



Niagara-on-the-Lake Hydro Inc.

April 6, 2009

VIA RESS, E-mail and Courier

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

Draft Rate Order - OEB Case EB-2008-0237

Dear Ms. Walli

Niagara-on-the-Lake Hydro Inc. is pleased to submit the attached draft rate order regarding its 2009 Rate Application in compliance with the Board decision of March 25, 2009.

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

In addition, the requested revenue requirement Excel workbook will be e-mailed to you, the interveners and OEB staff.

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

Yours truly

ORIGINAL SIGNED BY JIM HUNTINGDON

Jim Huntingdon, President

Attachment

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15 (Schedule B);

AND IN THE MATTER OF an application by Niagara-on-the-Lake Hydro Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2009.

BEFORE: **Cathy Spoel**
 Presiding Member

Pamela Nowina
 Member and Vice-Chair

DRAFT RATE ORDER

April 6, 2009

Niagara-on-the-Lake Hydro Inc. (“NOTL”) submits the following Draft Rate Order including a proposed 2009 Schedule of Rates and Charges as directed by the Ontario Energy Board (the “Board”) in its Decision dated March 25, 2009.

Upon completion of the interrogatory and submission requirements in this proceeding, the Board addressed the following issues in its Decision:

- Load Forecast
 - Methodology and Model
 - Customer Forecast
- Other Distribution Revenue
- Operating, Maintenance & Administrative Expenses (“OM&A”)
 - 2009 rate rebasing costs
 - Management fees
 - Shared Services
- Payments in Lieu of Taxes (“PILs”)
 - Methodology
 - Property Tax
 - Regulatory Taxable Income

- Federal Budget and other known tax changes
- Rate Base
 - Capital expenditures
 - Working capital allowance
 - Disposition of meters
 - Computer hardware and software depreciation
- Cost of Capital and Capital Structure
- Cost Allocation and Rate Design
 - Line losses
 - Customer reclassification
 - Revenue to cost ratios
 - Rate design – monthly fixed charges
- Retail transmission rates
- Deferral and Variance Accounts.

In addition, the Board accepted NOTL's evidence on the following matters and the resultant rate consequences:

- Asset Management
- Service Reliability
- Smart Meters
- Adjustment to Transformer Ownership Allowance

NOTL has recalculated the original rates proposed in the 2009 Electricity Distribution Rate Application submitted August 6, 2008. The draft revised rates, as attached in Appendix A, have been adjusted in accordance with the Board's direction and as described in the sections below. Bill impacts of the recalculated rates are set out in Appendix B.

The following sections follow the order in which the issues were addressed in the Decision except for PILs. The PILs section is moved to follow the Cost of Capital and Capital Structure section in order to better reflect the progression of revisions required to recalculate revenue requirement and rates. In this draft rate order, NOTL has referenced the page numbers (with brackets []) from the Decision pertaining to the relevant Sections.

1. LOAD FORECAST

- **Methodology and Model**

The Board has accepted NOTL's load forecast for setting 2009 rates as originally filed and did not require any changes [Page 5].

- **Customer Forecast**

The Board has accepted NOTL's customer forecast for setting 2009 rates as originally filed and did not require any changes [Page 6].

2. OTHER DISTRIBUTION REVENUE

The Board directed NOTL to remove any interest associated with deferral and variance accounts ("DVAs") from its distribution revenue [Page 7].

In NOTL's Reply Submission, dated January 23, 2009, Page 15, the amount of this interest was indicated as being a total of \$15,372. The impact of this change on Other Distribution Revenue is as follows:

Other Distribution Revenue

Other Distribution Revenue:

- Application August 6, 2008:
Per Table 1, Exhibit 3, Tab 3 Schedule 1 \$361,622
- Adjustment::
Interest [expense] on DVAs \$15.372

Other Distribution Revenue

- Draft Rate Order April 8, 2009 **\$376,994**

This increase in other distribution revenue results in a change to the base revenue requirement, which is shown in Section 8 below.

3. OM&A EXPENSES

As each of the items below affects the total OM&A amount in the draft rate order, the items are first explained and then a summary of the overall change in OM&A is provided.

- **Rate Rebasing Costs**

The Board accepted the proposed expense of \$100,000, found that this expense should be amortized over 4 years and therefore allowed an expense of \$25,000 to be reflected in rates [Pages 9/10].

NOTL had included \$33,333 in its application, reflecting a 3 year amortization period. Thus, this change in OM&A expense is a decrease of \$8,333.

- **Management Fees**

The Board directed NOTL to remove that portion of the \$20,000 in management fees that is related to management services [Page 11]. This portion is \$15,000, the remainder of \$5,000 being annual audit fees. The Board approved the portion related to annual audit fees to be recovered through rates [Page 10]. Thus, this change in OM&A expense is a decrease of \$15,000.

- **Shared Services**

The Board found that NOTL's pricing approach regarding services provided by NOTL to ESNI is reasonable and did not require any changes [Page 11].

- **Error Correction – Expenditure Offset - Energy Probe Interrogatory # 11 g)**

In NOTL's response to the Energy Probe Interrogatory # 11 g), NOTL indicated that the application included an erroneous expenditure offset of approximately \$4,000. The OM&A component of this error is \$2,813 in building maintenance costs. (The remainder of the error is \$1,200 in property tax, included in the PILS section of this draft rate order). Thus, this change in OM&A expense is an increase of \$2,813.

- **Summary of OM&A Changes**

The changes above require adjustments to the OM&A expenses as summarized below:

OM&A Expenses

OM&A Expenses

- Application August 6, 2008:

Per Exhibit 4, Tab 2, Schedule 1, Page 4 (excluding Property Tax)	\$1,864,661
--	-------------
- Adjustments:

Rate rebasing costs	(\$8,333)
Management fees	(\$15,000)
Error correction – expenditure offset	\$2,813 <u>(\$20,520)</u>

OM&A Expenses

- Draft Rate Order April 8, 2009 **\$1,844,141**

4. RATE BASE

As each of the items below affects the rate base, the items are first explained and then a summary of the overall change in the rate base is provided.

- **Capital expenditures**

The Board found that NOTL's forecast capital expenditure level of \$1,877,496, including capital contributions, is reasonable and did not require any changes [Page 15].

- **Working capital allowance**

In addition to the working capital impact of the adjustments made to the **OM&A EXPENSES** as discussed above, the working capital is impacted by the Board's findings in the following areas:

○ ***The 15% factor***

The Board found that NOTL's use of a 15% factor to derive its working capital allowance is reasonable and did not require any changes [Page 17].

○ ***Cost of Power***

The Board directed NOTL to update the cost of power used in the calculation of the working capital allowance to reflect the most recent cost of power forecast presented to the Board by Navigant on October 15, 2008 [Page 17]. NOTL used a HOEP price of \$0.0537 per kWh in its Application. The updated price presented to the Board by Navigant is the RPP price of \$0.0603 per kWh.

In addition, the cost of power is impacted by the change to the total loss factor from 1.0501 to 1.0463 pursuant to the Board's direction on **COST ALLOCATION AND RATE DESIGN – Line Losses** [Page 22] discussed in a later section of this draft rate order.

