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BY E-MAIL

June 04, 2012

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

Dear Ms. Walli:

**Re: Haldimand County Hydro Inc.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0027**

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

As a reminder, Haldimand County Hydro Inc.'s responses to interrogatories are due by June 21, 2012.

Yours truly,

Original Signed By

Christiane Wong
Information Administrator – Applications & Regulatory Audit

Encl.

Haldimand County Hydro Inc.
Disposition of Account 1562 – Deferred PILs
EB-2012-0027
Board Staff Interrogatories

Reference: Board Decisions

RP-2001-0012/ EB-2001-0070 – Interim Decision with Reasons and Order

1. On December 20, 2001 the Board approved interim unbundled rates effective January 1, 2002. These unbundled rates did not include PILs.
 - a) Did Haldimand invoice any customers using these interim unbundled rates in 2002?
 - b) What rates were in effect as of April 30, 2002 that Haldimand used to bill its customers from January 1, 2002? Please provide that rate schedule and the Board's decision.

Reference: PDF pages 114-125

RP-2002-0082/ EB-2002-0091 - Interim Decision and Order

2. On June 12, 2002 the Board declared Haldimand's rates interim as of April 1, 2002. On the rate schedule on PDF page 122 in handwriting, it indicates "Effective June 1, 2002 (no pro-rating)" and "Intervals – effective date of May 1, 2002".
 - a) When did Haldimand issue the first invoice to interval customers using these unbundled rates?
 - b) When did Haldimand issue the first invoice to non-interval customers using these unbundled rates?
 - c) Please provide the Board decision that approved these dates of May 1 and June 1, 2002.
 - d) Please provide the Board decision that approved Haldimand's rates on a final basis.

Reference: PDF pages 126-137

RP-2002-0082/ EB-2002-0301 - Decision and Order – Dated April 30, 2002

3. Haldimand could not bill using unbundled rates including PILs with effect from May 1, 2002. The Board approved Haldimand using the rates in effect as of April 30, 2002 until a date no later than August 1, 2002. The Board instructed Haldimand to notify the Board in advance of the date when it was

able to bill its customers using the unbundled rates which included PILs.

- a) Please provide the correspondence that Haldimand filed with the Board which indicated when Haldimand would have started billing its customers with unbundled rates including PILs.
- b) Please provide the customer notice that Haldimand sent to its customers indicating that the contingency rate arrangement was discontinued as required by the Board decision.

Reference: Haldimand_Continuity Schedule Account 1562_20120127.XLS

- 4. Haldimand has recalculated a theoretical balance in account 1562 that did not exist in its general ledger for the period ended April 30, 2006.
 - a) Please explain why Haldimand believes that it should record the 2001 and 2002 PILs proxies in the continuity schedule prior to June 1, 2002.
 - b) Haldimand has shown no PILs recoveries in May 2002. Please explain why only partial recoveries are shown starting in June 2002.

Reference: 2001 - 2005 SIMPIL Models

5. Tax Rates

Haldimand has stated that it used the actual legislated tax rates.

- a) Please provide the references from the applicable federal and Ontario legislation that discloses the income tax rates used by Haldimand in the SIMPIL models.
- b) The Board in its decision EB-2008-0381 on page 17 provided two tables of income tax rates. Does Haldimand agree that one of these tables applies to its tax situation? If yes, please state which table applies.
- c) Haldimand has not calculated the grossed-up tax impact by deducting the federal surtax expressed as 1.12% from the income tax rate that includes the surtax. Please explain why Haldimand has not complied with the Board's decision.

6. Regulatory Assets, Regulatory Liabilities and PILs Recoveries from Customers

Preamble

Haldimand has applied to recover a PILs receivable from its ratepayers of \$1,008,852. This debit balance has been created by Haldimand principally by making two choices:

- a) by recording the changes in its regulatory assets and liabilities on SIMPIL model sheets TAXREC or TAXREC2 for 2002-2005 instead of TAXREC3; and,
- b) by recording PILs proxy amounts starting October 1, 2001 even though its rates that included PILs were not implemented until after May 31, 2002.

Changes in the balances of regulatory assets and liabilities have been shown in Haldimand's tax returns on T2 Schedule 1. These amounts related to regulatory assets and liabilities increase taxable income when shown as additions and decrease taxable income when shown as deductions. Haldimand has shown the changes in the balances of its regulatory assets and liabilities in either TAXREC or TAXREC 2 and these amounts create true-ups to ratepayers.

