

## Board Staff Interrogatories

### 2012 IRM3 Electricity Distribution Rates St. Thomas Energy Inc. ("St. Thomas") EB-2011-0196

#### 2012 Shared Tax Savings Workform

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

<b>Summary - Sharing of Tax Change Forecast Amounts</b>		
For the 2011 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)	\$ -	
<b>1. Tax Related Amounts Forecast from Capital Tax Rate Changes</b>	<b>2011</b>	<b>2012</b>
Taxable Capital	\$ -	\$ -
Deduction from taxable capital up to \$15,000,000	\$ -	\$ -
Net Taxable Capital	\$ -	\$ -
Rate	0.000%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	\$ -	\$ -
<b>2. Tax Related Amounts Forecast from Income Tax Rate Changes</b>	<b>2011</b>	<b>2012</b>
Regulatory Taxable Income	\$ 1,129,757	\$ 1,129,757
Corporate Tax Rate	25.04%	23.26%
Tax Impact	\$ 282,906	\$ 262,800
<b>Grossed-up Tax Amount</b>	<b>\$ 377,416</b>	<b>\$ 342,462</b>
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 377,416	\$ 342,462
<b>Total Tax Related Amounts</b>	<b>\$ 377,416</b>	<b>\$ 342,462</b>
Incremental Tax Savings		-\$ 34,954
Sharing of Tax Savings (50%)		-\$ 17,477

- a) Board staff has been unable to verify the amounts entered into the taxable capital and deduction from taxable capital up to \$15,000,000 with St. Thomas' 2011 Revenue Requirement Workform. Please provide evidence supporting these amounts. If necessary, Board staff will make the corrections.

## 2012 IRM3 Rate Generator

### 2. Ref: A portion of Sheet “6. Current Rate\_Riders” of the rate generator is reproduced below.

<b>Street Lighting</b>			
Rate Rider for Global Adjustment Sub-Account (2010) – Applicable only for Non-RPP Customers	\$/kW	0.09880	April 30, 2014
Rate Rider for Deferral/Variance Account Disposition (2010)	\$/kW	(0.28230)	April 30, 2014
Rate Rider for Global Adjustment Sub-Account (2011) – Applicable only for Non-RPP Customers	\$/kW	1.20400	April 30, 2012
Rate Rider for Deferral/Variance Account Disposition (2011)	\$/kW	0.06010	April 30, 2012

- a) St. Thomas’ Rate Rider for Deferral/Variance Account Disposition (2011) – effective until April 30, 2012 for the Street Lighting rate class does not reconcile with the current Tariff of Rates and Charges.

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

### 3. Specific Service Charges – Other

**Ref: Rate Generator Model**

**Ref: Tariff of Rates and Charges – Effective Date July 1, 2011,  
Implementation Date August 1, 2011**

- a) Board staff notes that the Specific Service Charge for “Disconnect/Reconnect Charge at customer’s request – at meter during regular hours (\$65.00) is captured in St. Thomas’ Tariff of Rates and Charges – Effective Date July 1, 2011. Board staff further notes that this charge is missing from Sheet “19. Other Charges” of the Rate Generator Model.

If this is an error, Board staff will make the correction.

## 2012 RTSR Adjustment Workform

4. Ref: A portion of Sheet “4 – RRR Data” of the workform is reproduced below.

Rate Class	Unit	Non-Loss Adjusted Metered kWh	Non-Loss Adjusted Metered kW	Applicable Loss Factor	Load Factor	Loss Adjusted Billed kWh	Billed kW
Residential	kWh	120,949,829		1.0339		125,050,028	-
General Service Less Than 50 kW	kWh	36,679,270		1.0339		37,922,697	-
General Service 50 to 4,999 kW	kW	137,249,474	353,239		53.25%	137,249,474	353,239
Sentinel Lighting	kW	61,318	170		49.44%	61,318	170
Street Lighting	kW	3,065,784	8,485		49.52%	3,065,784	8,485

- a) Board staff is unable to reconcile the non-loss adjusted metered kWh for the General Service Less Than 50 kW rate class with St. Thomas’ 2.1.5 RRR report. Please provide evidence supporting this amount. If necessary, Board staff will make the correction.
- b) Board staff is also unable to reconcile the applicable loss factors with St. Thomas’ 2011 tariff of rates of charges. Please provide evidence supporting this figure. If necessary, Board staff will make the correction.