The adjustments due to the price and line loss changes are summarized below:

Cost of Power

Cost of Power – Application August 6, 2008

Consisting of:

Wholesale	\$ 1,189,256	
Network	\$ 886,554	
Connection	\$ 324,619	
Commodity & Load Transfers	\$10,306,246	\$12,706,675

Changes to Application

Loss Factor Change [Page22]

Wholesale	\$ 121	
Network	\$ 1,498	
Connection	\$ 543	
Commodity & Load Transfers	\$ 1,044	\$ 3,206

Commodity Price Change [Page 17]

Commodity & Load Transfers	\$ 1,260,356	<u>\$ 1,260,356</u>
----------------------------	--------------	---------------------

Cost of Power – Draft Rate Order April 8, 2009

\$13,970,237

○ **Error Correction – Property Taxes - Energy Probe Interrogatory # 11 g)**

The Board found that property taxes are properly included in the working capital calculation [Page 17]. In NOTL's response to the Energy Probe Interrogatory # 11 g), NOTL indicated that the application included an erroneous expenditure offset of approximately \$4,000. The OM&A component of this error (\$2,813 in building maintenance costs) was discussed in the OM&A Expenses section above. The remainder of the error is \$1,200 in property tax, included in the PILS section of this draft rate order. This change in property tax expense from \$33,450 to \$36,450 results in an increase of \$1,200 in working capital.

○ **Summary of Working Capital Allowance Changes**

A summary of the adjustments to the working capital allowance is provided below:

Working Capital Allowance

Working Capital

• Application August 6, 2008		
	Per Exhibit 2, Tab 4, Schedule 1, Page 4	\$14,604,787
• Adjustments:		
	OM&A Expenses (\$20,520)	
	Property Tax \$1,200	
	Cost of Power \$1,263,561	<u>\$1,244,241</u>

Working Capital

• Draft Rate Order April 8, 2009	\$15,849,028
----------------------------------	--------------

Working Capital Rate	15%
----------------------	-----

Working Capital Allowance

• Draft Rate Order April 8, 2009	\$2,377,354
----------------------------------	--------------------

- **Disposition of meters**

NOTL's reply submission indicated that the final 2008 and 2009 continuity schedules should include correction of the inadvertent omission of meter disposals in 2008 and 2009 in the Application, and an additional error related to the disposition of substation equipment, with corresponding adjustment to the rate base and revenue deficiency calculations. The Board directed that all necessary corrections be incorporated into NOTL's draft rate order [Page 17].

The final continuity schedules for 2008 and 2009 with these errors corrected are as follows:

Fixed Asset Continuity Schedule (Distribution & Operations)																
2008 Forecast (Excludes account 1606 - Intangible plant: cost \$25,038, annual depreciation \$1,252)							Cost				Accumulated Depreciation					
CCA Class	OEB	Description	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value					
N/A	1805	Land - Substations	261,994	-		261,994	-			-	261,994					
47	1808	Buildings - Substations	-			-	-			-	-					
13	1810	Leasehold Improvements	-			-	-			-	-					
47	1815	Transformer Station Equipment > 50 kV	5,181,654	130,000		5,311,654	445,489	131,166		576,656	4,734,998					
47	1820	Substation Equipment	242,132	-	28,320	213,812	166,368	4,755	18,253	152,871	60,941					
47	1825	Storage Battery Equipment	-			-	-			-	-					
47	1830	Poles, Towers & Fixtures	4,263,018	100,712		4,363,730	2,428,117	134,725		2,562,842	1,800,888					
47	1835	OH Conductors & Devices	5,729,536	312,680		6,042,216	3,056,518	187,885		3,244,404	2,797,812					
47	1840	UG Conduit	3,687,229	240,000		3,927,229	1,455,197	148,552		1,603,749	2,323,481					
47	1845	UG Conductors & Devices	7,088,280	251,450		7,339,730	3,109,259	280,424		3,389,683	3,950,047					
47	1850	Line Transformers	6,671,557	143,158	30,000	6,784,715	2,860,983	238,370	30,000	3,069,354	3,715,361					
47	1855	Services (OH & UG)	1,867,773	100,000		1,967,773	305,871	76,711		382,582	1,585,190					
47	1860	Meters	1,039,529	20,000	20,000	1,039,529	582,228	36,175	12,000	606,403	433,126					
47	1861	Smart Meters	-			-	-			-	-					
N/A	1905	Land	49,000	-		49,000	-			-	49,000					
CEC	1906	Land Rights	-			-	-			-	-					
47	1908	Buildings & Fixtures	909,794	25,000		934,794	286,799	16,068		302,867	631,927					
13	1910	Leasehold Improvements	-			-	-			-	-					
8	1915	Office Furniture & Equipment	169,151	5,000		174,151	132,881	5,695		138,576	35,575					
10	1920	Computer - Hardware up to Mar 22/04	233,047			233,047	228,746	3,676		232,422	625					
45	1921	Computer - Hardware Mar 23/04 to Mar 19/07	53,318			53,318	19,374	10,664		30,037	23,280					
45.1	1921	Computer - Hardware post Mar19/07	6,896	15,000		21,896	690	2,879		3,569	18,327					
12	1925	Computer - Software	891,659	50,000		941,659	773,924	76,903		850,827	90,832					
10	1930	Transportation Equipment	945,199	30,000		975,199	594,095	83,532		677,627	297,572					
8	1935	Stores Equipment	16,039	2,000		18,039	14,316	284		14,600	3,439					
8	1940	Tools, Shop & Garage Equipment	409,946	5,000		414,946	263,700	28,575		292,274	122,672					
8	1945	Measurement & Testing Equipment	-			-	-			-	-					
8	1950	Power operated Equipment	-			-	-			-	-					
8	1955	Communications Equipment	36,768	-		36,768	19,944	2,269		22,212	14,556					
8	1960	Miscellaneous Equipment	-			-	-			-	-					
47	1965	Water Heater Rental Units	-			-	-			-	-					
47	1970	Load Management controls	-			-	-			-	-					
47	1975	Load Management Controls Utility Premises	-			-	-			-	-					
47	1980	System Supervisory Equipment	315,463	10,000		325,463	119,940	21,364		141,304	184,159					
47	1985	Sentinel Lighting Rental Units	-			-	-			-	-					
47	1996	Hydro One S/S Contribution	-			-	-			-	-					
47	1995	Contributions & Grants	4,827,565	150,000		4,977,565	858,710	196,200		1,054,910	3,922,655					
Total before Work in Process			35,241,416	1,290,000	78,320	36,453,097	16,005,729	1,294,472	60,253	17,239,948	19,213,148					
WIP		Work in Process	-	-	-	-	-	-	-	-	-					
Total after Work in Process			35,241,416	1,290,000	78,320	36,453,097	16,005,729	1,294,472	60,253	17,239,948	19,213,148					
							Less: Fully Allocated Depreciation									
10		Transportation					Transportation	83,532								
8		Stores Equipment					Stores Equipment	284								
							Net Depreciation	1,210,656	excludes intangible plant				\$1,252			

Fixed Asset Continuity Schedule (Distribution & Operations)

2009 Test Year

(Excludes account 1606 - Intangible plant:
cost \$25,038, annual depreciation \$1,252)

