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**BY EMAIL**

December 7, 2011

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Woodstock Hydro Services Inc.  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0207**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Woodstock Hydro Services Inc. and to all other registered parties to this proceeding.

In addition please remind Woodstock Hydro Services Inc. that its Reply Submission is due by December 19, 2011.

Yours truly,

*Original signed by*

Birgit Armstrong  
Advisor, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**2012 ELECTRICITY DISTRIBUTION RATES**

**Woodstock Hydro Services Inc.**

**EB-2011-0207**

**December 7, 2011**

**Board Staff Submission  
Woodstock Hydro Services  
2012 IRM3 Rate Application  
EB-2011-0207**

**Introduction**

Woodstock Hydro Services Inc (“Woodstock”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on September 22, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Woodstock charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Woodstock.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Woodstock. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Woodstock confirmed certain errors as described below and provided the necessary corrections to the models.

Board staff makes submissions on the following matters:

- Revenue-to-Cost Ratio Adjustments;
- Disposition of Account 1521 – SPC Variance;
- Disposition of Group 1 Deferral and Variance Account Balances;
- Incremental Capital Module (“ICM”);
- Lost Revenue Adjustment Mechanism (“LRAM”); and
- Account 1562 – Deferred Payments in Lieu of Taxes (“PILs”).

**Revenue to Cost Ratio Adjustments**

**Background**

In this application, Woodstock adjusted the revenue-to-cost ratios for the General

Service 50 to 999 kW, General Service > 1,000 kW, Street Lighting, and the Unmetered Scattered Load rate classes. These adjustments were agreed upon in the Settlement Proposal, filed on April 8, 2011, in Woodstock's 2011 COS proceeding (EB-2010-0145) and approved by the Board on April 20, 2011.

## **Submission**

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Settlement Agreement and the Board's Decision in Woodstock's 2011 COS proceeding.

## **Disposition of Account 1521 – SPC Variance**

### **Background**

On April 9, 2010, the Board issued a letter and invoice to all licensed electricity distributors outlining the amount of each distributor's SPC assessment and the associated SPC.

On April 23, 2010, the Board issued a letter to all licensed electricity distributors authorizing Account 1521, Special Purpose Charge Assessment Variance Account. Any difference between the amount remitted to the Ministry of Finance for the SPC assessment and the amount recovered from customers was to be recorded in "Sub-account 2010 SPC Assessment Variance" of Account 1521.

The letter also indicated, in accordance with section 8 of the SPC regulation, that electricity distributors are required to apply to the Board no later than April 15, 2012 for an order authorizing them to clear any debit or credit balance in the "Sub-account 2010 SPC Variance". The Board expected that requests for disposition in "Sub-account 2010 SPC Variance" and "Sub-account 2010 SPC Assessment Carrying Charges" would be addressed as part of the proceedings for the 2012 rate year, except in cases where this approach would result in non-compliance with the timeline set out in section 8 of the SPC Regulation. In addition, the letter indicated in accordance with section 9 of the SPC Regulation, recovery of the SPC assessment is to be spread over a one-year period.

Woodstock originally requested the disposition of a debit balance of \$5,008 as of April

30, 2012. In response to Board staff interrogatory # 10, Woodstock provided the table below. The \$20 difference between the Total Claim on the table and the Total Claim initially requested is due to projected carrying charges from January 1, 2012 to April 30, 2012 which were excluded from the original amount sought for disposition.

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)
\$151,689	\$85,124.52	\$445.07	\$66,564.48	\$445.07	\$62,308.56	\$255.58	\$4,255.92	\$732.51	\$4,988.43

## Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances in the application provided by Woodstock are not audited. Board staff notes that the residual balance in Account 1521 captures the difference between the assessed amount and the amounts recovered from ratepayers, which arise as a result of the volume used in deriving the assessment unit rate and the actual volume consumed over the recovery period.

Board staff submits that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including carrying charges, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account by April 30, 2012 in any event. It is Board staff's view that there is no need to await the outcome of the final audited results when these results may be available after April 30, 2012.

