Grimsby Power Incorporated

Review of Rate Setting Implications of Tax Losses Carry Forward

KPMG LLP

June 29, 2016

This report contains 19 pages

Review of Rate Setting Implications of Tax Losses Carry Forward

Doug Curtiss

Chief Executive Officer

Grimsby Power Inc.

231 Roberts Road

Dear Mr. Curtiss:

The purpose of the attached report is to respond to your request to KPMG LLP to provide our view on the treatment for rate-setting purposes of non-capital tax loss carry-forward balances held by Grimsby Power Incorporated ("GPI").

Introduction

KPMG LLP is a professional services firm that provides a wide range of audit, tax and advisory services to a broad range of clients, including many of the largest gas and electric utilities in Ontario and across Canada. We are the auditors of Hydro One and of 33 of the LDCs in Ontario. I have extensive experience advising rate regulated gas and electric utilities in Canada since 2007. I also served as key adviser to the Ontario Energy Board ("OEB") on their IFRS consultations. Furthermore, I have recently prepared an expert report addressing the rate-regulatory treatment of Pension and Other Post-Employment Benefit costs for the electricity and gas utilities in Ontario. The report is currently being used by the OEB as part of a formal industry consultation on this issue. My biography is provided in the Appendix A to this letter.

Assignment

GPI has retained KPMG LLP to provide our view on the treatment of GPI's non-capital tax losses carry forward for rate setting purposes, specifically whether GPI's shareholder or its customers should receive the future benefit of these tax losses for setting the 2016 distribution rates.

On October 1, 2015, GPI amalgamated with Niagara West Transformation Corporation ("NWTC"), a wholly-owned subsidiary of GPI's parent company Niagara Power Inc. All assets and liabilities, including tax losses carry forward, of NWTC were transferred to GPI on amalgamation.

On the basis of my work, I believe that none of the non-capital tax losses carry forward at December 31, 2015 should be applied to reduce the taxable income calculated in the 2016 regulatory tax calculations. Accordingly, they should not be used to reduce rates paid by customers. This conclusion reflects the fact that losses arose as a result of costs paid by shareholders and not by customers. This conclusion is more fully outlined in my report.

This report does not constitute an audit, examination, attestation, special report or agreed-upon procedures engagement as those services are defined in the CPA Canada Handbook applicable to such engagements conducted by independent auditors.

I understand this report may be provided to the OEB and that I may be called upon to testify at a hearing. This Report may not be relied on or edited by any other person without the express written permission by KPMG. KPMG will not assume responsibility or liability for damages or losses suffered by anyone as a result of circulation, publication, reproduction, or use of this Accounting Guidance contrary to the provisions of this disclaimer.

This report has been prepared by me to the best of my knowledge, acting independently and objectively.

KPMG’s compensation is not contingent on any action or event resulting from the use of this Report.

Yours very truly,

Michel Picard
Accounting Advisory Partner – Power and Utilities Practice

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Table of Contents

1 Introduction

The purpose of this report is to assess the appropriate treatment for rate setting purposes of non-capital tax loss carry-forwards held by Grimsby Power Incorporated ("GPI"). More specifically, the report examines whether the benefits of these tax attributes should flow to shareholders or customers. In the remainder of the report, we will often use the abbreviated phrase "tax loss balances" to refer to the non-capital tax loss carry forward balances that are or were outstanding at GPI and NWTC.

This report does not constitute an audit, examination, attestation, special report or agreed-upon procedures engagement as those services are defined in the CPA Canada Handbook applicable to such engagements conducted by independent auditors. I understand this report may be provided to the OEB and that I may be called upon to testify at a hearing.

1.1 Background

GPI is located in Southern Ontario and incorporated pursuant to the Ontario Business Corporations Act with its office in the Town of Grimsby. GPI owns and operates electricity distribution infrastructure serving over 11,000 residential and commercial customers within the Town of Grimsby municipal boundaries. The business of GPI is regulated by the Ontario Energy Board ("OEB" or "the Board") under the Ontario Energy Board Act, 1998 (Ontario).

