

**Horizon, Hamilton Hydro (HHI), St. Catharines (SCHSI)
EB-2012-0005
PILs 1562 IRs**

Hamilton Hydro

1. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. HHI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	731,198	937,087	782,671	731,198	702,807	702,807
PILs Recovery Calculations	-977,605	-926,947	-596,913	-622,124	-724,987	-477,153
Difference	-246,407	10,140	185,758	109,074	-22,180	225,654

- Please explain how HHI calculated the PILs amounts contained in the unbilled revenue accruals at each December year end, at February 28, 2005 and at April 30, 2006.
- Please explain the erratic pattern and why the recoveries were so low.
- Please provide a table that shows the gross amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006.
- Please show how HHI determined the PILs amounts contained in these gross billings.
- Please compare the results of this analysis with the evidence filed and explain any material variances.

Ref: SIMPIL Models for 2001 to 2005

2. Gains and Losses on Disposals of Fixed Assets

HHI 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. HHI continued to receive the return on these assets from ratepayers even though it may have disposed of assets during the period 2001 through 2005.

- a. Please explain why the variances caused by disposals of fixed assets that HHI input on sheets TAXREC and TAXREC2 for 2001-2005 should true up to ratepayers.
- b. Please provide an alternate scenario by moving these variances to sheets TAXREC3 for 2001-2005 SIMPIL models and file the active Excel SIMPIL models and revised continuity schedule.

3. Depreciation Adjustments

HHI has included capitalized fleet depreciation as an addition on SIMPIL sheet TAXREC or TAXREC2 for 2001-2005. Variances on these schedules true up to ratepayers. Variances entered on sheet TAXREC3 do not true up to ratepayers.

Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If HHI included this depreciation in 2001 rate base, HHI is receiving a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, HHI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

- a. Please explain why HHI believes that ratepayers should pay for this variance.
- b. Please provide an alternate scenario by moving the depreciation entries to sheet TAXREC3 for 2001-2005 SIMPIL models and file the 2001-2005 active Excel SIMPIL models and continuity schedule.

4. Movement in Financial Statement Reserves

HHI has entered amounts in SIMPIL for changes in financial statement reserves that do not appear on T2 Schedule 1 for 2001-2005.

- a. Please provide a table that shows how the SIMPIL models map to the actual tax returns for additions and deductions for each year 2001-2005.

5. Changes in Regulatory Assets and Liabilities

- a. Please explain how HHI treated the changes in regulatory assets and liabilities in its actual tax returns and in the SIMPIL models for 2001 through 2005.
- b. Please provide a table of the amounts included in the tax returns and SIMPIL models for the period 2001-2005.

6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of HHI's interest expense and the amount associated with each type of interest.
- b. Did HHI have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
- c. Did HHI net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details as to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.
- d. Did HHI include interest expense on customer security deposits in interest expense?
- e. Did HHI include interest income on customer security deposits in interest expense?
- f. Did HHI incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs by year for 2001-2005 with the amounts by type of charge.
- g. Did HHI include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did HHI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did HHI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

**7. Ref: 2001 to 2005 Tax Returns
Tax Years – Statute-barred**

- a. Please confirm that all tax years from 2001 to 2005 are now statute-barred.

8. Large Corporation Tax (LCT)

- a. LCT from the 2005 application was \$311,123. Did HHI enter 4/12ths of this amount in account 1592 for the period January 1 to April 30, 2006 consistent with FAQ July 2007? Please provide the schedule filed in evidence from the 2011 application EB-2010-0131 that supports the statement on page 10, paragraph 28 of this application summary.
- b. If HHI/ Horizon did not enter the 4/12ths amount of the 2005 LCT proxy in account 1592, does HHI/ Horizon agree that this amount should be included in account 1562 for disposition to ratepayers?

St. Catharines

9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	-64,285	24,101	127,628	-8,874	227,400	-6,299

- a. Please explain how SCHSI calculated the PILs amounts contained in the unbilled revenue accrual at each December year end, at February 28, 2005 and at April 30, 2006.
- b. Please explain the erratic pattern and why the recoveries were so low.

- c. Please provide a table that shows the gross amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006.
- d. Please show how SCHSI determined the PILs amounts contained in these gross billings.
- e. Please compare the results of this analysis with the evidence filed and explain any material variances.

**10.Ref: SIMPIL Models for 2001 to 2005
Changes in Regulatory Assets and Liabilities**

- a. Please explain how SCHSI treated the changes in regulatory assets and liabilities in its actual tax returns and in the SIMPIL models.
- b. Please provide a table of the amounts included in the tax returns and SIMPIL models for the period 2001-2005.

11.Ref: Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of SCHSI's interest expense and the amount associated with each type of interest.
- b. Did SCHSI have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
- c. Did SCHSI net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.
- d. Did SCHSI include interest expense on customer security deposits in interest expense?
- e. Did SCHSI include interest income on customer security deposits in interest expense?
- f. Did SCHSI incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs by year 2001-2005 and the amounts by type of charge.
- g. Did SCHSI include interest carrying charges on regulatory assets or liabilities in interest expense?

- h. Did SCHSI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did SCHSI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

12. Ref: 2001 to 2005 Tax Returns
Tax Years – Statute-barred

- a. Please confirm that all tax years from 2001 to 2005 are now statute-barred.

Horizon

Ref: SIMPIL Model for 2005

13. Depreciation Adjustments

Horizon has included capitalized fleet depreciation as an addition on SIMPIL sheet TAXREC2 for 2005. Variances on this schedule true up to ratepayers. Variances entered on sheet TAXREC3 do not true up to ratepayers.

Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If Horizon/ HHI/ SCHSI included this depreciation in 2001 rate base, Horizon/ HHI/ SCHSI received a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, Horizon/ HHI/ SCHSI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

- a. Please explain why Horizon believes that ratepayers should pay for this variance.
- b. Please provide an alternate scenario by moving the depreciation entries to sheet TAXREC3 for 2005 SIMPIL model and file the 2005 active Excel SIMPIL model and continuity schedule.

14. Movement in Financial Statement Reserves

Horizon has entered amounts in SIMPIL for changes in financial statement reserves that do not appear on T2 Schedule 1 for 2005.

- a. Please provide a table that shows how the 2005 SIMPIL model maps to the actual tax returns for additions and deductions for 2005.

15.Changes in Regulatory Assets and Liabilities

- a. Please explain how Horizon treated the changes in regulatory assets and liabilities in its actual tax returns and in the 2005 SIMPIL model.
- b. Please provide a table of the amounts included in the tax returns and in the 2005 SIMPIL model.

16.Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

- a. Please provide a table for 2005 that shows all of the components of Horizon's interest expense and the amount associated with each type of interest.
- b. Did Horizon have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
- c. Did Horizon net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.
- d. Did Horizon include interest expense on customer security deposits in interest expense?
- e. Did Horizon include interest income on customer security deposits in interest expense?
- f. Did Horizon incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs for 2005 with the amounts by type of charge.
- g. Did Horizon include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did Horizon include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did Horizon deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

17.Ref: 2005 Tax Returns
Tax Years – Statute-barred

- a. Please confirm that the 2005 tax year is now statute-barred.