Board staff submits that Woodstock's request to dispose of the \$4,988 balance in account 1521 should be approved. Board staff notes that this balance includes the correct calculation of forecasted carrying charges extending to April 30, 2012.

## **Disposition of Group 1 Deferral and Variance Account Balances**

### **Background**

The EDDVAR Report provides that during the IRM plan term, the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded.

Woodstock completed the 2012 IRM Rate Generator Model. The 2010 actual year-end balance for Group 1 accounts with interest projected to April 30, 2012 is a credit of \$934,693. Credit balances are to be refunded back to customers. This amount results in a total claim of -\$0.00251 per kWh, which exceeds the preset disposition threshold. As a result, Woodstock is eligible to dispose of Group 1 accounts at this time.

### **Submission**

Board staff has reviewed Woodstock's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the Reporting and Record-keeping Requirements. Since the preset disposition threshold has been exceeded Board staff has no issue with Woodstock's request to dispose of its 2010 Deferral and Variance Account balances at this time.

## **Incremental Capital Module ("ICM")**

### **The Request**

Woodstock proposed to recover, through an ICM, the incremental capital costs of \$4,427,330 associated with a \$4.1 million capital contribution to Hydro One Networks Inc. ("Hydro One") for the Commerce Way Transmission Station ("Commerce Way TS") and \$327,330 to purchase and install Woodstock owned wholesale metering assets for the Commerce Way TS.

Woodstock proposed to allocate the revenue requirement associated with the incremental capital expenditures eligible for cost recovery on the basis of distribution revenue. Woodstock proposed to recover these amounts by means of fixed and

variable rate riders that would remain in effect until its next cost of service application (scheduled for the 2015 rate year).

### Eligibility Criteria

The *Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Report") requires that incremental capital expenditures satisfy the eligibility criteria of materiality, need and prudence in order to be considered for recovery prior to rebasing. Applicants must demonstrate that amounts exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor, must be clearly non-discretionary and the amounts must be clearly outside of the base upon which rates were derived.

#### *(i) Materiality*

Woodstock originally calculated a materiality threshold value of \$2,522,948. In response to Board staff interrogatory #1, due to an error in the model used, Woodstock confirmed that the corrected amount for the materiality threshold is \$4,154,210. Based on the corrected materiality threshold value, Woodstock confirmed that the maximum amount eligible for recovery would be \$3,223,786 (i.e. \$7,337,966 minus \$4,154,210) rather than the original proposed amount of \$4,427,330.

#### *(ii) Project Need and Prudence*

Woodstock indicated that the need for the Commerce Way TS was established by the Board in the EB-2009-0079 proceeding.

Woodstock originally applied to recover the costs of the Commerce Way TS in its 2011 cost of service application (EB-2010-0145). As the in-service date for the project was delayed beyond the 2011 test year, Woodstock withdrew its proposal. In its decision and order in the EB-2010-0145 proceeding, the Board stated that:

The Board notes that both the need and prudence of the Commerce Way TS was assessed in Hydro One's leave-to-construct proceeding (EB-2009-0079) and Hydro One's 2011-2012 rates proceeding (EB-2010-0002) respectively. Furthermore, the Board notes that the amount of the required capital

contribution would have exceeded the materiality threshold for Woodstock Hydro as set forth in the Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008. Woodstock Hydro and Hydro One Distribution put forth evidence for need of the project via a combined load forecast which projected load growth over the summer capacity rating at Woodstock TS of 40 MW by 2012 and 60 MW by 2016. Hydro One asserted that the forecast load growth cannot be met through distributed generation in the Woodstock area or through conservation and demand management initiatives and so a supply type initiative is required.

Based on the above, the Board in this particular case does not see any impediment to treating the capital contribution made by Woodstock Hydro in the same manner as a capital expenditure in the event that Woodstock Hydro would submit an Incremental Capital Module ("ICM") in a future Incentive Regulation Mechanism rate application.<sup>1</sup>

The in-service date for Commerce Way TS is now December 17, 2012. Accordingly, Woodstock proposed an ICM in this application.