On March 26, 2015 GPI and NWTC received approval from the OEB to amalgamate. On October 1, 2015 GPI amalgamated with NWTC. The newly amalgamated company, carrying on business as Grimsby Power Incorporated ("GPI"), continues to distribute electricity through its distribution infrastructure. It also owns and operates a 230kV to 27kV transmission station formerly owned and operated by NWTC. The transmission station known as Niagara West MTS supplies GPI and Niagara Peninsula Energy Inc. ("NEPI") a neighboring Local Distribution Company.

GPI's current rate order sets out the monthly distribution rate to be charged to NPEI. GPI currently has an application before the OEB for the setting of distribution rates, including rates for an Embedded Distributor Class to be effective May 1, 2016. In connection with this rate application, there are two specific tax issues under dispute:

- Issue No. 1: Should GPI use forecast or actual tax loss carry forwards as at December 31, 2015 in estimating its tax liabilities in the future for rate setting purposes?
- Issue No. 2: Should tax loss balances held by NWTC prior to its amalgamation with GPI be included in the tax loss balances used by GPI for estimating its tax liabilities in the future for rate setting purposes?

These specific issues are addressed more fully later in this report.

1.2 Scope

In preparing this report, KPMG has held meetings with GPI management and read and discussed the following documents and information.

- GPI and NWTC's financial statements for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 and for the periods ended September 30, 2015 and December 31, 2015
- 2006 Electricity Distribution Rates Handbook, Chapter 7 - Taxes / PILs, Section 7.2.3 - Loss carry-forwards
- RP-2004-0139, EB-2004-0219 "Application by NWTC for renewal of its electricity transmission licence" Decision and Order – March 28, 2005
- EB-2007-0780 "Application by NWTC for renewal of its electricity transmission licence" Decision and Order – February 19, 2008
- EB2010-0294 "Application by NWTC for renewal of its electricity transmitter licence" Decision and Order – December 24, 2010
- EB-2010-0345 "Application by NWTC to the OEB for an Order or Orders for 2011 electricity rates for transmission transformation connection service" – November 9, 2010
- EB-2010-0345 "Application by NWTC to the OEB for an Order or Orders for Approval of 2011 Revenue Requirement and Change to the Uniform Electricity Transmission Transformation Connection Rate" Decision and Order – August 25, 2011
- EB-2015-0072 "Application by GPI for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2016" – December 23, 2015
- EB-2013-0321 "Ontario Power Generation Inc. ("OPG") Payment amounts for Prescribed Generation Facilities commencing for 2014 and 2015" Decision with Reason – November 20, 2014
- EB-2007-0744 "Application by Great Lakes Power Limited for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective September 1, 2007" Decision and Order – October 30, 2008

After reviewing these materials, KPMG made some observations and conclusions that are more fully outlined below.

1.3 Evaluation of Issue No. 1

In this section, we provide an evaluation of the Issue No. 1.

GPI's initial application for rates effective May 1, 2016 was filed on December 23, 2015.[1] This application included forecast values for the 2015 bridge year because actual numbers for 2015 were not yet available.

At the request of intervenors, the application was amended after April 2016 to incorporate actual numbers for 2015 for many items, as a result of interrogatories submitted. The following is a list of items that were updated:

- 1-Energy Probe-1 – Update 2015 rate of return
- 1-SEC-4 – Update 2015 Capital Expenditures & OM&A & 2-Energy Probe -10 – Update 2015 Capital Expenditures
- 2-Energy Probe-6 – Update 2015 Fixed Assets Continuity Schedule
- 3-Staff-31 – Update 2015 Actual Load Summary
- 3-Energy Probe-14 – Update 2015 Customer/Connections by Rate Class, Annual Usage,
- 3-Energy Probe-17 – Update 2015 billed annual kW , Ratio kW to kWh
- 3-Energy Probe-19 – Update 2015 Other Distribution Revenue
- 3-VECC-18 – Update 2015 Purchased Energy
- 3-VECC-19 – Update 2015 Average customer/Connections
- 4-Staff-33 & 4 – Energy Probe-21 - Update 2015 OM&A
- 4-Energy Probe-22 – Update 2015 Employee Costs
- 4-Energy Probe-30 – Update 2016 Cost of Service Application Costs
- 4-Energy Probe-33 – Update 2015 PILs information in the regulated model
- 4-Energy Probe-34 – Update 2015 Tax Calculation based on 2015 Corporate Tax Return
- 4-VECC-28c – Update 2015 Intercompany Transactions
- 4-VECC-30 – Update 2015 Actual Bad Debts
- 4-VEC-37 – Update 2015 EDA, Mearie Fee
- 6-Energy Probe-40 – Update 2015 Revenue Deficiency

As a result of the updates noted above, the revenue requirement for the test year was reduced from $6,273,356 in the initial application to $6,272,238, a reduction of $118.

The bridge year of 2015 has been updated to reflect actual (including the above updates) versus forecasted values, which resulted in an increase in the projected income before taxes in that year. As a result, the remaining 2014 tax loss of $234,927 were fully used up in the year (see Appendix C). There were thus no longer any tax losses available at the end of 2015 for future use.

[1] EB-2015-0072, Application, p. 23.

1.3.1 Conclusion

In my professional opinion, it would be unreasonable to update the GPI application to reflect actual revenue and expense figures for 2015, but not to similarly update estimates of income before tax, Payments in Lieu of Tax ("PILs") and of tax loss balances to reflect the impact of the changes made to revenues and expenses at intervenors' requests. To do so would reflect only a partial consideration of relevant parameters.

1.4 Evaluation of Issue No. 2

As noted earlier, the second issue under consideration is whether tax loss balances held by NWTC prior to the amalgamation should be included in the tax loss balances used by GPI for estimating its future tax liabilities for rate setting purposes.

In evaluating this issue, it is useful to understand how tax loss balances arose. We review the history of NWTC and its rate structure in the section below.

1.4.1 History of Rate Applications

In response to NWTC's first application for rates in 2005, the Board provided NWTC with an interim rate of $1.50/kW pending a final determination of NWTC's underlying costs. The interim rate was equal to the Uniform Transmission Rate ("UTR") rate charged by other transmission utilities in the province at the time. The Board Decision noted:

> "The rate is authorized on an interim basis, pending the Board's final determination of the true cost of service." [2]

The interim rate initially remained in place for a three-year period until it was renewed at the same figure in a Decision and Order on February 19, 2008. With respect to NWTC's status, the Board noted:

> "In 2004, NWTC was issued a short term transmitter license due to unresolved issues with respect to rates and the status of the entity. These issues remain unresolved. These issues are expected to be addressed following the Board's proceeding for the 2009 electricity transmission rates. Accordingly, I find it to be in the public interest to renew the short term electricity transmitter license for another three-year term to NWTC" [3]

We note that in both 2005 and 2008, the rate approved was not based on NWTC's actual or forecast cost of service position. Rather, rates were set based on rates in place for other utilities, such rates being placeholders pending filing and acceptance by the Board of actual or forecast NWTC cost data.

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[2] RP-2004-0139, EB-2004-0219, March 28, 2005, page 3
[3] EB-2007-0780, February 19, 2008, page 2

NWTC finally filed an application with details of its forecast cost of service on November 2010. Given its forecast load and expenses, the rate of $1.77 ultimately provided for in this proceeding did not provide for a full return on equity.[4] The Board noted:

> "In the course of the proceeding the Application was modified, and was summarized in the NWTC Argument-in-chief as a request for approval of a Revenue Requirement of $767,092 and a 432,175 kW (unchanged forecast) and a transformation connection rate of $1.77 per kW.
>
> The application of the requested tariff ($1.77 per kW) to the forecasted load of 432,175 kW produces revenue of $648,262 per year, <u>and therefore results in a revenue deficiency of $118,830, which is intended to be furnished by the shareholder through the diminishment of its return on equity</u>."[5]

For 2011, the Board Decision projected income before taxes (on an accounting basis) of $173,291. In the figures accompanying the Decision and in NWTC's application, however, <u>no</u> PILs were forecast to be paid. This reflected the fact that NWTC had, at that time, tax loss balances that could be used to reduce taxable income to nil.

