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**Commission de l'énergie
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BY E-MAIL

June 29, 2012

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

Dear Ms. Walli:

**Re: Niagara Peninsula Energy Inc.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0028**

In accordance with the Notice of Application and Hearing and Procedural Order No.1, please find attached Board Staff interrogatories in the above proceeding. Please forward the following to Niagara Peninsula Energy Inc. and to all other registered parties to this proceeding.

In addition please advise Niagara Peninsula Energy Inc. that responses to interrogatories are due by July 13, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.

**Niagara Peninsula Energy Inc.
EB-2012-0028
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories**

Niagara Falls Hydro

**Reference: 2005 SIMPIL model
CDM Incremental OM&A Expenses**

- 1) In the 2005 SIMPIL Model TAXCALC worksheet row 44 "*CDM 2005 incremental OM&A expenses per 2005 PILs model*" does not have an actual offsetting amount in cell G44.

The Board issued a letter dated September 13, 2011 regarding 2012 EDR – Disposition of account 1562 deferred PILs that states:

“In the 2005 EDR, a deduction for CDM expenses was made in the PILs proxy model. The applicant should ensure that there is a corresponding tax (accounting) amount recorded on the same row in SIMPIL to determine the appropriate true-up”.

- a) Please provide the dollar amount of actual expense incurred in 2005 to compare to the proxy amount so that a reasonable true-up will be calculated.
- b) Can Niagara Falls Hydro suggest an alternative method to avoid a one-sided true-up to ratepayers such as entering the CDM amount on row 46?

**Reference: 2001 through 2005 SIMPIL Models
Interest Expense**

- 2) 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 Niagara Falls Hydro's interest expense and the amount associated with each type of interest. Please ensure that the table reconciles to all of the interest expense listed in the audited financial statements.

- b) Did Niagara Falls Hydro have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- c) Did Niagara Falls Hydro 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 Niagara Falls Hydro include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?
- e) Did Niagara Falls Hydro include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?
- f) Did Niagara Falls Hydro include interest expense on IESO prudentials in interest expense? If prudential costs have been recorded elsewhere, please provide a table that shows by year the amount of IESO and other prudential charges and stand-by fees by letter of credit or line of credit.
- g) Did Niagara Falls Hydro include interest carrying charges on regulatory assets or liabilities in interest expense?
- h) Did Niagara Falls Hydro include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did Niagara Falls Hydro also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- i) Did Niagara Falls Hydro deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did Niagara Falls Hydro add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.

Scientific Research Expenses

- 3) Niagara Falls has shown additions and deductions for scientific research expenses. When taken as a deduction in one year some amount has been added back to taxable income in the following year.
 - a) Please explain the treatment for income taxes and why the items should true up to the shareholder.

- b) Please explain why the recapture in 2005 is so much lower than the deduction taken in 2004.
- c) Please explain why the addition and the deduction in 2005 are the same amount, \$479,652.
- d) Did ratepayers benefit from the investment or was the benefit purely for the shareholder?

**Reference: PILs Recoveries Worksheets
Unmetered Scattered Load (USL)**

- 4) Unmetered scattered load is not listed as one of the components of the PILs recoveries model in the Excel spreadsheet. In the Board's decisions for 2002, 2004 and 2005, USL class fixed and volumetric rates were approved. In 2006 EDR, Niagara Falls Hydro has disclosed USL energy (kWh) sold (or forecast) for the years 2002 through 2010.
 - a) Please explain why Niagara Falls Hydro has not included USL in the recovery calculations.
 - b) Please update the recovery calculations and correct the dollar amounts.

Volumetric Billing Determinants

- 5) In the application evidence filed in 2002, 2004 and 2005, Niagara Falls Hydro provided statistics of customer counts. In 2006 EDR, Niagara Falls Hydro also provided statistics for 2002-2004. The volumetric billing determinant statistics for 2003 and 2004 used in the recovery calculations do not agree with the statistics provided in previous applications.

Customer Class	Billing Parameter	Billed Consumption 2003	2003 Statistics Filed in 2006 EDR
Residential	kWh's	252,544,444	266,116,869
General Service < 50 KW	kWh's	88,393,750	92,750,521
USL	kW's	-	1,377,478

Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/04 to Mar 31/04	Billed Consumption Apr 1/04 to Dec 31/04	Total Actual 2004	2004 Statistics Filed in 2006 EDR
Residential	kWh's	68,029,630	181,221,159	249,250,789	262,251,206
General Service < 50 KW	kWh's	23,662,500	64,976,133	88,638,633	91,627,486
USL	kW's	-	-	-	1,649,196

- a) Please explain why Niagara Falls Hydro did not use the actual data filed in previous applications in the calculations of recoveries in this account 1562 PILs application.
- b) If there are any adjustments that need to be made to the PILs recovery calculations, please update and file the revised PILs recoveries model and PILs continuity schedule in active Excel format.

