Niagara-on-the-Lake Hydro Inc.

AESTATEM VIREMUS

January 23, 2009

VIA RESS, E-mail and Mail

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Niagara-on-the-Lake Hydro Inc. 2009 Rate Application
Reply Submission - OEB Case EB-2008-0237

Dear Ms. Walli

Niagara-on-the-Lake Hydro Inc. is pleased to submit the attached reply submission regarding its 2009 Rate Application in compliance with Procedural Order No. 4, including replies to participants as follows:

- Reply to OEB Staff submission
- Reply to SEC submission
- Reply to VECC submission
- Reply to Energy Probe submission

An electronic copy of this reply submission will be submitted through the OEB e-Filing Services, by e-mail to the above participants and two hard copies to you by mail.

We would be pleased to provide any further information or details that you may require.

Yours truly

J Huntingdon

Jim Huntingdon, President

Attachment

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Niagara-on-the-Lake Hydro Inc.

REPLY SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0237

SUBMITTED JANUARY 23, 2009

PREFACE

The Niagara-on-the-Lake Hydro Inc. (NOTL) reply submission is in response to the submissions from:

- *OEB staff*
- *Vulnerable Energy Consumers Coalition (VECC)*
- *Energy Probe Research Foundation (Energy Probe)*
- *School Energy Coalition (SEC).*

To facilitate review of NOTL's replies on issues raised, the replies are consolidated by topic as close as possible to the original Exhibit structure of the application. Replies to the applicable submissions are then made within each topic, with footnote references to the relevant pages of the submissions.

A Table of Contents is provided on the following page:

CONTENTS

1. RATE BASE:

1.1 Gross Assets – Continuity Schedules

VECC [1]and Energy Probe[2] refer to NOTL's response to an Energy Probe interrogatory that there were omissions with respect to meter disposals in 2008 and 2009. VECC and Energy Probe submit that NOTL appears not to have fully reflected the removal of these assets in its response. NOTL appreciates their submission as, upon further review of the continuity schedules intended to reflect these removals, it appears that although the necessary revisions were made to NOTL's working depreciation schedules in preparing the interrogatory responses, these revisions were inadvertently not carried through to update the continuity schedules in the application (Exhibit 2 Tab 2 Schedule 1).

Please note that also in NOTL's present review, a data-entry sign error in the 2008 continuity schedule regarding disposal of account 1820 substation equipment was also found (the amount shown of $28,320 in the disposal column had an unnecessary negative sign with the effect that it was incorrectly treated as if it was an addition).

NOTL submits that final 2008 and 2009 fixed asset continuity schedules (i.e. updates of Tables 3 and 4 from Exhibit 2 Tab 2 Schedule 1) should include corrections for the inadvertent errors referred to above, with corresponding adjustments to the rate base and revenue deficiency calculations.

1.2 Capital Expenditures

The OEB staff submission[3] invited interveners to comment on whether NOTL has adequately justified its proposed increase in the 2009 capital expenditure budget, specifically as it relates to the Chautauqua project and more generally related to any other concerns in this area.

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[1] VECC submission page 4
[2] Energy Probe submission page 5
[3] OEB staff submission page 4

VECC[4] took no issue with the capital projects proposed for 2008 and 2009. However, VECC submitted that ratepayers should see the benefit of this spending reflected in a lower line loss factor than would otherwise be assumed. NOTL would like to reply to the issue of line loss in Section 3.8 below.

Energy Probe did not appear to raise any concern about the gross capital expenditures, but submitted[5] that the levels of contributions and grants in 2008 and 2009 should be doubled from $150,000 to $300,000. Energy Probe indicated what the impact of these adjustments would be. NOTL has investigated the market conditions in Niagara-on-the-Lake and has found new housing starts have slowed dramatically and currently have the potential for only one 20 lot new subdivision start in 2009. The majority of NOTL capital contributions are derived from new subdivision construction as has been the case from 2004 through 2008. NOTL currently has an in-fill capability of 397 lots with the addition of 66 condominium style homes still available in existing subdivisions constructed from 2004 through 2008. New home connections have dropped from a high of 141 in 2005 to 27 in 2008. NOTL is confident that the projections for capital contributions submitted in its application are correct for the economic conditions in the NOTL area.

1.3 Asset Management

NOTL agrees with the statements made in the OEB staff submission[6] regarding its asset management policy. NOTL notes that none of the submissions appear to express any concerns on this topic.

1.4 Service Reliability

NOTL agrees with the OEB staff submission summary[7] of the service reliability matters included in its Application and Interrogatory Responses. This submission invited

[4] VECC submission page 2
[5] Energy Probe submission page 4
[6] OEB staff submission page 5
[7] OEB staff submission pages 5 and 6

interveners to comment[8] on the adequacy of NOTL's reliability performance and on projects to address reliability. However, it does not appear that any comments were provided on these matters by the interveners.

1.5 Working Capital

Price of Power

Both VECC[9] and Energy Probe[10] submitted that that the rate used for cost of power should be updated to reflect the most recent forecast available. As indicated in Exhibit 2 Tab 1 Schedule 2 Page 3 of its application, NOTL assumes that if an update of the projected cost of power is provided by the OEB at a later date, the working capital allowance will be adjusted accordingly. Thus, NOTL readily concurs with VECC and Energy Probe as regards the latest forecast should be used. However, NOTL notes that VECC has referred to two different reference prices in its interrogatories and the submission:

- In their Interrogatory #15, VECC referred to "… the most recent HOEP forecast of $50.16/MWh per the OEB's Regulated Price Plan Report (page 5) dated October 15, 2008". In the response, NOTL updated the working capital calculation accordingly.
- In the present submission[11], VECC refers to the average RPP price of $60.30/MWh (page iii of the same OEB report) as being the most recent forecast of the cost of power.

NOTL's understanding is that the HOEP price is considered more appropriate for this calculation on the basis that this price better reflects the cost as paid to the IESO for power, but will be guided by Board direction as to which reference price should be used.

Methodology

[8] OEB staff submission page 7
[9] VECC submission page 3
[10] Energy Probe submission page 3
[11] VECC submission page 3

Both VECC[12] and Energy Probe[13] provided comments for the Board regarding the approach that should be taken by distributors in general to the working capital calculation (i.e. cost of power; network and connection charges; the 15% methodology). In the context of its current rate application and pending any future direction from the Board on the methodology, NOTL submits that the methodology it has used remains appropriate.

Property Tax

Energy Probe has submitted[14] that the working capital allowance should be adjusted by removal of the property tax expense, on the basis that Appendix A in the 2006 EDR Handbook shows that account 6105 is not included in the calculation. NOTL concurs that the Appendix A (specifically the bottom of A.4 page 23 of the Handbook) would indeed appear to exclude 6105. However, in its 2009 application, NOTL was guided by the actual 2006 EDR model issued by the OEB, used by NOTL at that time and upon which NOTL's 2006 rate approval was based. In this model, account 6105 was included in the working capital calculation as part of "other distribution expenses". Specifically, see "EDR 2006 Model (version 2.1)", sheet "2-4 ADJUSTED ACCOUNTING DATA", cell P555. This cell refers to cell P493, which includes 6105 as indicated by the list of accounts in cell R493. NOTL respectfully requests direction from the Board as to whether the approach of the approved OEB 2006 EDR model that was used in its 2009 rate application can stand, or the property tax should be removed to reflect the text of the Appendix A.4 referred to above.