As it turned out, NWTC incurred a net accounting loss in 2011 of $361,378 (see Appendix B). The loss from operations, before the unrealized loss on the change in the fair value of the interest swap agreement, was $12,706. The operating loss reflected a confluence of negative factors:

- A reduction in load from 435,343 kW (Board forecast) to 418,635 kW.
- Increases in OM&A expenses from $210,900 to $262,288.
- Increases in interest expense from $202,107 (deemed interest) to $312,126 (actual interest).

As a consequence of the loss in 2011, NWTC saw a further increase in the balance outstanding in its non-capital tax loss carry forward pool. This reflects the taxable loss (for tax purposes) of $46,358 that was incurred in that year.

To summarize:

- In 2011, NWTC applied for a rate that would result in a lower than full rate of return on equity. Hence, the shareholder forecast that it would subsidize customers by accepting a lower rate than those to which it was otherwise entitled.
- The 2011 rate application did not include an allowance for PILs, reflecting the expectation that income before taxes could be offset by available amounts in the non-capital tax loss carry forward pool.

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[4] EB-2010-0345, page 7 - The equivalent rate for transformation service based on the full revenue requirement and load forecast would be $1.94 per kW

[5] EB-2010-0345, Decision and Order, August 25, 2011, page 2

- As it turns out, NWTC did not achieve the lower rate of return that it requested. In fact, it showed an operating loss based on outcomes that were less favourable than forecast. The operating loss resulted in an increase in amounts outstanding in the tax loss pool, rather than a decrease in such amounts.

The Exhibit below shows tax losses associated with NWTC as at the end of 2015 (see also

The tax losses originated from the following tax years	Year	Loss
	Sep-15	53,239
	2014	26,690
	2013	-
	2012	344
	2011	46,358
	2010	118,425
	2009	-
	2008	128,090
	2007	-
	2006	18,675
	2005	-
Balance at December 31, 2015		391,821

Appendix C for the movements in tax losses carry forward in 2015). This schedule shows that tax losses were incurred over many years, including the period between 2005 and 2010 in which rates were set on an interim basis and did not reflect any assessment of NWTC's actual costs of service and associated revenue requirement.

1.4.2 Evidence on the Cause of NWTC's Tax Loses

The Exhibit below provides a summary of the annual profit and loss position of NWTC in the period from incorporation to September 30, 2015. The figures on the Left-Hand-Side (LHS) of the table are figures as reported in the company's audited financial statements, prepared under Canadian GAAP and, beginning in 2014, under IFRS. The figures in the next section of the Exhibit (covering the centre-right of the table) are the values reported in NWTC's tax filings. The figures in the column at the extreme Right-Hand-Side (RHS) show actual interest expense.

Focusing for a moment on the actual interest amount shown for 2011 (of $312,126), we note that the deemed interest expense allowed by the Board as per its Decision on NWTC's rate filing for that year was only $202,107 (see Appendix B). Actual interest expense was thus $110,019 higher than interest allowed for in rates. As noted earlier, the higher actual interest expense was one of the factors contributing to NWTC having lower returns than expected (and in fact it had a loss).