#### The incremental Revenue Requirement Calculation

##### *(i) The Half Year Rule*

Woodstock did not apply the half year rule when calculating the incremental revenue requirement associated with the allowable ICM amount as required by the *Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008 and the Board's EB-2010-0104 decision. Woodstock explained that since it is not scheduled to file a rebasing application until 2015, the half year rule should not apply.

##### *(ii) The Capital Structure*

Woodstock used a 60% debt and 40% equity deemed capital structure and the cost of capital parameters approved in its 2011 cost of service application when

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<sup>1</sup> EB-2010-0145, Decision and Order, p.3



calculating the revenue requirement associated with the incremental capital expenditures.

*(iii) Treatment of the Capital Contribution*

As mentioned earlier, Woodstock requested that a capital contribution of \$4.1 million payable to Hydro One be included in the ICM. The signed Capital Cost Recovery Agreement (the “Agreement”) between Woodstock and Hydro One states that the term of the agreement will commence on the date first written and terminates on the 25th anniversary of the in service date.<sup>2</sup> Woodstock indicated that it consulted with KPMG on the amortization period of the capital contribution. KPMG advised Woodstock that the term of the Agreement will dictate the amortization period. If there is no agreement outlining a term, then the useful life of the asset should be used.

Reconciliation of MIFRS and CGAAP

Woodstock indicated that the *Report of the Board: Transition to International Financing Reporting Standard* (“IFRS”) dated July 28, 2009 and the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*, dated June 13, 2011 set out regulatory policy guidance regarding the transition to IFRS, or modified IFRS (“MIFRS”) under both cost of service and incentive rate setting mechanisms. Woodstock provided a detailed reconciliation between CGAAP and MIFRS for both the Commerce Way TS capital contribution and the TS wholesale metering project.

Woodstock identified that there would be no change in the revenue requirement for rate setting purposes due to accounting differences between CGAAP and MIFRS with respect to the Commerce Way TS capital contribution.

For the TS wholesale metering project, Woodstock identified a difference in the revenue requirement of approximately \$1,000.

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<sup>2</sup> Per Connection and Cost Recovery Agreement pg 2. Definition of “In Service Date” defined in Connection and Cost Recovery Agreement pg 12

## **Submission**

### Eligibility Criteria

Board staff takes no issue with respect to the need for and prudence of incurring the costs associated with the Commerce Way TS since the Board previously opined on this matter in Hydro One's leave-to-construct proceeding (EB-2009-0079) and Hydro One's 2011-2012 rates proceeding (EB-2010-0002) respectively.

Board staff also submits that Woodstock met the materiality threshold in order for the costs to be considered for recovery. Based on the revised materiality threshold calculation, the maximum allowable amount for recovery is the revenue requirement associated with the incremental capital expenditures of \$3,223,786 (i.e. \$7,337,996 minus \$4,154,210) rather than \$4,427,330 as originally proposed.

Board staff also notes that in response to Board staff interrogatory #2a and c, Woodstock confirmed that none of the projects included in the 2012 forecasted capital expenditures are discretionary in nature and that none of the capital expenditures equaling \$7,337,996 have been previously included in Woodstock's rate base.

### The incremental Revenue Requirement Calculation

With respect to the revenue requirement calculation, Board staff agrees with Woodstock that the half year rule should not apply in this case since 2012 is the first year of Woodstock's IRM plan term. Board staff also submits that the capital structure used to calculate the revenue requirement associated with the incremental capital expenditures is appropriate.

### Treatment of the Capital Contribution

Board staff has identified some issues for the Board's consideration with respect to the treatment of the capital contribution. These issues pertain to the accounting classification of the capital contribution, the appropriateness to include the capital contribution in rate base, if applicable, and the appropriate amortization period.

