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BY E-MAIL

January 20, 2012

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

Dear Ms. Walli:

**Re: Sioux Lookout Hydro Inc.
2012 IRM3 Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2011-0102**

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

In addition please advise Sioux Lookout Hydro Inc. that responses to interrogatories are due by February 3, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst – Applications & Regulatory Audit

Encl.

**Sioux Lookout Hydro Inc.
EB-2011-0102**

Board Staff Interrogatories

Tax-Savings Workform

Interrogatory #1

Ref: Tax-Savings Workform, Tab 5

Summary - Sharing of Tax Change Forecast Amounts

For the 2008 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)	\$	-
1. Tax Related Amounts Forecast from Capital Tax Rate Changes	2008	2012
Taxable Capital		\$ -
Deduction from taxable capital up to \$15,000,000		\$ -
Net Taxable Capital	\$ -	\$ -
Rate	0.225%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	\$ -	\$ -
2. Tax Related Amounts Forecast from Income Tax Rate Changes	2008	2012
Regulatory Taxable Income	\$ 280,726	\$ 280,726
Corporate Tax Rate	16.50%	15.50%
Tax Impact	\$ 46,320	\$ 43,513
Grossed-up Tax Amount	\$ 55,473	\$ 51,494
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 55,473	\$ 51,494
Total Tax Related Amounts	\$ 55,473	\$ 51,494
Incremental Tax Savings		-\$ 3,979
Sharing of Tax Savings (50%)		-\$ 1,989

Board staff notes that the first section of the workform (i.e. Tax Related Amounts Forecast from Capital Tax Rate Changes) has not been populated.

Board staff also cannot verify the data entered in section 2 of the workform on tab 5 (i.e. Tax Related Amounts Forecast from Income Tax Rate Changes).

- a) For section 1, please provide the figures and the subsequent evidence supporting these figures, which reconcile with Sioux Lookout's previous cost of service draft Rate Order (EB-2007-0785), and Board staff will populate the data in the workform.
- b) For section 2, please provide evidence supporting the figures entered. If changes are necessary, please confirm the figures which reconcile with Sioux Lookout's previous

cost of service proceeding and Board staff will make the necessary adjustments to the workform.

Interrogatory #2

Ref: Tax-Savings Workform, Tab 6

Rate Class	Total Revenue \$ by Rate Class A	Total Revenue % by Rate Class B = A / \$H	Total Z-Factor Tax Change\$ by Rate Class C = \$I * B	Billed kWh D	Billed kW E	Distribution Volumetric Rate kWh Rate Rider F = C / D	Distribution Volumetric Rate kW Rate Rider G = C / E
Residential	\$1,008,451.1085	55.53%	-\$1,105	33,435,195	0	\$0.0000	
General Service Less Than 50 kW	\$333,713	18.38%	-\$366	15,941,009	0	\$0.0000	
General Service 50 to 4,999 kW	\$370,020	20.37%	-\$405	0	121,066		-\$0.0033
Unmetered Scattered Load	\$3,272	0.18%	-\$4	24,781	0	-\$0.0001	
Street Lighting	\$100,600	5.54%	-\$110	0	1,475		-\$0.0747
	\$1,816,057	100.00%	-\$1,989				

Ref: Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, dated June 22, 2011, Page 17

The IRM Filing Requirements stated the following: “A shared tax saving workform will include a schedule for a distributor to complete, which will calculate a volumetric rate rider. Occasionally, the calculated rate adders or rate riders for one or more rate classes may be negligible. In the event that the calculation of one or more rate classes’ rate rider results in energy-based kWh rate riders of \$(0.0000) when rounded to the fourth decimal place and demand-based kW rate riders of \$(0.00) when rounded to the second decimal place, or is negligible, the distributor may apply to record the amount to be recovered or refunded in USoA 1595 disposition in a future rate setting.”

- a) Subject to any changes deriving from Interrogatory #1, please confirm that Sioux Lookout wishes to record all of the amounts above in USoA 1595 to be addressed in a future rate proceeding.