[illegible]

## Lost Revenue Adjustment Mechanism (LRAM)

### 6. Ref: Exhibit 1, Tab 2, Schedule 6, Attachment 1, Burman Energy LRAM Report

St. Thomas has requested recovery of \$125,625.76, related to lost revenues from OPA CDM Programs delivered from 2006-2010.

- a) Please update the LRAM amount using the 2010 OPA final program results.
- b) If St. Thomas has not received the 2010 OPA final program evaluation results, please discuss when St. Thomas expects to receive them and how it will update its LRAM claim.
- c) Please provide a table that shows the LRAM amounts requested in this application by the year they are associated with and the year the lost revenues took place. Use the table below as an example:

Program Years	Years that lost revenues took place			
	2008	2009	2010	2011
2006	\$xxx	\$xxx	\$xxx	\$xxx
2007	\$xxx	\$xxx	\$xxx	\$xxx
2008	\$xxx	\$xxx	\$xxx	\$xxx
2009		\$xxx	\$xxx	\$xxx
2010			\$xxx	\$xxx

- d) Please confirm that St. Thomas has not recovered any of the amounts associated with this LRAM claim in the past. If St. Thomas has previously recovered amounts included in this application, please provide an updated LRAM amount with these amounts removed.
- e) Please discuss if St. Thomas has included lost revenues from programs implemented in 2011. If St. Thomas has included lost revenues from programs implemented in 2011, please discuss the rationale for seeking to recover these amounts prior to the end of the 2011 program year and not in compliance with the CDM Code.
- f) Please confirm when St. Thomas's last load forecast was approved by the Board.

-6-

- g) Please identify the CDM savings that were included in St. Thomas's last Board approved load forecast for CDM programs deployed from 2006 to 2010 inclusive.
- h) Please provide an updated table with an LRAM amount exclusive of any persisting CDM savings that take place after St. Thomas's last Board-approved load forecast.

### **Account 1562 – Deferred PILs**

#### **7. Ref: Continuity Schedule - STEI 2012 IRM ED Disposition 1562 Balance.xls/ Tab E1.1 Disp of 1562 Balance**

#### **PILs Proxy Entitlement**

In its PILs 1562 continuity schedule, St. Thomas recorded its entitlement to the 2001 PILs proxy starting on October 1, 2001 and the 2002 PILs proxy on January 1, 2002.

The following information has been quoted from the Board's decision in St. Thomas' 2002 application RP-2002-0100/ EB-2002-0109.

*"AND IN THE MATTER OF an Application by St. Thomas Energy Inc. for an order or orders approving or fixing just and reasonable rates.*

#### From Page 5

*The Board notes that the Applicant has requested to recover unbilled MARR revenue of \$102,138 for the period April 1, 2001 to September 30, 2001. This request is in effect asking the Board to vary an earlier decision, but no evidence has been provided to justify changing this decision. Also, this appears to be, prima facie, out of period. Therefore, the Board denies the request to recover the requested unbilled MARR revenue.*

#### From Page 6

*The Board also notes that the Applicant has requested a deferral account to record lost revenue for the period March 1, 2002 to September 1, 2002 (or implementation date of new rates) resulting from the delay and processing of the current application.*

*The Board notes that the application was first filed on June 27, 2002 and a revised application was filed on August 28, 2002. Given this, the Board considers the application to be complete as of August 28, 2002. The Board needs a reasonable amount of time to review, analyse, decide and process rates*

-7-

*applications and therefore finds, in this case, an effective date of November 1, 2002 to be reasonable. Since the effective date for the new rates is prospective, a deferral account is not needed. Therefore, the Board denies the request for this deferral account.*

*The Board adjusts the 2002 Payments in Lieu of Taxes (PILs) amount by \$61,282 to reflect the Board's findings contained herein.*

*Subject to these adjustments, the Board finds that the Applicant's proposals in the Revised Application conform with the Board's earlier decisions, directives and guidelines and the resulting rates are just and reasonable."*