(Excludes account 1606 - Intangible plant: cost \$25,038, annual depreciation \$1,252)			Cost				Accumulated Depreciation				
CCA Class	OEB	Description	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value
N/A	1805	Land - Substations	261,994	40,000		301,994	-			-	301,994
		Buildings - Substations									
47	1808		-			-	-			-	-
13	1810	Leasehold Improvements	-			-	-			-	-
		Transformer Station Equipment > 50 kV									
47	1815		5,311,654	5,000		5,316,654	576,656	132,854		709,509	4,607,145
47	1820	Substation Equipment	213,812	-		213,812	152,871	3,141		156,012	57,800
		Storage Battery Equipment									
47	1825		-			-	-			-	-
		Poles, Towers & Fixtures									
47	1830		4,363,730	111,666		4,475,396	2,562,842	134,930		2,697,771	1,777,625
		OH Conductors & Devices									
47	1835		6,042,216	334,166		6,376,382	3,244,404	195,881		3,440,285	2,936,097
47	1840	UG Conduit	3,927,229	709,166		4,636,395	1,603,749	167,535		1,771,284	2,865,111
		UG Conductors & Devices									
47	1845		7,339,730	406,666		7,746,396	3,389,683	293,586		3,683,270	4,063,126
47	1850	Line Transformers	6,784,715	180,832	5,000	6,960,547	3,069,354	244,850	5,000	3,309,204	3,651,343
47	1855	Services (OH & UG)	1,967,773	100,000		2,067,773	382,582	80,711		463,293	1,604,479
47	1860	Meters	1,039,529	20,000	20,000	1,039,529	606,403	36,174	5,600	636,977	402,552
47	1861	Smart Meters	-	-	-	-	-	-	-	-	-
N/A	1905	Land	49,000	-	-	49,000	-	-	-	-	49,000
CEC	1906	Land Rights	-	-	-	-	-	-	-	-	-
47	1908	Buildings & Fixtures	934,794	20,000		954,794	302,867	16,518		319,385	635,409
		Leasehold Improvements									
13	1910		-			-	-			-	-
		Office Furniture & Equipment									
8	1915		174,151	5,000		179,151	138,576	6,111		144,687	34,464
		Computer - Hardware up to Mar 22/04									
10	1920		233,047			233,047	232,422	625		233,047	0
		Computer - Hardware Mar 23/04 to Mar 19/07									
45	1921		53,318			53,318	30,037	9,983		40,021	13,297
		Computer - Hardware post Mar19/07									
45.1	1921		21,896	10,000		31,896	3,569	5,379		8,948	22,948
12	1925	Computer - Software	941,659	50,000		991,659	850,827	63,017		913,844	77,815
		Transportation Equipment									
10	1930		975,199	-		975,199	677,627	86,361		763,987	211,212
8	1935	Stores Equipment	18,039	20,000		38,039	14,600	1,384		15,984	22,055
		Tools, Shop & Garage Equipment									
8	1940		414,946	5,000		419,946	292,274	28,191		320,465	99,481
		Measurement & Testing Equipment									
8	1945		-			-	-			-	-
		Power operated Equipment									
8	1950		-			-	-			-	-
		Communications Equipment									
8	1955		36,768	-		36,768	22,212	2,269		24,481	12,287
		Miscellaneous Equipment									
8	1960		-			-	-			-	-
		Water Heater Rental Units									
47	1965		-			-	-			-	-
		Load Management controls									
47	1970		-			-	-			-	-
		Load Management Controls Utility Premises									
47	1975		-			-	-			-	-
		System Supervisory Equipment									
47	1980		325,463	10,000		335,463	141,304	22,031		163,335	172,128
		Sentinel Lighting Rental Units									
47	1985		-			-	-			-	-
		Hydro One S/S Contribution									
47	1996		-			-	-			-	-
47	1995	Contributions & Grants	- 4,977,565	- 150,000	-	- 5,127,565	- 1,054,910	- 201,454	-	- 1,256,364	- 3,871,201
		Total before Work in Process	36,453,097	1,877,496	25,000	38,305,593	17,239,948	1,330,077	10,600	18,559,426	19,746,167
WIP		Work in Process	-	-	-	-	-	-	-	-	-
		Total after Work in Process	36,453,097	1,877,496	25,000	38,305,593	17,239,948	1,330,077	10,600	18,559,426	19,746,167

10	Transportation
8	Stores Equipment

Less: Fully Allocated Depreciation	
Transportation	86,361
Stores Equipment	1,384
Net Depreciation	1,242,333

excludes intangible plant \$1,252

The changes to the continuity schedules from the Application to the draft Rate Order per Board Decision) affect the gross fixed assets and accumulated depreciation at 2009 year-start and 2009 year-end, and thus the average of these values included in the rate base, as follows:

<u>ADJUSTMENT GROSS</u>				<u>Adjustment</u>	<u>Per Board Decision</u>
<u>ASSETS</u>	<u>Application</u>				
2009 Year Start	\$36,559,736	Acct 1820 sign reversal in 2008		-\$56,640	
		Acct 1850 omitted 2008 disposal - remove assets		-\$30,000	
		Acct 1860 omitted 2008 disposal - remove assets		-\$20,000	
				-\$106,640	\$36,453,096
2009 Year End	\$38,437,232	Adjustment to year start		-\$106,640	
		Acct 1850 omitted 2009 disposal - remove assets		-\$5,000	
		Acct 1860 omitted 2009 disposal - remove assets		-\$20,000	
				-\$131,640	\$38,305,592
Average	<u>\$37,498,484</u>			<u>-\$119,140</u>	<u>\$37,379,344</u>
<u>ADJUSTMENT ACC DEP</u>				<u>Adjustment</u>	<u>Per Board Decision</u>
<u>ASSETS</u>	<u>Application</u>				
2009 Year Start	-\$17,282,748	[No 1820 sign reversal in 2008]		n/a	
(-ve indicates credit balance)		Acct 1850 omitted 2008 disposal - remove acc dep (fully dep)		\$30,000	
		Acct 1860 omitted 2008 disposal - remove acc dep (\$8,000 NBV written off)		\$12,000	
		(* \$12,000 = 15 years @ \$800 per year)		\$0	
		Acct 1860 - remove 2008 depreciation of meters disposed in 2008		\$800	
		(10 years @ \$800 per year to be removed from depreciation ladder - 2008 to 2017)		\$0	
				\$42,800	-\$17,239,948
2009 Year End	-\$18,614,426	Adjustment to year start		\$42,800	
		Acct 1860 - remove 2009 depreciation of meters disposed in 2008		\$800	
		Acct 1850 omitted 2009 disposal - remove acc dep (fully dep)		\$5,000	
		Acct 1860 omitted 2009 disposal - remove acc dep (\$14,400 written off)		\$5,600	
		(** \$12,000 = 7 years @ \$800 per year)		\$0	
		Acct 1860 - remove 2009 depreciation of meters disposed in 2009		\$800	
		(18 years @ \$800 per year to be removed from depreciation ladder - 2009 to 2026)		\$0	
				\$55,000	-\$18,559,426
Average	<u>-\$17,948,587</u>			<u>\$48,900</u>	<u>-\$17,899,687</u>

- Computer hardware and software depreciation**

The Board accepted NOTL's explanation that the calculation of depreciation for computer hardware was based on the correct five year rate and did not require any changes [Page 18]. The Board accepted NOTL's argument for use of a three year rate for computer software and did not require any changes [Page 18].

5. SUMMARY OF CHANGES TO RATE BASE

With the adjustments described in Section 4 above to the working capital allowance, to the average gross fixed assets and to the average accumulated depreciation, the changes to the rate base are summarized as follows:

Particulars	Rate Base		
	Application	Adjustments	Per Board Decision
Gross Fixed Assets (average)	\$37,498,484	(\$119,140)	\$37,379,344
Accumulated Depreciation (average)	(\$17,948,587)	\$48,900	(\$17,899,687)
Net Fixed Assets (average)	\$19,549,897	(\$70,240)	\$19,479,657
Allowance for Working Capital	\$2,190,718	\$186,636	\$2,377,354
Total Rate Base	\$21,740,615	\$116,396	\$21,857,011

6. COST OF CAPITAL AND CAPITAL STRUCTURE

The Board found that NOTL should use the Board's deemed rate as of July 15, 2008, or 6.10%, as the imputed rate on its promissory note in determining its cost of debt for regulatory purposes rather than its proposed rate of 7.25% [Page 20]. The Board directed NOTL to make all necessary adjustments as a result of applying this deemed long-term rate in its draft rate order [Page 20]. The Board-approved 2009 Capital Structure and Cost of Capital is as follows [Page 20-21]:

Capital Component	% of Total Capital Structure	Cost Rate (%)
Long-Term Debt	52.7	6.04
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Weighted Average Cost of Capital		6.71

The Table above shows the % of Total Capital Structure for 2009 rounded to 1 decimal place as required by the Board. In the Application, the % was rounded to 2 decimal places.

