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BY EMAIL

February 10, 2012

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Enersource Hydro Mississauga Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0100**

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

In addition please remind Enersource Hydro Mississauga Inc. that its Reply Submission is due by February 20, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Enersource Hydro Mississauga Inc.

EB-2011-0100

February 10, 2012

**Board Staff Submission
Enersource Hydro Mississauga Inc.
2012 IRM3 Rate Application
EB-2011-0100**

Introduction

Enersource Hydro Distribution Inc. (“Enersource”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on November 10, 2011, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Enersource charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 3rd 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 Enersource.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Enersource. 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, Enersource confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Enersource's model at the time of the Board's Decision on the application.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Enersource. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, Board staff notes that the Board will update the applicable data at the time of this Decision based on the updated Uniform Transmission Rates.

Enersource completed the Tax-Savings Workform with the correct rates that reflect the Settlement Agreement from Enersource's previous cost of service application in EB-2007-0706. Board staff has no concerns with the workform as filed.

Enersource provided a reconciliation of Account 1521 – Special Purpose Charge as requested by Board staff during the interrogatory phase. Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff notes that the Board has approved the disposition of unaudited balances in

account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Based on Enersource's reconciliation, Board staff supports Enersource's request to dispose of the balance in this account of a credit of \$139,554. Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012. Board staff submits that if the Board decides to dispose of account 1521, the disposition should be on a final basis and account 1521 should be closed. Enersource requested a one year disposition period. Board staff agrees.

In its Decision for Enersource's 2011 distribution rate application (EB-2010-0078), the Board granted Enersource's request to withdraw its request to dispose of its Group 1 account balances but the Board directed Enersource to make an application no later than its 2012 rate application. On August 18, 2011, Enersource filed a distribution rate application with the Board requesting approval to dispose of its December 31, 2010 Group 1 Deferral and Variance account balances and associated carrying charges. The Board assigned file number EB-2011-0266 to the application. The decision on that application dated December 9, 2011, approved the disposition of these Group 1 deferral and variance accounts balances with an implementation date of February 1, 2012. Therefore, no request was necessary for the current application to dispose of deferral and variance account balances.

Board staff makes detailed submissions on the following matters:

- Smart Meter Funding Adder ("SMFA");
- Lost Revenue Adjustment Mechanism Claim; and
- Payments in Lieu of Taxes – PILS 1562.

SMART METER FUNDING ADDER ("SMFA")

Background

In its Application, Enersource requested the Board's approval to implement a SMFA of \$0.77 per metered customer per month to replace the current Board-approved SMFA of \$2.12 per metered customer per month.

Enersource's rationale for the continuation of a 2012 SMFA is the result of delays encountered in completing the deployment of smart meters. Enersource has completed 98% of its deployment as of December 31, 2010, but, due to unforeseen issues, primarily related to issues pertaining to the need for 1,506, 600 volt meters and the additional acquisition of 300 residential meters, Enersource expects smart meter deployment to be completed in the first quarter of 2012.¹ The 300 residential meters represent outstanding installations that are the result of customer refusals, access issues and physical obstructions, including fences, and hazardous meter bases².

The 600 volt meters present challenges due to the location of the meters (i.e. inside metal cabinets) which has posed challenges with wireless connection for reading of interval data. Enersource also states that, in Ontario, a very limited number of utilities use 600 volt meters. Due to the lack of demand, the delay that Enersource is experiencing is largely related to delays in getting 600 volt meters that meet Measurement Canada standards and in testing these for compatibility with Enersource's collectors³.

Enersource forecasts that an additional \$950,000 for capital investments is needed which relates to the 1,506 600 volt meters and the acquisition of the 300 additional residential meters mentioned above.

Submission

Board staff submits that the Board may wish to consider continuance of the SMFA with a specific termination date. Board staff notes that Enersource has requested that the SMFA be extended to April 30, 2013. Enersource is expected to rebase its rates through a cost of service application for the 2013 rate year. This has been confirmed in the Board's letter issued on January 26, 2012 identifying the electricity distributors expected to file for cost of service applications for the 2013 rate year, and the utility plans to file a smart meter prudence review as part of its 2013 cost of service rebasing application. Given that Enersource has not yet completed the deployment of its smart meters and consequently still has remaining deployment costs to incur, Board staff submits that Enersource's request is reasonable.

¹ EB-2011-0100, Application, Tab 4, Page 2

² EB-2011-0100, Interrogatory Responses, #6(B)

³ *Ibid*

Board staff is of the view that establishing a termination date of April 30, 2013 for the SMFA should give Enersource enough time to complete its smart meter program, including TOU implementation. The 2011 costs would also be audited, so that total smart meter costs should satisfy the threshold that at least 90% of such costs are audited actuals as documented in *Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, issued December 15, 2011. Further, this will allow sufficient time for the utility to prepare and file an application in accordance with the guideline and model.

