revenue  
163 due to CDM activities.
- 164 20. Board staff submits that COLLUS has complied with the Board's  
165 guidelines in preparing the LRAM calculation and that from their point of  
166 view there are no issues.
- 167 21. COLLUS submits that it agrees with the Board staff position on this  
168 matter.
- 169 22. VECC also intervened in this part of COLLUS 2011 3<sup>rd</sup> GIRM application.
- 170 23. VECC reviewed, confirmed and accepted the calculations and  
171 verifications that COLLUS provided during the interrogatory phase of the  
172 application.
- 173 24. VECC indicated that it approved of the three year recovery period that  
174 COLLUS had provided as a possible schedule for this.
- 175 25. COLLUS submits that it has proposed a three year recovery period in the  
176 2011 3<sup>rd</sup> GIRM application.

177 26. One of the reasons that COLLUS used for determining the appropriate  
178 recovery period was to help mitigate rate impact. COLLUS will make every  
179 effort to structure rate recovery so that there are not any major rate  
180 impacts over any of the upcoming years. COLLUS believes there are  
181 already upward pressures on electricity charges. The distribution charge  
182 portion of the customer's account is no exception.

183 27. COLLUS submits that when the Board issues their Final Decision and  
184 Order on the 2011 3<sup>rd</sup> GIRM application consideration be given to using a  
185 different recovery period. For instance a 2 year recovery may result in a  
186 next to no change in rates and charges. This may be preferable over using  
187 a 3 year period if that length of recovery would result in more stable rate  
188 impacts over the next few years.

## 189 **LOST REVENUE (BANKRUPTCY)**

190 28. At the end of 2010 COLLUS became aware of an industrial customer that  
191 had been placed into receivership. Since that time COLLUS has worked  
192 tirelessly along with the Town of Collingwood in an attempt to assist the  
193 customer/taxpayer in hopes that there could be a successful restructuring,  
194 thereby allowing the company to continue operation in the community.

- 195 29. All indication is that there will not be a successful restructuring and  
196 therefore COLLUS will not recover the outstanding arrears pertaining to  
197 electricity charges.
- 198 30. COLLUS would like to inform the Board of this very recent situation but  
199 recognizes that the 2011 3<sup>rd</sup> GIRM process is at a stage that will not allow  
200 COLLUS to address this issue at this time
- 201 31. COLLUS is certain that the eventual loss will be substantial and  
202 negatively material to our future operational status thereby jeopardizing  
203 some planned capital investment. Once the exact amount is known  
204 COLLUS will determine when it would be appropriate to approach the  
205 Board for recovery.
- 206 32. COLLUS submits to the Board that in the interim, the year-end accounting  
207 process for 2010 will result in an estimate bad debt expense amount being  
208 established.
- 209 33. COLLUS further submits that the Board should not consider this write-off  
210 in 2010 as an indication of the acceptance of the loss as not inhibiting our  
211 operational planning.
- 212 34. As noted earlier this will be a material loss and we expect the need to  
213 request recovery in order to be able to meet our current plans under the  
214 3<sup>rd</sup> GIRM regime.
- 215 35. In summary COLLUS requests that the Board note the pending loss of  
216 revenue as COLLUS expects to address this issue in the near future.

217 In closing COLLUS has provided in this submission information that is in  
218 direct response to the issues that Board Staff and VECC have raised in their  
219 separate January 17, 2011 written submissions. In addition the September 30,  
220 2010 application filing by COLLUS and the follow-up December 1, 2010  
221 Response to 1<sup>st</sup> round interrogatories, will serve to provide COLLUS' evidence.

222 It is noted that in the Board Staff January 17, 2011 submission in the  
223 Introduction area of Page 1 there is an incorrect reference to Guelph Hydro  
224 regarding rates to be effective May 1, 2011. It is COLLUS that is seeking these.  
225 Additionally Board staff have indicated that they will make any changes to the  
226 COLLUS' model when the Board makes their decision and order. COLLUS' is  
227 prepared to do any required model updates and re-submit the model if the Board  
228 determines this to be the appropriate process.

229 Respectfully Submitted;

230 Mr. T. E. Fryer CMA  
231 Chief Financial Officer  
232 COLLUS Corp