FOLLOW UP INTERROGATORIES

FROM

DONALD RENNICK

TO THE NORTH BAY HYDRO DISTRIBUTION LIMITED

OEB FILE NO: EB-2011-0187

Manager's Summary – 9) Tax Changes (page 12 of 13)

1. NBHDL intends to use account number 1595 - Recovery of Regulatory Asset Balances to record the difference resulting from the change in the corporate tax rate for 2012. Please indicate the name and number of the other account(s) involved in this entry.

Response:
The other account involved in this entry is account 4080 – Distribution Revenue.

Follow-Up Interrogatories:
1. What were the accounts used to record the 2011 tax savings amount and what was the amount recorded?

Manager's Summary – 4) LRAM/SSM Cost Claims

1. What was the cost of the report prepared by IndEco Strategic Consulting Inc?

Response:
NBHDL believes this question is outside the scope of the IRM application.

Follow-Up Interrogatories:
Consultants' fees appear to be a major expense for NBHDL. The figures produced in this report are being used as the basis for additional charges to North Bay ratepayers. The funds used to pay for this report come from North Bay ratepayers/shareholders. Please provide a copy of the original IndEco Strategic Consulting Inc invoice.

2. What is the estimate of the cost for staff time over the years 2008 – 2010 to assemble, calculate and record the information used by IndEco to verify the LRAM/SSM claims made by NBHDL?

Response:
NBHDL believes this question is outside the scope of the IRM application.

Follow-Up Interrogatories:
The figures produced by this report are being used in this application as the basis for additional charges to North Bay ratepayers. The funds used to pay for this report come from North Bay ratepayers/shareholders. Please provide your best estimate of the cost for staff time as requested.

3. Have the carrying charges of $4,433 included in this claim been recorded in NBHDL records and if they have when were they recorded and what accounts were involved?

Response:
The carrying charges of $4,433 included in this claim have not been recorded in NBHDL's records as the LRAM claim has not yet been approved by the Ontario Energy Board (OEB).

Follow-Up Interrogatories:

If the LRAM/SSM carrying charges are approved by the OEB and included in the claim will the carrying charges be recorded as income and be used to reduce monthly distribution service charge? If not, why not.

Manager's Summary – 6) Deferral and Variance Account Rider – Page 4 of 13

a) Account 1562 – Deferred PILs

1. What was the cost of the report prepared by IMBSI?

Response:
NBHDL believes this question is outside the scope of the IRM application.

Follow-Up Interrogatories:

Consultants' fees appear to be a major expense for NBHDL. The figures produced in this report are being used in this application as the basis for additional charges to North Bay ratepayers. The funds used to pay for this report come from North Bay ratepayers/shareholders. Please provide a copy of the original IMBSI invoice.

2. It is my understanding that the deferred PILS account is intended to track a series of differences between what customers pay (PILS embedded in rates) and the actual taxes paid by the LDC. Appendix 1 - Monthly Continuity Report prepared by IMBSI which arrives at the total principal and interest claim by comparing monthly PILs entitlement included in the rates and the PILs collected from customers on a monthly basis but does not appear to reference any actual liability or payments for income taxes. Please explain how the continuity report provides the result intended of tracking the differences between what customers pay and the actual taxes paid. Have the carrying charges been recorded in the NBHDL records and if they have when were they recorded and what accounts were involved?

Response:

The IMBSI OEB Evidence Package does not reference actual taxes paid. The 1562 – Deferred PILS variance account tracks the differences between the PILS entitlement approved in rates and the actual PILS recovered from customers. In other words, the variance account tracks the difference between the PILS approved to be recovered and the actual PILS recovered as opposed to PILS paid. The annual SIMPILS true-up models (Appendix 12 to Appendix 16 in the IMBSI report) attempt to true-up some of the differences between the PILS entitlement approved and the PILS paid by the LDC.

With respect to the carrying charges or interest improvement, these costs were recorded in account 1562; however, with the change in methodology recently approved in the combined PILS proceeding (EB-2008-0381) there have been recent adjustments to the interest values.

Below is the 1562 Deferred PILS section from the Accounting Procedures Handbook for reference:

1562 Deferred Payments In Lieu of Taxes

A. This account shall record the amount resulting from the Board approved PILs methodology for determining the 2001 Deferral Account Allowance and the PILs proxy amount determined for 2002 and subsequent years. The amount determined using the Board approved PILs methodology will be recorded equally over the applicable PILs period. The 2001 PILs Deferral Account Allowance should be recorded in three equal installments in October, November and December for utilities with a December 31, 2001 taxation year end. For a full year each applicable proxy will be divided by 12, and a monthly amount should be posted for each applicable period.

B. Any entries resulting from the PILS Deferral Account Allowance will be effective at the end of a utility's taxation year (December 31) and any entries from the pass-through of variances between the Deferral Account Allowance and the actual results reflected in a utility's tax filing (e.g. to the Ministry of Finance for payments in lieu of tax) will be effective as of the filing deadline (i.e. tax returns are due six months after year end).