Board staff would prefer a termination date for the SMFA of December 31, 2012. In its reply submission, Enersource may wish to indicate to the Board whether it intends to seek a January 1 effective date for its 2013 rates. If Enersource is planning to request a January 1 effective date for 2013 rates, Board staff agrees that it was appropriate for Enersource not to assume that this would be approved by the Board; however, the Board may wish to consider this factor in its Decision.

Board staff notes that Enersource was granted an extension by the Board until May 31, 2012 from the requirement to apply Time-of-Use pricing.

LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”) CLAIM

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the “CDM Guidelines”) issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

Enersource has sought to recover a total LRAM claim of \$856,957, including carrying charges, over a one-year period. The lost revenues include the persisting impacts of 2005-2009 CDM programs in 2010 and lost revenues from 2010 CDM programs in 2010.

Submission

Persisting impacts of 2005-2008 programs in 2010

Enersource requested recovery of an LRAM amount that includes the persisting impacts from 2005, 2006, 2007, and 2008 CDM programs in 2010.

Board staff notes that Enersource's rates were last rebased in 2008.

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 time⁴.

Board staff also notes that in its Decision and Order on Hydro One Brampton's 2012 IRM application (EB-2011-0174), the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing.

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.

In response to Board staff interrogatory #7(e), Enersource indicated that in its 2008 cost of service application it proposed a reduction to forecast throughput in the 2008 test year attributable to the effects of CDM. Enersource also indicated that the proposed reduction to the 2008 forecast throughput was eliminated in the approved Settlement Agreement. Board staff notes that the fact that an outcome of a settlement agreement changes the quantum of the overall load forecast as originally filed, does not necessarily

⁴ Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

mean that no CDM effects are imputed into that load forecast. Enersource may want to highlight in its reply whether the issue of an LRAM application was addressed in the Settlement Agreement accepted by the Board.

In the absence of the above information, Board staff does not support the recovery of the persisting lost revenues from 2005, 2006, 2007, and 2008 CDM programs in 2010 as these amounts should have been built into Enersource's last approved load forecast.

Persisting impacts of 2009 programs and impacts of 2010 programs in 2010

Board staff notes that Enersource has not collected the lost revenues associated with CDM programs delivered in 2009 and 2010 in 2010, a year in which Enersource was under IRM. Board staff supports the approval of 2009 lost revenues persisting in 2010 and 2010 lost revenues that were the result of 2010 CDM programs, as these lost revenues took place during IRM years and Enersource did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its 2012 IRM decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Enersource provide an updated LRAM amount that only includes lost revenues from 2009 CDM programs in 2010 and 2010 CDM programs in 2010 and the subsequent rate riders. This will allow for the issuance of the final rate order on a timelier basis in the event the Board is inclined to approve only the lost revenues associated with the 2009 and 2010 programs.

PAYMENTS IN LIEU OF TAXES – PILS 1562

Background

The PILs evidence filed by Enersource in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL⁵ Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance. In pre-filed evidence Enersource applied to refund to customers a credit balance of \$1,184,236 consisting of a principal credit amount of \$1,515,868 and related debit carrying charges

⁵Spreadsheet implementation model for payments-in-lieu of taxes

of \$331,632. In response to interrogatories related to PILs recoveries, Enersource updated its evidence and now requests to refund to customers \$1,093,604.⁶

Submission

Excess Interest True-up Variance Calculations

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 the TAXCALC worksheet as an extra deduction in the true-up calculations. This has been a feature of the Board's methodology and was settled in the combined proceeding ⁷ under Issue #13.

In response to interrogatories, Enersource provided the following table that shows the components of its interest expense for the period 2001 through 2005 as well as a series of explanations that are replicated below:⁸

A) Enersource's interest expense as reported on its financial statements includes the following amounts:

	Q4 -2001	2002	2003	2004	2005
Interest Expense on Debt	\$ (4,454,000)	\$ (18,241,000)	\$ (18,241,000)	\$ (18,241,000)	\$ (18,241,000)
Other Interest Expense (not related to Long-Term Debt) and Debt Amortization Expense	-	(990,000)	(1,079,000)	(927,000)	(895,000)
AFUDC and Carrying Charges	-	772,000	915,000	4,113,000	1,459,000
Interest Expense per Financial Statements	<u>\$ (4,454,000)</u>	<u>\$ (18,459,000)</u>	<u>\$ (18,405,000)</u>	<u>\$ (15,055,000)</u>	<u>\$ (17,677,000)</u>

B) Enersource's financial statements presented interest income and interest expense in the following manner:

⁶ Responses to Board Staff, January 27, 2012, Interrogatory #9, page 1.

