Board Staff Interrogatories
2012 IRM3 Electricity Distribution Rates
Woodstock Hydro Services Inc.
EB-2011-0207

Incremental Capital Module

1. Ref: Incremental Capital Workform, Sheet E1.1 and Sheet E2.1

Sheet E1.1

Threshold Parameters

Price Cap Index			
Price Escalator (GDP-IPI)	1.30%		
Less Productivity Factor	-0.72%		
Less Stretch Factor	-0.40%		
Price Cap Index		**0.18%**	
Growth			
ICM Billing Determinants for Growth - Numerator : 2011 Re-Based Forecast		$7,932,308	A
ICM Billing Determinants for Growth - Denominator : 2010 Audited RRR		$7,498,083	B
Growth		**5.79%**	C = A / B

Sheet E2.1

Price Cap Index		**0.18%**	**A**
Growth		**5.79%**	**B**
Dead Band		**20%**	**C**
Average Net Fixed Assets			
Gross Fixed Assets Opening		$39,535,406	
Add: CWIP Opening		$ 200,000	
Capital Additions		$ 2,919,673	
Capital Disposals		-$ 178,962	
Capital Retirements		-$ 200,000	
Deduct: CWIP Closing		$ -	
Gross Fixed Assets - Closing		$42,276,117	
Average Gross Fixed Assets		$40,905,762	
Accumulated Depreciation - Opening		$17,253,672	
Depreciation Expense		$ 2,060,280	**D**
Disposals		-$ 178,962	
Retirements		$ -	
Accumulated Depreciation - Closing		$19,134,990	
Average Accumulated Depreciation		$18,194,331	
Average Net Fixed Assets		$22,711,431	**E**
Working Capital Allowance			
Working Capital Allowance Base		$36,041,163	
Working Capital Allowance Rate		15%	
Working Capital Allowance		$ 5,406,174	**F**
Rate Base		**$28,117,605**	**G = E + F**
Depreciation	**D**	**$ 2,060,280**	**H**
Threshold Test		**201.63%**	**I = 1 + (G / H) * (B + A * (1 + B)) + C**
Threshold CAPEX		$ 4,154,210	**J = H *I**

Board staff notes that the Incremental Capital Workform does not appear to be pulling in the correct data into sheet E1.1 with respect to load growth. The revised Sheet E2.1 depicted above recalculates the materiality threshold and resulting threshold CAPEX using a load growth of 5.79%.

a) Please confirm that the "ICM Billing Determinant for Growth: 2010 Audited RRR' is correct and the resulting Threshold CAPEX is consistent with Woodstock's information. If so Board staff will enter the correct information on sheet E1.1 as displayed above.

2. Ref: Manager's Summary, p.21

In the Manager's Summary, Woodstock presents 2012 forecasted capital expenditures of $7,377,996 include costs for the Commerce Way TS Project of $4,427,330.

a) Please confirm that none of the capital expenditures equalling $7,337,996 have previously been included in Woodstock's rate base.

b) Please provide a breakdown of the projects included in the total forecasted capital expenditure of $7,377,996 excluding the Commerce Way TS project.

c) Please confirm that none of the projects included in the 2012 forecasted capital expenditures are discretionary in nature.

3. Ref: Manager's Summary, p.12 and p.21
Ref: Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, p. 10

In the Manager's Summary, Woodstock requests approval of a rate rider to recover incremental costs of $4,427,330. Woodstock also presents total capital expenditures of $7,377,996. In the Board's updated Filing Requirements it is established that the maximum eligible incremental capital amount allowable for recovery is the total non-discretionary capital expenditures minus the threshold amount.

a) If Woodstock confirms that the Threshold Value derived in Board Staff Interrogatory No.1 is correct then please confirm that the incremental capital amount Woodstock is eligible to recover is $3,223,786 ($7,377,996 minus $4,154,210).

b) If Woodstock is of the view that the eligible amount to be recovered through an incremental capital rate rider should remain $4,427,330, please provide the justification for this treatment.

4. Ref: Manager's Summary, p.25
Ref: Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (EB-2007-0673) Appendix B, page IX

In the second noted reference, the Board indicated that distributors will be expected to file a proposal on the manner in which it intends to allocate the incremental revenue requirement to the various customer rate classes, the rationale for the selected approach and a discussion on the merits of alternative allocations considered.

a) Please confirm that the incremental revenue requirement was allocated to the various customer rate classes on the basis of distribution revenue. If so, please provide the rationale from a cost causality standpoint of using this approach.

b) Did Woodstock consider allocating the incremental revenue requirement on the same basis as the recovery of transmission connection costs (i.e. using the rate class share of transmission connection revenue)? If so, please provide the rationale for rejecting this approach. If not, please comment on whether this approach should be considered from a cost causality standpoint.

c) Please provide a table that compares the incremental revenue requirement allocated to each rate class when using: (a) distribution revenue as the allocator; and (b) using the rate class share of transmission connection revenues.
d) Please provide the rationale for proposing to recover the incremental revenue requirement using both fixed and variable rate riders.

e) Please recalculate the rate riders derived by allocating the incremental revenue requirement allocated to each rate using the rate class share of transmission connection revenues and recovery by means of: (i) a variable rate rider; (ii) a fixed rate rider; and (iii) a fixed and variable rate rider.

