

July 24, 2012

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Ontario Energy Board  
P.O. Box 2319  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Re: Niagara Peninsula Energy Inc.  
Application for Disposition of Account 1562  
Board File Number: EB-2012-0028

Dear Ms. Walli:

Please find attached Niagara Peninsula Energy Inc.'s responses to Board Staff interrogatories on its stand alone Application for Disposition of Account 1562. Two hard copies will follow by courier.

Please contact myself should anything further be required, I can be reached at 905-353-6004 or [Suzanne.Wilson@npei.ca](mailto:Suzanne.Wilson@npei.ca).

Yours truly,



Suzanne Wilson, CA  
VP Finance

**Niagara Peninsula Energy Inc.  
EB-2012-0028  
Disposition of Account 1562 – Deferred PILs  
Responses to 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.

**Response**

The actual amount of CDM expense that Niagara Falls Hydro incurred in 2005 is \$109,361.

- 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?

## **Response**

All of Niagara Falls Hydro's CDM revenues and expenses were recorded in account 1565 CDM Expenditures and Recoveries, which was included on TAXREC3 in the 2005 PILS model in the Changes in Regulatory Asset Balances amount. The amounts entered for changes in regulatory account balances in TAXREC3 in the 2005 model are: \$1,477,834 for additions and \$2,912,442 for deductions. These amounts consist of the following items:

### **Niagara Falls Hydro - 2005 Changes in Regulatory Asset Balances**

#### **Additions**

Conservation and Demand Management	638,227
Qualifying Transition Costs	532,655
Retail Cost Variances	7,047
PILS Carrying Charges	299,905
Total Additions	<u>1,477,834</u>

#### **Deductions**

Retail Settlement Variances	2,794,844
Other Regulatory Assets	117,598
Total Deductions	<u>2,912,442</u>

In the application, please see the Updated 2005 Niagara Falls PILS Model (Appendix B-33), the Niagara Falls Hydro 2005 Tax Return Schedule 1 (Appendix B-36) and the Niagara Falls Hydro 2005 Financial Statements Note 13 (Appendix B-38).

The 2005 change of \$638,227 in the CDM account consists of the following:

### Niagara Falls Hydro - 2005 Change in CDM Account Balance

Recoveries	736,214
Carrying Charges	11,375
Expenses	<u>(109,361)</u>
Total Additions	<u>638,227</u>

Therefore, the difference between the CDM proxy amount and actual expense has already been included in the model. NPEI has no further suggestions for an alternative method.

### 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.

### Response

The table below shows the components of Niagara Falls Hydro's interest expense from 2001 (Quarter 4) until 2005.

**Niagara Falls Hydro - Interest Expense**

<b>Description</b>	<b>Q4 2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
City of Niagara Falls - note payable		1,063,333	1,595,000	1,595,000	1,595,000
Niagara Falls Hydro Holding Corp - note payable		174,246	261,369	261,369	261,369
Interest on customer deposits		17,775	11,253	16,903	25,250
Scotiabank - loan		-	-	292,151	478,787
<b>Subtotal (agrees to SIMPIL models)</b>	-	1,255,354	1,867,622	2,165,423	2,360,406
PILS carrying charge on true-up					297,910
<b>* Total (agrees to Interest Paid on financial statements)</b>	-	1,255,354	1,867,622	2,165,423	2,658,316

\*Note: Please see Statement of Cash Flow note in each respective year's 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?

**Response**

Niagara Falls Hydro had interest expense on customer deposits as noted in the table above, and in 2005 Niagara Falls Hydro recorded \$297,910 of carrying charges on PILS True-Up. This amount is reflected as interest expense on the financial statements, but was not included as interest expense in the 2005 SIMPIL model. Please see the response to part a) above.

- 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.

**Response**

Niagara Falls Hydro did not net interest income against interest expense in deriving the amounts shown as interest expense in the financial statements and tax returns. Please see page 18 in the Manager's Summary of the application.

- d) Did Niagara Falls Hydro include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?

### **Response**

Yes, Niagara Falls Hydro did include interest expense on customer security deposits for the purposes of interest true-up calculation. Please see page 17 in the Manager's Summary of the application.

- 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?

### **Response**

Yes, Niagara Falls Hydro did include interest expense on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns. Please see page 17 in the Manager's Summary of the application and the response to 2 a) above.