The amount of return requested in the Application (\$1,621,647) and the calculation of the amount of return per Board decision (\$1,465,427), reflecting the approved capital

structure and the approved rate base summarized in Section 5 above, are shown in the following Table:

Capitalization/Cost of Capital				
Particulars	Capitalization Ratio		Cost Rate	Return
	(%)	(\$)	(%)	(\$)
Application				
Debt				
Long-term Debt	52.67%	\$11,450,782	6.77%	\$775,463
Short-term Debt	4.00%	\$869,625	4.47%	\$38,872
Total Debt	56.67%	\$12,320,407	6.61%	\$814,335
Equity				
Common Equity	43.33%	\$9,420,209	8.57%	\$807,312
Preferred Shares	0.00%	\$ -	0.00%	\$ -
Total Equity	43.33%	\$9,420,209	8.57%	\$807,312
Total Rate Base/Return	100%	\$21,740,615	7.46%	\$1,621,647
Per Board Decision				
	(%)	(\$)	(%)	
Debt				
Long-term Debt	52.7%	\$11,518,645	6.04%	\$695,726
Short-term Debt	4.00%	\$874,280	1.33%	\$11,628
Total Debt	56.70%	\$12,392,925	5.71%	\$707,354
Equity				
Common Equity	43.3%	\$9,464,086	8.01%	\$758,073
Preferred Shares	0.0%	\$ -	0.00%	\$ -
Total Equity	43.3%	\$9,464,086	8.01%	\$758,073
Total Rate Base/Return	100%	\$21,857,011	6.70%	\$1,465,427

7. PAYMENTS IN LIEU OF TAXES ("PILs")

• Methodology

The Board did not require NOTL to adjust its methodology for the purposes of rate setting in this proceeding [Page 13]. Therefore, the remainder of this Section is based on the same methodology as used in the Application.

- **Property Tax**

As indicated in Section 4 of this draft Rate Order (***Error Correction – Property Taxes - Energy Probe Interrogatory # 11 g***)), there was an error in the Application of \$1,200 in property tax. Correction of this error changed the property tax expense from \$33,450 to \$36,450. The Board accepted NOTL's submission that it did not provide a detailed explanation of its property tax recovery because of the immateriality of the amount [Page 13].

- **Regulatory Taxable Income**

The Board found that NOTL is required to correct all errors identified in its PILS calculations and incorporate in its draft rate order any adjustments to regulatory taxable income that arise from this Board Decision [Page 13]. In addition to all previously discussed adjustments, two changes to Tax Adjustments and a change to Capital Tax are required, as follows:

- **Tax Adjustments:**

- **Change in Regulatory Assets**

In the interrogatory process, OEB staff and Energy Probe noted that NOTL had revised its calculations to remove the erroneous inclusion of the change in regulatory assets.

- **Depreciation**

The correction of the omission of 2008 and 2009 meter disposals affects depreciation in 2009.

The combined effect of these two items on the tax adjustments and the \$2.250 reduction due to the change in CCA referred to in the section regarding the 2009 Federal Budget below is as follows:

CALCULATION OF TAX ADJUSTMENT

Please refer to Exhibit 4 Tab 3 Schedule 1 Page 1 for data in Application column

	<u>Application</u>	<u>Change</u>	<u>Per Board Decision</u>
Additions to accounting income			
Depreciation	\$1,331,677	Correction regarding omitted meter disposals: Remove 2009 depreciation of 2008 disposals Remove 2009 depreciation of 2009 disposals -\$800 -\$800 -\$1,600	\$1,330,077
Change in regulatory assets	\$17,723	Remove changes in regulatory assets	\$0
Change in employee future benefits	\$1,000		\$1,000
Total additions	\$1,350,400		\$1,331,077
Total Deductions from accounting income	\$1,323,194	Federal budget 2009: Deduction for \$10,000 computer additions at 100% CCA vs 55% in application with 1/2 year rule	
		\$2,250	\$1,325,444
Tax adjustments	<u>\$27,206</u>	<u>-\$21,573</u>	<u>\$5,634</u>

(#s may not appear to add due to rounding)

○ **Capital Tax**

The change in the rate base affects the capital tax as shown below:

<u>ADJUSTMENT CAPITAL TAX</u>	<u>Application</u>	<u>Board Decision</u>	<u>Adjustment</u>
			0
Total Rate Base	\$21,740,615	\$21,857,011	\$116,396
Exemption	-\$15,000,000	-\$15,000,000	\$0
Deemed taxable capital	\$6,740,615	\$6,857,011	\$116,396
Rate	0.225%	0.225%	0.225%
Gross Tax Payable	\$15,166	\$15,428	\$262
Surtax	0	0	0
Net Capital Tax Payable	\$15,166	\$15,428	\$262

• **Federal Budget (February 3, 2009) and other known tax changes**

○ **Small business income limit**

The Board directed that affected distributors should reflect the increase from \$400,000 to \$500,000 in their draft rate orders [Page 13]. NOTL had not reflected any small business limit in its Application. However, NOTL's tax calculations were revised in the interrogatory responses to include this limit and the OEB staff submission confirmed that this revision was made in NOTL's

responses. The **Summary of Changes to the Tax Calculation** section below shows includes the impact of this revision.

- **Change in CCA applicable to certain computer equipment and related system software (CCA class 50) acquired between January 27, 2009 and February 2011.**

The Board directed that affected distributors should reflect the change in the CCA in their draft rate orders [Page 13]. NOTL had an addition of \$10,000 in this class in the application¹, at a CCA rate of 55%. At the new CCA rate of 100% in the Federal Budget, assuming that all the asset is purchased after January 27, 2009 and using the ½ year rule, there is a reduction in the tax adjustment of:

$$(\$10,000 \times \frac{1}{2} \times 100\%) \text{ minus } (\$10,000 \times \frac{1}{2} \times 55\%) = \$2,250.$$

This adjustment is included in the tax adjustments section above.

- **Other known tax changes**

The Board directed NOTL to incorporate all other known income and capital tax changes into its PILS calculations for 2009 that have arisen since the application was filed [Page 13]. NOTL believes that there are no other known tax changes and therefore no other adjustments are required.

- **Summary of Changes to the Tax Calculation**

The following Table summarizes the changes to the tax calculation, reflecting:

- The proposed return on common equity of \$758,073 as shown in Section 6 above regarding the capital structure;
- The adjusted tax adjustments of \$5,634 as shown above;
- The adjusted capital tax of \$15,428 as shown above;

¹ This amount was included in the application within the class shown as 45.1

- The adjusted effective Provincial Tax Rate of 12.53% reflecting tax at 5.5% on taxable income up to the small business income limit of \$500,000 and tax at 18.25% on the remainder of the taxable income.

