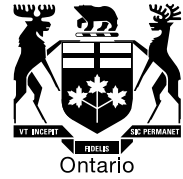


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BY E-MAIL

July 6, 2012

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

Dear Ms. Walli:

**Re: Peterborough Distribution Inc.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0188**

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.

Peterborough Distribution Inc. ("PDI")
EB-2012-0188
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories

1. PILs Recoveries

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. While PDI's data demonstrate a similar pattern, the recoveries seem to be lower than one would expect. PDI has not explained its approach to calculating the recoveries. PDI appears to have prorated the PILs rate slivers from the RAM worksheets over the total rate by class from the rate orders. When the distribution rates changed on April 1, 2004 and on April 1, 2005, this approach may have resulted in understating the total recoveries. In the table below Board staff has shown data for periods where unbilled revenue accruals would affect the reported numbers. In other proceedings, where evidence to support the recoveries from customers is weak, the Board has deemed higher recovery amounts.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	2001	2002	2003	2004	2005	2006
PILs Proxies in Rates						
Peterborough	519,047	1,893,596	2,412,643	2,023,358	1,912,264	639,495
Lakefield	6,474	23,860	30,334	25,479	24,924	8,426
Asphodel-Norwood	2,146	9,069	11,215	9,606	9,330	3,139
	527,667	1,926,525	2,454,192	2,058,443	1,946,518	651,060
PILs Recovery Calculations						
Peterborough		-1,892,286	-2,462,175	-1,968,733	-1,997,799	-739,387
Lakefield		-25,665	-30,557	-22,402	-25,681	-10,542
Asphodel-Norwood		-7,505	-10,920	-9,710	-9,939	-3,835
		-1,925,456	-2,503,652	-2,000,845	-2,033,419	-753,764
Difference	527,667	1,069	-49,460	57,598	-86,901	-102,704

- a. Please explain how PDI calculated the PILs amounts contained in the unbilled revenue accruals at each December year end and at April 30, 2006 for each service area.
- b. Please explain the erratic pattern shown in the table and explain why the recoveries were so low in 2002 and 2004 for each service area.

- c. Please explain how PDI dealt with the rate changes at April 1, 2004 and how PDI determined the PILs amounts in rates billed on consumption prior to April 1, 2004 in May, June and July 2004 for each service area.
- d. Please explain how PDI dealt with the rate changes at April 1, 2005 and how PDI determined the PILs amounts in rates billed on consumption prior to April 1, 2005 in May, June and July 2005 for each service area.
- e. 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 for each service area.
- f. Please show how PDI determined the PILs amounts contained in these gross billings for May, June and July 2006 related to consumption before May 1, 2006 for each service area.
- g. Please compare the results of this analysis with the evidence filed and explain any material variances for each service area.

2. Billing Determinants

Ref: EB-2012-0288/Model/PIL Revenue by Month 2002 to 2006_04162012.xlsx – Billed Detail Summary Tab

Ref: EB-2008-0241/0242/0243/ Exh3/Tab2/Sch7/pages1-3

Ref: EB-2005-0406/Model/Tab 6-2

Ref: EB-2008-0241/0242/0243/ Exh3/Tab2/Sch3/page1

PDI has submitted billing determinants in an Excel workbook entitled “PIL Revenue by Month 2002 to 2006_04162012.xlsx” on tab “Billed detail Summary”. Board staff prepared the tables below to compare the billing determinants used in this application with prior applications filed with the Board.

PILs Recoveries Billing Determinants	2002 Pro-rated	2003	2004	2005	2006 Pro-rated
Billing Determinants					
PDI (LDI, ANDI)					
kWh 000s	299,488	409,792	387,713	421,552	158,480
kW	733,388	896,628	940,745	995,670	276,418
EB-2008-0241/0242/0243					
PDI (LDI, ANDI)					
kWh 000s	669,093	805,996	790,192	822,852	270,063
EB-2005-0406 & EB-2008-0241/0242/0243					
PDI (LDI, ANDI)					
kW	717,370	892,259	895,573		298,837

From: EB-2008-0241/0242/0243/ Exh3/Tab2/Sch7/pages1-3

	2002	2003	2004	2005	2006
kWh					
Residential	301,118,299	287,513,562	285,057,855	297,081,386	290,645,501
GS<50kW	123,019,891	122,055,150	121,526,407	126,518,339	124,767,156
GS>50kW	313,285,232	321,263,084	309,414,899	323,322,965	321,823,307
Large	58,804,718	65,357,746	64,756,589	66,651,689	63,402,525
Street Lighting	4,679,216	6,292,294	5,980,324	5,985,582	6,283,519
Sentinel	693,470	1,025,125	1,010,677	966,991	1,091,658
USL	1,310,816	2,489,202	2,444,704	2,325,282	2,174,601
	802,911,642	805,996,163	790,191,455	822,852,234	810,188,267
Pro-rate	10/12				4/12
	669,093,035	805,996,163	790,191,455	822,852,234	270,062,756

2002-2004 From EB-2005-0406/Model/Tab 6-2 Demand, rates (Input)

2006 From: EB-2008-0241/0242/0243/ Exh3/Tab2/Sch3/page1

	2002	2003	2004	2005	2006
kW	860,844				896,510
Pro-rate	717,370	892,259	895,573		298,837

Please explain the differences in billing determinants used for PILs recovery calculations and the billing determinants filed in prior distribution rate applications.