In the "TAXES" section of its submission, Energy Probe[15] notes that in the NOTL response to interrogatory response #8, the forecast 2009 property taxes increased by $1,200 from $33,450 to $34,650, and states that no rationale or justification has been provided, so that the $1,200 increase should be disallowed. NOTL submits that the $1,200 is justified by the footnote (marked **) on page 11 of NOTL's response to Energy Probe interrogatories, though not spelled out in detail due to the small amount involved.

[12] VECC submission page 3
[13] Energy Probe submission page 3
[14] Energy Probe submission page 3
[15] Energy Probe submission page 13

The $4,000 erroneous double count in expense offset that is referred to in the footnote includes $1,200 for the chargeback to the affiliate ESNI for property taxes. That is, in the original application, the NOTL property tax expense was $34,650 less offset of $1,200 equals $33,450 and account 4390 also included $1,200 administrative expense recovery, hence the double count referred to. In the revised revenue deficiency Table in the interrogatory response, the expense offset of $1,200 is removed so that the property tax is $34,650, and the administrative expense recovery of $1,200 is retained. NOTL therefore submits that the $1,200 was justified and should be allowed.

2. OPERATING REVENUE

2.1 Throughput Revenue

Load Forecast

NOTL agrees with the OEB staff summary[16] of NOTL's load forecasting methodology as described in its application and interrogatory responses, and notes that the submission does not express any concerns.

VECC [17]and Energy Probe[18] have expressed concern with the load forecasting methodology. NOTL provides specific responses below but has the following general comments initially.

In preparing for the 2009 rate application, NOTL reviewed the OEB's decision of the 2008 rate applications. In the area of load forecasting, it appeared to NOTL that although the method used by many distributors was accepted by the Board, there were concerns from Board staff and Interveners that the method used was too simplistic. In particular there were concerns that the methodology utilized only a single year of weather-normalized historical load (i.e. 2004) to determine the future load.

[16] OEB staff submission pages 14 to 16
[17] VECC submission pages 4 to 7
[18] Energy Probe submission pages 14 to 22

NOTL noted in the case of Toronto Hydro, the load forecasting methodology used appeared to have a higher level of acceptance with parties. In the Board's Decision on the Toronto Hydro case it stated:

> *"The Board accepts the forecast advanced by the Applicant, as amended throughout the process. This provides for a very small increase in load in 2008 of 0.03% and a small decrease in 2009 of 0.06% over 2006.*
>
> *Going forward, the Board encourages the Applicant to work with OPA, IESO, and perhaps others to understand differences in methodology employed by each. Of special interest is the development of methodology to account for the specific effects of CDM activities in forecasts. The success of LRAM and SSM applications is dependent on fully developed evidence respecting the effects of CDM activities on throughput. The Applicant can make a very important contribution to the sector by working with stakeholders to bring needed clarity to this aspect of forecasting and utility operations."*

In summary, the Board approved the Toronto Hydro load forecast as proposed but also encouraged Toronto Hydro to work with the OPA, IESO and others to address the effects of CDM activities on the forecast. Based on the outcome of the Toronto Hydro case, NOTL prepared a load forecast for the 2009 rate application using a similar method.

NOTL understands that to a certain degree the process of developing a load forecast for rebased/cost of service rate application is an evolving science for electric distributors in the province. In this regard, NOTL expects to improve the load forecasting methodology in future rebased/cost of service rate applications by taking into consideration comments made by parties to this application as well as other rebased/cost of service rate applications for 2009 and onward. However, for the purposes of this application NOTL submits the load forecasting methodology is reasonable.

On the other hand since the process of preparing a proper weather normalized load forecast is a critical component of a rebased/cost of service rate application, NOTL would suggest that it might be advisable for the Board to provide additional details in the filing requirement on how a weather normalized load forecast should be determined.

With regard to the submissions made by parties to the load forecast, NOTL will respond mainly to the comments made by Energy Probe as our response to their comments should address the comments made by other parties.

The following are the areas for which NOTL does agree with other parties

- The loss factor used to adjust the purchased energy to billed energy should be consistent with the actual loss factor provided in Exhibit 4, Tab 2, Schedule 7, Table 1. This reflects the average loss factor from 2003 to 2007 of 1.0463 which is consistent with time period of the historical billed data used in the load forecast. However, please note that use of the 1.0463 is accepted for purposes of the load forecast calculation only. Per Section 3.8 in this reply, NOTL submits that the OEB approved loss factor for purposes of distribution rates should remain at 1.0501 for the time being.
- In future load forecasting econometric equations, the number of customers or population should most likely be included as a possible explanatory variable, if the data is available. This would in turn adjust the forecast when customer numbers change. However, NOTL did wish to include numbers of customers in its regression analysis for this application but found that the monthly numbers of customers in each class were not available in NOTL's records for a large early part of the period of analysis. The best available population data was included in the analysis but was found not to be adding significant explanation to the model in terms of the t-statistic, as can be seen in the regression model evaluation (model 1); this was not an unexpected result, as the population data points available from the Town of NOTL were only the periodic Canada censuses, i.e. monthly data was not available, which would probably be true for most distributors. NOTL notes that neither population nor the number of customers were selected variables in the model used by Toronto Hydro[19].

[19] EB-2007-0680, Exhibit K1, Tab 1, Schedule 1, page 4 and Appendix B, Model 9.

Energy Probe[20] has suggested that NOTL should have used the 2003-2007 average usage by class for the Forecast Annual kWh Non-Normalized Usage per Customer/Connection in Table 15, Exhibit 3 Tab 2 Schedule 2 page 23 of the Application. NOTL would like to reiterate its argument in that Exhibit that a review of the 5-year data and the resulting geometric means did not suggest a consistent pattern that should be projected to 2008 and 2009. Therefore, for the purposes of determining a non-normalized forecast, the 2007 usage per customer/connection was held constant.

Energy Probe[21] has stated it is unclear as to why regression model 3a was used instead of model 7 or 8, which had, for example, a higher adjusted R^2. NOTL's view was that serial correlation was a serious flaw in a regression model, and that many of the possible models, such as 7 or 8, demonstrated serial correlation, as indicated by Durbin-Watson statistics being below the significance point for the number of observations and variables in the models. Model 3a did not display significant serial correlation in terms of this statistic but was a good model in terms of other tests, e.g. it also had a high adjusted $R^{2.}$ NOTL submits that model 3a remains a reasonable model.

Regarding the Cangro plant closure adjustment in NOTL's application, NOTL submits that this adjustment is appropriate. Energy Probe agrees also that this adjustment is appropriate but proposes a different method to make the adjustment in terms of loss factor and replacement use[22]. NOTL has addressed the loss factor issue on the previous page. Current data shows that the energy consumption of the warehouse replacement use is similar to two average residential homes, so that an adjustment would have an immaterial effect on the load forecast in NOTL's view.

With regard to the adjustment for CDM, NOTL submits that this adjustment proposed in the application should also be made to the forecast years since the recent loss of load from CDM programs would not be addressed in the regression model. The regression model uses historical data from 1996 to 2007 to develop the load forecasting model for 2008 and 2009. As a result, it would not properly reflect the CDM results that have only

[20] Energy Probe submission page 15
[21] Energy Probe submission page 17
[22] Energy Probe submission pages 18 and 19

been noticeable in the last couple of years. As is shown Exhibit 3, Tab 2, Schedule 2, Page 13, Table 6 the “Modelled kWh” Purchased in 2006 and 2007 are consistently higher than the Actual kWh Purchased for the same years which suggest to NOTL that the model is not taking into account CDM results.

