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BY EMAIL

August 10, 2012

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Entegrus Powerlines Inc. (formerly Middlesex Main service area)
Application for the Disposition of Account 1562 – Deferred Payments in
Lieu of Taxes
Board Staff Submission
Board File No. EB-2012-0098**

In accordance with the Notice of Application and Hearing, 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 29, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Entegrus Powerlines Inc.

EB-2012-0098

August 10, 2012

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

Background

Entegrus Powerlines Inc. (“Entegrus”) filed a stand-alone application for disposition of Account 1562 – Deferred PILs for its Middlesex Power Distribution Corp. – Main (MPDC) service area, 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 refund to customers a credit balance of \$275,777 consisting of a principal credit amount of \$218,377 plus related carrying charges of \$57,400.

After reviewing and answering Board staff interrogatories, Entegrus filed revised SIMPIL models, PILs continuity schedule and a final balance for disposition in its responses. Entegrus is requesting to dispose a revised credit balance of \$346,939 consisting of a principal credit amount of \$276,207 plus related carrying charges up to April 30, 2012 of \$70,732 effective for a one-year period commencing November 1, 2012.

Submission

2002 PILs Proxy Amount in the SIMPIL Model

In its original application, the 2002, 2003 and 2004 SIMPIL models did not match line-by-line with the 2002 application PILs proxy model details approved by the Board in decision RP-2002-0094/EB-2002-0103. The 2002 application PILs proxy model contains a regulatory adjustment in cell C24 of \$7,767 that should reverse in the SIMPIL model. The purpose of this adjustment is to reverse the tax impact of the regulatory assets and liabilities contained in the proxy calculations when compared to the actual tax values in 2002 to 2004.

In response to Board staff interrogatory #5, Entegrus agreed with the \$7,767 adjustment cited above and provided revised SIMPIL models that agree line-by-line with the 2002 application PILs proxy model details. Board staff submits that the revisions made to the

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

2002 to 2004 SIMPIL models exclude the impact of regulatory assets and liabilities in the determination of the variances that are entered in account 1562 and are consistent with past Board's decisions.²

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 volumetric billing determinants for 10 months of 2002 appear to be lower than the full year statistics would indicate. Board staff prorated (10/12) the 2002 statistics as filed in the 2006 EDR application and compared the prorated volumes with those used in the PILs recovery calculations.

Entegrus stated in its response to Board staff interrogatory #2 that it had inadvertently represented amounts billed for the period May 2002 to December 2002, rather than March 2002 to December 2002 period as intended. Entegrus provided the updated billing determinants and PILs revenue collected and revised the PILs continuity schedule. Board staff submits that the statistics utilized in the PILs recovery calculations are reasonable and consistent with the appropriate 2002-2006 historic billing determinant statistics.

Excess Interest True-up

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 \$372,956 was deducted from actual interest expense. 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.³

² Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Staff Discussion Paper, August 20, 2008.

³ EB-2011-0174, December 22, 2011, pg9-10.

Board staff requests that Entegrus confirm whether MPDC had any interest expense, or stand-by charges or fees, on IESO or other prudential letters or lines of credit. If MPDC 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.⁴

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.⁵

In its original application, Entegrus trued up gains and losses on disposal of fixed assets by recording the transactions on sheet TAXREC2. In response to interrogatory #4, Entegrus moved fixed asset transactions to sheet 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 minimum income tax rates as shown on page 17 of the Board's combined proceeding decision for the purpose of true-up calculations. MPDC's rate base was \$10,288,429 for the applications in 2001 through 2005.

Board staff submits that the minimum income tax rates are appropriate for MPDC.

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

⁵ North Bay, EB-2011-0187, page 16.

Conclusion

Board staff requested above 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 credit balance of \$276,207 to be refunded to ratepayers over a one-year period commencing November 1, 2012 as requested by Entegrus.

Board staff requests that Entegrus file its evidence for MPDC 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.

All of which is respectfully submitted