- a) Given the Board's decision shown above that rates were effective on November 1, 2002 please explain why St. Thomas began its PILs entitlement with effect from October 1, 2001 in the continuity schedule.
- b) Did St. Thomas implement its rate order before November 11, 2002, the date that Bill 210 came into force? By the term "implement" staff means were invoices issued to customers using the new rates effective November 1, 2002 before the date of November 11, 2002?
- c) The sum of the 2001 PILs proxy of \$203,311 and the 2002 PILs proxy of \$771,965 is \$975,276. The rates were determined based on a twelve month rate year which implies a monthly PILs proxy amount of \$81,273 (\$975,276 /12) for the period from November 1, 2002 to March 31, 2004, or 17 months. Using this monthly entitlement, the total for the period shown is \$1,381,641 (\$81,273 x 17).

Does St. Thomas consider Board staff's PILs proxy calculation to reflect fairly the Board's decision stated above? If St. Thomas disagrees, please explain St. Thomas' rationale for selecting a different amount.

- d) St. Thomas has shown recoveries of \$1,365,719 for the same period of November 1, 2002 to March 31, 2004 in its continuity schedule. The monthly PILs proxy calculated above was used to determine the proxy amounts in this table.

Recoveries in Rate Period	Amount of Recoveries	PILs Proxy
2002 - billings for 1 month only	52,968	162,546
2003	1,015,233	975,276
2004 – Jan.1 – Mar. 31	297,518	243,819
	\$1,365,719	\$1,381,641

Would this approach to determine the PILs proxy for the period from November 1, 2002 be fair to both the utility and its ratepayers? Please explain and include a discussion of the notion of potential “harm” to St. Thomas.

## **8. Amounts Billed to Customers**

### **a) Unmetered Scattered Load (USL)**

Unmetered scattered load is listed as one of the components of the billing and recovery in the Excel spreadsheet. However, while billing determinants have been entered, no rates have been entered. In the Board’s decisions for 2002, 2004 and 2005 the approved rates for USL were identified as being the same as GS<50kW rates which have associated PILs rate slivers.

Please explain why St. Thomas did not use the Board-approved USL rates in the calculations of recoveries from customers.

### **b) Billing Frequency**

- i. Did St. Thomas bill monthly or bi-monthly during the period from 2002 to 2006?
- ii. Why are the billing statistics for PILs recoveries for customer counts, kWh and kW so low for 2002?
- iii. How were the numbers of customers determined in each of the years in the recovery worksheets?

### **c) Unbilled Revenue Accrual**

St. Thomas stated in Exh.1/Tab3/Sch.3/pg2/ln8-12 that,

*“Collections from customers have been defined as the amounts billed to customers. St. Thomas confirms that amounts which at the time would have been included in unbilled revenue accruals have now been included in collections.”*

Please explain how St. Thomas determined the PILs amounts associated with unbilled revenue accrual as at April 30, 2006 and how this was included in the various Excel worksheets.

## **9. 2001 SIMPIL**

- a) The 2001 fourth quarter is a short tax year. As such, the tax items must be pro-rated by 92/365. The 2001 PILs proxy reflects the pro-ration. However, the pro-rations required for the true-up variance calculations for Ontario



capital tax (OCT) and large corporation tax (LCT) were not made in the cell range TAXCALC E150-E180. This results in an incorrect true-up to ratepayers of \$23,806 for LCT and \$32,161 for OCT.

Please correct the formulas for the necessary pro-rations and resubmit the 2001 SIMPIL.

- b) Interest expense appears on the income statement but no actual interest was entered on sheet TAXCALC. According to St. Thomas' financial statements, interest expense consists of interest on long-term debt and customer deposits. Interest on long-term debt for 2001 was restated in 2004.

Please explain why actual interest was not entered for the true-up calculation on TAXCALC and correct the SIMPIL model.

#### **10. 2002 SIMPIL**

Interest expense appears on the income statement but no actual interest was entered on sheet TAXCALC. According to St. Thomas' financial statements, interest expense consists of interest on long-term debt and customer deposits. Interest on long-term debt for 2002 was restated in 2004.

Please explain why actual interest was not entered for the true-up calculation on TAXCALC and correct the SIMPIL model.