#### (i) Classification of the Capital Contribution

### *Criteria for Intangible Asset Classification*

The CICA Handbook Part I IFRS – IAS 38 – Intangible Assets (IAS 38), provides accounting guidance on intangible assets. The capital contribution in this case meets the definition of an intangible asset in IAS 38 for the following reasons:

- **Identifiability:** The capital contribution is identifiable as it arises from the contractual rights established in the agreement between Woodstock and Hydro One.
- **Control:** An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Woodstock has the capacity to control the future economic benefits from the assets for 25 years as it has the legal right of 25 years to use 50% of the capacity of the new station.

- **Future economic benefits:** Woodstock will have the ability to service customers and derive distribution revenue for 25 years, which represents a future economic benefit from the use of the TS.

### *Recognition and Measurement of the Capital Contribution*

According to IAS 38, an intangible asset shall be recognized if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

The distribution revenue derived from serving the customers using the new station will flow to Woodstock and the cost of the capital contribution can be reliably measured by the payment schedule specified in the Connection and Cost Recovery Agreement and invoiced from Hydro One.

Board staff submits that the analysis above supports that the capital contribution be treated as an intangible asset. In the 2009 IFRS Report of the Board (EB-2009-0408), the Board opined that “utilities” should include certain intangible assets (e.g. computer software and land rights) in rate base and the amortization expense in determining the revenue requirement.

*(ii) Useful Life of the Capital Contribution*

IAS 38 specifies that an entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

Since the capital contribution arises from the contractual rights established in the Agreement and since Woodstock is expected to use the Commerce Way TS for the term of the agreement, Board staff submits that the term of the Agreement which is 25 years starting from the in service date is appropriate to define the amortization period.

Reconciliation of IFRS and CGAAP

As previously noted, Woodstock provided a detailed reconciliation between CGAAP and MIFRS for both the Commerce Way TS capital contribution and the TS wholesale metering project.

Woodstock identified no impact on the revenue requirement for the Commerce Way TS capital contribution. For the wholesale metering project, Woodstock identified a difference in the revenue requirement of approximately \$1,000.

Board staff notes that in the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*, dated June 13, 2011, the Board approved the establishment of a PP&E deferral account to capture the difference in the January 1, 2012 opening balance arising from the adoption of IFRS. The Board also indicated that the

amounts recorded in the PP&E deferral account will be subject to Board approval prior to disposition.

Both staff notes that the difference between CGAAP and MIFRS is not material. In any event, Board staff is of the view that no approval is required at this time since the review and approval process would be conducted in Woodstock's next cost of service application when the rate base is adjusted.

#### Allocation of the Incremental Revenue Requirement

In response to Board staff interrogatory #4a, Woodstock confirmed that the revenue requirement associated with the incremental capital expenditures eligible for cost recovery was allocated on the basis of distribution revenue.

Board staff asked in interrogatory #4b whether Woodstock considered allocating the incremental revenue requirement on the same basis as the recovery of transmission connection costs. In response to this interrogatory, Woodstock indicated that it did not consider this approach. Woodstock further stated that an allocation based on distribution revenue would maintain consistency with the allocation assumed in its distribution rates. In response to part c of the same interrogatory, Woodstock provided 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.

Board staff submits that based on cost causality an allocation using the rate class share of transmission connection revenues would be more appropriate than using distribution revenue since the latter includes, for example, the allocation of billing and other customer-related costs that are not relevant to the allocation of transformer station costs.

#### Recovery of the Incremental Revenue Requirement

Woodstock proposed to recover these amounts by means of fixed and variable rate riders that would remain in effect until its next cost of service application.

In response to Board staff interrogatory #4d, Woodstock provided the rationale for this proposal. Woodstock indicated that it believes that the rate riders should reflect the fixed component as well as the variable component consistent with its current distribution rates. Woodstock also noted that the 2007 cost allocation model recognized that both capital and operating costs should be split between fixed and variable rates.