⁷ EB-2008-0381, decision dated June 24, 2011

⁸ Responses to Board Staff, January 27, 2012, Interrogatory #10, pages 2-4.

	Q4 -2001	2002	2003	2004	2005
Interest Income	\$ 511,000	\$ 724,000	\$ 1,938,000	\$ 1,782,000	\$ 1,718,000
Interest Expense	(4,454,000)	(18,459,000)	(18,405,000)	(15,055,000)	(17,677,000)
Net Amount	<u>\$ (3,943,000)</u>	<u>\$ (17,735,000)</u>	<u>\$ (16,467,000)</u>	<u>\$ (13,273,000)</u>	<u>\$ (15,959,000)</u>

As detailed in Response (A), Enersource netted interest income relating to Allowance for Funds Used During Construction ("AFUDC") and to carrying charges of regulatory assets and liabilities against interest expense. The interest income amounts shown separately on Enersource's financial statements relate to interest income earned on bank account balances, term deposits and customer security deposits.

C) Yes. Enersource used the net amount of interest expense per the financial statements, as explained in Response (B), for the purposes of the interest trueup calculation. The interest expense relating to customer security deposits is included in the net amount.

D) Yes. Enersource confirms that interest income on customer security deposits was included in the net amount of interest on its financials statements and tax returns.

E) Yes. Enersource confirms that letter of guarantee fees relating to the IESO prudentials is included in interest expense. These fees are included in the "Other Interest Expense" amounts shown in Response (A).

F) Yes. As explained in Response (A), Enersource confirms that carrying charges income on regulatory assets and liabilities have been included as a reduction to interest expense.

G) Yes. Enersource confirms that the amortization of debt issuance costs are included in interest expense and the interest true-up calculations. However, Enersource did not include the difference between the accounting and tax amortization amounts in the interest true-up calculations as the differences between these amounts are already factored into the true-up variance calculation in tab TAXREC2.

H) Enersource has included interest income relating to AFUDC in the interest trueup calculation. Enersource did not add back AFUDC to the actual interest expense amount for purposes of the interest true-up calculations as AFUDC is already factored into the true-up variance calculation in tab TAXREC2.

I) Enersource believes that interest expense, net of interest income, should be included in the excess interest true-up calculations as this is the amount that was reported in Enersource's tax returns to determine taxes payable for the year.

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.⁹

The Board identified components of interest expense in the instructions for filing the RRR SIMPIL models. In the Combined Proceeding, staff filed some of these instructions as exhibits.¹⁰ The excerpt below is taken from the 2005 instructions but also existed in previous years' guidance as well:

Actual interest expense, including the amount capitalized for accounting but deducted for tax, that exceeds the full amount of deemed interest. Please note the interest true up is calculated in Part V, Interest Portion of True-up.

In the Accounting Procedures Handbook ("APH") interest income is recorded in account 4405¹¹ and various types of interest expense are recorded in Accounts 6005 through

⁹ EB-2008-0381 Combined Proceeding, Account 1562 Deferred Payments in Lieu of Taxes (PILs), pg. 7.

¹⁰ <http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193868/view/>
<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193878/view/>
<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193877/view/>
<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193884/view/>
<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193883/view/>

¹¹ APH, Uniform System of Accounts, Article 210, pg 13.

6045.¹² In audited financial statements the groupings of these accounts are determined by the utility.

In its 2012 IRM proceeding (EB-2011-0174) Hydro One Brampton defined interest expense for the purpose of the interest claw-back penalty as the net interest expense reported in its financial statements.¹³ As shown in Table 11 below, Hydro One Brampton grouped several types of interest income, expense and amortization of deferred debt costs in determining its financial statement disclosure.