Taxes/PILs			
Line No.	Particulars	Application	Per Board Decision
<u>Determination of Taxable Income</u>			
1	Utility net income	\$807,312	\$758,073
2	Adjustments required to arrive at taxable utility income	\$27,206	\$5,634
3	Taxable income	<u>\$834,518</u>	<u>\$763,707</u>
<u>Calculation of Utility income Taxes</u>			
4	Income taxes	\$275,391	\$240,834
5	Capital taxes	\$15,166	\$15,428
6	Total taxes	<u>\$290,557</u>	<u>\$256,262</u>
7	Gross-up of Income Taxes	<u>\$135,640</u>	<u>\$110,928</u>
8	Grossed-up Income Taxes	<u>\$411,031</u>	<u>\$351,762</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$426,197</u>	<u>\$367,190</u>
10	Other tax Credits	\$ -	\$ -
<u>Tax Rates</u>			
11	Federal tax (%)	19.00%	19.00%
12	Provincial tax (%)	14.00%	12.53%
13	Total tax rate (%)	<u>33.00%</u>	<u>31.53%</u>

8. SUMMARY OF CHANGES TO REVENUE REQUIREMENT

All of the changes directed by the Board in its decision discussed above and the subsequent impact on revenue requirement are summarized in the Table below:

Particulars	Revenue Requirement		
	Application	Per Board Decision	Change
OM&A Expenses	\$1,864,661	\$1,844,141	(\$20,520)
Amortization/Depreciation	\$1,245,184	\$1,243,584	(\$1,600)
Property Taxes	\$33,450	\$34,650	\$1,200
Capital Taxes	\$15,166	\$15,428	\$262
Income Taxes (Grossed up)	\$411,031	\$351,762	(\$59,269)
Other Expenses	\$ -	\$ -	\$ -
Return	\$ -	\$ -	\$ -
Deemed Interest Expense	\$814,335	\$707,354	(\$106,981)
Return on Deemed Equity	\$807,312	\$758,073	(\$49,239)
	\$5,191,139	\$4,954,993	(\$236,146)
Distribution Revenue Requirement before Revenues	\$5,191,139	\$4,954,993	(\$236,146)
Distribution revenue	\$4,829,518	\$4,577,999	(\$251,519)
Other revenue	\$361,622	\$376,994	\$15,372
Total revenue	\$5,191,140	\$4,954,993	(\$236,147)

The decrease in amortization expense in the above Table of \$1,600 results from the reduction in 2009 depreciation due to correction of the omission of 2008 and 2009 meter disposals discussed above.

With this revised 2009 total revenue requirement of \$4,954,993, the current rates would result in a revenue surplus of \$52,844, as follows:

Revenue Sufficiency/Deficiency

Particulars	Per Application		Per Board Decision	
	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
Revenue Deficiency from Below		\$206,183		(\$52,844)
Distribution Revenue	\$4,623,334	\$4,623,335	\$4,630,843	\$4,630,843
Other Operating Revenue Offsets - net	\$361,622	\$361,622	\$376,994	\$376,994
Total Revenue	\$4,984,956	\$5,191,140	\$5,007,837	\$4,954,993
Operating Expenses	\$3,158,461	\$3,158,461	\$3,137,803	\$3,137,803
Deemed Interest Expense	\$814,335	\$814,335	\$707,354	\$707,354
Total Cost and Expenses	\$3,972,796	\$3,972,796	\$3,845,157	\$3,845,157
Utility Income Before Income Taxes	\$1,012,160	\$1,218,344	\$1,162,680	\$1,109,836
Tax Adjustments to Accounting Income per 2009 PILs	\$27,206	\$27,206	\$5,634	\$5,634
Taxable Income	\$1,039,366	\$1,245,550	\$1,168,314	\$1,115,470
Income Tax Rate	33.00%	33.00%	31.53%	31.53%
Income Tax on Taxable Income	\$342,991	\$411,032	\$368,427	\$351,762
Income Tax Credits	\$ -	\$ -	\$ -	\$ -
Utility Net Income	\$669,169	\$807,313	\$794,253	\$758,073
Utility Rate Base	\$21,740,615	\$21,740,615	\$21,857,011	\$21,857,011
Deemed Equity Portion of Rate Base	\$9,420,209	\$9,420,209	\$9,464,086	\$9,464,086
Income/Equity Rate Base (%)	7.10%	8.57%	8.39%	8.01%
Target Return - Equity on Rate Base	8.57%	8.57%	8.01%	8.01%
Sufficiency/Deficiency in Return on Equity	-1.47%	0.00%	0.38%	0.00%
Indicated Rate of Return	6.82%	7.46%	6.87%	6.70%
Requested Rate of Return on Rate Base	7.46%	7.46%	6.70%	6.70%
Sufficiency/Deficiency in Rate of Return	-0.64%	0.00%	0.17%	0.00%
Target Return on Equity	\$807,312	\$807,312	\$758,073	\$758,073
Revenue Sufficiency/Deficiency	\$138,143	\$1	(\$36,180)	\$0
Gross Revenue Sufficiency/Deficiency	\$206,183 (1)		(\$52,844) (1)	

With the proposed rates, NOTL would meet the target return on equity of \$758,073 shown above, as the utility net income after tax would be \$758,073, as shown below:

Utility income

Particulars	Application	Adjustments	Per Board Decision
<u>Operating Revenues:</u>			
Distribution Revenue (at Proposed Rates)	\$4,829,518	(\$251,519)	\$4,577,999
Other Revenue (1)	\$361,622	\$15,372	\$376,994
Total Operating Revenues	\$5,191,140	(\$236,147)	\$4,954,993
<u>Operating Expenses:</u>			
OM+A Expenses	\$1,864,661	(\$20,520)	\$1,844,141
Depreciation/Amortization	\$1,245,184	(\$1,600)	\$1,243,584
Property taxes	\$33,450	\$1,200	\$34,650
Capital taxes	\$15,166	\$262	\$15,428
Other expense	\$ -	\$ -	\$ -
Subtotal	\$3,158,461	(\$20,658)	\$3,137,803
Deemed Interest Expense	\$814,335	(\$106,981)	\$707,354
Total Expenses (lines 4 to 10)	\$3,972,796	(\$127,639)	\$3,845,157
Utility income before income taxes	\$1,218,344	(\$108,508)	\$1,109,836
Income taxes (grossed-up)	\$411,031	(\$59,269)	\$351,762
Utility net income	\$807,313	(\$49,239)	\$758,073

Other Revenues / Revenue Offsets			
Specific Service Charges	\$115,430	\$ -	\$115,430
Late Payment Charges	\$48,070	\$ -	\$48,070
Other Distribution Revenue	\$97,207	\$ -	\$97,207
Other Income and Deductions	\$100,915	\$15,372	\$116,287
Total Revenue Offsets	\$361,622	\$15,372	\$376,994

9. COST ALLOCATION AND RATE DESIGN

• Line losses

The Board found that the total loss factor for secondary metered customers is 1.0463, which is the average data for the period 2003 to 2007, and directed NOTL to incorporate necessary corrections into its draft rate order [Pages 21-22].

The cost of power impact on the working capital allowance due to correction of the loss factor to 1.0463 was addressed in Section 4 above.

The loss factor of 1.0463 is included in the draft Tariff of Rates and Charges in Appendix A and is reflected in the bill impacts calculations in Appendix B.

- **Customer reclassification**

The Board found that it is a reasonable decision for NOTL to eliminate the sentinel light class and accepted NOTL's suggestion to allocate revenue for disconnected sentinel lights across all customer classes and to allocate revenue requirement for re-assigned sentinel lights to the assigned classes [Page 23].