3. Tax Years – Statute-barred

Ref: 2001 to 2005 Tax Returns

Please confirm that all tax years from 2001 to 2005 are now statute-barred for all three service territories (i.e. PDI, LDI and ANDI).

Peterborough (“PDI”)

4. Income Tax Rates

Ref: SIMPIL Models for 2001 to 2005

PDI has not used the maximum income tax rates as shown on page 17 in the Decision in the combined proceeding. Board staff has compared the tax rates in the table below.

A distributor must input the correct income tax rates into the correct cells (i.e. over-ride the formulas) in order to calculate the correct variance amounts.

Comparison of Income Tax Rates used in True-up Calculations					
	2001	2002	2003	2004	2005
DECISION IN COMBINED PROCEEDING					
From page 17 of the Decision: Tax rate to calculate the tax impact	40.62%	38.62%	36.62%	36.12%	36.12%
Tax rate to calculate the grossed-up tax amount	39.50%	37.50%	35.50%	35.00%	35.00%
SIMPIL Models Sheet TAXCALC					
Cell E122 (or 123): Calculation of true-up variance -income tax effect	18.00%	38.62%	36.62%	35.00%	37.26%
Cell E130 (or 131): Income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	35.00%	35.00%
Cell E138 (or 139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	40.62%	38.62%	36.62%	36.12%	36.12%
Cell E175 (or 176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	18.00%	37.50%	35.50%	35.00%	35.00%

- In 2001 SIMPIL, PDI used a tax rate of 40.18% in column C rather than the tax rate shown in the original PILs proxy of 40.62%. This created an incorrect true-up to ratepayers in cell E148. Please explain why PDI did not use the correct income tax rate in the PILs proxy.
- Please correct the 2001 SIMPIL model to ensure that it balances with the original 2001 proxy to eliminate the incorrect income tax variance and re-file the SIMPIL workbook and revised continuity schedule all in active Excel format.
- Please update the income tax rates in the 2004 and 2005 SIMPIL models to conform to the Decision and file a revised continuity schedule all in active Excel format.

5. Regulatory Income Tax

Ref: 2005 SIMPIL Model

In the 2005 SIMPIL model, PDI deducted \$20,170 from regulatory income tax in cell C55. The regulatory income tax number does not agree with the original proxy amounts. An incorrect true-up variance to ratepayers of \$20,170 is created in cell E148 because of the deduction in cell C55.

- a. Please explain why PDI believes that ratepayers should pay for this variance.
- b. Please balance the proxy column in 2005 SIMPIL to the original application proxy amounts and re-file the SIMPIL and a revised continuity schedule all in active Excel format.

In the 2004 SIMPIL and 2004 tax returns, PDI did not disclose any tax reserves. However, in the 2005 SIMPIL PDI has entered tax reserves as if they had existed at the end of 2004. This entry on sheet TAXREC in cell C63 creates an incorrect true-up to ratepayers of \$315,900. PDI has not filed a Schedule 13 continuity of reserves in the 2005 tax return, and no entry for tax reserves appears on the 2005 T2 Schedule 1.

- c. Please explain why PDI believes that ratepayers should pay for this variance.
- d. Please re-file a live Excel version of the 2005 SIMPIL model that moves this amount of \$315,900 to sheet TAXREC3.

6. Interest Expense

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

PDI's maximum deemed interest was \$1,621,315. Interest above this amount is treated as excess interest in the SIMPIL models and the variance is included as a deduction to the benefit of ratepayers.

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of PDI's interest expense and the amount associated with each type of interest.
- b. Did PDI have interest expense related to items other than debt that is disclosed as interest expense in its financial statements?
- c. Did PDI 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 PDI include interest expense on customer security deposits in interest expense?
- e. Did PDI include interest income on customer security deposits in interest expense?
- f. Did PDI 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 PDI include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did PDI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did PDI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?
- j. In the 2001, 2002 and 2005 SIMPIL models, PDI correctly used the maximum deemed interest to calculate the excess interest true-up. In 2002, there was a variance to be included in the calculations. However, in the 2003 and 2004 SIMPIL models, PDI did not use the maximum deemed interest to calculate the excess interest true-up and, consequently, the variances were not accurately determined.
 - i. Please explain why PDI did not use the maximum deemed interest to calculate the excess interest variance in the 2003 and 2004 SIMPIL models.
 - ii. Please correct the 2003 and 2004 SIMPIL models and re-file the workbooks with a revised continuity schedule all in active Excel format.