Table 11: Interest Expense Components Used in SIMPIL Models for Interest Portion of True-up¹⁴

Component Description	2001	2002	2003	2004	2005
Long-Term Debt	1,291,099.00	9,954,381.78	9,938,499.99	9,938,500.00	9,938,500.24
Interest Related to Regulatory Assets & Liabilities	-	(192,784.69)	(8,608.68)	(49,278.46)	(457,834.75)
Amortization of Deferred Debt Costs	-	25,920.00	25,920.00	25,920.00	25,920.00
Interest Expense	5,356.64	(52,020.32)	18,401.13	70,112.24	124,007.05
Allowance Other Funds During Construction	(229,306.00)	(410,765.00)	-	-	-
Interest Expense on Customer Deposits	81,049.36	116,003.05	57,145.43	75,641.78	102,531.67
Foreign Exchange	-	-	-	-	2,713.50
Interest and Dividend Income	-	-	(384,369.21)	(152,786.79)	(196,079.85)
1. Financial Statement amounts used in TAXREC sheet, Section B of SIMPIL Models	1,148,199.00	9,440,734.82	9,646,988.66	9,908,108.77	9,539,757.86
Add Back Allowance Other Funds During Construction	229,306.00	410,765.00	-	-	-
2. Interest Expense used for Interest Portion of True-up in SIMPIL Models	1,377,505.00	9,851,499.82	9,646,988.66	9,908,108.77	9,539,757.86

The Board in its decision made the following findings:

The Board finds that the components which will comprise interest expense for purposes of the true-up calculations based on HOBNI's evidence in this case are interest on long-term debt, accounting amortization of deferred debt costs, foreign exchange and interest expense (*other*). After making the changes in

¹² APH, Uniform System of Accounts, Article 210, pg 20.

¹³ EB-2011-0174/Response to Staff IRs/Tab11/Sch2/IR#11/pg20 ln13-25/pg21ln 1-4.

¹⁴ EB-2011-0174, Response to Staff IRs, Tab11/Sch2/IR#11/pg20.

HOBNI's SIMPIL models and the continuity schedule to reflect these findings, the Board has determined that the amended credit balance in Account 1562 Deferred PILs is \$3,675,429 to be refunded to customers over one year.

While audited financial statement disclosures may vary among the distributors, the Board is not persuaded that interest income should be netted against interest expense in the SIMPIL true-up calculations since this treatment is not consistent with cost of service filing instructions. In the decision in the Combined Proceeding, the Board accepted the settlement that the impacts of regulatory assets and liabilities should be excluded from the determination of the balance in account 1562 deferred PILs, and the Board agrees with that determination in this case. Interest expense related to customer deposits is not recovered in cost of service applications and therefore should be excluded in the SIMPIL calculations. Capitalized interest and its reversal in the tax calculations nets to zero, and this treatment is consistent with prior guidance issued by the Board.¹⁵

Board staff submits that the components of interest expense to be included in the interest claw-back penalty calculations should be as shown in the following table:

Interest Expense	2001	2002	2003	2004	2005
Interest expense on debt	4,454,000	18,241,000	18,241,000	18,241,000	18,241,000
Other interest expense		990,000	1,079,000	927,000	895,000
Difference between tax amount for amortization of debt issue costs and accounting (see table below)	103,306	434,343	434,343	434,344	433,585
Total interest	4,557,306	19,665,343	19,754,343	19,602,344	19,569,585

Source: SIMPIL models 2001-2005, Sheet TAXREC2

Amortization of Debt Issue Costs	2001	2002	2003	2004	2005
Accounting amount	111,694	433,585	433,585	433,584	433,584
Tax amount	215,000	867,928	867,928	867,928	867,169
Difference	103,306	434,343	434,343	434,344	433,585

Board staff submits that AFUDC, also known as capitalized interest, must be added back to determine the amount of interest to be used in the true-up calculations. This will

¹⁵ EB-2011-0174, Decision and Order, December 22, 2011, pages 9-10

provide a consistent treatment with prior guidance issued by the Board and the decision in the Hydro One Brampton case.¹⁶

Enersource has included the amortization of debt issue costs in the components of interest expense as stated in (g) above. In cost of service applications the Board has allowed the amortization of debt issue costs to be used in determining the weighted average cost of debt. In the tax calculations as shown in its SIMPIL models for 2001-2005, on sheet TAXREC2, Enersource has added back the accounting amortization and deducted the amount allowed under section 20 (1)(e) of the *Income Tax Act*.

Board staff submits that the tax amount must be added to interest expense since the interest claw-back true-up is a tax value true-up based on tax returns.

Board staff submits that Enersource should change the amount of interest expense used in the 2001-2005 SIMPIL model interest claw-back penalty calculations to reflect Board staff's submissions, and update the PILs 1562 continuity schedule and balance to be refunded to customers. Board staff submits that Enersource should file a schedule of revised interest expense identifying the components in a format similar to that above shown.