Unbilled Revenue Accrual

- 6) Please explain how Niagara Falls Hydro determined the PILs amounts associated with unbilled revenue accrual as at April 30, 2006 and how this was included in the various Excel worksheets.

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

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

Peninsula West Utilities

Reference: 2005 SIMPIL model CDM Incremental OM&A Expenses

- 8) In the 2005 SIMPIL Model TAXCALC worksheet row 44 "*CDM 2005 incremental OM&A expenses per 2005 PILs model*" does not have an actual offsetting amount in cell G44.

The Board issued a letter dated September 13, 2011 regarding 2012 EDR – Disposition of account 1562 deferred PILs that states:

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- a) Please provide the dollar amount of actual expense incurred in 2005 to compare to the proxy amount so that a reasonable true-up will be calculated.
- b) Can Peninsula West Utilities suggest an alternative method to avoid a one-sided true-up to ratepayers such as entering the CDM amount on row 46?

Reference: 2001 through 2005 SIMPIL Models and 1562 Deferred PILs Continuity Schedule

Proxy Entitlements from October 1, 2001 to November 30, 2004 and Deferral Variance Account Adjustments from SIMPIL models

Preamble

Peninsula West Utilities did not have a PILs proxy included in distribution rates from 2001 to December 1, 2004. Peninsula West Utilities was late in filing the initial application on February 15, 2002.

The following information has been quoted from the Board's decision in Peninsula West Utilities' 2002 application RP-2002-024/EB-2002-0033.

“THE BOARD ORDERS THAT:

- 1) The rates set out in Appendix ‘A’ of this Order are approved as Interim effective July 1, 2002 without retroactivity.

- 2) The Board orders the Applicant to make the necessary adjustments correct the overstatement of the 1999 Net Fixed Assets in the next application.”¹

Peninsula West Utilities made revisions which were not completed until October 30, 2002. However as a result of the introduction of Bill 210 on November 11, 2002 and final passage on December 9, 2002, the application was discontinued and considered closed. The interim rates were made final by Bill 210.

Peninsula West Utilities filed an application on February 20, 2004 for recovery of its second instalment of MARR. The Board did not proceed with the application since Peninsula West Utilities had not received approval from the Minister of Energy as stipulated in Bill 210. On September 17, 2004, Peninsula West Utilities received the Minister’s approval to apply for recovery of its second instalment of MARR. Peninsula West Utilities filed an application on October 21, 2004 and the final version to the application was submitted on December 3, 2004.

The Board decision RP-2004-0084/EB-2004-0544 stated:

“It is not the normal practice of the Board to approve retroactive rates except in extraordinary circumstances involving financial hardship on a going forward basis or where the existing rates have been interim in nature for a specific purpose. The Board has not received evidence in this case that would cause it to depart from its normal practice. There was no evidence in this case that the disallowance of the retroactive portion would create financial hardship prospectively, and the rates were not set interim for the very purpose of the second tranche of MARR. The Board does not approve the retroactive amount requested.

The Board requires a reasonable period of time to process an application. Peninsula West Utilities filed its application with the Board on October 21, 2004 and it was not completed until December 3, 2004. The Board finds an effective date of December 1, 2004 to be reasonable in this circumstance.”²

- 9) In its deferred PILs 1562 continuity schedule, Peninsula West Utilities recorded its entitlement to the 2004 PILs proxy starting on the date the rates took effect that included the 2004 PILs proxy, December 1, 2004. The recording of Peninsula West Utilities’ PILs entitlement from December 1, 2004 to April 30, 2006 is consistent with the 2004 decision’s effective date of December 1, 2004.

Peninsula West Utilities filed revised 2001 through 2005 SIMPIL models that included PILs proxy amounts for each year that were consistent with

¹ Decision RP-2002-024/EB-2002-0033. October 23, 2002.

² Decision RP-2004-0084/EB-2004-0544. December 20, 2004.

the Board's decisions: 4 months of the 2004 proxy from December 1, 2004 to March 31, 2005 and 13 months of the 2005 proxy from April 1, 2005 to April 30, 2006. The SIMPIL models calculated the true-up variance and deferral variance account adjustments for the full 5 years as seen in the table below.