NOTL notes that VECC has recognized[23] that the NOTL forecast represents the best information available at this time, and despite its concerns, submits that the OEB should accept the result of the methodology – subject to changes in the loss factor and the Cangro and CDM adjustments discussed in the VECC submission. NOTL has submitted above its position that its Cangro and CDM adjustments remain appropriate, and its concurrence with the proposed loss factor change for purposes of load forecasting.

Finally, with regard to the overall process of load forecasting, it is NOTL’s view that the "Toronto Hydro" approach or the top down approach is appropriate. NOTL knows by month the exact amount of kWhs purchased from the IESO for use by customers of NOTL. With a regression analysis these purchases can be related to other monthly explanatory variables such as heating degree days and cooling degree days which occur in the same month. To use a bottom up approach in which the monthly billed kWh of a class is related to other monthly variables is problematic for two reasons. Firstly and primarily, the monthly billed amount is not the amount consumed in the month but the amount billed. The amount billed is based on billing cycle meter reading schedules whose reading dates vary and typically are not at month-end. The amount billed could include consumption from the month before or even further back. By using a regression analysis to relate rate class billing data to a variable such as heating degree days does not appear to be logical, since the resulting regression model would attempt to relate heating degree days in a month to the amount billed in the month, not the amount consumed. In NOTL's view, variables such as heating degree days impact the amount consumed not the amount billed. Secondly, even if the meter reading dates had been

[23] VECC submission page 7

such that the billed amounts matched the consumed monthly amounts, monthly billing data is not available for a large early part of the regression period.

Customer Forecast

NOTL agrees with the OEB staff summary[24] of NOTL's customer count forecast information as described in its application and notes that the submission does not express any concerns.

Energy Probe[25] also submits that NOTL's customer forecast should be accepted, except for the GS<50kW class forecast, but that more emphasis should be placed on local information, such as from planning departments and local knowledge of subdivision and commercial development. NOTL would like to confirm that it did consider and place the necessary emphasis on the best local information available from such sources in its application. With regard to the GS<50kW customer forecast, NOTL acknowledges that the number of GS<50 kW customers increased by 9 or 0.7% through October 2008. NOTL does not see this as a trend developing in this customer class as the numbers have remained relatively flat over the past few years. NOTL also wishes to point out that its 2008 year end projection for residential customers was 6,509 while the actual number was 73 fewer (-1.1%) at 6,436. Should the Board consider Energy Probe's suggestion to fine tune the GS<50 customer number, the decline in the forecasted number of residential customers should also be considered.

A review of recent data from the IESO has shown that actual NOTL 2008 kWh purchases were less than the model forecast for every month in 2008. Given also the emergence since the load forecast was done of the severe economic downturn that is expected to last through 2009 and beyond, NOTL would strongly object to an increase in projected kWh as suggested by Energy Probe. Further, to add 345,000 kWh on top of the total forecast as suggested would be inconsistent with how the other customer class forecasts are determined in the load forecasting methodology. As stated

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[24] OEB staff submission page 15
[25] Energy Probe submission page 21

elsewhere, NOTL submits that the methodology is reasonable as it stands and such a kWh amendment should not be made.

2.2 Other Distribution Revenue

Miscellaneous revenues

Energy Probe[26] and VECC[27] submit that NOTL has under forecasted certain miscellaneous revenue accounts (accounts 4225, 4235 and 4390).

- Account 4225 - late payment charges:

  Energy Probe is proposing to use the year-to-date October 2008 vs. October 2007 results to determine an increase percentage for the 2008 projection and to flat-line to 2009, whereas NOTL[28] pro-rated the actual charges to mid-year 2008 to a full-year amount and flat-lined to 2009. Energy Probe's 2008 forecast is $3,986 higher than NOTL's at $51,966.

  While both approaches have merit, NOTL believes that the reduction projected from 2007 to 2008 is consistent with NOTL's strengthened collection activity[29]. This is confirmed by the latest data available to NOTL (preliminary December 2008) which shows a reduction in account 4225 from 2007 ($50,452) to 2008 ($47,061). Notwithstanding this reduction to a 2008 amount ($47,061) which is $1,009 below the 2008 forecast in the application ($48,070), NOTL submits that the 2009 forecast of $48,070 remains reasonable.

- Account 4235 – miscellaneous service revenues:

  In a similar way to account 4235, Energy Probe is proposing to use the October YTD 2008 vs. October 2007 YTD increase percentage for the 2008 projection and to flat-line to 2009, whereas NOTL[30] pro-rated the actual charges to mid-year 2008 to a

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[26] Energy Probe submission pages 22 to 23
[27] VECC submission page 7
[28] Response to Energy Probe interrogatory 11 (b)
[29] Exhibit 4 Tab 2 Schedule 2 Page 4
[30] Response to Energy Probe interrogatory 11 (b)

full-year amount and flat-lined to 2009. Energy Probe's 2008 forecast is $4,439 higher than NOTL's at $49,869.

The latest data available to NOTL (preliminary December 2008) shows an amount ($46,749) only $1,319 higher than the 2008 forecast in the application ($45,430).

Thus, the combined preliminary December 2008 total actual for accounts 4225 and 4235 ($47,061 + $46,749 = $93,810) exceeds the total 2008 forecast for these accounts in NOTL's application ($48,070 + $45,430 = $93,500) by only $310. NOTL submits that its original estimates for accounts 4225 and 4235 in total for 2008 and 2009 remain a reasonable forecast of the revenue to be received from these two accounts.

- Account 4390 – miscellaneous non-operating income

  Energy Probe is proposing a similar pro-ration approach for account 4390 as for 4225 and 4235 and has forecasted a 2008 amount $11,530 higher than NOTL's at $26,530.

  The details of NOTL's forecast of $15,000 were provided in the interrogatory response to Energy Probe interrogatory 11 (g). The latest data available to NOTL (preliminary December 2008) does show a sale of scrap amount of $14,158 vs. the forecast amount of $10,000. However, the reason for the increase is due to sale of scrap from decommissioning the St. David's station, as stated in the interrogatory response to Energy Probe interrogatory 11 (i). No decommissioning of stations or major facilities is expected in 2009. Consequently, NOTL reaffirms $15,000 as the forecast for 2009.

Carrying Charge Interest

Energy Probe[31] and VECC[32] both submit that carrying charge interest on regulatory asset, deferral and variance accounts (RADVAs) should not be included in the determination of the miscellaneous revenue offsets. Making reference to the following

[31] Energy Probe submission page 24
[32] VECC submission page 8

Table provided in NOTL's response to Energy Probe interrogatory 12 (a), they submit that the correct offset should be $51,915 + $4719 + $10,653 = $67,286 [numbers from the Table may not appear to add due to rounding in the Table], in order to avoid double-charging customers:

Interest Component		2006		2007		2008		2009
NOTL Hydro Bank Account	$	34,099	$	23,370	$	25,000	$	25,000
RSVA/RCVA DVAs	-$	2,410	-$	6,872	-$	6,769	-$	4,719
Reg. Asset & Other DVAs	$	2,951	-$	30,241	-$	17,669	-$	10,653
Loans to Affiliate[1]	$	43,500	$	46,121	$	40,909	$	42,286
Other[2]	$	287	$	56	$	-	$	-
Total[3]	$	78,426	$	32,436	$	41,472	$	51,915

1 Energy Services Niagara Inc.
2 Interest from CCRA - GST
3 +ve indicates net revenue, -ve indicates net expense

NOTL respectfully submits that the carrying charge interest (which could be revenue or expense, depending on whether the RADVA balance happens to be a debit or credit) should be included and NOTL's calculation does not result in double-counting. Over time (i.e. when the RADVA balance has been disposed of), the total cash collected from customers is equal to the service revenue requirement, as should be the case. The Table below is offered to demonstrate NOTL's position, using simplified scenarios to better illustrate the argument:

	R = Service revenue requirement Q = Interest revenue on RADVAs	Example A R = 100 Q = -5 [expense]	Example B R = 100 Q = 5 [revenue]
Journal entry: Record interest on RADVAs	Acct 15xx Q Acct 4405 (Q)	Acct 15xx (5) Acct 4405 5	Acct 15xx 5 Acct 4405 (5)
Calculate base revenue requirement B	B = R - Q	B = 100 + 5 = 105	B = 100 – 5 = 95
Journal entry: Collect base revenue B in rates	Acct 4080 (R – Q) Cash R - Q	Acct 4080 (105) Cash 105	Acct 4080 (95) Cash 95
Journal entry: Dispose of RADVA balance (interest portion)	Acct 15xx (Q) Cash Q	Acct 15xx 5 Cash (5)	Acct 15xx (5) Cash 5
Total cash from customers	Cash = R – Q + Q = R	Cash = 105 + (5) = 100	Cash = 95 + 5 = 100

In Example A, more cash is taken from customers in the normal billing, but the interest is given back in cash in the RADVA disposal; in Example B, less cash is taken in the normal billing but the interest is taken in cash in the RADVA disposal; no double charging is involved; the cash taken from the customers is ultimately the service revenue requirement in both cases.

3. OPERATING COSTS:

3.1 General

NOTL agrees with the summary of OM&A cost information in the Discussion and Summary sections of the OEB staff submission[33]. NOTL notes that the submissions do not raise issues at a general level, other than the statement by SEC[34] that it supports the submissions of VECC and Energy Probe with respect to NOTL's OM&A costs, in particular the reductions they proposed. Thus, NOTL's responses below to specific issues raised by VECC and Energy Probe should be considered as applying to SEC also.

[33] OEB staff submission pages 17 and 18
[34] SEC submission page 2

3.2 Inflation

In Table 7[35], the OEB staff submission referred to an inflation estimate of $74,321 as one of the external cost drivers in NOTL's response to OEB staff interrogatory 1.2 b), noting that this estimate is based on the Board's IRM GDP-IPI indices. OEB staff further noted[36] that the GDP-IPI indices include an increase for wages, and OEB staff invited parties to comment on whether a material non-labour price index would be more appropriate to use.

NOTL would like to comment by reiterating its interrogatory response that it is difficult to determine the varying impact that inflation has had on individual non-labour OM&A expenses. The readily available GDP-IPI index values were used as a measure of the 5-year impact through to 2009 on the 2004 base year non-labour OM&A of $748,247. However, rather than using lower indices, NOTL feels that the indices of 1.92% and 1.9% may be a conservative measure of the actual inflation experienced over that period. For example, NOTL's fuel costs increased by about 12% between 2006 and 2008. In any case, even if for example the %-rates used for Table 4 were reduced to, say, ¾ of these values (1.44% and 1.43% respectively), the inflation estimate would be reduced by $18,580 to become $55,740. However, to respect the total of all changes that actually occurred from 2006 approved to 2009 proposed, the residual "net all other changes" amount would then correspondingly increase by $18,580 to become negative $3,901, i.e. a non-material change and a non-material residual amount. NOTL therefore submits that Table 7 in the OEB staff submission remains a reasonable statement of the cost drivers and the proposed closing OM&A balance. NOTL notes that the intervener submissions did not comment on this matter.

3.3 2009 Rate Rebasing Costs

OEB staff[37] note that the Board's report on 3rd Generation IRM dated July 14, 2008 has increased the IRM period to a 4-year cycle, and submit that the regulatory costs of

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[35] OEB staff submission page 18
[36] OEB staff submission page 19
[37] OEB staff submission page 19

$100,000 should therefore be amortized over 4 years at an amount of $25,000, not over 3 years at $33,333/year as was requested by NOTL. NOTL is invited to comment on this observation.

Upon re-reading the following statement on Page 4 of the 3rd Generation IRM report:

> *"The Board has determined that the plan term for 3rd Generation IR will be fixed at three years (i.e., rebasing year plus three years)*

NOTL acknowledges that, in its Application, it had misinterpreted a "plan term … at 3 years" as meaning a 3-year cycle. On this basis, NOTL concurs with OEB staff that the appropriate amortization for a 4-year cycle would be $25,000 per year, with the next rate rebasing effective May 1, 2013, not May 1, 2012 as was assumed.

Similarly, NOTL concurs with all the interveners' submissions[38] that the rebasing costs should be amortized over 4 years.

All the interveners[39] are also proposing that the overall rebasing costs should be reduced from $100,000 to $80,000 given that there is no oral component in this case. NOTL has confirmed that three small LDC's (Wellington North, Norfolk Power and Erie Thames) having completed rebasing in 2008 without oral hearing components, experienced total rebasing costs at or about $100,000 including the LDC's legal and consulting fees. As a result NOTL does not accept the proposed reduction to $80,000 as it bears risk of a significant recovery shortfall. In the essence of fairness and if time permits, NOTL is prepared to accept full recovery of the final tabulated actual costs of this rate process.

3.4 NOTL Energy Inc. Management Fees

VECC[40] and Energy Probe[41] submit that the $20,000 in management fees should be removed from the revenue requirement.

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[38] SEC submission page 2, VECC submission page 9, Energy Probe submission page 7
[39] SEC submission page 2, VECC submission page 9, Energy Probe submission page 7
[40] VECC submission page 8
[41] Energy Probe submission page 7

In making these submissions, VECC and Energy Probe appear to have concluded from NOTL's response to OEB staff interrogatory 1.2 that NOTL Energy Inc. Director costs, and audit fees in the case of Energy Probe[42], are expensed from NOTL Hydro Inc. NOTL would like to clarify that, with regard to Director fees, there are a total of 10 Directorships for the family of companies – 5 for the parent NOTL Energy Inc., 3 for NOTL Hydro Inc. and 2 for the affiliate, Energy Services Niagara Inc. NOTL Hydro expenses include only its own 3 Directorships. NOTL Energy Inc. pays for its own 5 Directorships. Similarly, NOTL Hydro audit expenses only include NOTL Hydro audit fees. NOTL Energy Inc, pays for its own audit fees. Thus, NOTL Energy Inc. corporate governance costs primarily consist of its own Board of Directors' cost and annual audit fees, as stated in the response to OEB staff interrogatory 1.2.

Also as stated in the interrogatory response, the management fee charged to NOTL Hydro is in recognition of the invaluable guidance NOTL Energy Inc. provides to NOTL Hydro, and as such is a valid expense for NOTL Hydro. At the same time, the revenue provided by the fee to NOTL Energy defrays the corporate governance costs referred to above. Therefore, NOTL Hydro submits that paying this fee for management services is appropriate and should not be removed from the revenue requirement.

3.5 Distribution System Maintenance

NOTL agrees with the statements made in the OEB staff submission[43] about distribution system maintenance and notes that this submission does not express any concerns. The submission invited interveners to comment on NOTL's system maintenance programs. However, it does not appear that any comments were provided on these matters by the interveners.

[42] Energy Probe submission page 8
[43] OEB staff submission page 20

3.6 Wages and Staff Changes

NOTL agrees with the statements made in the OEB staff submission[44] about wages and staff changes and notes that none of the submissions have raised issues on this matter.

3.7 Depreciation and Amortization Costs

Computer Hardware

Energy Probe[45] have pointed out that Table 1 in Exhibit 4 Tab 2 Schedule 6 shows an amortization period of 3 years for account 1921(computer equipment – hardware post March 22, 2004). NOTL appreciates this observation and agrees that this should read 5 years. This is simply an error in this cell of the Table. All depreciation calculations in the evidence have been based on 5 years, so that no adjustment is necessary.