- 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.

### **Response**

No, Niagara Falls Hydro did not include the letter of credit fees for IESO prudentials in interest expense. Please see page 18 in the Manager's Summary of the application. The table below shows the amounts of the fees paid by Niagara Falls Hydro for the IESO letter of credit from 2002 to 2005, and where these costs have been recorded.

**Niagara Falls Hydro - IESO Prudentials**

<b>Description</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Amount of fee on Letter of Credit for IESO Prudential	47,505	47,485	47,485	47,485
Portion allocated to Retailer customers, recorded in RCVA accounts	15,135	13,647	12,294	11,083
Portion allocated to SSS customers, recorded in Billing and Collecting Expense on the Financial Statements	32,370	33,838	35,191	36,402
	47,505	47,485	47,485	47,485

The charge for the IESO prudential was proportioned based on the number of retailer customers billed over the total number of accounts billed.

- g) Did Niagara Falls Hydro include interest carrying charges on regulatory assets or liabilities in interest expense?

**Response**

Niagara Falls Hydro did not include interest carrying charges on regulatory assets or liabilities in interest expense in the SIMPIL Models. As indicated in the response to part a) above, Niagara Falls Hydro included \$297,910 of carrying charge expense in its 2005 financial statements. Please see page 18 in the Manager's Summary of the application.

- 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.

**Response**

Niagara Falls Hydro did not include any debt issue costs, debt discounts or debt premiums in interest expense. Please see page 18 in the Manager's Summary of the application.

- 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.

### **Response**

Niagara Falls Hydro did not capitalize any interest. Please see page 18 in the Manager's Summary of the application.

### **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.

### **Response**

Niagara Falls Hydro completed the TaxRec sheet on the PILS models for the years 2003 to 2005 by entering the information from the tax returns prepared by Niagara Falls Hydro's auditors so that the amounts in the models agree to the tax returns. The TaxCalc sheet in the models adds the recapture of the SR&ED back and deducts the scientific research expense which increases the true-up variance to the ratepayers, not to the shareholder. The SR&ED claim is the main reason why Niagara Falls Hydro has such a large amount owing back to the ratepayers.

The table below shows the amounts of the recaptured SR&ED credit and the scientific research expenditures claimed for each year from 2003 to 2005 per Schedule T661 of Niagara Falls Hydro's tax returns. The SR&ED T661 filings were completed by an external consultant, audited by Niagara Falls Hydro's auditors and accepted by the OEFC.



**Niagara Falls Hydro - SR&ED**

Description		2003	2004	2005
Additions	Recapture of SR&ED Expenses (Material Additions on TAXREC2)	109,974	119,906	479,652
Deductions	Expenses	(628,609)	(2,320,321)	-
	Investment Tax Credit Claim	-	218,750	(479,652)
Total Scientific Research Expenditures Claimed per T661		(628,609)	(2,101,571)	(479,652)

b) Please explain why the recapture in 2005 is so much lower than the deduction taken in 2004.

**Response**

The recapture in 2005 is 20% of the expenses of \$2,398,260 from 2004, which equals the SR&ED claimed for 2005. The details of the SR&ED expenses claimed and ITC amounts for 2003, 2004 and 2005 are included below:

	<b>2003</b>
<b>Additions</b>	
Recapture of SR&ED Expenses (Employee Labour)	109,974
<b>Deductions</b>	
Employee's labour	(109,974)
Accounts Payable Contracts	<u>(518,635)</u>
Total 2003 Expenditures Claimed	<u>(628,609)</u>

	<b>2004</b>
<b>Additions</b>	
Racapture of SR&ED Expenses (Employee Labour)	119,906

<b>Deductions</b>	
Employee's labour	(119,906)
Accounts Payable Contracts	(2,200,415)
	<u>(2,320,321)</u>
Less: Investment Tax Credit	218,750
Total 2004 Expenditures Claimed	<u>(2,101,571)</u>

**Calculation of Investment Tax Credit Deducted in 2004:**

Employee's labour from 2003	109,974
Accounts Payable Contracts from 2003	518,635
	<u>628,609</u>
Add: 65% of 109,974 Employee Labour	71,483
	<u>700,092</u>
ITC Portion at 35%: 524,880 x 35%	183,708
ITC Portion at 20%: 175,212 x 20%	35,042
Total ITC deducted in 2004	<u>218,750</u>

