BOARD STAFF INTERROGATORIES on February 4, 2011 Evidence Update Kingston Hydro Corporation 2011 Electricity Distribution Rates Application EB-2010-0136

February 11, 2011

2011 CAPITAL EXPENDITURE FORECAST

Board Staff Update IR#1
Reference: Evidence Update, Appendix A
The changes outlined in the settlement agreement for 2010 and the response to VECC IR #45 show that a number of 2010 capital projects have changed significantly from the original application to this update. These are:

Princess Street Reconstruction, down from $1,155,000 to $767,438: -$387,562 or 30%.
Transformer Vault 12, down from $403,000 to $207,815: -$195,185 or 48%.
Transformer Vault 10, up from $63,000 to $161,744: +$98,744 or 150%.
Transformer Vault 5, down from $22,000 to $zero.
RFP Structural Eng. Services, down from $20,000 to $zero.
Underground Cable Rebuilds, down from $100,000 to $zero.
Overhead Line Rebuilds, up from $1,015,000 to $1,271,429: +$256,429 or 12%.
Tools and Equipment, up from $115,000 to $154.028: +$39,029 or 34%.

a) What impact do the changes in the 2010 capital expenditures as shown in the response to VECC IR #45 (listed above) and the Settlement Agreement, have on the updated 2011 capital expenditures?

b) There are an additional 9 new project categories in the table at response to VECC IR#45 which were not included in the original evidence. Why did this volume of new projects not have a greater impact on the 2011 capital project base, considering the 2011 project list is largely the same as the original filed (besides the updates noted above)?

2011 OM&A FORECAST

Board Staff Update IR#2
Reference: Evidence Update, Appendix B
The update includes an increase in Property Insurance of $25,523 over previous levels, up 20% over the levels in the pre-filed evidence to $156,241. Please provide a detailed rationale for this increase.

<u>2011 PILs SCHEDULE 1 ADJUSTMENT for FUTURE BENEFIT LIABILITIES</u>

Board Staff Update IR#3
Reference: Evidence Update, Appendix D & E

Reserves Included in Calculation of Test and Bridge Years Taxable Income
Feb 4, 2011 PILs or Income Taxes Work Form; Feb 4, 2011 Appendix E/Letter from KPMG

As per the Feb 4, 2011 PILs or Income Taxes Work Form for the Bridge Year Taxable Income and Test Year Taxable Income, the reserves added to taxable income and deducted from taxable income do not match "Schedule 13 Tax Reserves Bridge". In addition there was no "Schedule 13 Tax Reserves Test" included in the Feb 4, 2011 PILs or Income Taxes Work Form to support the reserves addition to Test Year taxable income. However, this number ties to the Nov 15, 2010 response to Board Staff Interrogatory #44 where a "Schedule 13 Tax Reserves Test" was provided.

Please provide an update to the necessary tables and schedules in the application accordingly.

Board Staff Update IR#4
Reference: Evidence Update, Appendix D & E

Reserves Included in Calculation of Test and Bridge Years Taxable Income
Feb 4, 2011 PILs or Income Taxes Work Form; Feb 4, 2011 Appendix E/Letter from KPMG

With regard to Issue 7 of the EB-2008-0381 Settlement Agreement filed September 30, 2010, and accepted by the Board December 23, 2010. Complete settlement was reached on this issue as follows:

> "The Parties agree that the Board's methodology in place at the relevant times was that the liability for the post employment benefit obligations should be shown in the records of the company that directly employs the people and issues the federal government Statement of Remuneration Paid (T4s). The movement in this liability can be used in the SIMPIL true-up methodology only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people. Any post-employment benefit liabilities for staff employed by service companies, or other affiliated or associated non-regulated companies, would not be used in the distributor's SIMPIL reconciliations."

As agreed in Issue #7 of EB-2008-0381, regulatory tax principles state that the liability and future obligation for post-employment benefits should sit on the books of the company that directly employs the people and issues the federal government Statement of Remuneration Paid (T4s). The movement in this liability or obligation can be used in the PILs provision calculation only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people. Any post-employment benefit liabilities or obligations for staff employed by service companies, or other affiliated or associated non-regulated companies, would not be used in the distributor's calculation of the PILs provision.

Kingston Hydro confirmed in the response to Supplementary Board Staff Interrogatory #9 that for the historic, bridge, and test years 2009 through 2011 that the number of full time employees actually directly employed or forecasted to be directly employed by Kingston Hydro, is zero. Kingston Hydro also confirmed in the response to the same interrogatory that for 2009, the number of full time employees for which Kingston Hydro issued the T4s is zero.

As per the Feb 4, 2011 PILs or Income Taxes Work Form, for the calculation of the 2011 test year PILs provision, $1,544,435 of post-employment benefit reserves (end of year reserves) was included as an addition to book to tax adjustments and $1,254,336 (beginning of year reserves) of post-employment benefit reserves was included as a deduction to book to tax adjustments.

a) Please state why the Board should depart from regulatory tax principles, as articulated in EB-2008-0381, and permit the addition and deduction of post-employment benefit reserves in book to tax adjustments in the 2011 test year PILs provision, in light of these facts:

    I. Kingston Hydro has zero full time employees actually directly employed or forecasted to be directly employed by Kingston Hydro
    II. the number of full time employees for which Kingston Hydro issued T4s is zero for the tax year 2009.

   The regulatory tax principles state that the liability and future obligation for post-employment benefits should sit on the books of the company that directly employs the people and issues the T4s. The movement in this liability or obligation can be used in the PILs provision calculation only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people. Any post-employment benefit liabilities or obligations for staff employed by service companies, or other affiliated or associated non-regulated companies, would not be used in the distributor's calculation of the PILs provision.

b) Please confirm that the number of full time employees for which Kingston Hydro issued T4s is zero for the tax year 2010. If this is not the case, please provide the relevant number.

c) Regarding the Feb 4, 2011 Appendix E/Letter from KPMG, regarding the "Tax Treatment for PILs – Future Benefit Liabilities", please explain how this letter is relevant to regulatory tax principles, as articulated in EB-2008-0381.

   The regulatory tax principles state that the liability and future obligation for post-employment benefits should sit on the books of the company that directly employs the people and issues the T4s. The movement in this liability or obligation can be used in the PILs provision calculation only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people. Any post-employment benefit liabilities or obligations for staff employed by service companies, or other affiliated or associated non-regulated companies, would not be used in the distributor's calculation of the PILs provision.

d) As per the response to Supplementary Board Staff Interrogatory #9, the burden rate charged by Utilities Kingston to Kingston Hydro does not include a component for post-employment benefits. However, Kingston Hydro also stated in the response to the same interrogatory that Kingston Hydro is obligated to pay Utilities Kingston for these benefits under the terms of the UK/KH agreement.

I. Does Kingston Hydro agree that these are two contradictory responses? I.e. the burden rate charged by Utilities Kingston to Kingston Hydro does not include a component for post-employment benefits, so how is Kingston Hydro obligated to pay Utilities Kingston for these benefits? Please provide a full explanation.

II. Does Kingston Hydro agree that if Kingston Hydro hired a third party contractor to provide services, rather than Utilities Kingston, Kingston Hydro would not accrue a liability or future obligation for post-employment benefits? Does Kingston Hydro agree that instead it would be part of the burden rate in the price for the labour billed to Kingston Hydro? Please provide a full explanation.