Lakefield ("LDI")

7. Income Tax Rates

Ref: SIMPIL Models for 2001 to 2004

LDI has not used the minimum income tax rates consistently as shown on page 17 in the Decision in the combined proceeding. Board staff has compared the tax rates in the

table below. The distributor must input the correct income tax rates into the correct cells (i.e. over-ride the formulas) in order to calculate the correct variance amounts.

Comparison of Income Tax Rates used in True-up Calculations					
	2001	2002	2003	2004	2005
DECISION IN COMBINED PROCEEDING					
From page 17 of the Decision: Tax rate to calculate the tax impact	19.12%	19.12%	18.62%	18.62%	18.62%
Tax rate to calculate the grossed-up tax amount	18.00%	18.00%	17.50%	17.50%	17.50%
SIMPIL Models Sheet TAXCALC					
Cell E122 (or 123): Calculation of true-up variance -income tax effect	18.00%	19.12%	33.00%	35.00%	
Cell E130 (or 131): Income tax rate used for gross-up (excluding surtax)	30.75%	18.00%	17.50%	17.50%	
Cell E138 (or 139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	19.12%	19.12%	33.00%	35.00%	
Cell E175 (or 176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	18.00%	37.50%	30.75%	35.00%	

Please input the correct income tax rates into the correct cells on sheet TAXCALC in the 2001 through 2004 SIMPIL models and file a revised continuity schedule all in active Excel format.

8. Interest Expense

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

LDI's maximum deemed interest was \$54,887. Interest above this amount is treated as excess interest in the SIMPIL models and the variance is included as a deduction to the benefit of ratepayers.

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of LDI's interest expense and the amount associated with each type of interest.
- b. Did LDI have interest expense related to items other than debt that is disclosed as interest expense in its financial statements?
- c. Did LDI 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 LDI include interest expense on customer security deposits in interest expense?
- e. Did LDI include interest income on customer security deposits in interest expense?
- f. Did LDI 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 LDI include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did LDI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did LDI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?
- j. In the 2001 and 2002 SIMPIL models, LDI correctly used the maximum deemed interest to calculate the excess interest true-up. However, in the 2003 and 2004 SIMPIL models, LDI did not use the maximum deemed interest to calculate the excess interest true-up and, consequently, the variances were not accurately determined.
 - iii. Please explain why LDI did not use the maximum deemed interest to calculate the excess interest variance in the 2003 and 2004 SIMPIL models.

- iv. Please correct the 2003 and 2004 SIMPIL models and re-file the workbooks with a revised continuity schedule all in active Excel format.

Asphodel-Norwood (“ANDI”)

9. Income Tax Rates

Ref: SIMPIL Models for 2001 to 2004

ANDI has not used the minimum income tax rates consistently as shown on page 17 in the Decision in the combined proceeding. Board staff has compared the tax rates in the table below. The distributor must input the correct income tax rates into the correct cells (i.e. over-ride the formulas) in order to calculate the correct variance amounts.

Comparison of Income Tax Rates used in True-up Calculations					
	2001	2002	2003	2004	2005
DECISION IN COMBINED PROCEEDING					
From page 17 of the Decision: Tax rate to calculate the tax impact	19.12%	19.12%	18.62%	18.62%	18.62%
Tax rate to calculate the grossed-up tax amount	18.00%	18.00%	17.50%	17.50%	17.50%
SIMPIL Models Sheet TAXCALC					
Cell E122 (or 123): Calculation of true-up variance -income tax effect	18.00%	19.12%	18.62%	35.01%	
Cell E130 (or 131): Income tax rate used for gross-up (excluding surtax)	30.75%	18.00%	17.50%	17.50%	
Cell E138 (or 139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	19.12%	19.12%	18.62%	18.62%	
Cell E175 (or 176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	18.00%	18.00%	17.50%	35.00%	

Please input the correct income tax rates into the correct cells on sheet TAXCALC in the 2001 through 2004 SIMPIL models and file a revised continuity schedule all in active Excel format.

10. Interest Expense

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

ANDI's maximum deemed interest was \$18,204. Interest above this amount is treated as excess interest in the SIMPIL models and the variance is included as a deduction to the benefit of ratepayers.

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of ANDI's interest expense and the amount associated with each type of interest.
- b. Did ANDI have interest expense related to items other than debt that is disclosed as interest expense in its financial statements?
- c. Did ANDI 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 ANDI include interest expense on customer security deposits in interest expense?
- e. Did ANDI include interest income on customer security deposits in interest expense?
- f. Did ANDI 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 ANDI include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did ANDI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i. Did ANDI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

- j. In the 2001 and 2002 SIMPIL models, ANDI correctly used the maximum deemed interest to calculate the excess interest true-up. However, in the 2003 and 2004 SIMPIL models, ANDI did not use the maximum deemed interest to calculate the excess interest true-up and, consequently, the variances were not accurately determined.
 - i. Please explain why ANDI did not use the maximum deemed interest to calculate the excess interest variance in the 2003 and 2004 SIMPIL models.
 - ii. Please correct the 2003 and 2004 SIMPIL models and re-file the workbooks with a revised continuity schedule all in active Excel format.