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BY E-MAIL

May 25, 2012

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

Dear Ms. Walli:

**Re: Brant County Power Inc.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2011-0425**

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

As a reminder, Brant County Power Inc.'s responses to interrogatories are due by June 14, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst – Applications & Regulatory Audit

Encl.

**Brant County Power
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories**

**Reference: 2001 through 2005 SIMPIL Models – Appendices 12-16
Income Tax Rates**

- 1) In the Combined Proceeding EB-2008-0381, the three applicants were all subject to the maximum blended income tax rates based on the tax evidence they each submitted in the case. That proceeding was not a generic proceeding, and therefore the Board's findings on income tax rates do not apply to every distributor. Blended income tax rates determined from the applicants' own tax evidence are used to calculate the tax variances in SIMPIL models that form part of the entries in account 1562 deferred PILs. Brant County Power (BCP) incurred losses or had zero taxable income for tax purposes in each year from 2001 through 2004.

BCP has used income tax rates as shown in the table below in its SIMPIL models. The Board-approved rate base was taken from the 2002 PILs proxy application evidence. Rate base was considered in the 2002 application to be a regulatory proxy for taxable paid-up capital.

	2001	2002	2003	2004	2005
Taxable paid-up capital (\$)	12,710,037	12,710,037	12,710,037	12,710,037	12,710,037
Income tax rate used in SIMPIL Models	34.12%	38.62%	36.62%	30.74%	24.59%

BCP was inconsistent in choosing the maximum income tax rate for some years and tax rates lower than the maximum for other years. "Income taxes for 2004 and 2005 were set using the actual blended tax rate that a taxpayer would pay in those years for an identical level of taxable income as per the PILs determination of taxes included in rates."¹

Corporate taxpayers are eligible for the full federal small business deduction when taxable capital is below \$10 million. The small business deduction is phased out on a straight-line basis as taxable capital increases above \$10 million, and is completely eliminated when taxable capital reaches \$15 million.² The taxpayer pays a lower rate of income tax than the maximum rate as long as taxable capital remains below \$15 million.

- a) Please explain why BCP did not select a consistent approach based on its own tax evidence submitted in this case.

¹ Brant County Deferred PILs Application, EB-2011-0425, Manager's Summary, Page 4.

² Income Tax Act, section 125 (5.1)

- b) Please provide the documents that show all of the calculations that were made by BCP's auditors to validate the blended income tax rates for 2004 and 2005 that were used in BCP's SIMPIL models.
- c) Please provide calculations of tax rates for 2001, 2002 and 2003 using the same methodology that BCP's auditors used to calculate the tax rates for 2004 and 2005.
- d) Please insert the income tax rates calculated in (c) above in the SIMPIL models for 2001, 2002 and 2003. Please deduct 1.12% to determine the gross-up tax rate for the appropriate cells.

**Reference: 2001 through 2005 SIMPIL Models – Appendices 12-16
Regulatory Adjustments**

- 2) BCP modified the SIMPIL models for 2002, 2003 and 2004 by deleting formulas that would have trued up an amount related to regulatory adjustments for transition cost recovery of -\$420,149 in cell E105 and - \$96,676 in cell E111 in each year. The reasons for the change in formulas are explained on page 6 of the consultant's report prepared for BCP.

The Board decided that the impact of regulatory assets and liabilities must be excluded in the determination of the variances that are entered in account 1562. The purpose of the formula in the SIMPIL model is to remove (reduce) the impact on PILs of regulatory assets and liabilities contained in the proxy calculations when compared to the actual tax values. BCP's changes to the models leave regulatory asset impacts in the calculations, and therefore do not comply with the Board's decision.

The Board in its decision on the Combined Proceeding expects that distributors will use similar models as had been submitted by Halton Hills. Halton Hills did not alter the formula that BCP has changed in its evidence.

- a) Please explain why BCP believes it should not be subject to the decision regarding regulatory assets and liabilities in the Combined Proceeding.
 - b) Please identify every formula that BCP has changed in the SIMPIL models for 2001 through 2005.
- 3) Please make copies of the Excel SIMPIL models for 2002, 2003 and 2004 that BCP filed in evidence, make the following changes, and file the revised active Excel models.

- a) Please input the revised income tax rates based on BCP's answer to interrogatory 1(c) above in the SIMPIL models for 2002 and 2003 to calculate the tax impact; and deduct 1.12% from these revised income tax rates to calculate the grossed-up tax amounts.
- b) In the SIMPIL models for 2002, 2003 and 2004 please correct the formula so that the variance related to regulatory adjustments of \$420,149 that appears in cell E24 and \$96,676 that appears in cell E36 will true up with the correct sign in cell E105 and E111 respectively for each year.
- c) Please enter the variances from these revised SIMPIL models in the continuity schedule *Appendices 1, 32, 33, and 34* and file the active revised Excel model(s) with the updated final balance for disposition.