Based on the 2011 deemed interest amounting to $202,107 which is applicable until the next rebasing, we can make the following observations:

- The tax loss incurred in 2011 ($46,358) can be entirely attributed to the difference between actual and deemed interest. This reflects the fact that the loss incurred is less than half of the difference in interest expenses (and it would have thus gone away if there were no difference between actual and deemed interest).
- The actual interest expenses were higher than the 2011 deemed interest of $202,107 in 2012, 2013, 2014 and 2015 by $96,291, $59,997, $63,997 and $34,152 respectively. Thus, the tax loss incurred in 2012 ($344), 2014 ($26,690) and 2015 (53,239) can be almost entirely attributed to the differences between actual and 2011 deemed interest.
- Of the total balance of tax losses outstanding as at September 2015, $265,190 (the sum of $18,675, $128,090 and $118,425 for 2006, 2008, and 2010 respectively) were attributable to years prior to 2011). This is just over two-thirds of the total balance of $391,821. For the period before 2011, the rates in effect were not based on NWTC's forecast cost of service and therefore did not include any allowances for PILs specific to NWTC's circumstances. Other evidence suggests that, on an accounting basis, NWTC either lost money or did not earn a full return. For example, accounting losses were incurred in each of the years 2003 through 2006.

NWTC financial information								
Financial year	Net profit (loss)	Unrecognized gain (loss) on the interest SWAP	Net profit (loss) excluding the interest SWAP	NWTC tax losses incurred	Used	Expired	Remaining Sep-15	Actual interest expense ***
	*	*	*	**	**	**	**	*
2003	(62,641)	-	(62,641)	-	-	-	-	-
2004	(131,960)	-	(131,960)	-	-	-	-	354,821
2005	(763,710)	-	(763,710)	(219,890)	12,965	206,925	-	430,753
2006	(102,322)	-	(102,322)	(157,321)	138,646	-	(18,675)	390,329
2007	184,881	87,862	97,019	-	-	-	-	360,117
2008	97,397	(6,999)	104,396	(128,090)	-	-	(128,090)	332,813
2009	153,773	216,929	(63,156)	-	-	-	-	334,045
2010	(191,921)	(24,321)	(167,600)	(118,425)	-	-	(118,425)	305,354
2011	(361,378)	(348,672)	(12,706)	(46,358)	-	-	(46,358)	312,126
2012	160,619	146,359	14,260	(344)	-	-	(344)	298,398
2013	365,210	326,986	38,224	-	-	-	-	262,104
2014	(107,915)	(79,503)	(28,412)	(26,690)	-	-	(26,690)	266,104
Sep-15	(91,755)	(38,140)	(53,615)	(53,239)	-	-	(53,239)	185,732
	(851,722)	280,501	(1,132,223)	(750,357)	151,611	206,925	(391,821)	3,832,696

Reconciliation to the NWTC's audited financial statements			
	*	*	**Adjustments to deficit:**
2007	(521,767)	(521,767)	- Adoption of new standard for Financial Instruments
2010	(300,433)	(577,519)	- Restatement of unrealized loss on the interest SWAP
2013	9,453	-	- Small restatement
	(1,664,469)		**Net deficit at September 30, 2015**
		(818,785)	**Unrealized loss on FV of interest SWAP at September 30, 2015**

Source of the information

* Audited financial statements of NWTC

** Tax returns filed

*** Excludes unrealized gain (loss) on change in fair value of the interest swap agreement

1.4.3 OEB Decision Respecting Great Lakes Power

In considering the rate treatment of GPI’s losses, it is useful to consider prior Board Decisions, and their supporting rationale, under circumstances that have similarities.

In particular, we believe that the Board’s decision in respect of a 2007 application by Great Lakes Power Limited (“GLPL”) is relevant to this circumstance. In proceeding EB-2007-0744, the Board considered an application by GLPL for distribution rates to be applied beginning September 1, 2007. One of the issues under consideration was the treatment of tax losses carry-forward available to the utility at the end of 2006. Specifically, the question was whether the benefit of these tax losses carry-forward in reducing future income taxes payable should be recognized in the calculation of rates for customers. The Board decided that tax loss balances should <u>not</u> be taken into account, given the fact that recovery from customers of the operating losses that led to these tax loss balances was not allowed.