	<b>2005</b>
<b>Additions</b>	
Recapture T2 Schedule 1 Line 231	479,652
<b>Deductions</b>	
Employee's labour	-
Accounts Payable Contracts	-
	<hr/> -
Less: Investment Tax Credit	(479,652)
Total 2005 Expenditures Claimed	<hr/> (479,652) <hr/>
<b>Closing Balance of SR&amp;ED Claim</b>	<hr/> <hr/> 0 <hr/> <hr/>

**Calculation of Investment Tax Credit Deducted in 2005:**

Employee's labour from 2004	119,906
Accounts Payable Contracts from 2004	2,200,415
	<hr/> 2,320,321
Add: 65% of 119,906 Employee Labour	77,939
	<hr/> 2,398,260
ITC at 20%: 2,398,260 x 20%	479,652
Total ITC deducted in 2005	<hr/> 479,652 <hr/>

Please refer to the tax returns for 2003, 2004 and 2005, as well as the T661 forms for each year that were filed with the rate application in Appendix B.

- c) Please explain why the addition and the deduction in 2005 are the same amount, \$479,652.

**Response**

One the project is complete, the recapture in the final year will equal the Investment Tax Credit claimed so the balance of the SR&ED claim is zero. Please see page 2 of 5 of the CR23 Schedule 161 in the Niagara Falls Hydro 2005 Tax Return. The Transformer Station was completed in November 2004, and all expenditures were finalized.

- d) Did ratepayers benefit from the investment or was the benefit purely for the shareholder?

**Response**

The tax credit associated with the SR&ED claim is 100% to the benefit of the ratepayers, since the SR&ED expenditures and ITCs are trued up and being returned to the ratepayers in this application.

**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.

**Response**

The Board's decisions for 2002, 2004 and 2005 ordered that Unmetered Scattered Load customers were to be billed as General Service < 50 kW customers. Therefore, the consumption and recovery for Niagara Falls Hydro's Unmetered Scattered Load has been included with the General Service < 50 kW class.

On Sheet 6-1 Customer Classes of Niagara Falls Hydro's 2006 EDR Model, Unmetered Scattered Load is included as a proposed class, not an existing class. Niagara Falls Hydro was able to separate the USL stats from the rest of the GS<50 stats for 2002, 2003 and 2004 for the purpose of populating Sheet 6-2 Demand, Rates in the EDR Model. However, separate rates for USL were not approved until the 2006 EDR Decision.

- b) Please update the recovery calculations and correct the dollar amounts.

### **Response**

As indicated in part a) above, the USL recovery calculations are included with the GS<50 class, and therefore have been correctly included in the total recovery 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.

## **Response**

The consumption data used for the PILS recovery calculations does not include total loss factor (TLF). The consumption data included in the 2006 EDR Model includes TLF. The tables below show the reconciliation for 2003 and 2004 between the data used for PILS recoveries and the data included in the 2006 EDR:

**Niagara Falls Hydro - 2003 Consumption**

<b>Customer Class</b>	<b>Billing Parameter</b>	<b>A 2003 Consumption not incl. TLF (Agrees to Recovery Calculations)</b>	<b>B  TLF</b>	<b>C = A + B 2003 Consumption incl. TLF (Agrees to 2006 EDR Model)</b>
Residential	kWh	252,544,444	13,572,425	266,116,869
General Service < 50 kW (incl USL)	kWh	88,393,750	5,734,249	94,127,999

Upon further investigation, the 2005 Final RAM Model Sheet 4 uses the 2003 Data by Class for kW and kWh to calculate the PILS rate rider. The 2005 Ram Sheet 4 PILS proxy calculation erroneously included TLF in the kWh thereby lowering the rate rider per kWh calculated.

#### Niagara Falls Hydro - 2004 Consumption

Customer Class	Billing Parameter	A 2004 Consumption not incl. TLF (Agrees to Recovery Calculations)	B  TLF	C = A + B 2004 Consumption incl. TLF (Agrees to 2006 EDR Model)
Residential	kWh	249,250,789	13,000,417	262,251,206
General Service < 50 kW (incl USL)	kWh	88,638,633	4,638,049	93,276,682

- 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.