Board staff notes that the Board previously approved in the case of Guelph Hydro (EB-2010-0130) and Oakville Hydro (EB-2010-0104) the recovery of the incremental annual revenue requirement amount by means of a variable rate rider. While Board staff has no issues per se with Woodstock's proposal, Board staff is of the view that the recovery of the amount by means of fixed and variable rate riders creates additional complexities that may not be warranted.

### **Lost Revenue Adjustment Mechanism ("LRAM")**

Woodstock has requested to recover over a 12-month period lost revenues associated with CDM activities it conducted in 2010. Woodstock's LRAM claim includes the effect of 2010 programs in 2010, persisting effects of 2005-2009 programs in 2010 and persisting effects of 2005-2010 programs in 2011.

Woodstock did not have 2010 OPA preliminary or final results at the time of filing its application, so it used the 2009 OPA final LRAM amount of \$106,396.64 as a placeholder amount. In response to interrogatories from Board staff and VECC, Woodstock updated its LRAM amount with the 2010 OPA final results. Woodstock also provided a third party review of its CDM program results. Woodstock is requesting approval of an updated LRAM amount of \$129,732.33.

*The Board's Guidelines for Electricity Distributor Conservation and Demand Management* (the "Guidelines") issued on March 28, 2008 outlines the information that is required when filing an application for LRAM. In its Decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

## Submission

### *UPDATED LRAM AMOUNT*

Board staff notes that the updated LRAM claim of \$129,732.33 includes the OPA's 2010 final verified results for the OPA programs. Board staff submits that using the updated 2010 verified results is appropriate and consistent with the method accepted by the Board in other recent decisions.

### *PERSISTING IMPACTS OF 2005-2009 PROGRAMS IN 2010 AND 2011 AND PERSISTING IMPACTS OF 2010 PROGRAMS IN 2011.*

Woodstock has requested the recovery of lost revenues associated with historical programs from 2005-2009 that have persisted into 2010 and 2011 and persistence of 2010 programs into 2011. Board staff notes that Woodstock's rates were last rebased in 2011. The intent of the LRAM in the electricity sector is to maintain revenue neutrality for CDM activities implemented by distributors during the IRM term since their rates do not reflect incremental CDM activities beyond the rebasing year. It is Board staff's view that the expectation in the electricity sector has been that LRAM claims pertaining to the test year (including true-ups to previous rebasing forecasts) would be unnecessary once a distributor rebases and accordingly updates its load forecast. This approach results in having final rates for all elements of the revenue requirement for the test year.

Board staff notes that the CDM Guidelines state the following with respect to LRAM claims.

Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time<sup>3</sup>.

In its 2011 COS application, Woodstock had the opportunity to reflect CDM savings on a forecast basis for all programs planned to be deployed up to and including the test year.

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<sup>3</sup> Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

Board staff is of the view that Woodstock should have adjusted its forecast for CDM initiatives during its last rebasing period. Board staff submits that Woodstock could have done this by the use of reasonable proxies for CDM effects for new programs deployed in the years leading up to and including the test year.

The CDM guidelines suggest that once a new load forecast is approved, it is to be considered final in all respects, unless the Board has specifically prescribed different guidance in its decision. The same would hold true in Board staff's view if a CDM adjustment was included in the forecast but was not achieved.

While a true up of all unforecasted CDM activities would be consistent with the revenue neutrality principle of the LRAM concept, it is Board staff's view that the overriding regulatory principle to be considered is rate certainty. The rule against retroactive rate-making precludes retroactive adjustments related to the period for which rates were declared final. This is a key regulatory principle which the Board has, with very few exceptions, always upheld. To the extent that actual savings were not reflected in the final approved forecast should be, in Board staff's view, those savings absorbed by the Applicant.

Board staff recognizes that in the past, LRAM applications may have been approved for persistence of programs after a new load forecast has been approved in a cost of service application, and the Board may want to consider the issue of consistency in its decision. In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate. Woodstock may want to indicate in its reply submission whether the issue of an LRAM application was addressed in their cost of service application.

