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BY E-MAIL

July 13, 2012

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

Dear Ms. Walli:

**Re: Parry Sound Power Corporation
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0229**

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

As a reminder, Parry Sound Power Corporation's responses to interrogatories are due by July 27, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst – Applications & Regulatory Audit

Encl.

Parry Sound Power Corporation (“Parry Sound Power”)
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
EB-2012-0229

Ref: 2001 to 2005 SIMPIL Models

1) Income Tax Rates

On PDF page 7 of the application, Parry Sound Power made the following statements about the income tax rates it selected.

Parry Sound Power incurred a tax loss in both 2001 and 2002. These losses were applied against 2003, and 2004 taxable incomes. At the end of 2004 loss carry forwards were fully utilized.

The income tax rate used for true-up purposes is the actual legislated tax rate for the applicable year based on the regulatory taxable income used to determine PILS that were included in rates not the rate used to set PILS included in rates or the actual income tax rate paid. These rates have been provided by Parry Sound Power's external auditors.

- a) Please provide the letter and all related schedules received from Parry Sound Power's auditors that show how the income tax rates were calculated for each year 2002 to 2004.
- b) Please explain what Parry Sound Power means by the term “legislated tax rate”. Please provide the sources of this quotation, such as the *Income Tax Act*.
- c) Did Parry Sound Power's auditors calculate the income tax rate for the 4th quarter 2001? If not, please explain why the auditors did not provide this calculation.
- d) Please explain how Parry Sound Power chose the income tax rate for the 4th quarter 2001.
- e) Did Parry Sound Power use rate base of \$6,561,667 as the proxy for paid-up capital to determine the eligibility for the small business deduction? If not, please

explain how Parry Sound Power determined eligibility for the small business deduction.

- f) Are the calculations of the income tax rates based on the same set of assumptions as the definition of paid-up capital?
- g) Please provide another scenario for the Board's consideration as follows.
 - i. Please enter the **minimum** income tax rates as found on page 17 of the Board's Decision in the Combined Proceeding EB-2008-0381 in the five SIMPIL models for 2001 to 2005.
 - ii. Please file an updated model for 2001 that has sheet TAXREC3.
 - iii. Please submit a revised continuity schedule showing the variances from these five revised SIMPIL models.

2) Interest Expense for Tax Years 2001 to 2005

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 Parry Sound Power's interest expense and the amount associated with each type of interest.
- b) Did Parry Sound Power have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
- c) Did Parry Sound Power 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 Parry Sound Power include interest expense on customer security deposits in interest expense?
- e) Did Parry Sound Power include interest income on customer security deposits in interest expense?

- f) Did Parry Sound Power include interest expense on IESO prudentials in interest expense? Please provide the dollar amount of IESO or other prudential expense by year whether disclosed as interest, admin, or other type of expense category.
- g) Did Parry Sound Power include interest carrying charges on regulatory assets or liabilities in interest expense?
- h) Did Parry Sound Power include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?
- i) Did Parry Sound Power deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

3) Changes in Formulae in SIMPIL Models

Parry Sound Power has changed the formulae in the SIMPIL models related to how the original PILs proxy line item amounts for regulatory assets and liabilities were entered and true up in SIMPIL sheet TAXCALC column E rows 100 to 132. The result is that the SIMPIL models are not the same as those filed in the Combined Proceeding. The changes made by Parry Sound Power to the SIMPIL models delete the reversal of the tax impact of regulatory assets and liabilities in 2002 through 2005.

Other distributors have made the same formulae changes to the SIMPIL models but agreed in responses to interrogatories that the changes they made were incorrect. Please see Lakefront (EB-2011-0250, responses to interrogatories #55 through 58) and Brant County (EB-2011-0425, responses to interrogatories #2).

- a) Does Parry Sound Power agree that the formulae should be corrected in its SIMPIL models filed in evidence?
- b) If yes, please submit revised SIMPIL models for 2002-2005 and a revised continuity schedule that allows for the reversal of the regulatory assets and liabilities in SIMPIL sheet TAXCALC column E rows 100 to 132.
- c) If Parry Sound Power disagrees that the tax impact of regulatory assets and liabilities should be allowed to reverse in the true-up calculations as done in the

Combined Proceeding, please provide the Board's regulatory references that support Parry Sound Power's position.

4) PILs Recoveries from Ratepayers

In the continuity schedule PDF pages 12-15, Parry Sound Power shows a pattern of recoveries that are less than the PILs proxies. The rates in the 2002 application were based on 1999 billing determinants, 2004 on 2002 statistics and 2005 on 2003 statistics. Most distributors show recoveries higher than the PILs proxies because of customer and load growth since 1999.

Board staff noticed that the fixed charge recovery in March 2004 was pro-rated by 50%. It seems to Board staff that energy and demand might be pro-rated but that the customers would have been billed the fixed charges on the invoices issued in March and in April. Board staff has verified the rate slivers, energy and demand used in each billing period and this does not seem to be the possible source of the anomaly.

- a)** Please verify the formulae used in the calculations of recoveries to ensure that the dollar amounts are correct and state the outcome of the review.