Discussions on the issued were linked to the Board’s treatment of amounts accumulated in deferral account 1574. Deferral account 1574 is set up under guidelines within the Board’s Accounting Procedures Handbook (“APH”) to accumulate “amounts equal to rate impacts associated with market-based rate of return or other costs that the Board has authorized or directed to be recorded and deferred to future periods”.

As at the time of the 2007 application, GLPL had used this account to accumulate amounts related to the return on equity and associated tax recoveries that the company maintained it had forgone in the period leading up to August 31, 2007 as a result of a voluntary rate mitigation plan (which had kept customer rates lower). Amounts relating to this forgone return were accumulated in a sub-account entitled “rate mitigation”.

In parallel with the use of account 1574 to accumulate these amounts, the company had recognized the accruals as a component of income for the purpose of calculating its tax liabilities for rate setting purposes.

For reasons that are not pertinent to the case and which we will not go into here, the Board rejected recovery of the amounts accumulated in the 1574 sub-account. Once the Board rejected recovery, an issue then arose related to the ownership of tax losses. More specifically, if amounts that had been accrued for in respect of account 1574 were excluded from the calculation of taxable income in prior years, GLPL would have accumulated amounts in respect of tax losses carry forward. Board staff argued that these tax losses carry forward should be taken into account in setting future rates, even though the Board had rejected recovery of the amounts in account 1574.

In making its determination, the Board considered but rejected the argument that specific wording in the 2006 Distribution Rate Handbook (“2006 DRH”) should guide its decision in this particular case relating to GLPL. The Board noted that, based on the decision accompanying the 2006 DRH, the rate treatment proposed in the 2006 DRH reflected certain specific circumstances.

Specifically, the 2006 DRH proposed a particular treatment (that losses benefit customers) because the origin of losses giving rise to tax loss balances was generally not then known for the utilities in question. Because the origin of losses in the case of GLPL was, in contrast, known and because these losses arose as a result of expenses ultimately borne by GLPL's shareholder, the Board in proceeding EB-2007-0744 determined that tax loss balances should benefit this shareholder.

The circumstances associated with the current proceeding in respect of GPI are similar. Tax loss balances now within GPI arose because of losses borne by NWTC's shareholder. Accordingly, the benefits of such tax loss balances should accrue to the shareholder.

An excerpt from the Board decision is as follows:

"The 2006 DRH Handbook sets out for electricity distributors how the Board generally intended to address applications for 2006 distribution rates. Among other issues, it dealt with how loss carry-forwards would be treated in setting the 2006 revenue requirements of distributors. The DRH sets out the consensus view of the working group as to how loss carry-forwards should be treated:

> *"A distributor expecting to have any loss carry-forwards still available on December 31, 2005 must disclose the amount of those loss carry-forwards in the 2006 application, apply them in full to reduce the taxable income calculated in the 2006 regulatory tax calculation".*[6]

"The Report of the Board that accompanied the 2006 DRH discussed the Board's rationale for approving this treatment of loss carry forwards:

> *"The Draft Handbook requires the distributor to take into account the potential reduction in actual taxes payable where a loss carry-forward is applicable.*
>
> *Hydro One submitted that any loss carry-forward resulting from revenue or expense variations in prior years was irrelevant for the 2006 calculation. It argued that the ratepayer has not contributed to the prior loss and therefore is not entitled to the future tax savings. Hydro Ottawa made similar submissions.*
>
> *"<u>Conclusions</u>*
>
> *"<u>The Board has no evidence before it to determine whether loss carry-forwards are the result of revenue or expense variations or whether the loss carry-forwards arise for reasons that may be related to ratepayers.</u> The Board notes that the consensus approach [take loss carry-forwards into account when setting 2006 rates] will reduce the variance between taxes collected in rates and actual taxes paid. The Board will accept this approach in the Handbook.* [7] *[emphasis added]*