Computer Software

Energy Probe[46] have noted that NOTL uses a 3 year amortization period for computer software (account 1925), that the 2006 EDR Handbook does not include a specific rate for this account, that other cost of service applications that Energy Probe has reviewed use 5 years and that a consistent approach should be used across distributors. SEC concurs with Energy Probe's submission. NOTL believes that due to the rapidity with which software becomes out of date, 3 years is a reasonable amortization period. NOTL records show that it has used 3 years consistently since incorporation (in 2000) and all depreciation rates used have been fully audited. NOTL submits that an adjustment to reflect a 5 year amortization period is not appropriate.

Intangible Plant

In their submission under the topic heading of "Calculation of Revenue Deficiency"[47], Energy Probe have observed that NOTL has not included account 1606 intangible plant in the rate base, in accordance with the 2006 EDR Handbook, but has included

[44] OEB staff submission page 19
[45] Energy Probe submission 10
[46] Energy Probe submission page 10
[47] Energy Probe submission page 28

amortization of $1,252 on intangible plant in the depreciation and amortization expense amount in the calculation of revenue deficiency.

Energy Probe submits that amortization on intangible plant should not be included in the calculation of the revenue requirement. NOTL believes that it is appropriate to include this amortization in the calculation, as it appears to be a distribution expense based on NOTL's understanding of the OEB Accounting Procedures Handbook (APH, revised July 31 2007):

- On page 39 of the APH, account 1606 is identified as an "Electric Plant in Service" account;
- On Page 171 of the APH, account 5705 is defined as including the amortization expense for all classes of depreciable Electric Plant in Service (with certain exceptions not applicable in this matter) ;
- Account 5705 appears to be a distribution expense according to Appendix A of the 2006 EDR Handbook (e.g. page 21 of Appendix A.3)

NOTL submits that it will readily remove the amortization of intangible plant from the revenue requirement if the Board determines that NOTL has misunderstood the required treatment of this amortization. No adjustment is being made at this time.

3.8 Loss Adjustment Factor Calculation

VECC[48] and Energy Probe[49] disagree with NOTL's proposal to retain its current loss factor of 1.0501.

NOTL submits that basic Market Rules require LDC's to pass through electricity at cost to our customers. The Distribution Rate Handbook also provides that "If the applicant determines that specific information warrants a departure from that average (e.g. gain or loss of large customers), it must provide a description of the change from the proposed methodology with a detailed explanation and justification for the variance as part of

[48] VECC submission page 9
[49] Energy Probe submission page 13

Schedule 10-5." The fact that the NOTL power purchase variance account is currently in a substantial debit balance position is an indication that an incorrect loss factor (too low) was applied at some recent point in time resulting in an under collection from customers. Maintaining the current loss factor is expected to eliminate the deficit and balance the PPVA.

NOTL is anxious to pass on the benefit of lower system losses to our customers and pledges to review the actual load factor as early as the 2010 IRM process.

3.9 Shared Services

Energy Probe[50] comments that it is unclear in NOTL's interrogatory response to OEB staff (interrogatory 1.12) as to whether the costs allocated to the services provided to affiliates have been calculated on a fully-allocated basis. NOTL's intention in applying the markups on labour and non-labour costs is to ensure that the price paid by the affiliate for the services received, the same as any other billable client, reasonably reflects the full cost, so that distribution ratepayers are not subsidizing the client. With this objective, the appropriate markup percentages (20% for labour and 10% for non-labour) have been estimated and in place for some time. Energy Probe[51] submits that NOTL should provide a detailed fully allocated costing at the next rebasing. NOTL submits that it is appropriate to verify and update the percentages from time to time, and NOTL will have done so before the next rebasing.

Energy Probe[52] refers to 2009 costs of $186,750 to provide services to the affiliate (response to OEB interrogatories, page 24 of 47, total of the column "cost for the service"), and requests clarification as to whether these costs are included in the controllable expenses in the calculation of the working capital allowance. NOTL can confirm that these costs are not included in controllable expenses and therefore not in the working capital calculation. Such costs are invoiced directly to the affiliate (plus markup) and recorded to the "due from affiliate" accounts receivable account, not to NOTL controllable expense accounts.

[50] Energy Probe submission page 8
[51] Energy Probe submission page 9
[52] Energy Probe submission page 9

3.10 Tax Calculations

Updates

Energy Probe[53] submits that NOTL should calculate its income and capital taxes using the most recent information available, including 2009 tax rates. NOTL submits that whenever an adjustment to taxes has been necessary during this rates process, that adjustment has been done. Also, to the best of its knowledge, NOTL has used the most recent information on 2009 tax rates.

Energy Probe[54] also submits that if the regulatory taxable income is changed as a result of the Board's decision, the income tax calculation should also be updated. NOTL submits that whenever such an updated tax calculation has been necessary during this rates process, updates have been done.

Capital Tax

Energy Probe[55] agrees with NOTL's methodology to calculate capital tax, on the understanding that if the rate base is changed, the calculation would be updated. NOTL submits that whenever an adjustment to capital taxes has been necessary during this rates process, that has been done.

Income tax – Change in Regulatory Assets

OEB staff[56] and Energy Probe[57] have noted that, in NOTL's interrogatory responses, NOTL has revised its calculations to remove the erroneous inclusion of the change in regulatory assets.

Income Tax – Rates

VECC[58] submits that NOTL's PILS calculation should be calculated using the small business income tax rate and clawback rather than using the higher 33% rate NOTL used in calculating PILS. NOTL submits that, while the original application did indeed

[53] Energy Probe submission page 11
[54] Energy Probe submission page 13
[55] Energy Probe submission page 11
[56] OEB staff submission page 21
[57] Energy Probe submission page 11
[58] VECC submission page 12

use the 33% rate, the tax calculations were already revised in the interrogatory responses in the way VECC suggests. The OEB staff submission[59] confirms that these revisions were made.

Income Tax – Board's Established Methodology

The OEB staff submission [60]states that "While NOTL's method is not incorrect, it diverges from the Board's established methodology". The submission states that parties may wish to comment on NOTL's methodology. In its submission, VECC[61] states that NOTL should be required to adhere to the approved methodology.

NOTL would respectfully like to submit that:

a) NOTL's methodology has been verified as correct by an Independent Auditor as well as a well known electricity distribution industry consultant.

b) To the best of its knowledge, NOTL's method would appear to be correct, using a typical top-down approach to calculate PILS assuming taxable income before tax, as shown in the following Table. The numerical values are taken from "ATTACHMENT – Critical Evidence Changes" in the cover letter to NOTL's response to OEB staff interrogatories, specifically:

   1. Revised Exhibit 4 Tab 3 Schedule 1 (tax calculations)
   2. Revised Exhibit 7 Tab 1 Schedule 1 (calculation of revenue deficiency).

