



## **2012 ELECTRICITY DISTRIBUTION RATES**

**Haldimand County Hydro Inc.**

**Application for Disposition of Account 1562 –  
Deferred Payments in Lieu of Taxes**

**EB-2012-0027**

**STAFF SUBMISSION**

**July 10, 2012**

**Haldimand County Hydro Inc. (“HCHI”)**  
**EB-2012-0027**  
**Account 1562 – PILs Disposition**  
**Board staff submission**

**Background**

The PILs evidence filed by HCHI in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL<sup>1</sup> Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance requested for disposition. In pre-filed evidence, HCHI applied to collect from its customers a debit balance of \$1,008,852 consisting of a principal debit amount of \$808,242 and related debit carrying charges of \$200,610.<sup>2</sup>

On June 25, 2012, HCHI updated its evidence in reply to interrogatories and requested a recovery from ratepayers of \$528,407 consisting of a principal debit amount of \$291,759 and carrying charge debit amount of \$236,648.<sup>3</sup>

HCHI has requested to recover the account balance of \$528,407 from its ratepayers over eight (8) months commencing September 1, 2012 and calculated interest carrying charges to August 31, 2012.<sup>4</sup> In determining the final debit balance of \$528,407 HCHI has made the following decisions in preparing its evidence:

- 1) In reply to interrogatories, HCHI has input the 2002 proxy line item amounts related to regulatory assets and liabilities in different cells than filed in original evidence, and as filed in the 2002 application that was approved by the Board. The result of these changes prevents the SIMPIL models from reversing the tax impact of regulatory assets and liabilities in the PILs proxy calculations.

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<sup>1</sup>Spreadsheet implementation model for payments-in-lieu of taxes

<sup>2</sup> EB-2012-0027/ Manager’s Summary/ January 27, 2012/ Page 5.

<sup>3</sup> EB-2012-0027/ Board Staff Interrogatory Responses/ June25, 2012/ Page 19.

<sup>4</sup> Responses to Board Staff interrogatories, June 25, 2012, page 21, #10 (f).

- 2) HCHI has entered actual regulatory asset and liability amounts and recoveries from customers in SIMPIL worksheets TAXREC3 which complies with the Board's directions.
- 3) HCHI was not prepared for market opening on May 1, 2002 and received a contingency rate order dated April 30, 2002 from the Board.<sup>5</sup> The Board allowed HCHI to bill its customers using its old bundled rate structure until it was able to bill fully unbundled rates including PILs, but no later than August 1, 2002. On June 21, 2002 HCHI wrote to the Board stating that HCHI had received authorization to participate in the IMO administered markets. HCHI began billing non-interval customers on June 28, 2002 for consumption from May 1, 2002. HCHI started to bill interval customers on July 18, 2002 for consumption from May 1, 2002.<sup>6</sup>

In its Excel PILs 1562 continuity schedule that calculates the principal and interest amounts for disposition, HCHI began recording its entitlement to PILs with effect from October 1, 2001. This choice increases the recovery from ratepayers by a material amount.

- 4) HCHI has used the maximum income tax rates contained in the Board's decision in the combined proceeding.<sup>7</sup> HCHI's 2002 rate base was \$33,509,753.
- 5) HCHI has calculated the interest true-up variances using the Board-approved maximum deemed interest.

## **Submission**

As part of the interrogatory phase, Board staff prepared revised SIMPIL models and an Excel PILs 1562 continuity schedule that Board staff believes conforms with the Board's various decisions related to PILs issues. Board staff provided these models to HCHI and asked for HCHI's comments which HCHI provided in responses to interrogatories. Board staff calculated that a refund to ratepayers of

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<sup>5</sup> RP-2002-0082/EB-2002-0301, Decision and Order, April 30, 2002, page 3, para. 1.

<sup>6</sup> Responses to Board Staff interrogatories, June 25, 2012, page 3 #2(a) & 2(b); Appendix D, PDF page 49.

