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October 5th, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Veridian Connections Inc., Disposition of Account 1562 – Deferred PILs
Reply Submission, Board File No. EB-2012-0061**

Veridian Connections Inc. is pleased to submit the enclosed reply to the submission received from Board staff on September 21st, 2012.

Please do not hesitate to contact me if you require further information. I can be reached at (905) 427-9870, extension 2202 or by email at garmstrong@veridian.on.ca.

Yours truly,

Original signed by

George Armstrong
Vice President, Corporate Services

The power to make your community better.

Veridian Connections is a wholly owned subsidiary of Veridian Corporation



VERIDIAN CONNECTIONS INC.

Application for Disposition of Account 1562 – Deferred PILs

EB-2012-0061

APPLICANT'S REPLY SUBMISSION

October 5th, 2012

Introduction

Veridian Connections Inc. (“Veridian”) as a licensed electricity distributor filed a stand-alone application (the “Application”) with the Ontario Energy Board (the “Board” or the “OEB”) on May 1, 2012, for the disposition of Account 1562 – Deferred PILs (“Account 1562”).

Board staff filed interrogatories on August 13, 2012 and Veridian filed its responses on August 31, 2012. Board staff filed its submission on September 21st, 2012. This Reply submission by Veridian summarizes the evidence on record, responds to issues raised by Board staff in their submissions and provides additional information and calculations as requested by Board staff in its submission.

Approvals Sought

In the Application, Veridian originally sought recovery of \$320,243 through a proposed volumetric rate rider effective September 1st, 2012 over a one-year period.

The table below provides the details by tariff zone and principal and carrying charge balances as filed:

| AS FILED | Principal | Interest | Total |
|-----------------|---------------|----------------|----------------|
| VCI | (30,851) | 207,355 | 176,504 |
| Scugog | 2,247 | 1,671 | 3,918 |
| Gravenhurst | 87,534 | 52,287 | 139,821 |
| | 58,930 | 261,313 | 320,243 |

In response to Board staff interrogatories, Veridian provided updated schedules and a revised balance for Account 1562.

The table below provides the amounts as updated based on Veridian’s response to Board staff interrogatories:

| UPDATE FROM INTERROGATORY RESPONSES | Principal | Interest | Total |
|--|------------------|----------------|------------------|
| VCI | (277,808) | 140,378 | (137,430) |
| Scugog | 867 | 1,104 | 1,971 |
| Gravenhurst | (80,411) | (17,134) | (97,545) |
| | (357,352) | 124,348 | (233,004) |

Within its Submission, Board staff asked Veridian to file a number of revised schedules and recalculated balances based on proposed alternative calculations for items such as PILs proxy entitlements, effective income tax rates and adjustments for LCT True-Up Variances.

Veridian has, upon review of Board staff Submission, revised specific calculations and updated the balance of Account 1562. The details of the revisions are described and provided in the following sections of this Reply Submission.

The table below provides the amounts as updated based on Veridian's review and reply to the Board staff Submission, and represents the final amount requested by Veridian for disposition related to Account 1562.

FINAL FROM REPLY SUBMISSION

| | Principal | Interest | Total |
|-------------|------------------|---------------|------------------|
| VCI | (319,730) | 133,547 | (186,183) |
| Scugog | 867 | 1,104 | 1,971 |
| Gravenhurst | (133,700) | (43,074) | (176,774) |
| | (452,563) | 91,577 | (360,986) |

Billing Determinants used in the PILs Recovery Worksheets

In its submission Board staff notes that in response to Board staff interrogatories #1 and #3 to #8, Veridian determined that some billing determinants entered for the PILs recoveries were in error and that Veridian updated the revised billing determinants and PILs revenue collected and the PILs continuity schedule.

In particular, these related to:

- a) 2002 billing determinants for the Scugog service area
- b) 2002 billing determinants for the Gravenhurst service area
- c) 2002, 2003 and 2005 Veridian service area

In its Submission, Board staff states "that the revised statistics utilized in the PILs recovery calculations are reasonable and consistent with 2002-2006 historic billing determinant statistics."

Gravenhurst Hydro Proxy Entitlements from October 1, 2011 to May 31, 2002

In its Submission, Board staff raises an issue that was not explored in its interrogatories to Veridian. Board staff suggests that as the effective date of Gravenhurst Hydro's 2002 rates was not until June 1, 2002, "there is a question as to whether the Board-approved accounting guidance for distributors following the standard application timing should not apply." Board staff submits that the PILs proxy entitlement should be pro-rated for the period from June 1, 2002 to March 31, 2004, rather than the

period recorded by Veridian in its evidence, being October 1, 2001 for the 2001 PILs proxy and January 1, 2002 for the 2002 PILs proxy.

