

Niagara-on-the-Lake Hydro Inc.

December 8, 2010

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. 2011 Rate Application

OEB Case EB-2010-0101

Responses to Board Staff Interrogatories

Dear Ms. Walli

Niagara-on-the-Lake Hydro Inc. is pleased to submit its responses to Board staff interrogatories, as follows:

- a) A PDF of the responses to www.err.oeb.gov.on.ca
- b) E-mail of the revised Sheet F1.1 of the 2011Tax Sharing Model Workform to BoardSec@oeb.gov.on.ca
- c) Two paper copies of item a) to your office by courier.
- d) A CD of items a) and b) above to your office by courier.

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

Yours truly

Jim Huntingdon, President

Encl.

Response to Board Staff Interrogatories 2011 IRM3 Electricity Distribution Rates Niagara-on-the-Lake Hydro Inc. EB-2010-0101

Interrogatory 1

Summary	- Sharing of Tax Change Forecast Amounts			
1. Tax Rela	ated Amounts Forecast from Capital Tax Rate Changes	2009	2010	2011
Taxable Capi	ital	\$21,163,511	\$21,163,511	\$21,163,511
Deduction f	from taxable capital up to \$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
Net Taxable	Capital	\$ 6,163,511	\$ 6,163,511	\$ 6,163,511
Rate		0.225%	0.150%	0.000%
Ontario Capit	tal Tax (Deductible, not grossed-up)	\$ 13,868	\$ 4,585	\$ -
	ated Amounts Forecast from Income Tax Rate Changes Taxable Income	2009 \$ 1,028,155	2010 \$ 1,028,155	2011 \$ 1,028,155
Corporate 7	Tax Rate	31.05%	28.19%	24.72%
Tax Impact	t .	\$ 319,238	\$ 289,869	\$ 254,183
Grossed-up	Tax Amount	\$ 462,996	\$ 403,679	\$ 337,661
Tax Related	Amounts Forecast from Capital Tax Rate Changes	\$ 13,868	\$ 4,585	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes		\$ 462,996	\$ 403,679	\$ 337,661
Total Tax Re	lated Amounts	\$ 476,864	\$ 408,263	\$ 337,661
ncremental 1	Tax Savings		-\$ 68,601	-\$ 139,203
Sharing of Tax Savings (50%)			-\$ 34,300	-\$ 69,602
ŕ	Please explain why "Taxable Capital" is not identical per the Revenue Requirement Work Form from the EB-2008-0237. Please explain why "Regulatory Taxable Income" is "Taxable Income" per the Revenue Requirement Wo	Board De	cision in	
c)	Decision in EB-2008-0237. If the data provided is correct, please provide evider entered for a) and b). If the data is incorrect, please correct data and staff will make the necessary change.	re-file F1	.1 with th	

Response to 1 a) and b)

Upon re-reading the Filing Requirements for Transmission and Distribution Applications, NOTL now realizes that the referenced values should have come from the Revenue Requirement Work Form in EB-2008-0237 (not from NOTL's 2009 tax return, as was done in error in the current application).

Response to 1 c)

As the data in the application was incorrect, Sheet F1.1 is re-filed with this reply as requested. An image of the re-filed sheet is shown below:

1. Tax Related Amounts Forecast from Capital Tax Rate Changes		2009	2010			2011
Taxable Capital	\$	21,857,012	\$	21,857,012	\$	21,857,01
Deduction from taxable capital up to \$15,000,000	\$	15,000,000	\$	15,000,000	\$	15,000,00
Net Taxable Capital	\$ 6	6,857,012	\$	6,857,012	\$	6,857,01
Rate		0.225%		0.150%		0.000
Ontario Capital Tax (Deductible, not grossed-up)	\$	15,428	\$	5,100	\$	
2. Tax Related Amounts Forecast from Income Tax Rate Changes	<u> </u>	2009		2010		2011
Regulatory Taxable Income	\$	763,707	\$	763,707	\$	763,70
Corporate Tax Rate		31.05%		28.19%		24.72
Tax Impact	\$	237,128	\$	215,313	\$	188,806
Grossed-up Tax Amount	\$	343,911	\$	299,850	\$	250,812
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$	15,428	\$	5,100	\$	-
Fax Related Amounts Forecast from Income Tax Rate Changes	\$	343,911	\$	299,850	\$	250,81
Total Tax Related Amounts	\$	359,339	\$	304,951	\$	250,812
ncremental Tax Savings			-\$	54,388	-\$	108,52
Sharing of Tax Savings (50%)			-\$	27,194	-\$	54,26