Rate Generator

Interrogatory #3

Ref: A portion of the Rate Generator Model, Tab 10

Rate Class	Unit	Metered kWh	Metered kW	Billed kWh for Non-RPP Customers	Estimated kW for Non-RPP Customers	Distribution Revenue ¹	1590 Recovery Share Proportion*	1595 Recovery Share Proportion (2008) ²	1595 Recovery Share Proportion (2009) ²
Residential	\$/kWh	33,747,939		2,240,333	-	985,990	37%	32%	
General Service Less Than 50 kW	\$/kWh	16,172,932		392,343	-	325,469	19%	14%	
General Service 50 to 4,999 kW	\$/kW	21,993,284	56,741	12,316,035	31,774	426,978	43%	53%	
Unmetered Scattered Load	\$/kWh	42,486			-	3,194			
Street Lighting	\$/kW	471,711	1,445		-	33,008	1%	1%	
Total		72,428,352	58,186	14,948,711	31,774	1,774,639	100%	100%	0%

[illegible]

Lost Revenue Adjustment Mechanism (“LRAM”)

Interrogatory #6

- a) Please confirm that Sioux Lookout is not requesting LRAM and/or SSM recoveries for CDM related activities.

Smart Meter Funding Adder (“SMFA”)

Interrogatory #7

Ref: Manager’s Summary, Schedule 2, Page 3

At the above reference, Sioux Lookout states that it has completed 100% of its smart meter installations and concluded the implementation of time-of-use. Also, in light of the fact that the sunset date for the smart meter adder is April 30, 2012, Sioux Lookout requests an interim Smart Meter Funding Adder of \$2.91, unchanged from its current approved SMFA. Sioux Lookout states that the interim rate adder will allow it to continue to collect funds until the smart meter disposition application is approved by the Board and will also lessen the impact on customers once disposition is completed.

- a) Please provide an update with respect to the status of Sioux Lookout’s stand-alone smart meter application, and the utility’s estimate as to when it expects that it would file the stand-alone application seeking disposition of Smart Meter costs.

Payments In Lieu of Taxes (“PILS”) – Account 1562

Interrogatory #8

Ref: Appendix A - PILs Billed to Customers Calculation

Sioux Lookout has filed customer counts and volumetric billing data that it used to calculate the PILs amounts recovered from customers from 2002 to 2006. The PILs recoveries are calculated by multiplying the PILs rate slivers found in the 2002, 2004 and 2005 rate applications by the actual billing determinants for the period covered by the rates that were in effect. Board staff has provided tables below that compare the statistics used in the PILs recovery calculations with those statistics filed by Sioux Lookout in its 2006 EDR application.

Customers and Connections PILs Recovery Calculations

2002				
Customer Class	2002 Customers/ Connections Filed in 2006 EDR	2002 Customers/ Connections Evidence	Implied Number of Months of Billing	Billing Months per Board Order
Residential	2,279	16828	7.38	10
General Service < 50 KW	413	3071	7.44	10
General Service > 50 KW	27	191	7.07	10
Streetlight - TOU	535	3791	7.09	10
Unmetered Loads < 50 KW	10	-	-	10

- a) The Board approved rates effective March 1, 2002 as requested by Sioux Lookout. From the evidence submitted by Sioux Lookout in the current application, it appears that it did not bill customers at the new rates until later in 2002. Please explain why the calculations of PILs recoveries based on the fixed charges were not calculated for ten months.
- b) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for 2002?

Volumetric PILs Recovery Calculations

2002			
Customer Class	Billing Parameter	Billed Consumption Mar. 1/02 to Dec 31/02	2002 Statistics Filed in 2006 EDR
Residential	kWh's	15,182,209	31,422,729
General Service < 50 KW	kWh's	8,395,607	24,047,952
General Service > 50 KW	kW's	55,118	95,145
Streetlight - TOU	kW's	847	1,490
Unmetered Loads < 50 KW	kWh's	-	18,190

- c) The Board approved rates effective March 1, 2002 as requested by Sioux Lookout. From the evidence submitted by Sioux Lookout, it appears that it did not bill customers at the new rates until later in 2002. Please explain why the calculations of PILs recoveries based on the volumetric charges were not calculated for ten months.

d) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for 2002?

2003			
Customer Class	Billing Parameter	Billed Consumption 2003	2003 Statistics Filed in 2006 EDR
Residential	kWh's	32,459,023	32,459,023
General Service < 50 KW	kWh's	16,742,069	16,706,469
General Service > 50 KW	kW's	103,564	103,564
Streetlight - TOU	kW's	1,462	1,462
Unmetered Loads < 50 KW	kWh's	-	35,600

e) Why is there a difference in the GS<50kW class consumption for 2003, as seen in the table above?

f) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for 2003?