#### **Response**

The PILS volumetric rates represent a portion of the total volumetric distribution rate for each class. Since distribution revenue is determined using consumption that is not loss adjusted, the amount of PILS recovered in rates should also be calculated on consumption that does not include TLF.

Since Niagara Falls Hydro has correctly used consumption not including TLF for the PILS recovery, no adjustments need to be made to the calculations.

#### **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.

#### **Response**

The PILS amounts that were unbilled as at April 30, 2006 were

subsequently billed during May and June 2006, due to Niagara Falls Hydro's bimonthly billing cycles. Please refer to Niagara Falls Hydro's PILS Continuity Schedule in Appendix D of the application, which shows the PILS amounts that were billed in May and June 2006.

**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.

**Response**

To the best of NPEI's knowledge, 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:

“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.

### **Response**

The actual amount of CDM expense that Peninsula West Utilities incurred in 2005 is \$70,994.

- 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?

### **Response**

The 2005 CDM recoveries and expenses of are included as part of the change in Regulatory Asset Balance of \$226,299 on Sheet TAXREC3 in Peninsula West Utilities' 2005 PILS Model. Therefore, the difference between the CDM proxy amount and actual expense has been already been included in the model. Peninsula West Utilities does not have a suggestion for an alternative method.

**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.”<sup>1</sup>

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

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

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.”<sup>2</sup>

- 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 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)	-
<b>Total</b>	<b>28,032</b>	<b>109,232</b>	<b>107,912</b>	<b>(77,629)</b>	<b>24,144</b>

- 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?

### **Response**

Peninsula West Utilities believes that it should be entitled to the variance adjustments from the SIMPIL model prior to December 1, 2004, due to the principles of fairness and consistency. If Niagara Falls Hydro did not have

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

a PILS proxy in rates until December 2004, given that the NFH customers are in a refund position, would the same question be asked whether NFH should disregard the variance adjustments from this period and not refund this balance to the customers?

The former Peninsula West Utilities and Niagara Falls Hydro customers are all now NPEI harmonized customers, and should be treated the same regardless of NFH being in a refund position and PWU being in a payable position. PWU did pay taxes that were not recovered in rates.

- 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.

**Response**

Please see the response to a) above.

- 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?

**Response**

Peninsula West did not consider pro-rating the 2004 variance adjustments, for the reasons given in the response to a) above.

- 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.

**Response**

Please see the response to c) above.

## 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.

### Response

The table below shows the components of Peninsula West Utilities' interest expense from 2001 (Quarter 4) until 2005.

Peninsula West Utilities - Interest Expense

Description	Q4 2001	2002	2003	2004	2005
TD Bank - term loan	166,140	695,545	692,895	668,383	551,059
Town of Lincoln - debentures	7,113	7,700	6,147	4,840	3,430
Interest on customer deposits	-	6,822	7,076	8,731	8,205
Culease Financial - capital lease	-	-	7,759	7,181	6,272
<b>Subtotal (agrees to SIMPIL models)</b>	<b>173,253</b>	<b>710,067</b>	<b>713,876</b>	<b>689,134</b>	<b>568,966</b>
Less: Accrued interest					(3,885)
<b>*Total (agrees to Interest Paid on financial statements)</b>	<b>173,253</b>	<b>710,067</b>	<b>713,876</b>	<b>689,134</b>	<b>565,081</b>

\*Note: Please see Statement of Cash Flow note in each respective year's 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?

### Response

Peninsula West Utilities had interest expense on customer deposits and interest expense on a capital lease, as indicated in the table in part a)

above.

- 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.

**Response**

Peninsula West Utilities did not net interest income against interest expense in deriving the amounts shown as interest expense in the financial statements and tax returns. Please see page 30 in the Manager's Summary of the application.

- d) Did Peninsula West Utilities include interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation?

**Response**

Yes, Peninsula West Utilities did include interest expense on customer security deposits for the purposes of interest true-up calculation. Please see page 30 in the Manager's Summary of the application.

- e) Did Peninsula West Utilities include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?

**Response**

Yes, Peninsula West Utilities did include interest expense on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns. Please see page 30 in the Manager's Summary of the application.

- f) Did Peninsula West Utilities 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.