<sup>7</sup> EB-2008-0381, Decision and Order, June 24, 2011, Table "Maximum Income Tax Rates in Percentages", page 17.

\$873,986 results when the prior Decisions of the Board are applied. Specifically, Board staff made the following changes to the models filed in evidence by HCHI.

- 1) Formulas in the SIMPIL models were not altered and replicate those filed by the three applicants in the combined proceeding, and conform to account 1562 evidence filed by all other distributors.
- 2) Regulatory asset and liability amounts from the approved 2002 application PILs proxy calculations were entered exactly as HCHI submitted in its 2002 application evidence. Actual changes in regulatory assets and liabilities as contained in the tax returns were entered on sheet TAXREC3 to avoid PILs true-ups to ratepayers to comply with Board decisions in other cases.
- 3) Gains and losses related to fixed asset disposals were entered on sheet TAXREC3 to comply with the Board's decisions in other cases.
- 4) Income tax rates to calculate the tax impact and the gross-up amounts comply with the Board's decision on page 17 in EB-2008-0381.
- 5) The start date for recording PILs proxies in the Excel continuity schedule is June 1, 2002.

Formulae contained in SIMPIL models for the purpose of reversing the impact of Regulatory Assets and Liabilities

In order to deal with the incomplete cycle of creation and collection of regulatory assets and liabilities past the April 30, 2006 cut-off date, the actual variances before May 1, 2006 must be entered on sheet TAXREC3 to avoid PILs-related true-ups to ratepayers. HCHI was allowed to recover its regulatory assets from customers over the period 2004 through 2009.

The SIMPIL models filed by the three applicants in the combined proceeding contained formulae which allowed the reversal of the tax impacts of regulatory asset and liability amounts contained in the PILs proxies approved by the Board

in the 2002 applications. The evidence filed by the other distributors that received recent decisions of the Board also allowed for the reversal of these tax impacts.

HCHI altered the input of its Board approved PILs proxy by entering the regulatory assets and liability amounts on rows in the SIMPIL models that do not true up. HCHI correctly entered on sheet TAXREC3 the actual amounts from its tax returns related to regulatory assets and liabilities in the revised evidence submitted in response to interrogatories. However, HCHI has not followed the same guidance in entering the 2002 PILs proxy line item amounts and made these comments in response to interrogatory #10.

“b) Further to IRR #6, and if the Board takes the position that Haldimand County Hydro has not complied with its Decisions, changes in regulatory assets and liabilities have been input onto the TAXREC3 worksheet of the SIMPIL models as provided for in the Board Staff’s versions. However, in addition, Haldimand County Hydro has removed the true-up effect of the “initial estimate” regulatory adjustments on account of transition costs – an addition of \$214,577 and a deduction of \$34,503 – by correcting the allocation of these on the TAXCALC worksheet of the SIMPIL models for 2002 to 2005 inclusive. This removes a net credit true-up variance amount of \$180,074 less the income tax effect for each of 4 years. These adjustments effect the carrying charge calculations as well.”<sup>8</sup>

Board staff has calculated the impact of HCHI’s decision by entering the amounts from the original PILs proxies on the same rows as the original application PILs model. The difference is a decrease in the amount to be recovered from ratepayers of \$521,943. That is, instead of a receivable from ratepayers of \$528,407 as computed by HCHI, Board staff calculated that the amount would be \$6,464.

Board staff submits that the data related to the PILs proxy as approved by the Board in 2002 should be entered on the same lines as HCHI entered the data in its 2002 application to calculate correctly the revised balance in the account 1562 PILs Excel continuity worksheet for disposition to ratepayers. Board staff submits that this is the correct methodology and that it is consistent with the combined

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<sup>8</sup> Responses to Board Staff interrogatories, June 25, 2012, page 20, #10 (b).

proceeding and all recent decisions issued by the Board for the disposition of the recalculated balance in account 1562 deferred PILs.

