

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

August 2, 2012

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

Dear Ms. Walli:

**Re: Entegrus Powerlines Inc. – Chatham-Kent
Application for the Disposition of Account 1562 – Deferred Payments in
Lieu of Taxes
Board Staff Submission
Board File No. EB-2012-0097**

In accordance with the Notice of Application and Hearing and Procedural Order No. 1, please find attached the Board Staff submission in the above proceeding.

In addition, Board staff reminds Entegrus Powerlines Inc. that its Reply Submission is due by August 24, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst – Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Entegrus Powerlines Inc. – Chatham-Kent

EB-2012-0097

August 2, 2012

Entegrus Powerlines Inc. – Chatham-Kent
Board staff Submission
Account 1562 – PILs Disposition

Background

Entegrus Powerlines Inc. (“Entegrus”) filed a stand-alone application for the disposition of Account 1562 – Deferred PILs (“PILs”) for its Chatham-Kent Hydro service area (“CKH”), dated March 30, 2012. The PILs evidence filed by Entegrus in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL¹ Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance. In pre-filed evidence Entegrus applied to collect from customers a debit balance of \$102,287 consisting of a principal debit amount of \$6,865 plus related carrying charges of \$95,422.

In response to Board staff interrogatories, Entegrus filed revised SIMPIL models, a PILs continuity schedule and a final balance for disposition in its responses. Entegrus is requesting to dispose a revised debit balance of \$274,818 consisting of a principal debit amount of \$147,444 plus related carrying charges up to April 30, 2012 of \$127,374 effective for a one-year period commencing November 1, 2012.

Submission

PILs Rate Slivers used in the PILs Recovery Worksheets

The standard RAM² calculated the rate slivers for each distribution area by rate class associated with the PILs proxy amounts approved by the Board for recovery from customers. CKH did not file a standard RAM for both the 2002 and 2004 applications. CKH allocated the PILs proxies to rate classes based on distribution revenue shares and then calculated average PILs rate slivers for each rate class that were used in the PILs recovery worksheets.

¹ Spreadsheet implementation model for payments-in-lieu of taxes

² Rate Adjustment Model.

Entegrus stated in the Manager's Summary that:

During the 2001 to 2006 period when PILs rates were in effect, CKH had up to 11 different rate zones per rate class, with each rate zone having a different distribution rates per rate class. However, the billing determinants for that time period are available internally only in aggregate. For this reason, CKH has adopted a weighted average approach to each rate class. Specifically, a weighted average PILs sliver rate was determined for each rate class and applied to the aggregate billing determinants corresponding to each rate class.³

Board staff reviewed the PILs recovery calculation worksheet filed by Entegrus in response to Board staff interrogatory #1a). Board staff verified the allocation of the PILs proxies by rate class, the billing determinants and the fixed-and-variable charge split with the Board-approved 2002, 2004 and 2005 application models and related evidence. Board staff submits that the recoveries from ratepayers as calculated by Entegrus are reasonable.

Billing Determinants used in the PILs Recovery Worksheets

In the original application, the PILs recoveries were lower than one would expect compared to the PILs proxies in rates. The trend for the majority of distributors is that the PILs recoveries exceed the proxies for the full years of 2003, 2004 and 2005.

Board staff noted a discrepancy with the billing determinants reported in the PILs recovery worksheets. The volumetric billing determinants for the 10 months of 2002 as well as for the full years of 2003 and 2004 did not agree with the demand statistics provided in the 2006 EDR application.

Board staff asked in interrogatory #1b) to #1d) to explain why the PILs recoveries were much lower than one would expect in each year and why the actual data filed in previous applications were not used.

Entegrus responded:

³ Entegrus Powerlines Inc. – Chatham-Kent. Manager's Summary. March 30, 2012. Page 7.

Specifically, Entegrus has determined that CKH inadvertently utilized gross billing determinant data (equivalent to wholesale purchases) for rate making purposes in its 2002, 2004 and 2005 rate applications (EB-2002-0090, EB-2004-0022 and EB-2005-0017 respectively). As a result, the consumption billing determinants were overstated for rate making purposes, and distribution rates (including proxy amounts for PILs) were lower than they would have been had the billing determinants net of line losses been used. CKH also reported these gross values to the Board rather than the net values that should have been reported pursuant to the Board's Reporting and Record-keeping Requirements. Consequently, when CKH billed customers on the basis of consumption net of line losses during the 2003-2006 period, the amount of PILs collected was less than would have been expected based on the determinants reported to the Board during the relevant period.

