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BY E-MAIL

January 12, 2012

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

Dear Ms. Walli:

Re: Midland Power Utility Corporation
2012 IRM3 Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2011-0182

In accordance with the Notice of Application and Hearing, please find attached Board Staff interrogatories in the above proceeding. Please forward the following to Midland Power Utility Corporation and to all other registered parties to this proceeding.

In addition please advise Midland Power Utility Corporation that responses to interrogatories are due by January 27, 2012.

Yours truly,

Original signed by

Suresh Advani
Advisor

Encl.

Midland Power Utility Corporation
2012 Electricity Distribution Rates
EB-2011-0182
Board Staff Interrogatories

1. Disposition during 2010

Ref: Rate Generator Model
Ref: Midland Power's 2010 IRM Decision and Order (EB-2009-0236), p. 12

A portion of Sheet "9. Cont. Sched. Def_Var" from the Rate Generator Model is reproduced below.

		2010						
Account Descriptions	Account Number	Opening Principal Amounts as of Jan-1-10	Transactions Debit / (Credit) during 2010 excluding interest and adjustments [5]	Board-Approved Disposition during 2010	Other [3] Adjustments during Q1 2010	Other [3] Adjustments during Q2 2010	Other [3] Adjustments during Q3 2010	Other [3] Adjustments during Q4 2010
LV Variance Account	1550	-$ 63,027	-$ 74,510					
RSVA - Wholesale Market Service Charge	1580	-$ 35,207	-$ 237,679					
RSVA - Retail Transmission Network Charge	1584	$ 58,499	$ 37,541					
RSVA - Retail Transmission Connection Charge	1586	-$ 370,307	-$ 14,157					
RSVA - Power (excluding Global Adjustment)	1588	$ 377,777	-$ 172,033					
RSVA - Power - Sub-Account - Global Adjustment	1588	$ 340,493	-$ 156,941					
Recovery of Regulatory Asset Balances	1590	$ -						
Disposition and Recovery of Regulatory Balances (2008)[7]	1595	$ -						
Disposition and Recovery of Regulatory Balances (2009)[7]	1595	$ -						
Group 1 Sub-Total (including Account 1588 - Global Adjustment)		$ 308,230	-$ 617,779	$ -	$ -	$ -	$ -	$ -
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-$ 32,264	-$ 460,838	$ -	$ -	$ -	$ -	$ -
RSVA - Power - Sub-Account - Global Adjustment	**1588**	$ 340,493	-$ 156,941	$ -	$ -	$ -	$ -	$ -
Special Purpose Charge Assessment Variance Account	**1521**	$ -						
Deferred Payments in Lieu of Taxes	**1562**	$ 125,178						
Group 1 Total + 1521 + 1562		$ 433,408	-$ 617,779	$ -	$ -	$ -	$ -	$ -
The following is not included in the total claim but are included on a memo basis:								
Board-Approved CDM Variance Account	1567							
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592							
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592							
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Contra Account	1592	$ -						
Disposition and Recovery of Regulatory Balances[7]	1595	-$ 189,357	-$ 606,541					

Account Descriptions	Account Number	Closing Principal Balance as of Dec-31-10	Opening Interest Amounts as of Jan-1-10	Interest Jan-1 to Dec-31-10	Board-Approved Disposition during 2010	Adjustments during 2010 - other [3]	Closing Interest Amounts as of Dec-31-10
LV Variance Account	1550	-$ 137,536	-$ 94	-$ 899			-$ 993
RSVA - Wholesale Market Service Charge	1580	-$ 272,886	-$ 99	-$ 1,305			-$ 1,405
RSVA - Retail Transmission Network Charge	1584	$ 96,040	$ 231	$ 488			$ 719
RSVA - Retail Transmission Connection Charge	1586	-$ 384,464	-$ 1,875	-$ 3,096			-$ 4,971
RSVA - Power (excluding Global Adjustment)	1588	$ 205,744	$ 1,585	$ 1,253			$ 2,838
RSVA - Power - Sub-Account - Global Adjustment	1588	$ 183,553	$ 723	$ 1,658			$ 2,382
Recovery of Regulatory Asset Balances	1590	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances (2008)[7]	1595	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances (2009)[7]	1595	$ -	$ -				$ -
Group 1 Sub-Total (including Account 1588 - Global Adjustment)		-$ 309,549	$ 471	-$ 1,901	$ -	$ -	-$ 1,430
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-$ 493,102	-$ 253	-$ 3,559	$ -	$ -	-$ 3,812
RSVA - Power - Sub-Account - Global Adjustment	**1588**	$ 183,553	$ 723	$ 1,658	$ -	$ -	$ 2,382
Special Purpose Charge Assessment Variance Account	**1521**	$ -					$ -
Deferred Payments in Lieu of Taxes	**1562**	$ 125,178	$ 44,787	$ 998			$ 45,786
Group 1 Total + 1521 + 1562		-$ 184,371	$ 45,258	-$ 903	$ -	$ -	$ 44,355
The following is not included in the total claim but are included on a memo basis:							
Board-Approved CDM Variance Account	1567	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592	$ -	$ -				$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Contra Account	1592	$ -	$ -				$ -
Disposition and Recovery of Regulatory Balances[7]	1595	-$ 795,898	$ 2,659	$ 509,194			$ 511,853

a) Please indicate where the Board approved disposition amounts during 2010 were accounted for on the 2010 portion of the continuity schedule.