[59] OEB staff submission page 21
[60] OEB staff submission page 22
[61] VECC submission page 12

Typical Top Down Approach to Calculate PILs Assuming Taxable Income Before Tax		**2009**	
Taxable Income after Tax = ROE		$816,227	(A)
PILs		**$382,940**	(B) = (F)
Taxable Income before Tax		$1,199,167	(C) = (A) + (B)
	Tax Rates		
First $500,000 before tax	24.50%	$122,500	(D) = 500,000 * 24.5%
$500,000 to $1,500,000 before tax including 4.25% in clawback	37.25%	$260,440	(E) = ((C) - 500,000) * 37.25%
Total PILs		**$382,940**	(F) = (D) + (E)
Blended Tax Rate	31.93%		(G) = (F) / (C)

c) to the best of its knowledge, NOTL's methodology would appear not to diverge from the Board's established methodology, assuming the effect of the small business income threshold and clawback of creating more than one tax bracket or rate is factored into this methodology. We understand the Board's methodology could be termed as a "regulatory gross-up" method – a bottom-up approach to calculating PILs assuming taxable income after tax or ROE. We believe the purpose of grossed-up PILs is to simulate the PILS that would be calculated when the total revenue requirement is known. This means that the PILS determined from a gross-up method must equal PILS from a top down method once PILS are known and included in the total revenue requirement. The bottom-up calculation is shown below:

Regulatory Gross Up Method - Bottom Up Approach to Calculate PILs Assuming Taxable Income After Tax or ROE		**2009**	
Taxable Income after Tax = ROE		$816,227	(H) = (A)
PILs before Gross Up	Tax Rates		
First $377,500 (*) after tax	24.50%	$92,488	(I) = 377,500 * 24.5%
$377,500 to 1,005,000 (**) after tax including 4.25% in clawback	37.25%	$163,426	(J) = ((H) - 377,500) * 37.25%
Total PILs before Gross Up		$255,913	(K) = (I) + (J)
Gross Up PILs		**$382,940**	(L) = (K) / (1-(G)) * (G)
	or	$122,500	377,500 x 0.2450 / (1-0.2450) +
		$260,440	(816,227 - 377,500) x 0.3725 / (1 - 0.3725)
		$382,940	

(*) $377,500 is the after tax amount of $500,000 when a tax rate of 24.5% is applied = $500,000 x (1 - 0.2450)

(**) $1,005,000 is the after tax amount of $1,500,000 when a tax rate of 37.25% is applied = $377,500 + ($1,500,000 - $500,000) x (1 - 0.3725)

NOTL notes that OEB staff has estimated[62] that NOTL is requesting approximately $42,000 more in PILs than using the Board's methodology. NOTL infers that the OEB staff estimate was based on a gross-up calculation as follows:

Income after tax	= $816,227
Tax rate	= ((500,000 x 24.5%) + (316,227 x 37.25%))/816,227
	= 29.44%
Tax before gross-up	= 29.44% x 816,227 = 240,295
Tax after gross-up	= (816,227 x 29.44%) / (100% - 29.44%)
	= 340,557

which is less than NOTL's calculation by $382, 940 - $340,557 = $42,383, i.e. approximately $42,000 as stated above.

Using OEB staff's inferred tax after gross-up figure of $340,557, then applying a top-down approach:

Total income before tax	= 816,227 + 340,557 = $1,156,784
Tax on this income	= 500,000 x 24.5% + (1,156,784 – 500,000) x 37.25%
	= $367,152
Income after tax	= 1,156.784 – 367,152 = $789,632.

which, NOTL submits, would be less than the required income after tax of $816,227 by a shortfall of $816,227 - $789,632 = $26,595.

Income Tax – Incorrect Comparison

Energy Probe[63] has identified an error in NOTL's response to OEB staff interrogatory 6.2, whereby, in the comparison of 2008 and 2009 corporate taxes before and after the calculation revisions, the revised amounts included capital tax whereas the amounts intended to be from the August 6 application did not. NOTL appreciates Energy Probe's

[62] OEB Staff submission page 22
[63] Energy Probe submission page 12

pointing out this inadvertent error whereby the income tax value was transcribed from the August 6 application to the comparison table instead of the total tax value. NOTL concurs with Energy Probe's restatement of the table.

4. DEFERRAL AND VARIANCE ACCOUNTS

NOTL agrees with the OEB staff summary[64] of its request and notes that the submission does not express any concerns.

VECC[65] and Energy Probe[66] note that the latest OEB prescribed interest rate should be used. The rate for the 1st quarter of 2009 has been prescribed at 2.45% after the application was submitted. Energy Probe submits that this rate should be used for January 1, 2009 to April 30, 2009. Energy Probe[67] also submits that the recovery period should be increased from 3 to 4 years to match the 3rd Generation IRM and to mitigate customer impacts. NOTL agrees with Energy Probe that revised rate riders should be calculated using the 2.45% and 4-year recovery as proposed.

5. COST OF CAPITAL AND RATE OF RETURN:

5.1 Capital Structure

NOTL observes that the OEB staff[68] and Energy Probe[69] submissions note that the proposed 2009 structure of 56.67% debt and 43.33 % equity is consistent with the Board report requiring distributors to move to a 60%/40% debt/equity ratio. VECC and SEC did not raise any concern about the proposed structure.

[64] OEB staff submission page 25
[65] VECC submission page 11
[66] Energy Probe submission page 25
[67] Energy Probe submission page 25
[68] OEB staff submission page 10
[69] Energy Probe submission page 26

5.2 Short Term Debt

NOTL observes that the OEB staff[70] and Energy Probe[71] submissions note that the proposal regarding short term debt rate is consistent with the Board report on this matter, on the understanding that the Board will update the rate in early 2009 for rates effective May 1, 2009. VECC and SEC did not raise any concern about the proposal.

5.3 Long Term Debt

OEB staff[72] have invited parties to comment on whether or not they view the 7.25% rate proposed for the promissory note to the Town to be appropriate and consistent with the Board's report. VECC[73], Energy Probe[74] and SEC[75] have provided comments in this regard.

NOTL has reviewed the Horizon decision by the O.E.B. as referred to by VECC. We believe that the Board's decision was based on the inference that Horizon had indeed revised the interest rate on the note as part of their 'housekeeping' process. NOTL reiterates that the December 20, 2006 direction from the OEB specifically states "The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt." A new rate was not negotiated and should remain at 7.25% in keeping with Board direction.

5.4 Common Equity/Return on Equity

NOTL observes that the OEB staff[76] and Energy Probe[77] submissions note that the proposal regarding a return on equity rate of 8.57% is consistent with the Board's letter and report on this matter, on the understanding that the Board will update the rate in

[70] OEB staff submission page 10
[71] Energy Probe submission page 27
[72] OEBS staff submission page 13
[73] VECC submission pages 10 to 11
[74] Energy Probe submission pages 27 to 28
[75] SEC submission pages 1 to 2
[76] OEB staff submission page 13
[77] Energy Probe submission page 26

early 2009 for rates effective May 1, 2009. VECC and SEC did not raise any concern about the proposal.

6. COST ALLOCATION

6.1 Sentinel Light Customer Elimination

The OEB staff submission[78] states that in OEB Staff interrogatories, it had pointed out that NOTL had incorrectly identified changes in ARC to justify its proposal to eliminate the Sentinel Light Class. NOTL would like to reconfirm its response to OEB staff interrogatory 9.1 (b) as its justification. This response was also referred to in the current OEB staff submission.

The OEB staff submission[79] also invited parties to comment on NOTL's proposal to eliminate its sentinel light class. To our best understanding of the intervener submissions, none of the interveners expressed concern with this elimination per se.