Otherwise, Board staff supports the recovery of the requested persisting lost revenues from 2005-2009 CDM programs in 2010, but not in 2011. Board staff also does not support the lost revenues from 2010 CDM programs that persist into 2011. Board staff requests that Woodstock provide in its reply submission the lost revenues associated with 2005-2009 programs that persist into 2010.



## *2010 PROGRAMS*

Board staff submits that Woodstock appropriately included the effect programs in 2010 in its LRAM claim. Board staff supports the recovery of lost revenues for 2010 CDM programs in 2010 since Woodstock was under IRM during that period. Board staff requests that Woodstock provide in its reply submission the lost revenue associated with 2010 CDM programs in 2010.

## *2011 PROGRAMS*

Board staff notes that in Attachment B (Foregone Revenue by Class and Program) included in Woodstock's interrogatory responses to VECC, it appears that Woodstock has included lost revenue claims for programs implemented in 2011. Board staff notes that this information was not included in Woodstock's application as Woodstock omitted it due to the OPA final results not being available at the time of filing. Board staff requests that Woodstock provide in its reply submission the rationale for including programs that were implemented in 2011 in its LRAM claim. Board staff submits that including programs that were implemented in 2011 is inappropriate as the 2011 program year has not ended and these programs are subject to the evaluation requirements under the CDM Code that was issued on September 16, 2010.

## **Account 1562 – Deferred Payments in Lieu of Taxes (“PILs”)**

### **Background**

In 2001, the Board approved a regulatory PILs tax proxy approach for rate applications coupled with a true-up mechanism filed under the Reporting and Record-keeping Requirements (“RRR”) to account for changes in tax legislation and rules, and in order to true-up between certain proxy amounts used to set rates and the actual amounts. The variances resulting from the true-up were tracked in account 1562 for the period 2001 through April 30, 2006.

On December 18, 2009 the Board issued a decision in the combined proceeding and provided its views on how it will review the evidence related to account 1562 deferred PILs.

The parties may well differ in their interpretations of the methodology but the Board

will decide those questions on the basis of the facts and the underlying documents. The Board will not enter into an enquiry as to what the methodology should have been but rather, will determine, where necessary, what the methodology was and what the appropriate application of the methodology should have been.<sup>4</sup>

The 2005 PILs proxy model included a deduction for CDM expenses forecast for the 2005 test year. Applicants were required to record a corresponding tax (accounting) amount on the same row in the SIMPIL model to determine the appropriate true-up. In the revised Halton Hills model submitted in the combined proceeding, the “*CDM 2005 Incremental OM&A expenses per 2005 PILs model*” amount was entered on a line that did not true-up to ratepayers and did not need an offsetting actual amount.

Woodstock's 2005 revised SIMPIL model TAXCALC sheet row 44 cell C44 “*CDM 2005 Incremental OM&A expenses per 2005 PILs model*” of \$86,666 trues up on rows 99 to 132. Woodstock provided the dollar amount of the actual expense incurred in 2005 of \$31,248 so a reasonable true-up could be calculated. This amount was not recorded on TAXCALC; therefore there is no symmetrical true-up.

## Submission

Board staff submits that the asymmetrical true-up approach adopted by Woodstock for 2005 CDM expenses is inappropriate. Board staff submits that Woodstock should select one of the following two options and file a revised 2005 SIMPIL model, PILs continuity schedule and EDDVAR continuity schedule:

- 1) Record the 2005 actual CDM expense of \$31,248 in 2005 SIMPIL model TAXCALC sheet row 44 cell G44 on the same row as the CDM proxy amount.

or,

- 2) Move the CDM proxy amount of \$86,666 to a line that does not true-up (1 row below in cell C45).

Other than this adjustment and any resulting changes to interest carrying charges, Board staff submits that Woodstock has followed the regulatory guidance and the

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4EB-2008-0381 Combined Proceeding, Account 1562 Deferred Payments in Lieu of Taxes (PILs), pg. 7.

Board's decisions in determining the amounts recorded in Account 1562.

All of which is respectfully submitted