



June 12, 2015

BY RESS/EMAIL/COURIER

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

Dear Ms. Walli,

**RE: Whitby Hydro Electric Corporation
 Deferral Request - 2016 Cost of Service Rate Application (EB- 2015-0113)**

Whitby Hydro Electric Corporation (“Whitby Hydro”) provides the following in response to VECC’s submission on June 5, 2015.

Adjusted Return on Equity (ROE)

Whitby Hydro has indicated in its deferral request that in order for the Board to have sufficient information to properly assess and compare actual reported ROE (RRR 2.1.5.6) to approved ROE from the last cost of service, it is important to consider an adjustment related to a fundamental difference in the calculation of taxes which affects Whitby Hydro’s ROE and the extent of any over-earning. This fundamental difference is related to tax calculations for regulatory rate-making purposes which differ from the actual calculation of taxes which is based on tax requirements set by the Government and enforced by tax agencies and audits. As the area of taxes is very specialized, the issue and impact may not be readily understood however, the difference is not conceptual but very real.

In particular, the annual movements of Deferral and Variance Account (DVA) balances are not included in the calculation of taxes for rate-making purposes but these movements are included for the calculation of actual taxes. A high-level summary of how DVA balances impact the regulatory net income after tax calculation is as follows:

	<u>Rate-making</u>	<u>Actual (RRR)</u>
Net Income before tax	DVAs excluded	DVAs excluded
Taxable Income	DVAs excluded	DVAs included
Taxes Payable	DVAs excluded	DVAs included
Net Income after tax	DVAs have no impact	DVAs impact tax amount

As dictated by the Ministry of Finance, actual taxes are based on the calculation of “Taxable Income”. Taxable Income is calculated by taking the accounting (regulatory) net income and applying adjustments to arrive at a Taxable Income which is used to determine taxes payable. One of the adjustments required to arrive at Taxable Income is the movement in DVA balances. For Whitby Hydro, in 2013 and 2014, the impact of DVA’s on Taxable

Income (and consequently Taxes Payable) is dramatic as evidenced below:

Comparison of Regulated Net Income and ROE (\$000's)		
	2013	2014
Net Income Before Tax	\$ 5,038	\$ 5,266
Adjustments - Taxable Income	\$ (4,567)	\$ (5,121)
Taxable Income	\$ 471	\$ 145
Taxes Payable	\$ 105	\$ 164
Net Income After Tax (RRR 2.1.7)	\$ 4,933	\$ 5,102
ROE (RRR 2.1.5.6)	14.54%	13.89%
Summary Excluding DVA Impact on Taxes Payable		
	2013	2014
Net Income Before Tax	\$ 5,038	\$ 5,266
Adjustments - Taxable Income	\$ (1,155)	\$ (1,631)
Taxable Income	\$ 3,883	\$ 3,635
Taxes Payable	\$ 1,009	\$ 1,089
Net Income After Tax	\$ 4,029	\$ 4,177
Adjusted ROE	11.77%	11.17%
Approved Taxes in Rates *	\$ 1,090	\$ 1,026

* Per final approved 2014 and 2015 Shared Tax Savings Models

It is important to note, that when DVAs are excluded from Taxable Income, the Taxes Payable are aligned very closely to the approved taxes in rates.

Whitby Hydro feels that the tax issue is very important to clarify so that the Board can fully understand the drivers behind the current ROE (as reported under RRR 2.1.5.6) and can differentiate the impact of the tax issue related to DVAs. The treatment of DVAs affects actual taxes which in turn, has a significant impact to RRR reported over-earnings, however; this impact should be removed as it is not aligned with the rate-making construct and is clearly not over-earnings which have been achieved to the harm of the customer.

Reliability

With respect to VECC's concerns regarding reliability, additional information has been added to the reliability measurement table provided below to assist in quantifying reliability measurements once major events have been excluded.

Reliability - excluding Loss of Supply					
	2011	2012	2013	2014	Average*
SAIDI - reported in RRR	1.43	0.96	4.95	1.89	2.31
SAIDI - excluding major events*	1.43	0.96	0.93	0.61	0.98
SAIFI - reported in RRR	1.73	1.29	2.80	2.32	2.04
SAIFI - excluding major events*	1.73	1.29	0.87	1.13	1.26

Whitby Hydro follows a strict schedule of asset maintenance and reviews its asset replacement needs to ensure appropriate investments are made to the distribution system. However, even with diligent effort, no distribution system can be totally protected from the impacts of severe weather and unexpected equipment failure etc. Major events are those that have widespread impact and are caused by and/or aggravated by factors outside of Whitby Hydro's control. The major event in 2013 consists of the severe December ice storm. Whitby Hydro's aggressive tree trimming program and committed operations crews during the Christmas holiday season actually helped to mitigate outage impacts to customers (interruption occurrences and duration) as compared to those experienced by neighbouring electricity distributors. In 2014, there were two major events: 1) a severe lightning storm occurred which caused outages in a large area and restoration time was hindered by the high volume rush hour traffic late Friday afternoon of the August long weekend; and 2) a catastrophic failure of switchgear equipment occurred in May 2014. The switchgear equipment failed prior to scheduled maintenance and was not nearing the end of its expected useful life.

Whitby Hydro identified several important considerations for its request to defer its cost of service application and has further provided additional information to help assure the Board and intervenors that there are no concerns with ROE on an adjusted and comparable basis. Reliability is very important and Whitby Hydro has demonstrated that its reliability has been quite strong and consideration should be given to the limited major events which can occur despite prudent management of assets.

Whitby Hydro is available for further discussion should the Board or board staff require additional information.

If there are any questions, please feel free to contact myself or Ramona Abi-Rashed.

Regards,

Original Signed By

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cc: Ms. Birgit Armstrong (E-mail)