#### Start Date of Recording the 2001 and 2002 PILs Proxy Entitlements

In its PILs 1562 continuity schedule, HCHI recorded its entitlement to the 2001 PILs proxy starting on October 1, 2001 and the 2002 PILs proxy on January 1, 2002 which is consistent with the APH. However, due to its amended application for rate adjustments, and its inability to meet the date of market opening for billing unbundled rates, the implementation date of the 2002 rates including the 2001 and 2002 proxies was delayed beyond May 1, 2002.

Board staff suggested in interrogatories that the PILs proxies should not be entered in the continuity schedule until June 1, 2002 or later since HCHI did not inform the Board of its capability of billing unbundled rates until June 21, 2002. Board staff input the PILs proxies in the Excel continuity schedule starting June 1, 2002 based Board staff's reading of the Board's prior decisions filed by HCHI in this proceeding.<sup>9</sup>

Board staff submits that the Board's 2002 decisions could also be read to mean that the effective date of the new unbundled rates was the date when HCHI informed the Board of its ability to invoice fully unbundled rates including PILs, or June 21, 2002.

The Board has issued recent decisions in 2011-2012 applications that determined start dates later than October 1, 2001 for recording the PILs proxies in the continuity schedule to recalculate the account 1562 PILs balance to be disposed.<sup>10</sup> The distributors' unique facts were considered by the Board in determining the date that the PILs proxy entitlements would be entered into the Excel PILs 1562 continuity schedules.

Board staff submits that the earliest date to start recording the PILs proxies based on the Board's prior decisions for HCHI is June 1, 2002. Board staff

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<sup>9</sup> RP-2002-0082/EB-2002-0301, Decision and Order, April 30, 2002. RP-2002-0082/ EB-2002-0091, Interim Decision and Order, June 12, 2002.

<sup>10</sup> EB-2011-0197, Thunder Bay; EB-2012-0212, Thunder Bay Motion to Review; EB-2011-0196, St. Thomas.

submits that July 1, 2002 is also a plausible date based on the evidence filed by HCHI.

As noted above, HCHI was not prepared for market opening on May 1, 2002 and received a contingency rate order dated April 30, 2002 from the Board.<sup>11</sup> The Board allowed HCHI to bill its customers using its old bundled rate structure until it was able to bill fully unbundled interim rates including PILs, but no later than August 1, 2002. On June 12, 2002 the Board issued an Interim Decision and Order.<sup>12</sup> On June 21, 2002 HCHI wrote to the Board stating that HCHI had received authorization to participate in the IMO administered markets. HCHI began billing non-interval customers on June 28, 2002 for consumption from May 1, 2002. HCHI started to bill interval customers on July 18, 2002 for consumption from May 1, 2002.<sup>13</sup> Bill 210 made HCHI's interim rate order final either on November 11, 2002 when the legislation was introduced, or on December 9, 2002 when it came into force.<sup>14</sup>

In response to Board staff's interrogatory #2(c) regarding when the Board approved the effective dates of May 1 and June 1, 2002 as identified in handwriting on the Board's order submitted in evidence, HCHI replied as follows.

"In its Decision, the Board authorized Haldimand County Hydro to continue to charge the rates which were in effect on an interim basis (EB-2001-0070) as of April 30, 2002, until the date established by notification to the Board that the utility is capable of generating the fully unbundled rates or August 1, 2002, whichever is earlier.

Accordingly, there was no Board decision approving the dates of May 1 and June 1, 2002. These billing dates coincided with when Haldimand County Hydro became capable of billing fully unbundled rates. Respectfully, the Board's Decision was dated June 12, 2002; that is, subsequent to the rate effective date of April 1, 2002."<sup>15</sup>

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11 RP-2002-0082/ EB-2002-0301/ April 30, 2002.