5. Ref: 2012 IRM3 Rate Generator, Sheet 13-14. Sheet 13 reproduced below.

Rate Description	Unit	Amount	Effective Until Date	Proposed Amount	Effective Until Date
Residential					
Service Charge	$	12.72			
Rate Rider for Recovery of Late Payment Penalty Litigation Costs	$	0.22	July 31, 2012		
Rate Rider for Recovery of Incremental Capital Costs (2012)	$			0.79	April 30, 2014
	$				

In the Rate Generator, Woodstock has entered April 30, 2014 as the sunset date for the fixed and variable rate riders for the recovery of incremental revenue requirement.

a) Please confirm that Woodstock is using the April 30, 2014 sunset date since its next cost of service application is scheduled to be filed for the 2015 rate year.

6. Ref: Application, Page 27 of 861

On page 27, Woodstock stated that “WHSI consulted with KPMG on this matter, who stated that the term of the Agreement with Hydro One will dictate the amortization term of the intangible asset. If there is no agreement outlining a term, the useful life of the asset should be used. Woodstock further stated that “The signed Connection Cost Recovery Agreement (CCRA) between Hydro One and WHSI stated the term of this Agreement commences on the date first written above and terminates on the 25th anniversary of the In Service Date”

a) Please provide evidence as to why the capital contribution was classified as intangible assets by KPMG and provide further explanation as to the 25-year term of the Agreement.

b) Please provide the specific accounting guideline that provides for the term of the Agreement to establish the amortization period of the capital contribution.

c) Assuming that the useful life of the asset is used for the amortization period of the capital contribution under MIFRS, please provide the useful life of each component of the TS.

7. Ref: Application, Page 29, 30 & 31 of 861

On page 29, Woodstock stated that "The reallocation of these costs to expense results in a reduction of WHSI's payroll burden rate of 64.73% to 50.34% under MIFRS" and "The reallocation of these costs to expense results in a reduction of WHSI's hourly truck rate from $40 to $32.30".

In addition, Woodstock presented the useful life of the components of the TS wholesale meter costs under MIFRS on page 31.

a) Please provide a copy of the capitalization policy that refers to the burden rates and the useful life of the components used in the evidence.

8. Ref: Application, Page 30 of 861

On page 30 Woodstock capitalized $95,000 of subcontract costs under CGAAP and MIFRS.

a) Please provide the nature of the subcontract costs.

b) Please provide an explanation as to why the subcontract cost should be capitalized under MIFRS and why the capitalized balances are the same under CGAAP and MIFRS.

Revenue to Cost Ratio Adjustment

9. Ref: 2012 IRM Revenue to Cost Ratio Adjustment Workform, Sheet 7.
Ref: EB-2010-0145, 2011 Cost Allocation Model, Sheet 01

Rate Class	Informational Filing Revenue Offsets A	Percentage Split C= A / B	Allocated Revenue Offsets E = D * C
Residential	347,767	70.22%	347,767
General Service Less Than 50 kW	73,931	14.93%	73,931
General Service 50 to 999 kW	54,425	10.99%	54,425
General Service Greater Than 1,000 kW	9,928	2.00%	9,928
Unmetered Scattered Load	1,579	0.32%	1,579
Street Lighting	7,649	1.54%	7,649
	495,279	100.00%	495,279
	B		D

Board staff was unable to reconcile the values entered in column A with the Miscellaneous Revenue allocations established in Woodstock's 2011 cost of service application (EB-2010-0145).

a) Please confirm that the values In column A were those established in Woodstock's 2011 cost of service application (EB-2010-0145).

b) If not, please provide the Revenue Offsets by rate class underpinning the 2011 cost of service application.

Account 1521 – Special Purpose Charge (SPC)

10. Ref: 2012 IRM Rate Generator v1.3, Sheet 9
Ref: Manager's Summary, p.40

a) Please confirm Woodstock's SPC assessment amount and provide a copy of the original SPC invoice.
b) Please complete the table below related to the SPC.

SPC Assessment (Principal balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount recovered from customers in 2011	Carrying Charges for 2011	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Carrying Charges Balance	Total for Disposition (Principal & Interest)

Account 1562 – Deferred Payments in Lieu (PILs)

11. Missing Evidence
Ref: Manager's Summary, Appendix G

a) Please file the financial statements submitted with tax returns for 2001 to 2005.

12. CDM Incremental OM&A Expenses - 2005 SIMPIL Model
Ref: Manager's Summary, Appendix G

In the 2005 SIMPIL Model TAXCALC worksheet row 44 "*CDM 2005 incremental OM&A expenses per 2005 PILs model"* does not have an actual offsetting amount in cell G44.