Entegrus has determined that CKH changed its reporting procedure in 2007 and starting for 2006 and thereafter submitted annual RRR filings and completed rate-making models utilizing consumption billing statistics net of wholesale line losses.⁴

Entegrus prepared updated comparisons using pre-normalized billing determinant statistics inclusive of the netting of line losses. Entegrus confirmed that it utilized the actual statistics that were used to bill customers in the revised PILs recovery worksheets filed in its responses. Entegrus also noted that for the Application period, the amount of PILs collected by CKH of \$7.4 million exceeded the amount of PILs proxies in CKH rates of \$7.3 million.

Board staff submits that the statistics utilized in the PILs recovery calculations are consistent with the appropriate 2002-2006 historic billing determinant statistics, net of line losses, filed in CKH's 2010 cost of service application (EB-2009-0261).

Excess Interest True-up

⁴ Responses to Board Staff Interrogatories, July 20, 2012. Pages 5-6.

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 the TAXCALC worksheet as an extra deduction in the true-up calculations.

In determining the excess interest true-up variances in the SIMPIL models, the Board-approved maximum deemed interest of \$1,654,943 was deducted from actual interest expense. Entegrus was subject to interest true-up variances in 2002 when actual interest exceeded maximum deemed interest. Consistent with the Board's decision in EB-2011-0174 that Hydro One Brampton's interest expense used to calculate the interest claw-back variance should not include interest on customer deposits, Entegrus did not include interest expense related to customer deposits.⁵

Board staff requests that Entegrus confirm whether CKH had any interest expense, or stand-by charges or fees, on IESO or other prudential letters or lines of credit. If CKH had stand-by charges or fees related to the prudential letters or lines of credit, Board staff submits that these costs should be included in the interest true-up calculations to be consistent with the Board's decisions.⁶

Fixed Asset Transactions

Entegrus included its fixed assets in the calculation of rate base for the 2000-2001 rate unbundling application. Distributors continued to receive the return on these assets from ratepayers even though they may have disposed of assets during the period of 2002 through 2005. Under the PILs methodology, Board staff notes that fixed asset transactions should not true-up to ratepayers and the applicant should enter any write-downs, gains and losses on sheet TAXREC3 of the SIMPIL model.⁷

In its original application, Entegrus trued up gains and losses on disposal of fixed assets by recording the transactions on sheets TAXREC and TAXREC2. In response to interrogatory #2, Entegrus moved fixed asset transactions to sheet

⁵ EB-2011-0174, December 22, 2011, pg9-10.

⁶ Burlington Hydro, EB-2011-015, March 20, 2012. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012.

⁷ North Bay, EB-2011-0187, page 16.

TAXREC3 and updated the PILs continuity schedule. Board staff submits that this treatment of fixed asset transactions on the SIMPIL models is consistent with decisions already made by the Board.

Income Tax Rates Used in SIMPIL Models Sheet TAXCALC

The SIMPIL models require income tax rates to be input in order to calculate the variances that support some of the entries in account 1562 deferred PILs. These income tax rates are entered on sheet TAXCALC by the applicant.

Entegrus used the maximum income tax rates as shown on page 17 of the Board's combined proceeding decision for the purpose of true-up calculations. CKH's rate base was \$45,653,588 for the applications in 2001 through 2005.

Board staff submits that the maximum income tax rates are appropriate for CKH.

Conclusion

Board staff requested that Entegrus clarify whether it incurred prudential costs that should be included in the interest true-up calculations consistent with Board decisions. Subject to this response, Board staff supports the disposition of the principal debit balance of \$147,444 to be collected from ratepayers over a one-year period commencing November 1, 2012 as requested by Entegrus.

Board staff requests that Entegrus file its evidence for CKH that supports the principal balance, carrying charges forecast to October 31, 2012 and proposed PILs rate riders for Board approval in its final submission. Board staff requests that Entegrus file active Excel worksheets and PDF evidence with its final submission.