However, VECC[80] submitted that NOTL should be directed to reassign the revenue requirement responsibility for the sentinel light class consistent with how the customers are being re-assigned to customer classes, and not based on any bill impact issues. VECC's concern is that NOTL, in its response to VECC interrogatory 5 (a), stated that it felt that it would be more equitable to spread the revenue shortfall across all classes, and that the street lighting class in particular is already recognizing a large increase. NOTL accepts VECC's point but would like to suggest a refinement. NOTL believes that re-assigning all the sentinel light revenue requirement as suggested by VECC would be inappropriate, as only about one half of the sentinel lights are being re-assigned and one half will be disconnected altogether, per Exhibit 3 Tab 2 Schedule 2 page 21. Suppose hypothetically that a cost allocation study revision were done in which the disconnected lights were absent, then the costs previously allocated to the now-absent load would be allocated across all remaining loads in all classes, not just to

[78] OEB staff submission page 23
[79] OEB staff submission page 23
[80] VECC submission page 14

loads in the class of the absent load. On this basis, NOTL suggests that a refined approach of allocating revenue requirement for disconnected lights across all classes, and allocating revenue requirement for re-assigned lights to the assigned class would be more reasonable.

6.2 Transformer Allowance

In NOTL's response to VECC interrogatory 1 (d), NOTL provided a revised version of Sheet O.1 – Revenue to Cost Summary Worksheet from its cost informational filing. In this revised sheet, the cost of the transformer allowance was allocated to just the GS>50kW class. VECC[81] and Energy Probe[82] submit that a further adjustment is required to exclude the transformer allowance from both the revenue and costs attributed to the GS>50kW class in this sheet. NOTL concurs with this adjustment and a revised Sheet O.1 that should be used as a starting point or basis for changes to the revenue cost ratios is provided below:

[81] VECC submission page 14
[82] Energy Probe submission page 29

2006 COST ALLOCATION INFORMATION FILING
Niagara-on-the-Lake Hydro Inc.
EB-2005-0395 EB-2006-0247
December 13, 2006
Sheet O1 Revenue to Cost Summary Worksheet - Second Run - With USL as a class

Class Revenue, Cost Analysis, and Return on Rate Base

			1	2	3	7	8	9
Rate Base Assets		Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	Unmetered Scattered Load
crev	Distribution Revenue (sale)	$4,248,130	$1,996,674	$1,004,372	$1,195,538	$30,285	$5,750	$15,511
mi	Miscellaneous Revenue (mi)	$185,211	$111,335	$49,445	$19,511	$2,733	$377	$1,808
	Total Revenue	$4,433,341	$2,108,009	$1,053,817	$1,215,050	$33,018	$6,127	$17,319
	Expenses							
di	Distribution Costs (di)	$564,796	$307,311	$142,986	$73,906	$34,401	$4,086	$2,106
cu	Customer Related Costs (cu)	$333,858	$203,700	$89,153	$34,422	$3,570	$242	$2,771
ad	General and Administration (ad)	$585,292	$329,642	$151,177	$73,311	$25,218	$2,880	$3,065
dep	Depreciation and Amortization (dep)	$1,085,204	$575,787	$273,873	$163,142	$61,523	$7,121	$3,757
INPUT	PILs (INPUT)	$322,017	$161,749	$83,343	$57,690	$16,309	$1,891	$1,035
INT	Interest	$652,737	$327,870	$168,938	$116,939	$33,058	$3,833	$2,098
	Total Expenses	$3,543,904	$1,906,060	$909,470	$519,410	$174,079	$20,053	$14,832
	Direct Allocation	$0	$0	$0	$0	$0	$0	$0
NI	Allocated Net Income (NI)	$889,437	$446,765	$230,199	$159,345	$45,046	$5,223	$2,859
	Revenue Requirement (includes NI)	$4,433,341	$2,352,825	$1,139,669	$678,754	$219,125	$25,277	$17,690
		Revenue Requirement Input equals Output						
	Rate Base Calculation							
	Net Assets							
dp	Distribution Plant - Gross	$29,386,579	$15,595,886	$7,398,855	$4,427,365	$1,669,407	$193,401	$101,665
gp	General Plant - Gross	$3,299,445	$1,691,969	$847,965	$552,910	$175,213	$20,404	$10,985
accum dep	Accumulated Depreciation	($12,128,651)	($6,745,952)	($2,963,527)	($1,535,340)	($752,944)	($86,678)	($44,209)
co	Capital Contribution	($2,802,684)	($1,608,109)	($690,816)	($281,332)	($188,826)	($22,394)	($11,207)
	Total Net Plant	$17,754,689	$8,933,793	$4,592,478	$3,163,602	$902,851	$104,732	$57,233
	Directly Allocated Net Fixed Assets	$0	$0	$0	$0	$0	$0	$0
COP	Cost of Power (COP)	$11,890,451	$4,359,910	$2,449,054	$4,988,230	$58,961	$10,633	$23,664
	OM&A Expenses	$1,483,946	$840,653	$383,317	$181,638	$63,189	$7,208	$7,942
	Directly Allocated Expenses	$0	$0	$0	$0	$0	$0	$0
	Subtotal	*$13,374,397*	*$5,200,563*	*$2,832,370*	*$5,169,868*	*$122,150*	*$17,841*	*$31,607*
	Working Capital	$2,006,160	$780,084	$424,856	$775,480	$18,322	$2,676	$4,741
	Total Rate Base	$19,760,848	$9,713,878	$5,017,333	$3,939,082	$921,173	$107,408	$61,974
		Rate Base Input equals Output						
	Equity Component of Rate Base	$9,880,424	$4,856,939	$2,508,667	$1,969,541	$460,587	$53,704	$30,987
	Net Income on Allocated Assets	$889,437	$201,950	$144,347	$695,640	($141,061)	($13,927)	$2,488
	Net Income on Direct Allocation Assets	$0	$0	$0	$0	$0	$0	$0
	Net Income	$889,437	$201,950	$144,347	$695,640	($141,061)	($13,927)	$2,488
	RATIOS ANALYSIS							
	REVENUE TO EXPENSES %	100.00%	89.59%	92.47%	179.01%	15.07%	24.24%	97.90%
	EXISTING REVENUE MINUS ALLOCATED COSTS	$0	($244,815)	($85,852)	$536,296	($186,107)	($19,150)	($371)
	RETURN ON EQUITY COMPONENT OF RATE BASE	9.00%	4.16%	5.75%	35.32%	-30.63%	-25.93%	8.03%

6.3 Use of Cost Allocation Filing

VECC has submitted a set of revised revenue share values ("VECC's Recommended Values") [83] to be used as a reference point for any cost allocations adjustments. NOTL has reviewed the Appendix B in which the values are derived, but is unable to follow the

[83] VECC submission page 16

derivation, and as a result is unable to comment on their position. NOTL submits that that the values shown as "NOTL's Values" in the VECC submission are still reasonable.

6.4 Revenue to Cost Ratios

NOTL agrees with the OEB staff summary[84] of its request. The submission states that the result of a total bill impact of 29.8% for the Street Light class exceeds the Board's total bill impact threshold. However, NOTL submits that such a result is an inevitable consequence of moving the revenue to cost ratio significantly towards the minimum of the Board Policy Range (70%).in keeping with the Board's decisions in 2008.

VECC[85] and Energy Probe[86] have concurred with NOTL's proposal, as stated in NOTL's response to Energy Probe interrogator #22, to move the streetlight class revenue cost ratio to 70% over the two years 2010 and 2011, and to use the additional revenues generated to reduce the rates for the GS>50kW class.

VECC[87] and Energy Probe[88] submit that there is no reason to adjust the revenue cost ratios for the residential, GS<50kW and unmetered scattered load classes, since the ratios are already within the ranges approved by the Board, and some prior Board decisions are cited. NOTL has recommended increases in the ratios for these classes in its application. SEC[89] submits that NOTL should be required to reduce the revenue to cost ratio for the GS>50kW class to 100% over the next two years. However, NOTL notes that this would require offsetting increases in the ratios for the other classes, contrary to the submissions of VECC and Energy Probe that these ratios should remain unchanged. SEC does not make any comment regarding such offsetting increases.