12 RP-2002-0082/ EB-2002-0091/ June 12, 2002.

13 Responses to Board Staff interrogatories, June 25, 2012, page 3, #2(a) & 2(b).

14 Responses to Board Staff interrogatories, June 25, 2012, Appendix C, PDF page 46.

15 Responses to Board Staff Interrogatories, June 25, 2012, pages 3-4.

At question in this proceeding is how to interpret the Board's decisions from proceedings RP-2002-0082/ EB-2002-0301 dated April 30, 2002 and RP-2002-0082/ EB-2002-0091 dated June 12, 2002. Board staff submits that on June 21, 2002 HCHI advised the Board of its ability to invoice its customers, and that June 21, 2002 became the effective date of the Board's interim rate order for fully unbundled rates rather than May 1, 2002 as interpreted by HCHI.

Board staff requests HCHI to provide the Board with its estimate of the increased distribution revenue it recovered from ratepayers for fixed charges and for consumption based on the new unbundled rates including PILs between May 1, 2002 and June 21, 2002 (or June 30<sup>th</sup> if that is easier).

In response to interrogatory #4(a) HCHI made the following comments.

- Q. Please explain why Haldimand believes that it should record the 2001 and 2002 PILs proxies in the continuity schedule prior to June 1, 2002.
- A. Haldimand incurred the 2001 PILS tax amount of \$334,927 as a result of it becoming a taxable entity on October 1, 2001. These amounts need to be recovered from rate payers. Hence, the amounts were included in the Account 1562 balance as a debit during the 2001 year, accrued in 3 equal monthly installments of \$111,642 commencing October 2001. Similarly, for the 2002 PILs tax amount, Haldimand County Hydro incurred this tax liability for the 2002 year and is required to include this amount of \$1,096,347 in 12 equal monthly installments of \$91,362 commencing January 2002 in Account 1562 in order that the 2002 PILS proxy amount can be recovered through the rate adjustments.

Board staff has provided a table below which compares the PILs taxes assessed by the Ministry of Finance and amounts collected from ratepayers. Board staff submits that these assessed amounts represent the actual PILs liability that Haldimand incurred.



Haldimand	2001	2002	2003	2004	2005	2006	Total
<b>Notices of Assessment</b> (Excluding Corporate Minimum Tax)	39,098	160,842	758,558	1,612,386	838,078		3,408,962
<b>Billed to Customers</b>		718,050	1,432,130	1,255,376	1,201,057	517,856	5,124,469

Sources: Tax returns and notices filed in evidence and PILs 1562 continuity schedule.

### Other Matters

In its revised evidence filed in response to interrogatories, HCHI recorded the actual changes in regulatory assets and liabilities from the tax returns on TAXREC3 consistent with the Board's directions. HCHI entered gains and losses on fixed assets on TAXREC 3 to avoid true-ups to ratepayers. HCHI has used the maximum income tax rates that appeared on page 17 of the Board's decision in the combined proceeding.

Board staff submits that these changes comply with the established methodology as directed by the Board.

HCHI has requested to recover the account balance of \$528,407 from its ratepayers over eight (8) months commencing September 1, 2012 and calculated interest carrying charges to August 31, 2012.<sup>16</sup>

Board staff recalculated the revised refund balance to ratepayers of \$877,502 by using the models submitted by HCHI in response to interrogatories and making the following adjustments.

- PILs proxy line item amounts were entered in the SIMPIL models on the same rows exactly as accepted by the Board in HCHI's 2002 application.
- The start date for recording the entitlement to PILs proxies is June 1, 2002.

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<sup>16</sup> Responses to Board Staff interrogatories, June 25, 2012, page 21, #10 (f).

- Interest has been calculated to August 31, 2012 consistent with HCHI's approach.

Board staff submits that its calculation of a credit balance of \$877,502 complies with the directions and various decisions of the Board and should be refunded to HCHI's ratepayers.

Board staff submits that eight (8) months is an acceptable time period over which HCHI should refund ratepayers the credit balance of \$877,502 from the effective date of the Board's rate order in this proceeding.

All of which is respectfully submitted