Participation in the Combined Proceeding

- 4) Did BCP or its consultant participate in the Combined Proceeding EB-2008-0381? Did BCP make submissions to the Board on the issues that it now disagrees with?

Reference: PILs Recovery Worksheets - Appendices 1, 32, 33, and 34 PILs Recoveries from Customers

- 5) The trend for the majority of distributors is that the PILs recoveries exceed the proxies for the full years of 2003, 2004 and 2005. PILs rates slivers were derived in 2002 using billing determinants estimated for the 2001 fiscal year. As demand and population grew, the PILs dollar amounts recovered were higher than the proxy set using 2001 billing determinants. The table below shows BCP's evidence for the partial year for 2002 from March to December and the full years of 2003, 2004 and 2005.

PILs Proxies vs. Recoveries	2002 partial	2003	2004	2005	2006 partial
PILs Proxies in Rates	493,959	551,508	508,346	275,147	67,403
PILs Recovery Calculations	393,771	531,915	517,719	277,318	74,979
Difference	100,188	19,593	-9,373	-2,171	-7,576

- a) Despite a partial collection year, the 2002 recoveries appear lower than expected. The 2002 customer counts and billing determinants appear to have internal inconsistencies especially within the month of June for all rate classes. Total PILs recovery in June 2002 was \$16,867 which is substantially lower than recoveries in June 2003 of \$41,414 and in June

2004 of \$38,958. Please explain.

Customer Counts

2002							
Rate Class	March	April	May	June	July	Aug	Sept
Residential	6,784	6,818	6,813	2,242	6,811	6,860	6,914
GS < 50 kW	1,392	1,393	1,398	572	1,369	1,368	1,361
GS > 50 kW	153	156	163	40	158	162	170
Intermediate Use	1	1	1	1	1	1	1
Large Use	1	1	1	1	1	1	1
Sentinel Lights	252	252	258	126	243	245	245
Street Lights	2,468	2,411	4,996	4,764	-	-	7,407
Unmetered Loads	35	35	86	-	42	42	42

Billing Determinants

2002							
Rate Class	March	April	May	June	July	Aug	Sept
Residential	5,831,626	5,583,610	5,064,230	1,877,216	5,381,605	7,210,613	7,404,696
GS < 50 kW	2,877,792	2,805,373	2,494,288	968,834	2,522,101	2,956,988	3,031,237
GS > 50 kW	24,245	25,113	25,534	10,626	22,557	26,158	29,180
Intermediate Use	658	792	846	-	-	1,575	726
Large Use	13,178	13,096	14,278	14,356	14,441	13,942	16,409
Sentinel Lights	41	41	20	11	19	19	19
Street Lights	334	351	337	90	-	-	291
Unmetered Loads	23,938	14,857	48,000	-	38,960	38,984	38,984

Calculated PILS Revenue

2002							
Rate Class	March	April	May	June	July	Aug	Sept
Residential	9,452	18,544	17,685	6,165	18,203	21,272	21,664
GS < 50 kW	4,338	8,522	7,863	3,106	7,871	8,801	8,949

GS > 50 kW	6,842	14,164	14,419	5,891	12,793	14,751	16,414
Intermediate Use	52	123	132	4	4	241	114
Large Use	554	1,101	1,197	1,204	1,211	1,170	1,371
Sentinel Lights	40	80	65	33	62	62	62
Street Lights	181	364	589	464	-	-	786
Unmetered Loads	57	95	257	-	159	159	159
Total (\$)	21,516	42,993	42,207	16,867	40,302	46,457	49,518

- b) The billing determinant data for the Sentinel lighting class used for PILs recovery is not consistent with the load forecast data contained in BCP's last cost of service application as seen in the table below. Please explain.

Sentinel Lighting Class

Year	Billing Parameter	Billed & Unbilled Consumption Jan 1 to Mar 31	Billed Consumption Apr 1 to Dec 31	Billed Consumption in PILs Recovery	Statistics Filed in 2010 CoS Application (EB-2010-0125) ¹	Difference
Partial 2002	kW's	-	-	225	681	-456
2003	kW's	-	-	228	634	-406
2004	kW's	56	183	239	611	-372
2005	kW's	53	175	228	560	-332
Partial 2006	kW's	-	-	87	555	-468

¹ 2002 was a partial collection year from March 1, 2002 to December 31, 2002. 2006 was a partial collection year from January 1, 2006 to April 30, 2006. The statistics filed in 2010 CoS application was for the full year.

- c) If there are any adjustments that need to be made to the PILs recovery calculations, please update and file the revised PILs continuity schedule – Appendix 1, 32, 33 and 34 in active Excel format.

Reference: 2001 through 2005 SIMPIL Models – Appendices 12-16 Interest Expense

- 6) 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 BCP have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?

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