In order to calculate the allocation of the revenue requirement for the eliminated sentinel lights, the revenue to cost ratio summary worksheet provided in NOTL's reply submission, page 31 of 37, is required:



2006 COST ALLOCATION INFORMATION FILING
Niagara-on-the-Lake Hydro Inc.
EB-2005-0395 EB-2006-0247
December 13, 2006

Sheet 01 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 mi	Distribution Revenue (sale)	\$4,248,130	\$1,996,674	\$1,004,372	\$1,195,538	\$30,285	\$5,750	\$15,511
	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 cu ad dep INPUT INT	Distribution Costs (di)	\$564,796	\$307,311	\$142,986	\$73,906	\$34,401	\$4,086	\$2,106
	Customer Related Costs (cu)	\$333,858	\$203,700	\$89,153	\$34,422	\$3,570	\$242	\$2,771
	General and Administration (ad)	\$585,292	\$329,642	\$151,177	\$73,311	\$25,218	\$2,880	\$3,065
	Depreciation and Amortization (dep)	\$1,085,204	\$575,787	\$273,873	\$163,142	\$61,523	\$7,121	\$3,757
	PILs (INPUT)	\$322,017	\$161,749	\$83,343	\$57,690	\$16,309	\$1,891	\$1,035
	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								
dp gp accum dep co	Net Assets							
	Distribution Plant - Gross	\$29,386,579	\$15,595,886	\$7,398,855	\$4,427,365	\$1,669,407	\$193,401	\$101,665
	General Plant - Gross	\$3,299,445	\$1,691,969	\$847,965	\$552,910	\$175,213	\$20,404	\$10,985
	Accumulated Depreciation	(\$12,128,651)	(\$6,745,952)	(\$2,963,527)	(\$1,535,340)	(\$752,944)	(\$86,678)	(\$44,209)
	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%

In this summary, the sentinel light class at 100% revenue to cost ratio would have revenue requirement of \$25,277. On this basis and using the number of lights reassigned and eliminated to compute the proportions of sentinel light revenue re-assignment to each other class, the following Table indicates how this revenue requirement would be allocated to reflect the Board Decision:

Class	Service Revenue Requirement - 2006 Cost Allocation Study	Service Revenue Requirement % - 2006 Cost Allocation Study	2009 Service Revenue Requirement at 100% Revenue/Cost Ratio with Sentinels	Sentinel Lights Allocation (#)	% Revenue Allocation	Revenue to Assigned Classes	Revenue to All Classes*	2009 Service Revenue Requirement at 100% Revenue/Cost Ratio
	A	B				D = C 48.68% B+C+D		
Residential	\$2,352,825	53.07%	\$2,629,672				\$7,341	\$2,637,013
GS <50 kW	\$1,139,669	25.71%	\$1,273,769				\$3,556	\$1,277,325
GS>50 kW	\$678,754	15.31%	\$758,620				\$2,118	\$760,738
Street Light	\$219,125	4.94%	\$244,909	14	18.42%	\$5,204	\$684	\$250,797
Sentinel	\$25,277	0.57%	\$28,251			-\$14,497	-\$13,754	\$0
USL	\$17,690	0.40%	\$19,772	25	32.89%	\$9,293	\$55	\$29,120
TOTAL	\$4,433,341	100.00%	\$4,954,993			\$0	\$0	\$4,954,993
			Eliminated	37	48.68%			
			Total	76	100.00%			

* Proportionate to Column A

- Revenue to cost ratios**

The Board found that the revenue to cost ratios in column 2 of Table 6 [Page 23-24] are appropriate for the purpose of reviewing the ratios for 2009, namely:

Residential	88.59%
GS<50 kW	92.47%
GS>50 kW	179.01%
Street Lights	15.07%
Sentinel Lights	24.24%
USL	97.90%

NOTL understands from clarification by Board staff that the Board's intention in this finding was to use the ratios in the "Revenue to Expenses %" row of the cost allocation informational filing Sheet O1 included above. It is noted therefore that there is a typographical error in the Residential %, which should read 89.59%, not 88.59%. On this basis, the Board's finding is assumed to be:

Residential	89.59%
GS<50 kW	92.47%
GS>50 kW	179.01%
Street Lights	15.07%
Sentinel Lights	24.24%
USL	97.90%

The Board's findings on changes to the revenue to cost ratios were as follows:

- Move residential half-way to 100% [Page 26];
- Move GS<50 kW half-way to 100% [Page 26];
- Allocate additional revenue to reduce ratio for GS>50 kW [Pages 25-26];
- Move streetlights half-way to bottom (70%) of target range [Page 25];
- Move USL to 100% [Page 26]

On this basis, the proposed revenue to cost ratios for 2009 are as follows:

Customer Class	Board Table 6 Col 2	2009 Rates Per Board Decision
Residential	89.59%	94.80%
GS <50 kW	92.47%	96.23%
GS>50 kW	179.01%	143.30%
Street Lighting	15.07%	42.53%
Sentinel Lighting	24.24%	N/A
Unmetered Scattered Load	97.90%	100.00%

With the above proposed revenue to cost ratios, the resulting base revenue requirement of \$4,577,959 ("Net Revenue per 2009 Test Year") is derived as follows:

Customer Class	2009 Service Revenue Requirement at 100% Revenue/Cost Ratio	Proposed 2009 Revenue to Cost Ratios	2009 Miscellaneous Revenue Allocation	Net Revenue Per 2009 Test Year
Residential	\$2,637,013	94.80%	\$100,850	\$2,272,736
GS <50 kW	\$1,277,325	96.23%	\$39,796	\$1,128,364
GS>50 kW	\$760,738	143.30%	\$39,796	\$1,050,368
Street Light	\$250,797	42.53%	\$5,575	\$101,099
Sentinel	\$0	N/A	N/A	N/A
Unmetered Scattered Load	\$29,120	100.00%	\$3,689	\$25,432
	\$4,954,993		\$189,706	\$4,577,999

- **Rate design – monthly fixed charges**

The Board accepted NOTL's proposal to maintain the same fixed to variable proportions as those assumed in the current rates [Page 26], namely those shown in Exhibit 9 Tab 1 Schedule 1 Page 3 of the Application:

Customer Class	Current Volumetric Split	Current Fixed Charge Split	Total
Residential	37.25%	62.75%	100.00%
GS <50 kW	41.71%	58.29%	100.00%
GS>50 kW	51.28%	48.72%	100.00%
Street Light	32.66%	67.34%	100.00%
Sentinel	N/A*	N/A*	0.00%
Unmetered Scattered Load	19.15%	80.85%	100.00%
	(* Sentinel class eliminated in 2009)		

The Board did not require any changes to these proportions in the calculation of rates.
With these proportions, the fixed and variable charges are calculated as follows:

Customer Class	Total Base Revenue Requirement	Fixed Revenue Proportion	2009 Test Year Annualized Customers /Connections	Proposed Fixed Distribution Charge
Residential	\$2,272,736	62.75%	79,008	\$18.05
General Service Less Than 50 kW	\$1,128,364	58.29%	14,508	\$45.33
General Service Greater Than 50 kW	\$1,050,368	48.72%	1,478	\$346.25
Street Lights	\$101,099	67.34%	23,436	\$2.91
Sentinel Lights	N/A	N/A*	0	N/A
Unmetered Scattered Load	\$25,432	80.85%	384	\$53.55
Total	\$4,577,999		48,186	

Customer Class	Total Base Revenue Requirement	Variable Revenue Proportion	2009 Test Year usage	Unit of Measure	Variable Revenue Charge
Residential	\$2,272,736	37.25%	66,607,551	kWh	\$0.0127
General Service Less Than 50 kW	\$1,128,364	41.71%	34,497,593	kWh	\$0.0136
General Service Greater Than 50 kW	\$1,050,368	51.28%	208,072	kW	\$2.5889*
Street Lights	\$101,099	32.66%	2,900	kW	\$11.3847
Sentinel Lights	N/A	N/A*	0	kW	N/A
Unmetered Scattered Load	\$25,432	19.15%	302,169	kWh	\$0.0161
Total	\$4,577,999				

*prior to adjustment (rounded) of \$0.1169 per kW
for class usage of 208,072 kW
to offset total allowance for eligible customers of \$24,326
With this adjustment, rate is \$2.7058

9. RETAIL TRANSMISSION RATES

The Board accepted NOTL's proposed retail transmission network and connection rates per its application of November 28, 2008 and did not require any changes [Page 27].

