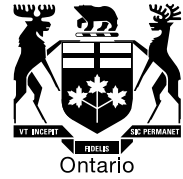


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BY E-MAIL

May 11, 2010

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

Dear Ms. Walli:

**Re: Centre Wellington Hydro Ltd.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0052**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Interrogatories in the above proceeding.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst – Applications & Regulatory Audit

Encl.

**Centre Wellington Hydro Ltd. (“CWHL”)
EB-2012-0052
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories**

1) PILs Recoveries

Ref: CWH_PILs Amounts Billed to Customers

The 2002 application rate adjustment model (“RAM”) provided two sheets (sheet 6 and 8) that calculated the rate slivers associated with the 2001 and 2002 PILs proxy amounts approved by the Board for recovery from customers. These rate slivers had both fixed customer charge and volumetric charge elements. In order to correctly determine the amounts recovered from customers, the Applicant must multiply the rate slivers by the appropriate billing determinants.

In its rate application for 2002 rates, Centre Wellington Hydro Ltd. (CWHL) chose to forgo recovering a fixed charge from its customers. The 2002 Board decision stated that:

“In order to reduce bill impacts on small use customers, the Applicant allocated a portion of the class distribution revenue increases that are attributable to PILs only to the variable component of the distribution rate, instead of both the fixed and variable components”.

Board staff was unable to verify the volumetric rate slivers used for the General Service > 3,000 kW (Intermediate) rate class with the corresponding variable rate sliver in the Board-approved 2002 RAM as seen in the table below.

2002 Volumetric PILs rates

Rate Class	CWHL PILs Billed Worksheet	Approved 2002 RAM sheet 8	
GS > 3,000 kW	\$0.099015	\$0.140801	kW

- a) Please explain why CWHL did not use the 2002 proxy Board-approved volumetric rate sliver from the 2002 RAM for General Service > 3,000 kW (Intermediate) rate class for the time period from March 1, 2002 to March 31, 2004?
- b) If CWHL agrees that the Board-approved volumetric rate sliver should be used, please provide the PILs Amounts Billed to Customers worksheet and updated PILs continuity schedule in Excel format that uses the variable rate sliver for the General Service > 3,000 kW (Intermediate) rate class from the 2002 RAM.

2) Interest Expense

Ref: 2001 through 2005 SIMPIL Models

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) Please provide a table for the years 2001 to 2005 that shows all of the components of CWHL's interest expense for the purposes of the interest true-up calculation and the amount associated with each type of interest. Please ensure that the table balances back to all of the interest expense listed in the audited financial statements.
- b) Did CWHL have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- c) Did CWHL 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.
- d) Did CWHL include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?
- e) Did CWHL include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?
- f) Did CWHL include interest expense on IESO prudentials in interest expense?
- g) Did CWHL include interest carrying charges on regulatory assets or liabilities in interest expense?
- h) Did CWHL include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did CWHL also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- i) Did CWHL deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did CWHL add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.
- j) Please provide a table for the years 2001 to 2005 that shows all of the components of CWHL's interest expense for the purposes of the interest

true-up calculation and the amount associated with each type of interest. Please ensure that the table balances back to all of the interest expense listed in the audited financial statements.

- k) If a revision has been made to the SIMPIL claw-back calculations, please file the revised SIMPIL models and update the PILs continuity schedule in Excel format.

3) Ontario Ministry of Finance Notices of Assessment

- a) CWHL filed copies of the notices of assessment from CRA. Please provide all of the notices of assessment, reassessment and any statements of adjustment from the Ontario Ministry of Finance Corporations Tax Branch for the tax years 2001 through 2006. If CWHL did not file the tax returns for 2001-2005 with the Ontario Ministry of Finance Corporations Tax Branch please explain why.
- b) Has CWHL been audited by the Ontario Ministry of Finance Corporations Tax Branch? Please list the years for which the audits have been completed. Please list the years where there are disputes that are on-going and not yet resolved. Please provide the Ontario Ministry of Finance Corporations Tax Branch's documentation related to any outstanding tax issues.
- c) Please confirm that all tax years from 2001 to 2005 are now statute-barred with the Ontario Ministry of Finance Corporations Tax Branch.

4) Tax Returns and Business Limit Reduction

- a) Did CWHL actually file the 2003 T2 Return submitted to the Board in its 2012 IRM rate application on September 28, 2011 with the Ministry of Finance? Did CWHL actually file the 2003 T2 Return labeled '*Proforma Return for Payment in Lieu of Taxes*' submitted to the Board in CWHL's deferred PILs standalone application on March 31, 2012 with the Ministry of Finance? Please clarify which version of this 2003 T2 return should be used as evidence in this deferred PILs application?
- b) CWHL's rate base was \$8,553,726 for the years 2001-2005 in applications. On a regulatory basis, this would have allowed CWHL to take the full federal small business deduction. In calculating the income tax rates¹ CWHL has reduced the business limit which results in an increase in the effective income tax rate.

¹ Excel worksheet "CWH tax rate calcn.xls" filed on March 31, 2012.

- i. Please explain why CWHL reduced the business limit.
 - ii. Please provide a list by tax year 2001-2005 of the taxable capital that was used to calculate the reduction in the business limit and provide the calculations.
 - iii. Please explain why CWHL did not base the regulatory tax calculations on rate base and instead used actual taxable capital from the tax returns.
- c) In 2003 on the T2 return actual taxable income was \$163,394. In 2004 on the T2 return actual taxable income was \$362,519. In 2005 on the T2 return actual taxable income was \$828,245. CWHL has used regulatory taxable income of \$498,878 from the 2002 rate application to calculate the income tax rates for 2002, 2003 and 2004. CWHL has used regulatory taxable income of \$518,012 from the 2005 rate application to calculate the 2005 income tax rate.

Please explain why CWHL did not use the actual taxable income to calculate the income tax rate in each year.

- d) CWHL seems to have used a hybrid method to calculate the income tax rates. A regulatory approach would use rate base as the proxy for taxable capital, regulatory taxable income and the tax return forms to calculate the blended income tax rates. Following this method there would be no business limit reduction since rate base as the proxy for taxable capital is less than \$10 million. Using actual taxable capital which results in the business limit reduction would also require the use of actual taxable income to be internally consistent.
- i. Please provide calculations of the income tax rates using the regulatory approach of rate base as the proxy for taxable capital and regulatory taxable income for the tax years 2001 through 2005.
 - ii. Please provide the calculations based on the actual tax return approach which uses actual taxable capital and actual taxable income to calculate the income tax rates for each year 2001 through 2005.
 - iii. Please provide the active Excel versions of the five SIMPIL models for 2001-2005 and related continuity schedule using the income tax rates for the regulatory approach.

- iv. Please provide the active Excel versions of the five SIMPIL models for 2001-2005 and related continuity schedule using the income tax rates for the actual tax return approach.
- v. Please choose which approach CWHL would prefer to have the Board consider. That is, the hybrid, the regulatory or the actual tax return version of the evidence.
- vi. Please provide a discussion of pros and cons to support the approach CWHL prefers, and explain why the other two approaches would not be acceptable for ratemaking purposes in this application.