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BY E-MAIL

November 29, 2011

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Welland Hydro-Electric System Corp. ("Welland")
2012 IRM3 Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2011-0202**

In accordance with the Notice of Application and Hearing, please find attached Board Staff Interrogatories in the above proceeding. Please forward the following to Welland Hydro-Electric System Corp. and to all other registered parties to this proceeding.

In addition please advise Welland Hydro-Electric System Corp. that responses to interrogatories are due by December 14, 2011.

Yours truly,

Original Signed By

Christiane Wong
Information Administrator – Applications & Regulatory Audit

Encl.

Board Staff Interrogatories

2012 IRM3 Electricity Distribution Rates Welland Hydro-Electric System Corp. (“Welland”) EB-2011-0202

2012 Shared Tax Savings Workform

1. Ref: Sheet “5. Z-Factor Tax Changes” of the workform is reproduced below.

Summary - Sharing of Tax Change Forecast Amounts		
For the 2009 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)	\$	15,000
1. Tax Related Amounts Forecast from Capital Tax Rate Changes	2009	2012
Taxable Capital	\$ 26,931,529	\$ 26,931,529
Deduction from taxable capital up to \$15,000,000	\$ 15,000,000	\$ 15,000,000
Net Taxable Capital	\$ 11,931,529	\$ 11,931,529
Rate	0.225%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	\$ 26,846	\$ -
2. Tax Related Amounts Forecast from Income Tax Rate Changes	2009	2012
Regulatory Taxable Income	\$ 956,964	\$ 956,964
Corporate Tax Rate	29.02%	22.72%
Tax Impact	\$ 277,719	\$ 202,443
Grossed-up Tax Amount	\$ 391,264	\$ 261,969
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ 26,846	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 391,264	\$ 261,969
Total Tax Related Amounts	\$ 418,110	\$ 261,969
Incremental Tax Savings		-\$ 156,141
Sharing of Tax Savings (50%)		-\$ 78,071

- a) Board staff has been unable to verify the amount entered as Tax Credits (i.e. \$15,000) with Welland’s 2009 Revenue Requirement Workform. Please provide evidence supporting this amount. If the reported amount is in error, Board staff will make the necessary correction to the model.

2012 IRM3 Rate Generator

2. Ref: A portion of Sheet “6. Current Rate_Riders” of the rate generator is reproduced below.

General Service Less Than 50 kW			
Rate Rider for Global Adjustment Sub-Account (2010) – Applicable only for Non-RPP Customers	\$/kWh	0.00070	April 30, 2012
Rate Rider for Deferral/Variance Account Disposition (2010)	\$/kWh	(0.00010)	April 30, 2012
Rate Rider for Tax Change	\$/kWh	(0.00010)	April 30, 2012

Large Use			
Rate Rider for Global Adjustment Sub-Account (2010) – Applicable only for Non-RPP Customers	\$/kW	0.21130	April 30, 2012
Rate Rider for Deferral/Variance Account Disposition (2010)	\$/kW	(0.30300)	April 30, 2012
Rate Rider for Tax Change	\$/kW	(0.01300)	April 30, 2012

Welland’s Rate Riders for Deferral/Variance Account Disposition (2010) – effective until April 30, 2012 for the General Service Less Than 50 kW and Large Use rate classes do not reconcile with the current Tariff of Rates and Charges.

a) If this is an error, Board staff will make the relevant corrections.

3. Ref: A portion of Sheet “12. Calculation of Deferral/Variance Account Disposition and associated rate riders for the global adjustment sub-account” of the Rate Generator is reproduced below.

Please indicate the Rate Rider Recovery Period (in years)		2							
Rate Class	Unit	Billed kWh	Billed kW		Accounts Allocated by kWh/kW (RPP) or Distribution Revenue	Deferral/Variance Account Rate Rider		Account 1588 Global Adjustment	
Residential	\$/kWh	159,733,338	-	-\$	512,980	(\$0.00161)	\$/kWh	-\$	14,905
General Service Less Than 50 kW	\$/kWh	54,185,000	-	-\$	168,976	(\$0.00156)	\$/kWh	-\$	5,895
General Service 50 to 4,999 kW	\$/kW	144,932,476	424,027	-\$	444,497	(\$0.52414)	\$/kW	-\$	76,343
Large Use	\$/kW	58,704,363	169,304	-\$	178,925	(\$0.52841)	\$/kW	-\$	34,184
Unmetered Scattered Load	\$/kWh	1,128,127	-	-\$	3,626	(\$0.00161)	\$/kWh	-\$	27
Sentinel Lighting	\$/kW	908,962	2,580	-\$	2,889	(\$0.55991)	\$/kW	-\$	22
Street Lighting	\$/kW	4,700,576	13,119	-\$	15,142	(\$0.57711)	\$/kW	-\$	2,737
Total		424,292,842	609,030	-\$	1,327,035			-\$	134,112