2. Taxable Capital

Ref: Tax Savings Model

A portion of Sheet “5. Z-Factor Tax Changes” from the Tax Savings is reproduced below.

For the 2009 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)	$ -	
1. Tax Related Amounts Forecast from Capital Tax Rate Changes	2009	2012
Taxable Capital	$ 11,361,794	$ 11,361,794
Deduction from taxable capital up to $15,000,000	$ 11,361,794	$ 11,361,794
Net Taxable Capital	$ -	$ -
Rate	0.225%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	$ -	$ -

a) Board Staff is unable to verify the 2009 Taxable Capital amount of $11,361,794.

Please provide the source of this number.

3. Account 1521 – Special Purpose Charge ("SPC")

Ref: Manager's Summary, Page 9 to 10.

a) Please confirm Midland Power's SPC assessment amount and provide a copy of the original SPC invoice.

b) Please complete the following table 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 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan.1 to Apr.30)	Total for Disposition (Principal & Interest)

4. LRAM Claims

Ref: Burman Energy Consulting Group Inc. LRAM Support, Oct. 19, 2011

Midland PUC has requested an LRAM recovery associated with 2006 to 2010 CDM programs for a total amount of $76,737.50.

a) Please confirm that Midland PUC used final 2010 program evaluation results from the OPA to calculate its LRAM amount.

b) If Midland PUC did not use final 2010 program evaluation results from the OPA, please explain why and update the LRAM amount accordingly.

c) Please discuss Midland PUC's prior LRAM applications and the amounts it has recovered.

d) Please confirm that Midland PUC has not received any of the lost revenues requested in this application in the past. If Midland PUC has collected lost revenues related to programs applied for in this application, please discuss the appropriateness of this request.

e) Please identify the CDM savings that were included in Midland PUC's last Board approved load forecast.

f) 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, divided by rate class within each year. Use the table below as an example and continue for all the years LRAM is requested:

Program Years (Divided by rate class)	Years that lost revenues took place			
	2006	2007	2008	2009
2006	$xxx	$xxx	$xxx	$xxx
2007	$xxx	$xxx	$xxx	$xxx
2008	$xxx	$xxx	$xxx	$xxx
2009		$xxx	$xxx	$xxx
2010			$xxx	$xxx

g) Please discuss if Midland PUC is applying for carrying charges on the LRAM amounts requested in this application.

h) If Midland PUC is requesting carrying charges, please provide a table that shows the monthly LRAM balances, the Board-approved carrying charge rate and the total carrying charges by month for the duration of this LRAM request to support your request for carrying charges. Use the table below as an example:

Year	Month	Monthly Lost Revenue	Closing Balance	Interest Rate	Interest $

5. PILS Account 1562 Disposition

Ref: Tab 5, Appendices L, M, N, O, P
Income Tax Rates used in 2001-2005 SIMPIL Models for True-up Calculations

Preamble:

Midland reported losses for tax purposes, or utilized loss carry-forwards to reduce taxable income to zero, in the 2001 to 2005 fiscal years. In the SIMPIL models for 2001 to 2005, Midland has used the maximum blended federal and Ontario income tax rates to calculate the true-up variances. This has created incorrect variances that true up to the ratepayers.

Midland stated on tab 1, page 13 that "Midland has incorporated the maximum tax rates of 40.62%, 38.62% and 36.12% into the SIMPIL models as prescribed by the Decision and Order dated June 24. 2011 referred to above."

In its rate applications for 2002 and 2005 Midland chose the tax rates that lay between the maximum and minimum blended tax rates as indicated in the application filing instructions. Using the maximum tax rates in the SIMPIL models creates recoveries from ratepayers that are not supported by Midland's PILs account 1562 disposition evidence.

Midland's approved rate base in 2001 through 2005 was $8,211,325. From Midland's federal T2 tax returns for 2001 to 2005, the taxable capital for calculating the Large Corporation Tax (Sch. 33) and the eligibility for the small business limit and deduction was approximately $10 million.

This means that Midland was eligible for both the federal and Ontario small business deductions from 2001 to 2005 and, therefore, should not use the maximum blended income tax rates to calculate the true-up variances.

a) Please explain why Midland chose the maximum blended income tax rates when its tax facts were not similar to the three distributors that submitted evidence in the Combined Proceeding EB-2008-0381.

b) Please explain where in the Board's decision in the Combined Proceeding that the Board addressed income tax rates that would apply to distributors that were eligible for the small business deduction.

Excluding the Impact of Regulatory Assets in the PILs 1562 Calculations

In the Combined Decision, the Board approved the position of the parties that the impact of regulatory assets and liabilities should be excluded in the determination of the balances in PILs account 1562. Tax losses and corporate minimum tax are not included in the determination of regulatory PILs tax variances. Under the standalone principle discussed in the decision in the Combined Proceeding, the business limits and capital tax thresholds (or exemptions) must be allocated 100% to the regulated distributor unless otherwise approved by the Board in the 2002 decision. Midland's evidence shows that it applied the standalone principle in the determination of the PILs proxies for 2001 4th quarter, 2002 and 2005 applications which were then incorporated into base distribution rates.