Bad Debts Expense Added back in 2001 SIMPIL Model

Board staff asked interrogatories about amounts shown on 2001 SIMPIL model on sheet TAXREC2. Items that appear on TAXREC and TAXREC2 true-up to ratepayers. Items that appear on TAXREC3 do not true up to ratepayers. Interrogatory # 8, Board staff asked as follows:

“(B) Enersource has entered as additions on sheet TAXREC2 on the older version of the 2001 SIMPIL model the following items that appear on a re-assessment notice for the 2001 tax year that were disallowed by the Ministry of Finance [Tab5/ Sch. 6.1/pg 2]: miscellaneous expenses \$137,130; bad debt expense \$627,402; PST penalty \$5,240. Additions to income entered on sheets TAXREC and TAXREC2 true up to ratepayers. It is not clear from the evidence

¹⁶ http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193868/view/2004_SIMPIL-Model%20Guide_210704_December%2031,%202003%20Tax%20Year.PDF See PDF page 16, bullet 3.

submitted if the adjustments are related to the non-taxable period prior to October 1, 2001. In Board staff's view, these items are components of net income or net loss and are not book-to-tax adjustments. Net income does not true up under the SIMPIL methodology.

Please explain why these items should not be entered on TAXREC3 so that they do not true up to ratepayers."

Enersource replied as follows:

"(B) The miscellaneous expenses of \$137,130 and PST penalty of \$5,240 which were re-assessed and added back to taxable income by the Ministry of Finance are below Enersource's materiality threshold of \$451,389. As a result, these amounts have been excluded from the calculation of the true-up variance adjustment on sheet TAXCALC.

The \$627,402 relates to bad debt expense that was determined to be bad debt during the October 1st to December 31st period in 2001. Based on the OEB's guidance in "2002 Applications RAM Instructions" dated January 18, 2002, in the title for Footnote 7 - Other Additions, the instructions state that "NO TRUE UP WILL APPLY TO THIS CATEGORY, UNLESS MATERIAL". Furthermore, the instructions for this footnote include that " ... this line item enables a utility to include other additions into rates which are material" Similar wording can be found on page 8 in the "2004 SIMPIL Model Guide for the December 31, 2003 Tax Year". On page 16 of this document, it states" ... items to be included in true-up adjustments are as follows ... other additions and deductions exceeding the materiality level".

Enersource believes that the inclusion of this adjustment is in accordance with the guidelines provided by the OEB and the EB-2008-0381 Decision and Order dated June 24, 2011. As a result, Enersource has included this adjustment in determining the true-up variance since it is greater than Enersource's materiality threshold of \$451,389.¹⁷

In the instructions for the completion of the SIMPIL models during the period 2001

¹⁷ Responses to Board Staff, January 27, 2012, Interrogatory #8, Pages 1-2.

through 2005 many points and issues were discussed. The term “bad debts expense” and “reserve for bad debts or doubtful accounts” are used interchangeably in accounting language. Below staff has quoted from evidence that was submitted on May 14, 2010 in the combined proceeding EB-2008-0381:¹⁸

The Board has previously established rules on what items will be included as part of true-up adjustments. The items to be included in true-up adjustments are as follows:

- Both tax and accounting reserves except reserve for doubtful accounts and inventory reserves will be allowed [*Emphasis added*]
- Any employee benefit plans including other post employment benefits and pension plan
- Actual interest expenses, including amount capitalized for accounting but deducted for tax, exceeding the deemed interest (taking into consideration a proration of a short taxation year). Please note the interest true up is calculated in Part V, Interest Portion of True-up.
- Regulatory additions and deductions
- Other additions and deductions exceeding the materiality level

Enersource became taxable, or subject to PILs under section 93 of the *Electricity Act*, 1998, on October 1, 2001. It is highly unlikely that the receivables that were written off, and caused the bad debts, in the fourth quarter of 2001 related to sales of energy in the period after September 30, 2001. It is far more likely that the energy sales occurred much earlier in 2001 or in prior years before Enersource became subject to PILs. Staff asked if the sales that resulted in the bad debts occurred prior to October 1, 2001. Enersource responded that the receivables were determined to be bad in the fourth quarter.

It is important to remember that costs incurred and income earned before October 1, 2001 were not subject to income tax PILs and were not deductible in the period after September 30, 2001. It appears that the deduction of bad debts was denied by the Ministry of Finance Corporations Tax Branch auditors because the costs related to energy sales prior to October 1, 2001. If the sales and resultant income were not

¹⁸ http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/193868/view/2004_SIMPIL-Model%20Guide_210704_December%2031,%202003%20Tax%20Year.PDF See PDF page 16 bullet 1.

taxable because they took place in the period before Enersource became subject to PILs, then the expenses related to writing off those sales would not be deductible either.

Board staff submits that the bad debts expense should be moved to sheet TAXREC3 in the 2001 SIMPIL model so that the costs do not true up to the ratepayers.