



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 2011 Tax 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

1. Ref: 2011 Tax Sharing Model Workform
Sheet F1.1 Z-Factor Tax Changes is reproduced below.

Summary - Sharing of Tax Change Forecast Amounts

1. Tax Related Amounts Forecast from Capital Tax Rate Changes

| | 2009 | 2010 | 2011 |
|---|--------------|--------------|--------------|
| Taxable Capital | \$21,163,511 | \$21,163,511 | \$21,163,511 |
| Deduction 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 Capital Tax (Deductible, not grossed-up) | \$ 13,868 | \$ 4,585 | \$ - |

2. Tax Related Amounts Forecast from Income Tax Rate Changes

| | 2009 | 2010 | 2011 |
|--|--------------|--------------|--------------|
| Regulatory Taxable Income | \$ 1,028,155 | \$ 1,028,155 | \$ 1,028,155 |
| Corporate Tax Rate | 31.05% | 28.19% | 24.72% |
| Tax Impact | \$ 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 Related Amounts | \$ 476,864 | \$ 408,263 | \$ 337,661 |
| Incremental Tax Savings | | -\$ 68,601 | -\$ 139,203 |
| Sharing of Tax Savings (50%) | | -\$ 34,300 | -\$ 69,602 |

- Please explain why "Taxable Capital" is not identical with "Total Rate Base" per the Revenue Requirement Work Form from the Board Decision in EB-2008-0237.
- Please explain why "Regulatory Taxable Income" is not identical with "Taxable Income" per the Revenue Requirement Work Form from the Board Decision in EB-2008-0237.
- If the data provided is correct, please provide evidence supporting the data entered for a) and b). If the data is incorrect, please re-file F1.1 with the correct data and staff will make the necessary changes to the model

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:

| | | | |
|--|-------------------|-------------------|-------------------|
| Summary - Sharing of Tax Change Forecast Amounts | | | |
| 1. Tax Related Amounts Forecast from Capital Tax Rate Changes | 2009 | 2010 | 2011 |
| Taxable Capital | \$ 21,857,012 | \$ 21,857,012 | \$ 21,857,012 |
| Deduction from taxable capital up to \$15,000,000 | \$ 15,000,000 | \$ 15,000,000 | \$ 15,000,000 |
| Net Taxable Capital | \$ 6,857,012 | \$ 6,857,012 | \$ 6,857,012 |
| 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 | 2009 | 2010 | 2011 |
| Regulatory Taxable Income | \$ 763,707 | \$ 763,707 | \$ 763,707 |
| 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 | \$ - |
| Tax Related Amounts Forecast from Income Tax Rate Changes | \$ 343,911 | \$ 299,850 | \$ 250,812 |
| Total Tax Related Amounts | \$ 359,339 | \$ 304,951 | \$ 250,812 |
| Incremental Tax Savings | | -\$ 54,388 | -\$ 108,527 |
| Sharing of Tax Savings (50%) | | -\$ 27,194 | -\$ 54,263 |

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 inter-generational 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 all 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.

Deferral Variance - Continuity Schedule Final

| Account Description | Account Number | Opening Principal Amounts as of Jan-1-10 A | Adjustments - Please explain B | Principal Amounts to be disposed C = A + B | Opening Interest Amounts as of Jan-1-10 D | Interest on Board-approved 2008 amounts prior to transfer Jan-1, 2010 to Date of Transfer E | Adjustments - Please explain F | Projected Interest on Dec 31-09 balance from Jan 1, 2010 to Dec 31, 2010 G | Projected Interest on Dec 31-09 balance from Jan 1, 2011 to April 30, 2011 H | Interest Amounts to be disposed I = D + E + F + G + H | Total Claim J = C + I |
|---|----------------|---|-----------------------------------|---|--|--|-----------------------------------|---|---|--|--------------------------|
| LV Variance Account | 1550 | 0 | | 0 | 0 | | | 0 | 0 | 0 | 0 |
| RDVA - Wholesale Market Service Charge | 1552 | (87,429) | | (87,429) | (340) | | | (831) | (286) | (1,226) | (88,656) |
| RDVA - Retail Transmission Network Charge | 1554 | (33,590) | | (33,590) | (100) | | | (244) | (99) | (444) | (34,324) |
| RDVA - Retail Transmission Connection Charge | 1556 | (49,539) | | (49,539) | (255) | | | (357) | (145) | (757) | (50,296) |
| RDVA - Power (Excluding Global Adjustment) | 1558 | (555,255) | | (555,255) | (2,116) | | | (3,845) | (5,475) | (7,240) | (512,495) |
| RDVA - Power (Global Adjustment Sub-account) | 1559 | (5,476) | | (5,476) | (1,008) | | | (40) | (16) | (1,061) | (6,537) |
| Recovery of Regulatory Asset Balances | 1590 | 0 | | 0 | 0 | | | 0 | 0 | 0 | 0 |
| Residual Balance Disposition and recovery of DefVar Balances Account (2008) | 1595 | 0 | | 0 | 0 | | | 0 | 0 | 0 | 0 |
| Total | | (651,590) | 0 | (651,590) | (3,017) | 0 | 0 | (4,917) | (1,994) | (10,725) | (692,315) |

Interest projected on December 31, 2009 closing principal balance.

| Month | Prescribed Rate | Monthly Interest | Month | Prescribed Rate | Monthly Interest |
|--------------------|-----------------|------------------|-------------------|-----------------|------------------|
| January 31, 2010 | 0.55 | 0.0467 | January 31, 2011 | 0.89 | 0.0756 |
| February 28, 2010 | 0.55 | 0.0422 | February 28, 2011 | 0.89 | 0.0683 |
| March 31, 2010 | 0.55 | 0.0467 | March 31, 2011 | 0.89 | 0.0756 |
| April 30, 2010 | 0.55 | 0.0452 | April 30, 2011 | 0.89 | 0.0732 |
| May 31, 2010 | 0.55 | 0.0467 | Effective Rate | | <u>0.2225</u> |
| June 30, 2010 | 0.55 | 0.0452 | | | |
| July 31, 2010 | 0.89 | 0.0756 | | | |
| August 31, 2010 | 0.89 | 0.0756 | | | |
| September 30, 2010 | 0.89 | 0.0732 | | | |
| October 31, 2010 | 0.89 | 0.0756 | | | |
| November 30, 2010 | 0.89 | 0.0732 | | | |
| December 31, 2010 | 0.89 | 0.0756 | | | |
| Effective Rate | | <u>0.7214</u> | | | |

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

| Threshold Test | |
|---------------------------------|--------------------|
| Rate Class | Billed kWh B |
| Residential | 63,529,367 |
| General Service Less Than 50 kW | 33,919,641 |
| General Service 50 to 4,999 kW | 74,700,317 |
| Unmetered Scattered Load | 202,191 |
| Street Lighting | 1,124,575 |
| | <u>173,476,091</u> |
| Total Claim | (692,318) |
| Total Claim per kWh | - 0.003991 |

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.