**Response**

No, Peninsula West Utilities did not include the letter of credit fees for IESO prudentials in interest expense. Please see page 31 in the Manager's Summary of the application. The table below shows the amounts of the fees paid by Peninsula West Utilities for the IESO letter of credit from 2002 to 2005, and where these costs have been recorded.

**Peninsula West Utilities - IESO Prudentials**

<b>Description</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Amount of fee on Letter of Credit for IESO Prudential (all amounts recorded as Administration Expense in the Financial Statements)	-	15,944	15,910	15,910

Note that Peninsula West did not have a letter of credit for the IESO prudential in 2002. A deposit was issued in favour of the IESO in 2002, which was then replaced with a letter of credit in 2003.

- g) Did Peninsula West Utilities include interest carrying charges on regulatory assets or liabilities in interest expense?

**Response**

No, Peninsula West Utilities did not include interest carrying charges on regulatory assets or liabilities in interest expense. Please see page 31 in the Manager's Summary of the application.

- 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

**Response**

Peninsula West Utilities did not include any debt issue costs, debt discounts or debt premiums in interest expense. Please see page 31 in the Manager's Summary of the application.

- 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.

**Response**

Peninsula West Utilities did not capitalize any interest. Please see page 31 in the Manager's Summary of the application.

- 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.

**Response**

NPEI's view on which types of interest income and interest expense should be included in the excess interest true-up calculations is as follows: Interest income should not be included since it was not included in the original deemed interest calculation. Interest expense on long-term debt, promissory notes, debentures and customer deposits should be included, as these were types of interest expense that were included in the original deemed interest calculation that is being used to determine the clawback. The IESO prudential is a contingent liability which would not have existed in the calculation of deemed interest nor is it recorded as a liability until incurred. Therefore, the service fee on the IESO prudential should not be



included in the true-up calculation. Please see page 31 in the Manager's Summary of the application.

**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.

**Response**

The Board's decisions for 2004 and 2005 ordered that Unmetered Scattered Load customers were to be billed as General Service < 50 kW customers. Therefore, the consumption and recovery for Peninsula West Utilities' Unmetered Scattered Load has been included with the General Service < 50 kW class.

On Sheet 6-1 Customer Classes of Peninsula West Utilities' 2006 EDR Model, Unmetered Scattered Load is included as a proposed class, not an existing class. Peninsula West Utilities was able to separate the USL stats from the rest of the GS<50 stats for 2002, 2003 and 2004 for the purpose of populating Sheet 6-2 Demand, Rates in the EDR Model. However, separate rates for USL were not approved until the 2006 EDR Decision.

- b) Please update the recovery calculations and correct the dollar amounts.

**Response**

As indicated in part a) above, the USL recovery calculations are included

with the GS<50 class, and therefore have been correctly included in the total recovery 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.

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

### **Response**

The PILS recoveries were lower than the PILS Proxies in Rates because the kWh value used to calculate the PILS proxy for 2005 was too high because it included Total Loss Factor (TLF), thereby lowering the calculated rate rider. The recoveries were based on billing determinants that did not include TLF.

### **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-ration 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

### **Response**

The December 2004 volumes billed exclude TLF. The statistics included in the 2006 EDR include TLF.

Also, the Decision and Order for Peninsula West Utilities' 2004 rate application was dated December 20, 2004. The retroactive amount of PILS back to December 1, 2004 was not adjusted for all billing cycles until the end of January 2005. The billed volumes for January 2005 are shown in the table below:

#### **Peninsula West Utilities - January 2005 Billing Determinants**

Customer Class	Billing Parameter	January 2005 Billed Volumes
Residential - urban	kWh	8,867,828
Residential - suburban	kWh	7,756,322
General Service < 50 kW (including USL)	kWh	3,776,039
General Service > 50 kW	kW	33,162
Sentinel Lights	kW	70
Streetlights	kW	373

## **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.

### **Response**

Peninsula West Utilities billed with rates that were based on the billing date, rather than the read date. For example, customers that were billed in May 2006 for April consumption were billed at the new rates that were effective May 1, 2006 and no PILS recovery was recorded. This is consistent with how the first month of PILS recoveries was recorded in December 2004. Therefore, no amounts are reflected for unbilled revenue as at April 30, 2006 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.

### **Response**

To the best of NPEI's knowledge, all tax years from 2001 to 2005 are now statute-barred.