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[6] 2006 Electricity Distribution Handbook, May 11, 2005, p. 61.
[7] RP-2004-0188, Report of the Board, May 11, 2005, p. 57

"Although the Board accepted the position in the 2006 DRH that loss carry-forwards should be taken into account in setting 2006 rates, the Board does not believe that position is applicable in all rates cases before the Board. It is clear from the highlighted sentence in the Report of the Board that the Board attaches some significance to the reasons for losses. It is also clear from that sentence that approval of the 2006 DRH position on loss carry-forwards was taken without the opportunity to hear any evidence on what might have led to the losses." [8]

Discussing specifically the losses at GLPL that were in question in proceeding EB-2007-0744, the Board went on to note:

"The Board finds that pre-2007 losses of the distribution business should not be used to eliminate the tax provision for the 2007 test period. The Board reiterates its view that the benefits of a tax loss should be realized by the party – shareholders or ratepayers – that bore the expenses or losses that gave rise to the tax loss. Since the Board has denied recovery of the amount accrued for rate mitigation in account 1574, the resulting losses should not be attributed to ratepayers but rather to GLPL, which sustained those losses and should retain the related tax benefits."[9]

1.4.4 Conclusion

As the shareholder covered the losses incurred since incorporation of NWTC, including the additional interest in excess of the deemed interest, and as no PILs were included in the transmission rates, based on the "benefits follow costs" principle, I believe that the benefits of the NWTC tax loss carry-forward balances as at December 31, 2015 should be for the benefits of the shareholders and not for the customers, as the costs that gave rise to the tax losses were borne by NWTC.

[8] EB-2007-0744, Decision and Order – October 30, 2008, pages 42, 43

[9] EB-2007-0744, Decision and Order – October 30, 2008, pages 43, 44

Appendix A

KPMG
cutting through complexity™

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Education, Licenses & Certifications

- CPA, CA (Canada)
- B.A.in Economics, Université du Québec à Montréal

Other Activities

- Commercial Member Steering Committee of EDA
- Member of the CEA
- Treasurer of the Canadian Foundation for Infectious Diseases
- Member of the Audit Committee of Macaulay Child Development

Michel Picard is a Partner in the Accounting Advisory practice of KPMG in Toronto and is the Power & Utilities leader in KPMG's Accounting Advisory Services practice.

He has 35 years of experience, including 24 years of experience in the Middle East, Africa and Western & Eastern Europe. He has provided IFRS accounting advisory and audit services for the past 18 years in various industries, including electricity and gas distribution, gas and oil international transportation pipelines, gas storage and heat and steam producers and distributors

Projects and Responsibilities (Recent and Past Experience)

- Led IFRS projects for a number of Power & Utilities organizations in Ontario and is also the technical accounting partner on a number of IFRS conversion projects for Power & Utilities and gas organizations across Canada
- Provide regular updates and annual training on accounting and regulatory matters to the Canadian Electricity Association (CEA), Electricity Distribution Association (EDA) of Ontario, Canada's Energy and Utility Regulators (CAMPUT) and Ontario Energy Board (OEB)

Rate Regulation

- Member of the IASB Consultative Group on Rate Regulation representing the KPMG Global Network of independent member firms
- Developed deep knowledge and experience in accounting for the effect of rate regulation in the power and utilities sector
- Led the OEB's industry-wide project to initially identify and assess the impact of the impending transition to IFRS on the regulation of rates levied under the cost of service regulatory model
- Subsequent to the initial project, KPMG was engaged to prepare a report on the impacts of IFRS on regulated utilities in Ontario. The report identified accounting differences that would arise upon transition to IFRS and the range of alternatives available to utilities and the OEB to address these differences. The report then assessed the implications of the alternatives on ratepayers, utilities, and the rate making process. The report also considered how other regulators around the world had responded to the accounting issues brought about by the adoption of IFRS. The report was tabled as part of the OEB's formal industry consultation and helped inform OEB policy setting on this issue. Clever led all aspects of the accounting analysis and reporting
- Led the project to re-write the OEB's Accounting Procedures Handbook following the adoption of IFRS by Ontario's rate regulated entities
- The OEB sought to identify principles and develop associated guidance for addressing the rate-regulatory treatment of Pension and Other Post-Employment Benefit ("P&OPEB") costs for the electricity and gas utilities in Ontario. KPMG was engaged by the OEB to prepare an expert report on these issues. The report also assessed how other regulators in Canada and around the world had responded to issues relating to P&OPEB. The report is currently being used by the OEB as part of a formal industry consultation on this issue