In EB-2008-0381, and in all other PILs 1562 disposition applications, the applicants have input the changes in regulatory assets and liabilities in sheet TAXREC3 in order to comply with the Board's decisions that these amounts should not true-up to ratepayers since the distributors recovered the balances over a five year period from 2004 through 2008. This is part of the incomplete cycle problem related to the April 30, 2006 cut-off date and the change in the PILs methodology at that time.

- a) Please explain why the Board's decision to exclude changes in regulatory assets and liabilities, both when created and recovered, in the determination of the balance of account 1562 should not apply in Haldimand's case? Please explain fully and provide the regulatory references to support the position taken to include or to exclude these variances from trueing up to ratepayers.

7. Gains and Losses on Disposals of Fixed Assets

Haldimand included its fixed assets in the calculation of rate base for the 2000 - 2001 application. The Board approved the rate base for use in the determination of distribution rates. Haldimand continued to receive the return on these assets from ratepayers even though it may have disposed of assets during the period 2002 through 2005.

- a) Please explain why the variances caused by disposals of fixed assets that Haldimand input on sheets TAXREC and TAXREC2 should true up to ratepayers.

8. 2002 SIMPIL

Haldimand has input an addition of \$60,818 related to capital items expensed on sheet TAXREC2. This amount trues up to ratepayers. Reclassification of depreciation, any items related to CCA and many other book-to-tax adjustments do not true up to ratepayers under the PILs methodology and should be shown on TAXREC3.

- a) Please describe what the amount relates to and why it should true up to ratepayers.

Reference: 2001 to 2005 SIMPIL Models, Interest Expense for Tax Years 2001 to 2005

9. 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 Haldimand's interest expense and the amount associated with each type of interest.
- b) Did Haldimand have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
- c) Did Haldimand net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.
- d) Did Haldimand include interest expense on customer security deposits in interest expense?
- e) Did Haldimand include interest income on customer security deposits in interest expense?
- f) Did Haldimand include interest expense on IESO prudentials in interest expense?
- g) Did Haldimand include interest carrying charges on regulatory assets or liabilities in interest expense?
- h) Did Haldimand include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

- i) Did Haldimand deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

10. Board Staff's Calculations of the Balance in Account 1562 PILs

Board staff has calculated a **credit** of \$873,986 as Haldimand's account 1562 balance as at April 30, 2012 to be refunded to customers. Should the answers to the interest interrogatories shown above change the interest true-up amounts, these variances would have to be factored into the final balance of account 1562. Board staff used the Excel models filed by Haldimand and made the following changes.

- a) Changes in regulatory assets and liabilities have been input on SIMPIL sheet TAXREC3 for 2001-2005 to comply with the Board's decisions in other cases.
- b) Gains and losses on sales/ disposals of fixed assets have been input on sheet TAXREC3 to comply with the Board's decisions in other cases.
- c) Income tax rates to calculate the tax impact and the grossed-up tax amount were taken from the Board's decision EB-2008-0381, page 17 as follow.

TAX RATES USED IN SIMPIL SHEET TAXCALC FOR TRUE-UPS						
		2001	2002	2003	2004	2005
DECISION	From page 17 of the Decision: Tax rate to calculate the tax impact TAXCALC cells E122, E138	40.62%	38.62%	36.62%	36.12%	36.12%
	Tax rate to calculate the grossed-up tax amount TAXCALC cells E130, E175	39.50%	37.50%	35.50%	35.00%	35.00%
HALDIMAND SHEET TAXCALC AS FILED	Cell E122 (123): Calculation of true-up variance - tax impact	40.62%	37.50%	35.50%	36.12%	36.12%
	Cell E130 (131): Income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	36.12%	36.12%
	Cell E138 (139): Calculation of Deferral Account Variance tax impact caused by changes in legislation	40.62%	38.62%	36.62%	36.12%	36.12%
	Cell E175 (176): Calculation of Deferral Account Variance for gross-up (excluding surtax)	39.50%	37.50%	35.50%	36.12%	36.12%

- d) PILs proxies were input in the continuity schedule starting June 1, 2002.
Based on the evidence filed by Haldimand, June 1st may be too early.

Board staff has provided the models used to calculate the credit balance of \$873,986 to assist Haldimand in formulating its responses to Board staff's interrogatories.

Board staff invites Haldimand to explain why it should not make these changes in its evidence to comply with existing Board decisions.

If Haldimand agrees that Board staff's calculations are correct and comply with Board's various decisions, Board staff requests that Haldimand re-files as its own evidence the active Excel models for 2001-2005 SIMPILs and the continuity schedule.