The Board issued a letter dated September 13, 2011 regarding 2012 EDR – Disposition of account 1562 deferred PILs that states: "In the 2005 EDR, a deduction for CDM expenses was made in the PILs proxy model. The applicant should ensure that there is a corresponding tax (accounting) amount recorded on the same row in SIMPIL to determine the appropriate true-up".

a) Please provide the dollar amount of actual expense incurred in 2005 to compare to the proxy amount so that a reasonable true-up will be calculated.

b) Can Woodstock suggest an alternative method to avoid a one-sided true-up to ratepayers?

13. Income Tax Rates
Ref: Manager's Summary, Appendix G

Ref: EB-2008-0381 Decision and Order, pages 17-19.

The following table displays the income tax rates used in the calculation of the SIMPIL true-up variances in Woodstock's PILs 1562 evidence.

		2001	2002	2003	2004	2005
APPLICATION PILS PROXY CALCULATION	1. SIMPIL Tab TAXCALC Cell C53 (54): Blended income tax rate	40.62%	38.62%	38.62%	38.62%	36.12%
	2. SIMPIL Tab TAXCALC Cell C88 (89): Income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	37.50%	37.50%	35.00%
DECISION IN COMBINED PROCEEDING	From page 17 of the Decision: Tax rate to calculate the tax impact	40.62%	38.62%	36.62%	36.12%	36.12%
	Tax rate to calculate the grossed-up tax amount	39.50%	37.50%	35.50%	35.00%	35.00%
SIMPIL MODELS TAB TAXCALC	3. Cell E122 (123): Calculation of true-up variance -income tax effect	39.50%	38.62%	36.62%	35.00%	36.12%
	4. Cell E130 (131): Income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	34.94%	35.00%
	5. Cell E138 (139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	40.62%	38.62%	36.62%	36.06%	36.12%
	6. Cell E175 (176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	34.94%	35.00%

a) In the PILs combined proceeding, the Board indicated that the income tax impact will be calculated using the tax rate that includes the surtax rate expressed as

1.12%. The tax rate to calculate the true-up variance should exclude the surtax rate.[1]

In the 2001 Q4 SIMPIL model, Woodstock did not use the tax rate that includes the surtax of 1.12% in calculating the tax impact. Does Woodstock agree that the rate to calculate the tax impact should include the surtax rate of 1.12%? If not, please explain.

b) Please explain how Woodstock chose the income tax rates for the 2004 SIMPIL model true-up.

14. Interest Expense
Ref: Manager's Summary, Appendix G

Interest portion of true-up – 2003, 2004, 2005 SIMPIL - TAXCALC: Actual interest expense, as reflected in the financial statements and tax returns, that exceeds the maximum deemed interest amount is subject to a claw-back.

In the 2001 Q4 and 2002 SIMPIL models, the TAXCALC worksheet row 204 cell E206 "interest adjustment for tax purposes" is calculated as interest reported in the tax returns less "*total deemed interest*"*.* In Woodstock's 2003, 2004 and 2005 SIMPIL models, interest reported in the tax returns is subtracted from *"actual interest paid"* to calculate the adjustment.

a) Please explain why the calculation for "interest adjustment for tax purposes" shows a deduction of total deemed interest in the 2001 Q4 and 2002 SIMPIL models, whereas in the 2003, 2004 and 2005 SIMPIL models the calculation deducts actual interest paid?

b) Where is the "actual interest paid" amount derived from in these years?

c) Should Woodstock be subject to the settlement of Issue 13 related to the excess interest claw-back in the combined proceeding? Please explain.

1) For the tax years 2001 to 2005:

a) Did Woodstock have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

b) Did Woodstock net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.

c) Did Woodstock include interest expense on customer security deposits in interest expense?

[1]EB-2008-0381 Decision and Order, pages 17-19.

d) Did Woodstock include interest income on customer security deposits in interest expense?

e) Did Woodstock include interest expense on IESO prudentials in interest expense?

f) Did Woodstock include interest carrying charges on regulatory assets or liabilities in interest expense?

g) Did Woodstock include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

h) Did Woodstock deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

i) Please provide Woodstock's views on which types of interest income and interest expense should be included in the excess interest true-up calculations.

j) Please provide a table for the years 2001 to 2005 that shows all of the components of Woodstock's interest expense and the amount associated with each type of interest.

Lost Revenue Adjustment Mechanism (LRAM)

15. Ref: Manager's Summary, Page 53

Woodstock noted that the 2009 OPA final LRAM amount of $106,396.64 has been used as a placeholder amount until Woodstock receives the final 2010 LRAM/SSM audited results from the OPA. Woodstock further notes that it intends to update the LRAM/SSM rate rider for 2010 activities once the final audited results are received.

a) Please provide a status update on the 2010 OPA evaluation results.

b) If the 2010 OPA evaluation results have been made available to Woodstock, please update the LRAM claim accordingly and make the 2010 OPA evaluation results available for review.

c) Please provide the rationale for using the 2009 OPA final LRAM amount of $106,396.64 as a placeholder amount until Woodstock receives the final 2010 results from the OPA.