Board staff provides a table calculating this pro-rated amount proposed in its Submission where the PILs proxy entitlement for the period of 2002 (effective June 1st) to March 31st, 2004 would be reduced to \$718,976 from the amount of \$870,381 as calculated by Veridian in the Application.

Board staff submits that this alternative value for the Gravenhurst PILs proxy is equitable to ratepayers and to shareholders and is consistent with decisions already made by the Board.

Veridian has recorded in its Gravenhurst PILs 1562 Continuity Schedule as "Board Approved PILS proxy from Decisions" the Q4 2001 amount of \$63,992 and the 2002 amount of \$328,177, consistent with the guidance as prescribed by the Board in the APH and consistent with the filings in EB-2008-0381 Deferred PILs Combined Proceeding that would be applied had Gravenhurst Hydro's rates been in effect from March 1, 2002.

To ensure a balanced and consistent calculation of Account 1562, Veridian has also calculated the PILs recoveries in 2002 that would have occurred had Gravenhurst Hydro's rates been in effect from March 1, 2002. The 2002 recoveries were calculated using ten twelfths (10/12) of the annual 2002 billing determinants, representing March to December billing determinants.

Veridian proposes that the methodology it has employed for recording the Gravenhurst PILs proxy entitlement for 2001 and 2002 and for calculating the recoveries is consistent with the intent of guidance as prescribed by the APH and with the filings in EB-2008-0381 as it provides the calculation for Account 1562 that would have resulted had Gravenhurst Hydro's rates been in effect March 1, 2002, rather than June 1, 2002.

Veridian proposes that it would not be appropriate to follow Board staff's methodology which pro-rates the Board Approved PILs proxy but does not adjust the billing determinants for 2002 recoveries of such proxy. Veridian proposes that if Board staffs proposed adjustment to the PILs entitlement were to be accepted by the Board, an adjustment to the 2002 billing determinants would also be required so that seven twelfths (7/12) of the annual billing determinants (to represent recoveries in rates from June 1 to December 31, 2002) would be used. Based on this methodology, Gravenhurst Hydro PILs recoveries would be reduced to \$252,633 from \$361,430 as previously calculated using ten twelfths (10/12) of the annual determinants.

Veridian has applied these corresponding adjustments to both the PILs proxy entitlement and the billing determinants for PILs recoveries in the Gravenhurst Hydro PILs continuity schedule. The changes have been included in the Account 1562 Balances provided above as the final balances for approval.

Gravenhurst Hydro Income Tax Rates Used in SIMPIL Models Sheet TAXCALC

In its Submission, Board staff recaps Veridian's reply to Board staff interrogatory #2a where Veridian was asked to provide the calculations of the effective income tax rates for 2001 to 2005 for Gravenhurst Hydro.

Board staff goes on to introduce a new "regulatory approach" as an alternative for Veridian to consider and requests that Veridian file with its Reply Submission, updated calculations of income tax rates, updated SIMPIL models for 2001 to 2005 and a PILs continuity schedule under this approach for the Board to consider.

The proposed regulatory approach uses rate base as the proxy for taxable capital, regulatory taxable income from applications for the 2001 fourth quarter, 2002 and 2005 and the tax return forms for 2001 through 2005 to calculate the blended income tax rates. For 2003 and 2004, the 2002 regulatory taxable income would be used. Board staff states "rate base should be used as the proxy for taxable capital along with regulatory taxable income to be internally consistent. Board staff submits that a consistent approach would be more appropriate for the income tax rate calculations."

Veridian has complied with Board staff's request for calculations and provides the updated calculations of effective income tax for Gravenhurst Hydro as Attachment A.

The table below summarizes the effective income tax rates as filed and as revised in these calculations:

| | Effective Tax Rate as Filed | Revised Effective Tax Rate |
|------|--------------------------------|----------------------------------|
| 2001 | 34.12% | 30.80% |
| 2002 | 34.12% | 33.10% |
| 2003 | 31.87% | 30.90% |
| 2004 | 31.87% | 28.51% |
| 2005 | 36.12% | 27.72% |

Veridian has also completed and filed updated Gravenhurst SIMPIL models for 2001 to 2005, as well as an updated Gravenhurst PILs continuity schedule.

The impacts of the revised effective income tax rates, the updated SIMPIL models and updated PILs continuity schedules have been included in the Account 1562 Balances provided above as the final balances for approval.