Board Staff has shown in the table below the data from Midland's federal T2 returns on Sch. 1. Board Staff has removed the impact of regulatory assets and liabilities in the calculation of net income for tax purposes by reversing the entries on Sch. 1.

c) Board Staff requests Midland to determine the appropriate blended federal and Ontario income tax rates for each year based on the adjusted regulatory net income for tax purposes shown in the table and to provide all of the calculations. Board Staff has estimated the income tax rates to be approximately 18% for 2002, 26% for 2003, 30% for 2004 and 27% for 2005.

From Schedule T2S1	**2002**	**2003**	**2004**	**2005**
Tab 5 page reference	450	528	611	693
Net income for tax purposes	-618,248	122,005	637,813	436,837
Add back:				
Regulatory assets deducted	431,653	413,430	550,432	812,359
Conversion costs	452,303			
Deduct:				
Regulatory asset recovery additions			-372,959	-530,932
Adjusted Regulatory net income	**265,708**	**535,435**	**815,286**	**718,264**

Board Staff relied on the following data in determining the estimated income tax rates stated above.

	2002	**2003**	**2004**	**2005**
Business Limit for Small Business Deduction				
Federal	200,000	225,000	250,000	300,000
Ontario	280,000	320,000	400,000	400,000
Midland's Taxable Capital for Federal Small Business Deduction (T2S33)	8,190,536	10,026,983	10,027,111	10,027,111

Threshold for Federal SBD (T2S33)	10,000,000	10,000,000	10,000,000	10,000,000
Federal Income Tax Components				
Federal tax rate	38.00%	38.00%	38.00%	38.00%
Federal tax abatement	-10.00%	-10.00%	-10.00%	-10.00%
Federal surtax	4.00%	4.00%	4.00%	4.00%
Small business deduction	-16.00%	-16.00%	-16.00%	-16.00%
Accelerated tax reduction where SBD used	-7.00%	-7.00%	-7.00%	-7.00%
Ontario Income Tax Components				
Ontario income tax rate	12.50%	12.50%	14.00%	14.00%
Ontario IDSBC rate	-6.50%	-7.00%	-8.50%	-8.50%
Ontario surtax rate	4.333%	4.667%	4.667%	4.667%

6. PILS Account 1562 Disposition

Ref: Tab 5, Appendix L – 2001 4th Quarter SIMPIL

In the 2002 rate application to calculate the 2001 4th quarter PILs proxy, Midland used a tax rate of 34.12%. Midland incurred an operating loss for tax purposes unrelated to regulatory assets in its actual 2001 4th quarter results. However, in the 2001 SIMPIL model, Midland used the maximum rate of 40.62% which creates a variance that trues up to ratepayers.

a) Should Midland use the PILs proxy tax rate of 34.12% to calculate the true-up variances in its 2001 SIMPIL model? If not, please explain what tax rate would be more appropriate and why.

7. PILS Account 1562 Disposition

Ref: Tab 5, Appendix P – 2005 SIMPIL

In sheet TAXCALC Midland entered CDM amounts of $40,000 for the proxy and an actual of $4,000. This results in a true-up to ratepayers of $36,000 before the tax calculations.

a) Please explain why Midland forecast $40,000 in the 2005 rate application but spent only $4,000. Please provide evidence that supports the actual amount of only $4,000.

8. PILS Account 1562 Disposition

Ref: Tab 5, Appendices W, X, Y, Z, AA
Amounts Billed to Customers

Unmetered Scattered Load (USL)

Unmetered scattered load is listed as a customer class in the rate schedules attached to the Board's decisions. 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.

a) Please explain why Midland did not calculate PILs dollars recovered from the USL class in the calculations of recoveries from customers. Please correct the PILs recovery worksheets.

Fixed and Variable Charge Rate Components

From March 1, 2002 to March 31, 2004 PILs were recovered from the fixed and variable charge components for all customer classes. Starting April 1, 2004, PILs were recovered using the variable charge rate. This can be found on the 2004 application RAM sheet #7 where 100% is assigned to the variable charge rate. Midland has used the fixed and variable rates to calculate recoveries for the period April 1, 2004 to March 31, 2005.

b) Please correct the calculations of the amounts recovered from ratepayers for the period April 1, 2004 to March 31, 2005.

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.

For the tax years 2001 to 2005:

c) Did Midland have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?

d) Did Midland 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.

e) Did Midland include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?

f) Did Midland include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?

g) Did Midland include interest expense on IESO prudentials in interest expense?

h) Did Midland include interest carrying charges on regulatory assets or liabilities in interest expense?

i) Did Midland include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did Midland also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.

j) Did Midland deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did Midland add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.

k) Please provide Midland views on which types of interest income and interest expense should be included in the excess interest true-up calculations.

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

<u>Tax Years – Statute-barred</u>

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