After reviewing the interrogatories and submissions on this matter, NOTL submits that its strategy to adjust the revenue cost ratios, as summarized in Exhibit 8, Tab 1, Schedule 2, page 4, Table 3 of its application, was and remains a reasonable overall

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[84] OEB staff submission pages 24 to 25
[85] VECC submission page 19
[86] Energy Probe submission page 30
[87] VECC submission page 17
[88] Energy Probe submission page 30
[89] SEC submission page 3

strategy, subject to any specific further direction the Board may provide in response to the intervener submissions.

7. RATE DESIGN

7.1 Fixed/Variable Charges

Residential Fixed/Variable Split

NOTL notes that VECC[90] agrees with NOTL's proposal to maintain the current fixed/variable split for the residential class.

GS>50kW Fixed Charge

SEC[91] is concerned that the fixed monthly charge for the GS>50kW class is still much too high and should be reduced to the 120% ceiling. NOTL submits that its statement in its application (Exhibit 9 Tab 1 Schedule 1 Page 4, lines 9 and 10), reiterated in its response to VECC interrogatory #6, remains valid, i.e. that it is appropriate for 2009 to maintain the same fixed/variable proportions assumed in the current rates.

7.2 Smart Meters

NOTL agrees with the OEB staff summary[92] of the smart meter matters included in its Application and Interrogatory Responses. NOTL notes that none of the submissions appear to have expressed any concerns regarding NOTL's qualification for the $1.00/month smart meter rate adder.

7.3 Retail Transmission Rates

The VECC submission[93] noted that NOTL has included the loads associated with Hydro One's "unilateral load assignment" in the calculation of the RT connection rate adjustment. VECC is concerned that under an IRM regime, if the Board finds in NOTL's

[90] VECC submission page 19
[91] SEC submission pages 3 to 4
[92] OEB staff submission pages 7 to 9
[93] VECC submission page 19

favour in this load assignment dispute, a considerable period may elapse before the rate is properly reduced. NOTL's intention, should the Board find in its favour, has always been to request a revision of the RT connection rates as soon as possible thereafter and not wait until the next rebasing, in order to pass on the savings rightfully and quickly to the ratepayers. Therefore, NOTL strongly agrees with VECC's submission to this effect.

7.4 Bill Impacts for GS<50kW Class

SEC[94] is concerned that any error in the Table that NOTL provided in response to SEC interrogatory #12 may have translated into an error in determining the amount of revenue from and/or the distribution rates for the GS>50kW class.

NOTL thanks SEC for their observations and can confirm that there was an error in the Table. However, upon review of the matter, it has been found that this was only an error in transcribing data from working files into the column headed "Base Revenue" "At Proposed Rates" for the purposes of the interrogatory response. NOTL apologizes for this transcription error. However, SEC can be assured that NOTL has verified that there was no error in the underlying calculations, and no error in the revenue or rates. At SEC's invitation, a corrected Table is provided below, showing the correct base revenue at proposed rates (shaded) totaling $4,829,518 per Exhibit 9 Tab 1 Schedule 1 Page 1 of the original application. No change is required in the text of NOTL's response to SEC interrogatory #12, as the text was based on the correct Table below.

Class Impacts	At Proposed Rates		At Existing Rates		Revenue
Customer Class	Proportion	Base Revenue	Proportion	Base Revenue	% Impact
Residential	49.65%	$2,397,869	47.25%	$2,196,016	9.19%
GS <50 kW	24.60%	$1,188,290	21.31%	$990,623	19.95%
GS>50 kW	23.22%	$1,121,414	30.20%	$1,403,805	-20.12%
Street Light	2.17%	$104,703	0.82%	$38,280	173.52%
Sentinel	N/A	N/A	0.00%	$0	
Unmetered Scattered Load	0.36%	$17,241	0.41%	$18,936	-8.95%
Total	100.00%	$4,829,518	100.00%	$4,647,660	3.91%

[94] SEC submission page 4

8. LRAM/SSM

VECC[95] and Energy Probe[96] acknowledge that NOTL has adjusted the SSM claim by removing the PILs gross-up in its response to the interrogatories. Energy Probe[97] concurs with the proposal for a 2-year rate rider. VECC and Energy Probe are either sympathetic to (VECC[98]), or accept not having(Energy Probe[99]) an independent review of NOTL's CDM results, given the small amount being requested for recovery, with the proviso that the Board should require an independent review for any amount of future LRAM/SSM recovery by NOTL or any other distributor.

The programs for which NOTL is seeking LRAM and SSM recovery were delivered in 2005 and 2006. At that time, we were directed by the OEB to wait for recovery until the next rebasing. The Board issued report 2008-0037 in late March after we had completed entry of our LRAM/SSM calculations. We noted the provision for third party review but interpreted the intent of the direction to include programs delivered in 2007 and later. As a result, we purposely omitted data for our 2007 CDM programs. This interpretation was the result of the fact that calculations of LRAM/SSM utilize rates applicable in 2005 and 2006 whereas Section 7.5 states "This independent third party review applies to LRAM/SSM claims made in relation to programs funded in 2007 and beyond." We should note that the OEB were previously provided the TRC information for scrutiny in our 2005 and 2006 annual CDM reports. NOTL submits that, although the principle of an independent review is generally sound, in cases where the LRAM and SSM benefits are small, distributors should be given the opportunity to demonstrate to the Board that the cost of such a review would outweigh the benefits and that the review can be omitted.

[95] VECC submission page 20
[96] Energy Probe submission page 25
[97] Energy Probe submission page 25
[98] VECC submission page 20
[99] Energy Probe submission page 26

9. INTERVENER COSTS

NOTL notes that VECC[100] and Energy Probe[101] have requested awards of costs in the amount of 100% of their reasonably incurred costs. NOTL respectfully assumes that the Board's decisions on these requests (and on any similar request by SEC that presumably would be made) will depend on a review of the actual cost claims by the Board later in this rate process and that NOTL will have the opportunity to file objections to the claims at that time, if warranted.

10. CONCLUSION

In the interrogatory process and in this reply submission, NOTL has accepted a number of adjustments identified by the parties. Although NOTL's understanding is that a full re-submission of adjusted evidence is not required at this time pending the Board decision on the various issues, NOTL would like to offer the following summary of the impact of the accepted adjustments on the revenue deficiency:

[100] VECC submission page 20
[101] Energy Probe submission page 31

Revenue deficiency per original application			$ 206,184
Net reduction per adjustments in NOTL response to OEB staff interrogatories*			-$ 24,605
Revenue deficiency per NOTL response to OEB staff interrogatories			$ 181,579
Adjustments in reply submission			
To correct asset disposal errors	Section 1.1	-$ 7,104	
To use actual average loss factor in load forecast methodology	Section 2.1	-$ 7,256	
To extend rate rebasing cost amortization to 4 years	Section 3.3	-$ 8,457	
To update DVA rate rider recovery period and interest rate assumption	Section 4	n/a**	
To revise treatment of transformer allowance in baseline for revenue/cost ratio changes	Section 6.2	n/a**	
Total adjustments			-$ 22,816
Adjusted revenue deficiency			$ 158,763

** These adjustments related to:*

SSM - gross for taxes removed

PILs - regulatory asset change removed

PILs - tax calculation revised

Fixed assets - meter disposals added [see also required error correction above - Section 1.1]

Other revenue - administrative expense recovery revised

*** Does not affect revenue deficiency*

- All of which is respectfully submitted -