	2001 SIMPIL	2002 SIMPIL	2003 SIMPIL	2004 SIMPIL	2005 SIMPIL
True-Up Variance	-	(278)	-	6,279	24,144
Deferral Account Variance	28,032	109,510	107,912	(83,908)	-
Total	28,032	109,232	107,912	(77,629)	24,144

- a) In the 2001 through 2003 SIMPIL models, the variance adjustments calculated in the SIMPIL models were attributable to the regulatory Ontario capital tax variance and the regulatory grossed-up federal LCT variance. The true-up variance of -\$278 in the 2002 SIMPIL model was attributable to charitable donations. Given the fact that Peninsula West Utilities did not have PILs proxies in rates until December 1, 2004, does Peninsula West Utilities believe it should be entitled to the variance adjustments from the SIMPIL model prior to this date?
- b) If Peninsula West Utilities agrees that it should not be entitled to the variance adjustments from the SIMPIL models, please re-file the revised 2001 through 2003 SIMPIL models and update the PILs continuity schedule in Excel format.
- c) In the 2004 SIMPIL model, did Peninsula West Utilities consider pro-rating the true-up variance and deferral account variance adjustments by 31/365 to account for the period from December 1, 2004 to December 31, 2004?
- d) If Peninsula West Utilities agrees that it should pro-rate the variance adjustments in the 2004 SIMPIL model, please re-file the revised 2004 SIMPIL model and update the PILs continuity schedule in Excel format.

Interest Expense

- 10) 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 Peninsula West Utilities' 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.

- b) Did Peninsula West Utilities have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- c) Did Peninsula West Utilities 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.
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- h) Did Peninsula West Utilities include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did Peninsula West Utilities also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- i) Did Peninsula West Utilities deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did Peninsula West Utilities add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.
- j) Please provide Peninsula West Utilities' views on which types of interest income and interest expense should be included in the excess interest true-up calculations.

Reference: PILs Recoveries Worksheets

Unmetered Scattered Load (USL)

- 11) Unmetered scattered load is not listed as one of the components of the PILs recoveries model in the Excel spreadsheet. In the Board's decisions for 2004 and 2005, USL class fixed and volumetric rates were approved. In 2006 EDR, Peninsula West Utilities has disclosed USL energy (kWh) sold (or forecast) for the years 2002 through 2010.
- a) Please explain why Peninsula West Utilities has not included USL in the recovery calculations.
- b) Please update the recovery calculations and correct the dollar amounts.

PILs Recoveries from Customers

- 12) The trend for the majority of distributors is that the PILs recoveries exceed the proxies for the full years of 2004 and 2005. As demand and population grew, the PILs dollar amounts recovered were higher than the proxy set using 2001 billing determinants. The table below shows Peninsula West Utilities' evidence for the partial years for 2004 and 2006 and the full year for 2005.

Please explain why the PILs proxies in rates were greater than the PILs recoveries as seen in the table below.

PILs Proxies vs. Recoveries	2004 partial	2005	2006 partial
PILs Proxies in Rates	87,885	1,141,323	390,075
PILs Recovery Calculations	-77,111	-999,081	-304,205
Difference	10,774	142,242	85,870

Volumetric Billing Determinants

- 13) The volumetric billing determinants for one month of 2004 appear to be lower than the full year statistics would indicate. Board staff pro-rated the 2004 statistics as filed in the 2006 EDR application and compared the pro-rated volumes with those used in the PILs recovery calculations.

Please explain why the volumes shown as billed in 2004 are much lower than pro-rated actual volumes for the entire 2004 year.

Customer Class	Billing Parameter	Billed Consumption Dec 1/04 to Dec 31/04	1/12 Pro-ratio of Actual 2004 Statistics	2004 Statistics Filed in 2006 EDR
Residential - urban	kWh's	4,328,270	6,738,908	80,866,892
Residential - suburban	kWh's	4,586,452	7,088,520	85,062,235
USL	kWh's	-	68,983	827,796
Sentinel Lights	kW's	55	68	812
Streetlight - TOU	kW's	373	458	5,491

Unbilled Revenue Accrual

- 14) Please explain how Peninsula West Utilities determined the PILs amounts associated with unbilled revenue accrual as at April 30, 2006 and how this was included in the various Excel worksheets.

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

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