C. The distributor shall use, on a consistent basis, one of the three accounting methods approved for recording entries in this account in accordance with the Board's accounting instructions for PILs as set out in the April 2003 issued Frequently Asked Question on the APHandbook.

D. Adjustments shall be made to this account as directed by the Board.

E. Any amounts included rates shall be debited/credited back to this account at the time of billing or other account specified by the Board.

F. Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in the account (exclusive of accumulated interest) and recorded in a separate sub-account of this account. For the period up to April 30, 2006, the distributor shall use a rate of interest equal to its deemed debt rate set out in Chapter 3 of the 2000 Electricity

Distribution Rate Handbook, Table 3-1. Effective May 1, 2006, the rate of interest shall be the rate prescribed by the Board for the respective quarterly period.

Note: Account 1562 relates to the rate periods that ended on or before April 30, 2006. For rate periods starting on or after May 1, 2006, the distributor must apply the requirements of Chapter 7 of the Board's 2006 Electricity Distribution Rate Handbook, Report of the Board, applicable accounting guidance (e.g. Frequently Asked Question) and other requirements the Board may specify. Account 1592 shall be used for these purposes.

Follow-Up Interrogatories:

1. The NorthBay_2012 IRM_Account1562 IMBSI Report_Appendix 13.xls worform tab "TAXCAL" cell E132 contains the 2002 true-up variance adjustment amounting to $713, 534. This amount results from the grossing up of $445,959 which is the tax on the adjustments reconciling NBHDL financial statement results to the taxable income amount.

a) Since this amount ($445,959) is not due to anyone nor will it ever be paid out to anyone, what is the rationale for charging ratepayers for this item?

b) The grossed up amount ($713,534) has been included in the Deferral and Variance Account Rider which includes $1,252,962.94 in cumulative PIL's. In my opinion, no grossing up is required. Please explain the rationale behind grossing up the $445,959 before including it in the claim for PIL's. If NBHDL is unable to explain, I would appreciate Board staff's input.

2. Based on the material in the application, NBDHL has collected from ratepayers approx. $3.6 million in PIL's for the period 2002 – 2006. During the same period NBHL paid a total of approximately $1.8 million in PIL's to the Province of Ontario/Hydro Financial. In other words ratepayers have contributed approx. $1.8 million more than NBHDL paid out. Additionally, NBHDL is requesting that the Board approve an additional amount of $1.2 million in PIL's plus $523 thousand in carrying charges on funds that were never disbursed by NBHDL.
Is the above description accurate? If this is not a more or less accurate description of the situation, please explain what I am missing?

c) Group 1 Accounts

1. Please explain how the write off of carrying charges can result in an increase in the closing interest amount balances due from ratepayers.
For example, the North Bay_2012_IRM_Rate_Generator_20111014.xls - Tab 9 – Column BA

shows an increase in closing interest amounts for Account # 1588 of $543,960. This is the amount of carrying charges, shown in the Manager's summary – Table 6, to be written off following the Board's decision to disallow certain Group 1 and Group 2 balances. Please explain and indicate the accounts affected in recording this entry.

Response:

The adjustments referenced in Table 6 are in relation to a regulatory proceeding undertaken by NBHDL in 2009. NBHDL was required to correct its RSVA balances after the results of an external audit; in some accounts the correction to carrying charges that resulted from corrected principal balances resulted in an increase in carrying charges.

Further information on this specific regulatory proceeding can be found in EB-2009-0113 and information on the 2008 RSVA balances can also be found in NBHDL's Cost of Service (COS) application EB-2009-0270, exhibit 9.

Follow-Up Interrogatories:

1. I'm aware that the adjustments referenced in Table 6 are in relation to a regulatory proceeding. If the carrying charges were to be written off is seems to me immaterial whether they were adjusted up or down since the net result should be zero. The reference provided, while informative, did not answer my concerns.

If carrying charges were written off during 2009, why do they appear to be included in the total of interest amount of $642,657 showing as due at the end of 2009 in the rate generator workform?
In addition, cell BM31 contains $699,055 which is the amount approved for collection in 2010. This amount is appears in cell BO34 and appears to be included as part of the interest due at the end of the year in the rate generator workform.

2. Please indicate the entry that was recorded to make the adjustments shown in Tables 5/ 6.

2012 IRM3 Shared Tax Savings Workform.xls – Z Factor Tax Changes tab

1. The 2012 tax payable amount resulting from applying the 2012 Federal and Provincial tax rates to the 2010 COS taxable income figure has been grossed up to calculate the difference tax savings between 2010 and 2012.
It is counterintuitive that a reduction of almost 4% in the tax rate would result in higher taxes. Please provide details of NBHDL's reasoning behind the rationale for grossing up the tax impact figure. The explanation given in the Manager's summary (page 12 of 13) is not clear.