Scugog Income Tax Rates Used in SIMPIL Models Sheet TAXCALC

Veridian used the minimum income tax rates for the purpose of the true-up calculations in the Scugog SIMPIL models. Board staff in its Submission, submits that these income tax rates are appropriate.

Veridian Main Income Tax Rates Used in SIMPIL Models Sheet TAXCALC

Veridian used the maximum income tax rates for the purpose of the true-up calculations in the Veridian SIMPIL models. Board staff in its Submission, submits that these income tax rates are appropriate.

Veridian 2004 LCT True-up Variance

In response to Board staff interrogatory #9, Veridian reviewed a formula related to the change in the LCT threshold increase in the 2004 SIMPIL model and determined it to be in error. Veridian corrected this formula and recalculated the variance amount. Board staff has submitted that the correction by Veridian accurately calculates the LCT true-up variance.

Veridian 2005 LCT True-up Variance

Board staff, in its Submission has requested that Veridian confirm if the repeal of the LCT was included in the Veridian PILs continuity schedule of Account 1562 for the period of January 1, 2006 to April 30th, 2006. Board staff submits that there should be a credit variance in the amount of \$31,441 or 4/12 of \$125,764.

In its review of Board staff Submission, Veridian has discovered that in error this variance had not included in the Veridian PILs continuity schedule of Account 1562. Veridian has updated the Veridian PILs continuity schedule to include this credit variance amount. The updated Veridian PILs continuity schedule has been filed with this Reply Submission. This adjustment is reflected in the final amounts proposed for approval.

Rate Rider Refund Period

Board staff has requested Veridian to recommend the number of months over which it would prefer to refund the balance to be approved by the Board. Veridian proposes a rate rider effective January 1st, 2013 for a period of four months to April 30th, 2013. The tables below provide updated rate rider calculations based on the proposed effective date and period.

Account 1562 & Proposed Rate Riders - Veridian Main

| Customer Class | %of Distribution Revenue | Allocation to Classes | Board Approved kWh | Board Approved kW | Rate Rider for Disposition | Units |
|--------------------|--------------------------|------------------------|--------------------|-------------------|----------------------------|--------|
| Residential | 62.6% | \$ (115,383.23) | 927,385,803 | | \$ (0.0001) | \$/kWh |
| GS Less than 50 kW | 14.4% | \$ (26,504.38) | 294,966,007 | | \$ (0.0001) | \$/kWh |
| GS 50 to 2,999 kW | 19.2% | \$ (35,346.06) | | 2,408,247 | \$ (0.0147) | \$/kW |
| GS 3,000 to 4,999 | 0.5% | \$ (837.79) | | 86,111 | \$ (0.0097) | \$/kW |
| Large Use | 1.9% | \$ (3,461.64) | | 311,685 | \$ (0.0111) | \$/kW |
| USL | 0.4% | \$ (754.93) | 5,413,534 | | \$ (0.0001) | \$/kWh |
| Sentinel Lighting | 0.1% | \$ (193.34) | | 2,353 | \$ (0.0822) | \$/kW |
| Street Lighting | 0.9% | \$ (1,730.82) | | 54,601 | \$ (0.0317) | \$/kW |
| | 100.0% | \$ (184,212.19) | | | | |

Account 1562 & Proposed Rate Riders - Veridian Gravenhurst

| Customer Class | %of Distribution Revenue | Allocation to Classes | Board Approved kWh | Board Approved kW | Rate Rider for Disposition | Units |
|---------------------------------|--------------------------|------------------------|--------------------|-------------------|----------------------------|--------|
| Residential Urban Year Round | 32.0% | \$ (56,569.65) | 27,397,075 | | \$ (0.0021) | \$/kWh |
| Residential Suburban Year Round | 11.7% | \$ (20,682.27) | 9,458,013 | | \$ (0.0022) | \$/kWh |
| Residential Suburban Seasonal | 29.8% | \$ (52,700.84) | 9,730,721 | | \$ (0.0054) | \$/kWh |
| GS Less than 50 kW | 13.7% | \$ (24,173.49) | 14,769,007 | | \$ (0.0016) | \$/kWh |
| GS 50 to 4,999 kW | 12.6% | \$ (22,202.47) | | 68,687 | \$ (0.3232) | \$/kW |
| Sentinel Lighting | 0.1% | \$ (88.39) | | 1,664 | \$ (0.0531) | \$/kW |
| Street Lighting | 0.2% | \$ (356.54) | | 127 | \$ (2.8074) | \$/kW |
| | 100.0% | \$ (176,773.67) | | | | |