10. DEFERRAL AND VARIANCE ACCOUNTS

NOTL's Application proposed a total of \$131.304 to be disposed of, calculated as follows:

Account Description	Account Number	Principal Amounts as of Dec-31 2007	Interest to Dec31-07	Interest Jan-1 to Dec31-08	Interest Jan1-09 to Apr30-09	Total Claim
Other Regulatory Assets	1508	\$ 95,568	\$ 9,665	\$ 3,804	\$ 1,067	\$ 110,104
Low Voltage	1550	\$ 18,804	\$ 1,163	\$ 748	\$ 210	\$ 20,926
Totals per column		\$ 114,372	\$ 10,828	\$ 4,552	\$ 1,277	\$ 131,030
rate:		Q1 2008	Q2 2008	Q3 2008	Q4 2008	Jan to Apr 2009
		5.14%	4.08%	3.35%	3.35%	3.35%

The Board's Decision directed that the interest portion should be based on the Board's prescribed values [Page 28]. The Board has provided the prescribed values for Q4 2008, Q1 2009 and Q2 2009 since the original Application and the resulting updated total to be disposed of is \$130,571, calculated as follows:

Account Description	Account Number	Principal Amounts as of Dec-31 2007		Interest to Dec31-07	Interest Jan-1 to Dec31-08	Interest Jan1-09 to Apr30-09	Total Claim
Other Regulatory Assets	1508	\$ 95,568	\$ 9,665	\$ 3,804	\$ 665	\$ 109,702	
Low Voltage	1550	\$ 18,804	\$ 1,163	\$ 748	\$ 154	\$ 20,869	
Totals per column		\$ 114,372	\$ 10,828	\$ 4,552	\$ 819	\$ 130,571	
rate:		Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 - April 2009
		5.14%	4.08%	3.35%	3.35%	2.45%	1.00%

The Board also accepted NOTL's change in recovery period from 3 years to 4 years [Page 28]. The resulting rate riders are calculated using the same 2007 data and allocators as in the Application, i.e.:

2007 Data By Class	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS		65,499,951	6,424	6,424	\$ 2,165,327
GENERAL SERVICE <50 KW CLASS		34,969,161	1,216	1,216	\$ 1,048,489
GENERAL SERVICE >50 KW NON TIME OF USE	203,395	78,684,896	115	115	\$ 1,221,004
UNMETERED & SCATTERED LOADS		217,931	23		\$ 120,529
STREET LIGHTING	2,899	1,002,185		1,796	\$ 42,013
Totals	206,294	180,374,124	7,778	9,551	\$ 4,597,363

Allocators	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS	0.0%	36.3%	82.6%	67.3%	47.1%
GENERAL SERVICE <50 KW CLASS	0.0%	19.4%	15.6%	12.7%	22.8%
GENERAL SERVICE >50 KW NON TIME OF USE	98.6%	43.6%	1.5%	1.2%	26.6%
UNMETERED & SCATTERED LOADS	0.0%	0.1%	0.3%	0.0%	2.6%
STREET LIGHTING	1.4%	0.6%	0.0%	18.8%	0.9%
Totals	100%	100%	100%	100%	100%

Based on these same allocators, the updated total amount to be disposed of and the change to 4 year recovery period, the proposed rate riders are calculated as follows:

Deferral and Variance Accounts:	Amount	ALLOCATOR	Residential	GS < 50 KW	GS > 50 Non TOU	Scattered Load	Street Lighting	Total
Other Regulatory Assets - Account 1508	\$ 109,702	Dx Revenue	\$ 51,669	\$ 25,019	\$ 29,135	\$ 2,876	\$ 1,003	\$ 109,702
Low Voltage - Account 1550	\$ 20,869	kWh	\$ 7,578	\$ 4,046	\$ 9,104	\$ 25	\$ 116	\$ 20,869
Total to be Recovered	\$ 130,571		\$ 59,247	\$ 29,065	\$ 38,239	\$ 2,901	\$ 1,118	\$ 130,571
Balance to be collected or refunded, Variable	\$ 130,571		\$ 59,247	\$ 29,065	\$ 38,239	\$ 2,901	\$ 1,118	\$ 130,571
Balance to be collected or refunded, Fixed	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of years for Variable	4							
Balance to be collected or refunded per year, Variable	\$ 32,643		\$ 14,812	\$ 7,266	\$ 9,560	\$ 725	\$ 280	\$ 32,643
Balance to be collected or refunded per year, Fixed	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Class	Residential	GS < 50 KW	GS > 50 Non TOU	Scattered Load	Street Lighting
Proposed Rate Riders, Variable	\$ 0.0002	\$ 0.0002	\$ 0.0470	\$ 0.0033	\$ 0.0965
Billing Determinants	kWh	kWh	kW	kWh	kW

11. CONCLUSION

A draft Tariff of Rates and Charges based on the changes in this Draft Rate Order and to be effective May 1, 2009 is included in **Appendix A**. The bill impacts of the proposed draft rates for representative levels of consumption are shown in **Appendix B**.

APPENDIX A

DRAFT 2009 TARIFF OF RATES AND CHARGES

April 6, 2009

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2008-0237

APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

EFFECTIVE DATES

DISTRIBUTION RATES - May 1, 2009 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES - May 1, 2009 for all charges incurred by customers on or after that date.
RETAIL SERVICE CHARGES – May 1, 2009 for all charges incurred by retailers or customers on or after that date.
LOSS FACTOR ADJUSTMENT – May 1, 2009 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

SERVICE CLASSIFICATIONS

Residential

This classification refers to the supply of electrical energy to residential customers residing in detached, semi detached, townhouse (freehold or condominium) dwelling units duplexes or triplexes. Supply will be limited up to a maximum of 200 amp @ 240/120 volt. Further servicing details are available in the utility's Conditions of Service.

General Service Less Than 50 kW

This classification refers to a non-residential account taking electricity at 750 volts or less whose monthly peak demand is less than or expected to be less than 50 kW. Further servicing details are available in the utility's Conditions of Service.

General Service 50 to 4,999 kW

This classification refers to a non-residential account whose monthly average peak demand is equal to or greater than, or is expected to be equal to or greater than 50 kW but less than 5000 kW. Further servicing details are available in the utility's Conditions of Service.

Unmetered Scattered Load

This classification refers to a non-residential account taking electricity at 240/120 or 120 volts whose monthly peak demand is less than or expected to be less than 50 kW and the consumption is unmetered. A detailed calculation of the load will be calculated for billing purposes. Further servicing details are available in the utility's Conditions of Service.

Street Lighting

This classification refers to accounts concerning roadway lighting for a Municipality, Regional Municipality, and/or the Ministry of Transportation. This lighting will be controlled by photocells. The consumption for these customers will be based on the calculated connected load times as established in the approved OEB Street Lighting Load Shape Template. Further servicing details are available in the utility's Conditions of Service.