Response:

NBHDL spoke with Board staff prior to submitting the IRM application and were advised to input the same regulatory taxable income from its 2011 IRM and allow the model to calculate (and gross up) the total tax amount which is used in the calculation of the incremental tax savings; it is NBHDL's understanding that the model reflects Board policy on this issue. For further information on the Board's policy with regards to this issue, please refer to the "Supplemental Report of the Board on 3rd generation incentive regulation – September 17, 2008". For ease of reference, the following link is provided to access the referenced Board report:

http://www.oeb.gov.on.ca/OEB/_Documents/EB-20070673/
Supp_Report_3rdGen_20080917.pdf

Follow-Up Interrogatories:

I am aware of the Board's policy on the issue. My submission is that the current calculation, as done by the "NorthBay_2012_IRM3_Shared_Tax_Savings_Workform_20111014" sheet, is incorrect.
The share of tax savings for the 2011 IRM were calculated and approved at $16,285 and I am of the opinion that a similar calculation should be done for 2012 tax savings.
A letter to the Board dated April 11/10 indicated that NBHDL thought the tax savings amount should be changed but gave no indication of what the new amount should be and the letter also indicated that "the model appears to be grossing up the tax impact of the "PILs" component despite this being reflected in the effective tax rate used". Since the model wasn't grossing up the tax impact, the statement wasn't clear to me.
Following that the letter, the Board staff posted a revised tax saving workform which looked the same as the original NBHDL submission with a tax rate adjustment. Since the Board did not submit a revised decision, I presume that $16,285 in tax savings was the correct amount.
If NBHDL is unable to indicate where my calculation, which follows, is incorrect, I would appreciate the Board staff providing some input.

1. Tax Related Amounts Forecast from Capital Tax Rate Changes	**2010**	**2012**
Taxable Capital	$ 44,105,306	$ 44,105,306
Deduction from taxable capital up to $15,000,000	$ 15,000,000	$ 15,000,000
Net Taxable Capital	$ 29,105,306	$ 29,105,306
Rate	0.150%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	**$ 21,650**	**$ -**
2. Tax Related Amounts Forecast from Income Tax Rate Changes	**2010**	**2012**
Regulatory Taxable Income	$ 2,313,638	$ 2,313,638
Corporate Tax Rate	28.72%	24.79%
Tax Impact	$ 664,477	$ 573,557
Grossed-up Tax Amount	**$ 664,477**	**$ 573,557**
Tax Related Amounts Forecast from Capital Tax Rate Changes	$ 21,650	$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	$ 664,477	$ 573,557
Total Tax Related Amounts	**$ 686,126**	**$ 573,557**
Incremental Tax Savings		**-$ 112,570**
Sharing of Tax Savings (50%)		**-$ 56,285**

Appendix K – LRAM – 3rd Party Review - IndEco Strategic Consulting Inc.

1. Appendix A - Please explain how the LRAM (2012$) amounts in this appendix were calculated from the figures supplied in the other columns.

Response:

The calculation of LRAM follows the following basic formula:

The units, annual energy savings, %free riders and measure life are supplied in Appendix "A" of IndEco's 3rd party review report. The electricity distribution rates for each rate class are found in Table 4 of IndEco's 3rd party review report. The heading 'LRAM (2012$)' in the table referenced refers to the fact that LRAM in 2008, 2009, 2010 and 2011 are carried forward into 2012 dollars by applying appropriate carrying charges, which are calculated using deferral and variance account interest rates provided by the Board.1

As an example, the calculation of the LRAM claim for the second line item found in IndEco's Appendix "A" Table 7 is provided below. This line item consists of 67 chest freezers installed in 2008 within the residential rate class, each with an annual energy savings of 740 kWh per year. A total of 48% of these installs were free riders. LRAM was calculated between January 1 2008 and April 30 2012.

1 For prescribed interest rates, see http://www.oeb.gov.on.ca/OEB/Industry/ Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms/Prescribed+Interest+Rates

Follow-Up Interrogatories:

None

2. Presuming the "Measure life" column in this appendix is expressed in years; please explain the line item on page 13 of the report that indicates that Air conditioner/Furnace filters installed in 2008 with a measure life of 1 year continue to produce KWh savings in 2012. Additionally, a number line items on page 24 and page 28 of the report indicate that measures were installed in 2009 with measure lives of 1 year and are also shown as producing KWh savings in 2012.

Response:

The line item referenced refers to air conditioner/furnace filters installed in 2008 with a measure life of 1 year. An LRAM was only claimed for this measure for one year (between January 1 and December 31 2008). This measure did not produce kWh savings beyond 2008 and thus an LRAM was not calculated for this measure beyond December 31 2008. The column in the referenced table with the heading 'Annual energy savings' refers to the annual savings achieved only during the life of the measure.
The LRAM for this measure was calculated as shown in the table below. An equivalent calculation was done for the other line items mentioned.

Follow-Up Interrogatories:

Will the carrying charges included in the LRAM/SSM claim be recorded as miscellaneous income and be used to reduce the monthly distribution service charge? If not, why not.