ATTACHMENT A

Calculations - Gravenhurst Effective Income Tax Rates
Attachment A

| | | | | | |
|------------------|------|------|------|------|------|
| tax year | 2001 | 2002 | 2003 | 2004 | 2005 |
| days in the year | 92 | 365 | 365 | 365 | 365 |

| | | | | | |
|---------------------------|---------|---------|---------|---------|---------|
| regulatory taxable income | 118,173 | 612,117 | 612,117 | 612,117 | 575,401 |
|---------------------------|---------|---------|---------|---------|---------|

Federal

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| base rate | 38% | 38% | 38% | 38% | 38% |
| base taxes | 44,906 | 232,604 | 232,604 | 232,604 | 218,652 |
| federal tax abatement (10%) | -11,817 | -61,212 | -61,212 | -61,212 | -57,540 |

| | | | | | |
|------------------------------------|---------|---------|---------|---------|---------|
| small bus. Limit | 200,000 | 200,000 | 225,000 | 250,000 | 250,000 |
| prorated limit for short year | 50,411 | 200,000 | 225,000 | 250,000 | 250,000 |
| SBD reduction due to large capital | | 0 | 0 | 0 | 0 |
| adjusted small bus limit | 50,411 | 200,000 | 225,000 | 250,000 | 250,000 |
| Small bus ded rate | 16% | 16% | 16% | 16% | 16% |
| small business deduction | -8,066 | -32,000 | -36,000 | -40,000 | -40,000 |

| | | | | | |
|----------------------------|---------|---------|---------|---------|---------|
| accelerated limit | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| prorated accelerated limit | 75,616 | 300,000 | 300,000 | 300,000 | 300,000 |
| excess over SBD | 25,205 | 100,000 | 75,000 | 50,000 | 50,000 |
| accelerated reduction rate | 7% | 7% | 7% | 7% | 7% |
| accelerated reduction | -1,764 | -7,000 | -5,250 | -3,500 | -3,500 |

| | | | | | |
|------------------------|-------|--------|---------|---------|---------|
| general reduction rate | 1.00% | 3.00% | 5.00% | 7.00% | 7.00% |
| general tax reduction | -426 | -9,364 | -15,606 | -21,848 | -19,278 |

| | | | | | |
|-------------|-------|-------|-------|-------|-------|
| surtax rate | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% |
| surtax | 1,324 | 6,856 | 6,856 | 6,856 | 6,444 |

| | | | | | |
|--------------------------|---------------|----------------|----------------|----------------|----------------|
| total federal tax | 24,156 | 129,885 | 121,393 | 112,900 | 104,779 |
|--------------------------|---------------|----------------|----------------|----------------|----------------|

PROVINCIAL

| | | | | | |
|-----------------------|--------|--------|--------|--------|--------|
| provincial base rate | 12.50% | 12.50% | 12.50% | 14.00% | 14.00% |
| provincial base taxes | 14,772 | 76,515 | 76,515 | 85,696 | 80,556 |

| | | | | | |
|----------------------|---------|---------|---------|---------|---------|
| provincial SBD limit | 280,000 | 280,000 | 320,000 | 400,000 | 400,000 |
| prorated SBD | 70,575 | 280,000 | 320,000 | 400,000 | 400,000 |
| provincial SBD rate | 6.50% | 6.50% | 7.00% | 8.50% | 8.50% |
| SB deduction | -4,587 | -18,200 | -22,400 | -34,000 | -34,000 |

| | | | | | |
|-------------------------------|--------|---------|---------|---------|---------|
| income in excess of SBD limit | 47,598 | 332,117 | 292,117 | 212,117 | 175,401 |
| surtax rate | 4.33% | 4.33% | 4.67% | 4.67% | 4.67% |
| surtax | 2,061 | 14,381 | 13,633 | 9,900 | 8,186 |

| | | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| total provincial tax | 12,245 | 72,695 | 67,748 | 61,596 | 54,742 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|

| | | | | | |
|-----------------------|--------|---------|---------|---------|---------|
| TOTAL TAXES | 36,401 | 202,580 | 189,140 | 174,496 | 159,521 |
| weighted average rate | 30.80% | 33.10% | 30.90% | 28.51% | 27.72% |

| | | | | | |
|----------------------|------------|------------|------------|------------|------------|
| Regulatory Rate Base | 8,718,402 | 8,718,402 | 8,718,402 | 8,718,402 | 8,718,402 |
| capital deduction | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| | 0 | 0 | 0 | 0 | 0 |
| part I.3 tax rate | 0.225% | 0.225% | 0.225% | 0.225% | 0.225% |
| part I.3 tax | 0 | 0 | 0 | 0 | 0 |