Appendix B

	Actual	2011 NWTC Application Decision Deemed Interest	Updated Application Deemed Interest	Original Application Deemed Interest	Existing Rates Actual Deemed Interest	Revenue at Existing Rates Forecasted Interest
Revenue requirement						
Transformation connection rate	1.77	1.77	1.77	1.94	1.50	1.50
Forecasted load in KW	418,635	435,343	432,175	432,175	432,175	432,175
	740,984	770,557	764,949	838,672	648,262	648,262
Revenue						
Transformer connection charges	740,984	770,557	764,949	838,672	648,262	648,262
Other revenue	1,615	2,520	2,520	2,520	2,520	2,520
	742,599	773,077	767,469	841,192	650,782	650,782
Expenses						
OM&A	262,288	210,900	210,900	210,900	210,900	210,900
Depreciation	180,891	180,794	180,794	180,794	180,794	180,794
Interest	312,126	202,107	202,107	202,107	202,107	121,000
Total expenses	755,305	593,801	593,801	593,801	593,801	512,694
Loss from operations	(12,706)	179,276	173,668	247,391	56,981	138,088
Loss on change in FV of interest swap agreement	(348,672)	0	0	0	0	0
Net loss before PILs	(361,378)	179,276	173,668	247,391	56,981	138,088
PILs - current	0	0	0	0	0	0
PILs - future	0	0	0	0	0	(55,000)
Net profit (loss)	**(361,378)**	**179,276**	**173,668**	**247,391**	**56,981**	**83,088**

Appendix C

Movements in tax losses carry forward			
	GPI	NWTC	Merged entity
Balance at January 1, 2015	234,927	684,153	919,080
Add: new tax loss carry forwards	-	53,239	53,239
Deduct: tax losses which have expired	-	(206,925)	(206,925)
Deduct: tax losses used to reduce the taxable profit	(234,927)	-	(234,927)
Balance at September 30, 2015	-	530,467	530,467
Balance at October 1, 2015	-	530,467	530,467
Add: new tax loss carry forwards	-	-	-
Deduct: tax losses which have expired	-	-	-
Deduct: tax losses used to reduce the taxable profit	-	(138,646)	(138,646)
Balance at December 31, 2015	-	391,821	391,821

Appendix D

FORM A

Proceeding: EB-2015-0072

ACKNOWLEDGMENT OF EXPERT'S DUTY

1. My name is ....Michel Picard...................*(name)*. I live at ..Toronto......... *(city)*, in the ...province........... *(province/state)* of .....Ontario............. .

2. I have been engaged by or on behalf of Grimsby Power Inc.... *(name of party/parties)* to provide evidence in relation to the above-noted proceeding before the Ontario Energy Board.

3. I acknowledge that it is my duty to provide evidence in relation to this proceeding as follows:
   (a) to provide opinion evidence that is fair, objective and non-partisan;
   (b) to provide opinion evidence that is related only to matters that are within my area of expertise; and
   (c) to provide such additional assistance as the Board may reasonably require, to determine a matter in issue.

4. I acknowledge that the duty referred to above prevails over any obligation which I may owe to any party by whom or on whose behalf I am engaged.

Date .....June 27, 2016.................

Michel Picard
Signature