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Interrogatory 2

2. Ref: Manager's Summary, Page 22 of 52

With reference to the Manager's Summary, page 22, Deferral Variance Accounts:

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative ("EDDVAR") of July 31, 2009 stated that Group 1 Accounts included 1550, 1580, 1584, 1586, 1588,1590 and 1595.

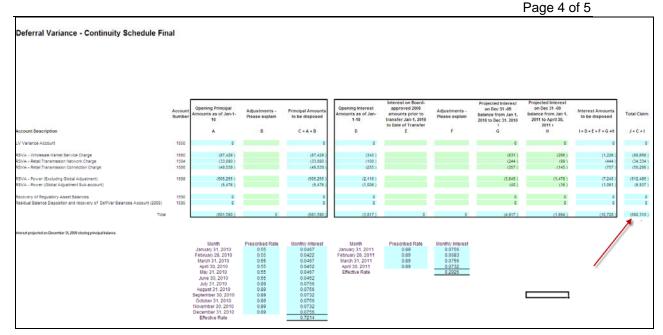
- a) Please re-calculate the threshold test using all Group 1 Accounts as outlined in EDDVAR.
- b) Please comment on whether or not the threshold as calculated in part a) would exceed the level above which disposition of those accounts would be required.
- c) The EDDVAR report states:

"During the IRM plan term, the Board has decided that a preset disposition threshold of \$0.001/ KWh is appropriate. In the Board's view, this level would lead to a more systematic approach to the disposition of the revised Group 1 Account balances. This systematic approach should mitigate intergenerational inequities and the accumulation of large Account balances. Further, this disposition threshold level should enhance the distributor's ability to manage its cash flow. When this threshold is exceeded, a distributor will file a proposal for the disposition of <u>all</u> revised Group 1 Account balances (including carrying charges). The onus will be on the distributor to justify why any Account balance should not be cleared."

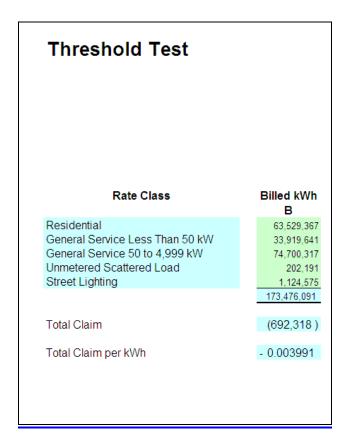
Please explain why NOTL believes the EB-2010-0056 decision would override the Board's EDDVAR report.

Response to 2 a)

The image below shows what the Sheet D1.5 Total Claim amount would be if all Group 1 Accounts were used, i.e. negative \$692,318.



The recalculated Threshold Test (Sheet E1.1) would be negative \$0.003991 per kWh as follows:



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Response to 2 b)

The threshold calculated in 2 a) would exceed in absolute value the level of \$.001 per kWh above which disposition of Group 1 accounts would be required.

Response to 2 c)

The explanation was included on Pages 23 (lines 4 to 14) of the Manager's Summary. Essentially, the decision in case EB-2010-0056 appeared to plainly state that disposition of 1588 could not be requested by listed distributors at this time, i.e. the Board ordered that

"the balances in account 1588 shall remain on the regulatory books of the electricity distributors listed in Appendix A [which includes NOTL] without disposition pending further direction from the Board".

Since this decision came later than the issuance of the EDDVAR report, it was believed to over-ride it.

Thus, this was our best understanding of what was intended in the IRM3 applications of the distributors listed.