Sheet 12 above shows an amount of (\$134,112) as the account balance for the 1588 Global Adjustment Sub-Account.

In the Manager's Summary, page 3 of 10, Welland Hydro is asking the Board to approve the disposition of (\$132,112) for the Global Adjustment Sub-Account balance.

- a) Please indicate which number is correct, and if necessary Board staff will make the corrections.

2012 RTSR Adjustment Workform

4. Ref: A portion of Sheet 6 “Historical Wholesale” of the workform is reproduced below.

IESO	Network			Line Connection			Transformation Connection		
Month	Units Billed	Rate	Amount	Units Billed	Rate	Amount	Units Billed	Rate	Amount
January	64,672	\$2.97	\$ 192,076	72,985	\$0.73	\$ 53,279	72,985	\$1.71	\$ 124,804
February	63,434	\$2.97	\$ 188,389	72,574	\$0.73	\$ 52,979	72,574	\$1.71	\$ 124,102
March	57,256	\$2.97	\$ 170,053	65,627	\$0.73	\$ 47,908	65,627	\$1.71	\$ 112,222
April	58,444	\$2.97	\$ 173,579	62,713	\$0.73	\$ 45,781	62,713	\$1.71	\$ 107,240
May	80,610	\$2.97	\$ 239,412	82,221	\$0.73	\$ 60,021	82,221	\$1.71	\$ 140,596
June	70,934	\$2.97	\$ 210,674	79,204	\$0.73	\$ 57,819	79,204	\$1.71	\$ 135,439
July	91,404	\$2.97	\$ 271,470	92,053	\$0.73	\$ 67,199	92,053	\$1.71	\$ 157,412
August	92,082	\$2.97	\$ 273,484	92,082	\$0.73	\$ 67,220	92,082	\$1.71	\$ 157,460
September	91,370	\$2.97	\$ 271,369	91,370	\$0.73	\$ 66,700	91,370	\$1.73	\$ 158,243
October	61,202	\$2.97	\$ 181,770	61,692	\$0.73	\$ 45,035	61,692	\$1.71	\$ 105,493
November	67,435	\$2.97	\$ 200,282	67,436	\$0.73	\$ 49,228	67,436	\$1.71	\$ 115,314
December	74,083	\$2.97	\$ 220,027	74,462	\$0.73	\$ 54,357	74,462	\$1.71	\$ 127,330
Total	872,926	\$ 2.97	\$ 2,592,585	914,419	\$ 0.73	\$ 667,526	914,419	\$ 1.71	\$ 1,565,655

- a) Please explain why the Transformation Connection rate for September is \$1.73 (Cell M32) instead of \$1.71 as provided on Sheet 5 UTRs and Sub-Transmission.
If this entry is incorrect, Board staff will make the necessary correction.
- b) Please indicate that both the “Units Billed” and “Amount” inputs for the month of September are correct, or if not, please provide the corrected amounts and Board staff will make the necessary corrections.

Account 1562 – Deferred PILs

6. Reference: Appendix 1, Monthly Continuity Schedule, 2004 and 2005 PILs entitlement

- a) Please clarify how the 2004 PILs entitlement for the year of \$443,349.16 is calculated with specific reference to the period January 1, 2004 to the implementation date of rate change of April 1, 2004.
- b) Please clarify how the 2005 PILs entitlement for the year of \$418,755.64 is calculated with specific reference to the period January 1, 2005 to the implementation date of rate change of April 1, 2005.

