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BY EMAIL

April 17, 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: Milton Hydro Distribution Inc.
Application for the Disposition of Account 1562 – Deferred Payments in
Lieu of Taxes
Board Staff Submission
Board File No. EB-2012-0025**

In accordance with the Notice of Application and Written Hearing and Procedural Order No. 1, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Milton Hydro Distribution Inc. and to all other registered parties to this proceeding.

In addition please remind Milton Hydro Distribution Inc. that its Reply Submission is due by May 15, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Milton Hydro Distribution Inc.

EB-2012-0025

April 17, 2012

Milton Hydro Distribution Inc. (“Milton”)
Board staff Submission
Account 1562 – PILs Disposition

Background

In its Decision in the EB-2008-0381 Combined PILs (Payments in Lieu of Taxes) proceeding (“Combined PILS Decision”), the Board indicated that distributors will be expected to apply for final disposition of Account 1562 (Deferred PILS) with their next general rates application, either IRM or cost of service. The Board also indicated in the Combined PILS Decision that if the distributor files evidence in accordance with the various decisions made in the course of the Combined PILS proceeding, including the use of the updated SIMPIL model, the determination of the final account balance will be handled expeditiously and in a largely administrative manner. However, if a distributor files on a basis which differs from what is contemplated by the Combined PILS Decision, the application can take some time to process, and therefore should not be included in an IRM application. Deviations from the Combined PILS Decision could include taking a different position on issues considered by the Board in the Combined PILs proceeding, addressing issues not arising in the Combined PILs proceeding or filing older SIMPIL models rather than the updated models containing the Excel worksheet ‘TAXREC 3’ as used by Halton Hills Hydro Inc.

Board staff reviewed the evidence filed by Milton as part of its 2012 Incentive Rate Mechanism (“IRM”) Application, dated September 19, 2011, supporting the disposition of Account 1562. The Board determined that Milton’s application was not consistent with the various decisions made in the course of the Combined PILS proceeding. The inconsistencies identified related to policy, in that Milton reduced its total interest expense each year by deducting interest expense on customer deposits, and on prudentials to the IESO, in the calculation of the interest claw-back penalty. Also, it was not apparent how Milton may have treated interest expense on regulatory liabilities in its evidence.

Therefore, the Board did not hear the request for disposition of Account 1562 as part of Milton’s 2012 IRM application and noted that it would consider it on a stand-alone basis in a separate application which Milton was expected to file by no later than April 1, 2012.

Submission

Milton filed a stand-alone application for the disposition of Account 1562 – Deferred PILs, dated January 20, 2012. The PILs evidence filed by Milton in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL¹ Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance. In pre-filed evidence Milton applied to refund to customers a credit balance of \$716,074 consisting of a principal credit amount of \$625,507 plus related carrying charges of \$90,567.

In determining the excess interest true-up variances in the SIMPIL models, the Board-approved maximum deemed interest of \$1,082,730 was deducted from actual interest expense. Milton did not include interest expense related to customer deposits² consistent with the Board's decision in Hydro One Brampton's 2012 IRM application (EB-2011-0174). Fees charged on prudential letters of credit were included in interest expense. Milton stated in its Manager's Summary that "while Milton does not agree that bank charges and fees relating to the requirement to provide a prudential letter of credit to the Independent Electricity System Operator are interest charges, Milton Hydro has included the fees charged in other interest expense."³ Board staff notes that including interest related to the prudential letter of credit in the true-up calculations is consistent with the Board's decisions.⁴ Board staff submits that there are no issues concerning the interest expense true-up calculations submitted by Milton.

In response to Board staff interrogatories, Milton filed the revised 2001 SIMPIL model using the tax rate that excludes the surtax rate of 1.12% to calculate the true-up variance and updated PILs continuity schedule. Milton also provided an updated Excel workbook *PILs Billings to Customers* that shows the number of customers, billed kWh/kW and associated fixed and variable PILs rate slivers.

Milton's amended evidence filed on April 12, 2012 supports a refund to customers of a credit balance of \$775,338 consisting of a credit principal amount of \$666,850 plus related credit carrying charges of \$108,488. Board staff submits that this revised credit

¹ Spreadsheet implementation model for payments-in-lieu of taxes

² EB-2011-0174, December 22, 2011, pg9-10.

³ Milton Hydro EB-2011-0183 PILs application Manager's Summary, Page 3.

⁴ Burlington Hydro, EB-2011-015, March 20, 2012. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012. Thunder Bay Hydro Electricity Distribution Inc., EB-2011-0197, April 4, 2012.

amount of \$775,338 has been calculated in accordance with the regulatory guidance and the decisions issued by the Board in determining the amounts in Account 1562 Deferred PILs.⁵

All of which is respectfully submitted

⁵ Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012. Staff Discussion Paper, August 20, 2008.