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2008-0237

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	19.05
Distribution Volumetric Rate	\$/kWh	0.0127
Deferral Account Rate Rider – effective until April 30, 2013	\$/kWh	0.0002
Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery Rate Rider – effective until April 30, 2011	\$/kWh	0.0001
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0020
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service Less Than 50 kW

Service Charge	\$	46.33
Distribution Volumetric Rate	\$/kWh	0.0136
Deferral Account Rate Rider – effective until April 30, 2013	\$/kWh	0.0002
Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery Rate Rider – effective until April 30, 2011	\$/kWh	0.0001
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0049
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0019
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service 50 to 4,999 kW

Service Charge	\$	347.25
Distribution Volumetric Rate	\$/kW	2.7058
Deferral Account Rate Rider – effective until April 30, 2013	\$/kW	0.0470
Retail Transmission Rate – Network Service Rate	\$/kW	1.9882
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.7418
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.1489
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.7841
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Unmetered Scattered Load

Service Charge (per connection)	\$	53.55
Distribution Volumetric Rate	\$/kWh	0.0161
Deferral Account Rate Rider – effective until April 30, 2013	\$/kWh	0.0033
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0049
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0019
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Street Lighting

Service Charge (per connection)	\$	2.91
Distribution Volumetric Rate	\$/kW	11.3847
Deferral Account Rate Rider – effective until April 30, 2013	\$/kW	0.0965
Retail Transmission Rate – Network Service Rate	\$/kW	1.4994
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.5734
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2008-0237

Specific Service Charges

Customer Administration		
Arrears Certificate	\$	15.00
Statement of Account	\$	15.00
Pulling Post Dated Cheques	\$	15.00
Duplicate Invoices for Previous Billing	\$	15.00
Request for Other Billing Information	\$	15.00
Easement Letter	\$	15.00
Account History	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	15.00
Returned Cheque (plus bank charges)	\$	15.00
Charge to Certify Cheque	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Special meter reads	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	\$	30.00
Disconnect/Reconnect at meter – during regular hours	\$	65.00
Disconnect/Reconnect at Meter - after regular hours	\$	185.00
Disconnect/Reconnect at Pole – during regular hours	\$	185.00
Disconnect/Reconnect at Pole – after regular hours	\$	415.00
Service Call – Customer-owned Equipment – During Regular Hours	\$	30.00
Service Call – Customer-owned Equipment – After Regular Hours	\$	165.00
Install/Remove load control device – during regular hours	\$	65.00
Install/Remove load control device – after regular hours	\$	185.00
Temporary service install and remove – overhead – no transformer	\$	500.00
Temporary service install and remove – underground – no transformer	\$	300.00
Temporary service install and remove – overhead – with transformer	\$	1,000.00
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Specific Charge for Bell Canada Access to the Power Poles – per pole/year	\$	18.36
Note: Specific Charge for Bell Canada Access to the Power Poles is valid only until the existing joint-use agreement is terminated		
Allowances		
Transformer Allowance for Ownership - per kW of billing demand/month	\$/kW	(0.56)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

Retail Service Charges (if applicable)

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year		no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2008-0237

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0463
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0156
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0358
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0055

APPENDIX B

BILL IMPACTS

April 6, 2009

BILL IMPACTS (Monthly Consumptions)

RESIDENTIAL									
		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
Consumption	Monthly Service Charge			17.47			18.05	0.58	3.32%
1,000 kWh	Distribution (kWh)	1,000	0.0123	12.30	1,000	0.0127	12.70	0.40	3.25%
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	LRAM & SSM Rider (kWh)	1,000	0.0000		1,000	0.0001	0.10	0.10	0.09%
	DVA Recovery Rider (kWh)	1,000	0.0000	0.00	1,000	0.0002	0.20	0.20	0.17%
	Sub-Total			30.01			32.05	2.04	6.80%
	Other Charges (kWh)	1,050	0.0199	20.90	1,046	0.0209	21.86	0.96	4.59%
	Cost of Power Commodity (kWh)	600	0.0560	33.60	600	0.0560	33.60	0.00	0.00%
	Cost of Power Commodity (kWh)	450	0.0650	29.26	446	0.0650	29.01	(0.25)	(0.84%)
	Total Bill			113.76			116.52	2.75	2.42%

GENERAL SERVICE < 50 kW									
		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
Consumption	Monthly Service Charge			39.87			45.33	5.46	13.69%
2,000 kWh	Distribution (kWh)	2,000	0.0120	24.00	2,000	0.0136	27.20	3.20	13.33%
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	LRAM & SSM Rider (kWh)	2,000	0.0000		2,000	0.0001	0.20	0.20	0.08%
	DVA Recovery Rider (kWh)	2,000	0.0000	0.00	2,000	0.0002	0.40	0.40	0.16%
	Sub-Total			64.11			74.13	10.02	15.63%
	Other Charges (kWh)	2,100	0.0194	40.74	2,093	0.0203	42.56	1.82	4.46%
	Cost of Power Commodity (kWh)	750	0.0560	42.00	750	0.0560	42.00	0.00	0.00%
	Cost of Power Commodity (kWh)	1,350	0.0650	87.76	1,343	0.0650	87.27	(0.49)	(0.56%)
	Total Bill			234.62			245.96	11.34	4.84%

GENERAL SERVICE > 50 kW (Interval)									
		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
Consumption	Monthly Service Charge			463.48			346.25	(117.23)	(25.29%)
500,000 kWh	Distribution (kWh)	500,000	0.0000	0.00	500,000	0.0000	0.00	0.00	0.00%
1,100 kW	Distribution (kW)	1,100	3.4654	3,811.94	1,100	2.7058	2,976.38	(835.56)	(21.92%)
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	DVA Recovery Rider (kW)	1,100	0.0000	0.00	1,100	0.0470	51.70	51.70	0.11%
	Sub-Total			4,275.66			3,375.33	(900.33)	(21.06%)
	Other Charges (kWh)	525,050	0.0132	6,930.66	523,150	0.0135	7,062.53	131.87	1.90%
	Other Charges (kW)	1,100	3.5434	3,897.74	1,100	3.9330	4,326.26	428.52	10.99%
	Cost of Power Commodity (kWh)	0	0.0603	0.00	0	0.0603	0.00	0.00	0.00%
	Cost of Power Commodity (kWh)	525,050	0.0603	31,660.52	523,150	0.0603	31,545.95	(114.57)	(0.36%)
	Total Bill			46,764.58			46,310.06	(454.52)	(0.97%)

Street Lighting									
		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
Billing Determinants	Monthly Service Charge	435	1.1000	478.50	435	2.9100	1,265.85	787.35	164.55%
435 Connections	Distribution (kWh)	27,600	0.0000	0.00	27,600	0.0000	0.00	0.00	0.00%
27,600 kWh	Distribution (kW)	60	4.3107	258.64	60	11.3847	683.08	424.44	164.10%
60 kW	DVA Recovery Rider (kW)	60	0.0000	0.00	60	0.0965	5.79	5.79	0.13%
	Sub-Total			737.14			1,954.72	1,217.58	165.18%
	Other Charges (kWh)	28,983	0.0132	382.57	28,878	0.0135	389.85	7.28	1.90%
	Other Charges (kW)	60	1.8793	112.76	60	2.0728	124.37	11.61	10.30%
	Cost of Power Commodity (kWh)	750	0.0560	42.00	750	0.0560	42.00	0.00	0.00%
	Cost of Power Commodity (kWh)	28,233	0.0650	1,835.13	28,128	0.0650	1,828.31	(6.82)	(0.37%)
	Total Bill			3,109.60			4,339.26	1,229.65	39.54%

Unmetered Scattered Load									
		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
Consumption	Monthly Service Charge			39.87			53.55	13.68	34.31%
800 kWh	Distribution (kWh)	800	0.0120	9.60	800	0.0161	12.88	3.28	34.17%
	DVA Recovery Rider (kWh)	800	0.0000	0.00	800	0.0033	2.64	2.64	1.97%
	Sub-Total			49.47			69.07	19.60	39.62%
	Other Charges (kWh)	840	0.0194	16.30	837	0.0203	17.03	0.73	4.46%
	Cost of Power Commodity (kWh)	750	0.0560	42.00	750	0.0560	42.00	0.00	0.00%
	Cost of Power Commodity (kWh)	90	0.0650	5.86	87	0.0650	5.66	(0.20)	(3.37%)
	Total Bill			113.62			133.75	20.13	17.72%