7. Reference: Appendices 12 to 16, SIMPIL models for 2001 to 2005, Income Tax Rates

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

		2001	2002	2003	2004	2005
APPLICATION PILS PROXY CALCULATION	SIMPIL Tab TAXCALC Cell C53 (54): Blended income tax rate See note below.	19.12%*	34.12%	34.12%	34.12%	27.50%
	SIMPIL Tab TAXCALC Cell C88 (89): Income tax rate used for gross- up (excluding surtax) See note below.	18.00%*	33.00%	33.00%	33.00%	27.50%
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 TAXCALC	Cell E122 (123): Calculation of true-up variance -income tax effect	19.12%	38.45%	35.74%	32.97%	35.29%
	Cell E130 (131): Income tax rate used for gross- up (excluding surtax)	18.00%	37.33%	34.62%	31.85%	34.17%
	Cell E138 (139): Calculation of Deferral Account Variance caused by changes in legislation – Revised	19.12%	38.45%	35.74%	32.97%	35.29%

		2001	2002	2003	2004	2005
	corporate income tax rate					
	Cell E175 (176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	18.00%	37.33%	34.62%	31.85%	34.17%

Note: For 2001 fourth quarter (Q4) Welland did not apply for income tax PILs; however, it did apply for large corporation tax and Ontario capital tax.

Staff reviewed the income tax returns for the years 2001 to 2005. Welland had losses and loss carry forwards and therefore did not have any taxable income during this period.

- a) For the 2002 SIMPIL model, did Welland consider using the Board approved application income tax rate of 34.12% in the PILs calculations as a reasonable alternative for the tax rates? Please explain.
- b) For the 2005 SIMPIL model, did Welland consider using the Board approved application income tax rate of 27.50% in the PILs calculations as a reasonable alternative for the tax rates? Please explain.

8. Preamble:

Page 4 of Welland's 1562 Deferred PILs report indicates that:

“The income tax rate used for true-up purposes is the actual legislated tax rate for the applicable year based on regulatory taxable income used to determine PILs that were included in rates not the rate used to set PILs included in rates or the actual income tax rate paid.”

Welland did not pay income tax PILs during the period of 2001 to 2005. The income tax rates used for the true-up calculations are greater than the tax rates used in the rate applications for the years 2002, 2003 and 2005. The method proposed creates a benefit for Welland as can be seen in the table below. The “*Regulatory Income Tax Variance*” and the “*Income Tax (grossed-up)*” are derived from the SIMPIL model TAXCALC sheet cells E132 to E175 (E134 to E177). The grossed-up income tax amount of \$165,279 was added to the balance in account 1562.

		2001	2002	2003	2004	2005	Extra PILs to Ratepayers
	Actual Income Tax PILs \$	-	-	-	-	-	-
SIMPIL MODELS TAXCALC DEFERRAL ACCOUNT VARIANCE	Cell 146 (148): Regulatory Income Tax Variance \$	-	29,168	10,913	- 7,474	74,659	
	Cell 175 (177): Income Tax (grossed-up) \$	-	46,543	16,691	- 11,367	113,412	165,279

- a) Does Welland consider it fair to its ratepayers that it now wants to recover more PILs through its selection of an income tax rate to which it was not subject? Please explain.
- b) Can Welland provide a regulatory reference that supports its choice of income tax rates for the true-up calculations?

9. Reference: Appendices 12 to 16, SIMPIL models for 2001 to 2005, Interest Expense

Actual interest expense, as reflected in the tax returns, that exceeds the maximum deemed interest amount is subject to a claw-back. This has been a feature of the Board's methodology and was settled in the combined proceeding under Issue #13.

The calculation of the interest adjustment for tax purposes on the 2005 SIMPIL model TAXCALC sheet row 206 cell E206 includes a deduction for IESO charges of \$19,477.

- a) Please explain why IESO charges should be removed from the interest portion of true-up.

10. For the tax years 2001 to 2005:

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

- b) Did Welland 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 Welland include interest expense on customer security deposits in interest expense?
- d) Did Welland include interest income on customer security deposits in interest expense?
- e) Did Welland include interest expense on IESO prudentials in interest expense?
- f) Did Welland include interest carrying charges on regulatory assets or liabilities in interest expense?
- g) Did Welland include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- h) Did Welland deduct capitalized interest in deriving the interest expense disclosed in its financial statements?
- i) Please provide Welland'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 Welland's interest expense and the amount associated with each type of interest.