#### **11. 2003 SIMPIL**

Interest expense appears on the income statement but no actual interest was entered on sheet TAXCALC. According to St. Thomas' financial statements, interest expense consists of interest on long-term debt and customer deposits. In the 2004 audited financial statements the 2003 interest expense on long-term debt was restated from the amount originally reported for 2003 of \$ 27,235 to \$586,531.

Please explain why the total of all interest expense was not entered on sheet TAXCALC and correct the SIMPIL model.

#### **12. 2004 SIMPIL**

- a) Interest expense appears on the income statement but no actual interest was entered on sheet TAXCALC. According to St. Thomas' financial statements, interest expense consists of interest on long-term debt and customer deposits.

The following information appears in Note 7, long-term liabilities, of the 2004 audited financial statements.

-10-

*"In 2004 St. Thomas Energy Inc. and the City of St. Thomas finalized the terms of the note payable. As a result of the agreed upon terms St. Thomas Energy Inc. has recorded a prior period adjustment for the interest payable from October 1, 2001 to December 31, 2003 net of payment in lieu of income tax savings. Interest for the period October 1, 2001 to December 31, 2003 totaled \$1,258,416, the related payment in lieu of income tax savings on this interest totaled \$477,402, for a net adjustment to retained earnings of \$781,014."*

Please provide a table that shows how much gross interest expense on long-term debt was assigned to each year 2001 to 2003 before the reduction for the tax savings.

Please insert these actual amounts, plus all other interest expense reported on the income statements for the respective years into the SIMPIL models for tax years 2001-2004 on sheet TAXCALC in the interest true-up area cell range E198-E206.

- b) St. Thomas has recorded a loss on TAXREC2 of a disposal of fixed assets of \$49,179 which trues up to ratepayers. However, if the value of the asset in 2001 was included in rate base, the shareholders continued to receive a benefit in distribution rates.

Please explain why a loss on disposal of assets on which shareholders are getting a return in distribution rates should true-up to ratepayers and not to the shareholder. Shareholder items would be entered on sheet TAXREC3.

### **13. 2005 SIMPIL**

Interest expense appears on the income statement but no actual interest was entered on sheet TAXCALC. According to St. Thomas' financial statements, interest expense consists of interest on long-term debt and customer deposits. Please explain why actual interest was not entered for the true-up calculation on TAXCALC and correct the SIMPIL model.

### **14. Interest Expense**

#### *Interest Portion of True-up – 2001 to 2005 SIMPIL - TAXCALC*

When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in sheet TAXCALC as an extra deduction in the true-up calculations.

- a) For the tax years 2001 to 2005:

-11-

- i. Did St. Thomas have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- ii. Did St. Thomas net interest income against interest expense in deriving the amount it shows as interest expense in its financial statements and tax returns? If yes, please provide details to what the interest income relates.
- iii. Did St. Thomas include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?
- iv. Did St. Thomas include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?
- v. Did St. Thomas include interest expense on IESO prudentials in interest expense?
- vi. Did St. Thomas include interest carrying charges on regulatory assets or liabilities in interest expense?
- vii. Did St. Thomas include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did St. Thomas also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- viii. Did St. Thomas deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did St. Thomas back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.
- ix. Please provide St. Thomas views on which types of interest income and interest expense should be included in the excess interest true-up calculations.
- x. Please provide a table for the years 2001 to 2005 that shows all of the components of St. Thomas interest expense and the amount associated with each type of interest.

#### **15. Treatment of Regulatory Assets and Liabilities in the Tax Returns**

It appears from the evidence that St. Thomas retained regulatory assets and liabilities on the balance sheet and did not adjust the tax returns for the annual movements or changes in the balances of regulatory assets and liabilities. Please explain why the Ministry of Finance allowed this tax treatment for St. Thomas.

**16. Tax Years – Statute-barred**

Please confirm that all tax years from 2001 to 2005 are now statute-barred.

**17. 1562 Balance Reported in RRR**

St. Thomas has reported the balance in account 1562 to be a debit of \$999,695.50 at the end of December 2010 in its RRR filing 2.1.7. The 2010 balance according to the PILs continuity schedule tab E1.1 is a debit balance of \$939,530 consisting of principal of \$626,215 and interest of \$322,521. Please explain the reasons for the differences between the 2010 RRR balance and the evidence filed in this case.