2004					
Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/04 to Mar 31/04	Billed Consumption Apr 1/04 to Dec 31/04	Total Actual 2004	2004 Statistics Filed in 2006 EDR
	kWh's	10,772,274	17,354,843	28,127,117	33,256,852
General Service < 50 KW	kWh's	5,115,429	9,169,478	14,284,907	16,558,782
General Service > 50 KW	kW's	27,444	57,202	84,646	94,884
Streetlight	kW's	363	128	491	1,461
Unmetered Loads < 50 KW	kWh's	-	-	-	34,856

g) Please explain the differences between the billing determinants used to calculate the 2004 PILs recoveries and those reported in 2006 EDR for 2004, as seen in the table above.

h) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for 2004?

2005					
Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/05 to Mar 31/05	Billed Consumption Apr 1/05 to Dec 31/05	Total Actual 2005	2004 Statistics Filed in 2006 EDR
	kWh's	11,067,663	16,590,471	27,658,134	33,256,852
General Service < 50 KW	kWh's	4,879,805	8,773,104	13,652,909	16,558,782
General Service > 50 KW	kW's	26,274	73,146	99,420	94,884
Streetlight - TOU	kW's	365	977	1,342	1,461
Unmetered Loads < 50 KW	kWh's	-	-	-	34,856

- i) Please explain the why the billing determinants used to calculate the 2005 PILs recoveries are much lower in certain classes and those reported in 2006 EDR for 2004, as seen in the table above.
- j) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for 2005?
- k) Why was the unmetered scattered load (USL) class not used in the PILs recovery calculations for the period January 1 to April 30, 2006?
- l) Did Sioux Lookout have billing system problems in the period 2002 through 2006?
- m) Did Sioux Lookout replace its billing system during the period 2002 through 2006?

Interrogatory #9

Ref: 2001 through 2005 SIMPIL Models

Blended income tax rates are used to calculate the tax variances in SIMPIL models that form part of the entries in PILs account 1562. The blended income tax rates for Sioux Lookout should be based on its own tax evidence. Sioux Lookout did not use tax rates that are consistent with its tax evidence in completing the SIMPIL models for 2001-2005.

- a) Please make electronic copies of the Excel SIMPIL models for 2001 through 2005 that Sioux Lookout filed in evidence. In these SIMPIL models for 2001, 2002, 2003, 2004, and 2005 on sheet TAXCALC, please **enter** (over-ride the formula) the tax rates provided in the table below in the cells shown. Please file these revised SIMPIL models for 2001-2005 and provide an updated continuity schedule using the variances from these revised SIMPIL models.

SIMPIL Models - TAXCALC					
	2001	2002	2003	2004	2005
Cell E122 (or 123): Calculation of true-up variance -income tax effect	19.12%	19.12%	18.62%	18.62%	18.62%
Cell E130 (or 131): Income tax rate used for gross-up (excluding surtax)	18.00%	18.00%	17.50%	17.50%	17.50%
Cell E138 (or 139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	19.12%	19.12%	18.62%	18.62%	18.62%
Cell E175 (or 176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	18.00%	18.00%	17.50%	17.50%	17.50%

- b) Sioux Lookout was eligible for the small business deduction in the tax years 2001 to 2005. Does Sioux Lookout agree that the blended income tax rates shown in the above table are those that should be used to calculate its PILs 1562 variances in its evidence?

Interrogatory #10
Ref: 2005 SIMPIL

On sheet TAXREC2, Sioux Lookout entered an addition amount of \$64,651 for “interest on unrecorded interest on variance accounts” that appeared on Sch.1 of the reassessed/ amended 2005 tax return. This amount relates to regulatory assets or liabilities and should be recorded on TAXREC3 consistent with the Board’s decision that these impacts should not true up to ratepayers since they are timing differences.

- a) Please enter the \$64,651 on TAXREC3 and file the revised SIMPIL model and updated continuity schedule.

Interrogatory #11

Ref: Interest Expense

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:

- a) Did Sioux Lookout have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- b) Did Sioux Lookout 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.
- c) Did Sioux Lookout include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?
- d) Did Sioux Lookout include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?
- e) Did Sioux Lookout include interest expense on IESO prudentials in interest expense?
- f) Did Sioux Lookout include interest carrying charges on regulatory assets or liabilities in interest expense?
- g) Did Sioux Lookout include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did Sioux Lookout also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- h) Did Sioux Lookout deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did Sioux Lookout add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.
- i) Please provide Sioux Lookout'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 Sioux Lookout's interest expense and the amount associated with each type of interest.

Interrogatory #12

Ref: 2001 to 2005 Tax Returns

Ref: Tax Years – Statute-barred

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