

June 10, 2011

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Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Re: Niagara Peninsula Energy Inc.
2011 Electricity Distribution Cost of Service Rate Application
Board File Number: EB-2010-0138
Response to Comments on the Draft Rate Order

Dear Ms. Walli:

Pursuant to the Board's Decision and Order in EB-2010-0138, please find attached NPEI's response to comments received from Intervenor on the Draft Rate Order.

If further information is required, please contact Suzanne Wilson, Vice-President Finance at 905-353-6004 or Suzanne.Wilson@npei.ca.

Yours truly,



Suzanne Wilson, CA
VP Finance

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 Peninsula Energy Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2011.

REPLY TO COMMENTS RECEIVED ON THE DRAFT RATE ORDER

Filed: June 10, 2011

INTRODUCTION

On May 30, 2011, the OEB issued its Decision and Order (the “Decision”) on Niagara Peninsula Energy Inc.’s (“NPEI”) Application. The Board ordered that NPEI file a Draft Rate Order on or before June 3, 2011. Intervenor and Board Staff were to file any comments on the Draft Rate Order by June 8, 2011, with NPEI’s reply to be filed by June 13, 2011.

NPEI filed the Draft Rate Order on June 1, 2011. Comments were received from Energy Probe on June 2, 2011. On June 8, 2011, SEC indicated by email that they had reviewed the Draft Rate Order, and had identified no concerns. Board Staff filed comments on June 8, 2011, indicating that they had examined the Draft Rate Order, and found no inconsistency with either the approved Partial Settlement Agreement or the Board’s Decision and Order. NPEI did not receive any comments from VECC or Mr. Jacob Birch.

On June 9, 2011, Board Staff filed a Supplemental Comment on the Draft Rate Order with respect to the Board's decision on the Late Payment Penalty ("LPP") class action settlement in the EB-2010-0295 proceeding.

Accompanying this reply, NPEI is filing a revised Final Draft Rate Order and an updated Final Revenue Requirement Work Form which reflects the changes outlined below.

REPLY

1. Energy Probe observed that the Final Revenue Requirement Work Form provided as Appendix D to the Draft Rate Order appears to contain the Capitalization/Cost of Capital page twice. NPEI agrees that this page was inadvertently included twice, and the duplicate page has been removed from the Final version of the Draft Rate Order.
2. Energy Probe noted that in Table 1 on page 5 of the Draft Rate Order, the Revenue Deficiency Before Tax is larger than the Revenue Deficiency After Tax, and submitted that the lines may have been mislabeled and should be reversed. Energy Probe also observed that similar labeling was included in the Revenue Deficiency Determination table on page 169, and that these labels should also be reversed.

NPEI has not reversed the labels referenced above, but provides the following explanation:

Based on Energy Probe's comments, NPEI believes that Energy Probe is interpreting the phrase Revenue Deficiency After Tax to refer to the

revenue deficiency amount that has been grossed up to include tax. Therefore, Energy Probe expects that this amount should be larger than the Revenue Deficiency Before Tax. NPEI submits, however, that in the two instances noted above, Revenue Deficiency Before Tax is intended to refer to the amount of additional pre-tax revenue that is required in order that the resulting net income provides the approved rate of return.

In NPEI's view, this issue is simply a matter of different interpretations of the terminology used, and the gross revenue deficiency included in Table 1 and in the Revenue Deficiency Determination table on page 169 is correct. NPEI further notes that the Revenue Deficiency Determination table on page 169 of the Draft Rate Order is taken from an Excel model that has been used by a number of distributors in their Cost of Service Rate Applications. In particular, the Draft Rate Order submissions of Woodstock Hydro Services Incorporated (EB-2010-0145), on page 58, and Milton Hydro Distribution Inc. (EB-2010-0137), on page 13, both include a Revenue Deficiency table similar to the one that NPEI has provided at page 169, where the Revenue Deficiency Before Tax is greater than the Revenue Deficiency After Tax.

3. Energy Probe observed that the revenue deficiency figure (not including tax gross-up) that is provided in the Revenue Sufficiency/Deficiency page of the Revenue Requirement Work Form does not match the corresponding revenue deficiency amounts (not including tax gross-up) in Table 1 and in the Revenue Deficiency Determination Table on page 169. Energy Probe notes that there does not appear to be any impact on the actual gross revenue deficiency, but believes that it would be useful if NPEI could clarify the different figures.

NPEI provides the following clarification: The difference between the two deficiency amounts is a result of using two different income tax rate figures in the underlying calculations of the deficiency without tax gross-up. The Revenue Deficiency Determination table on page 169 of the Draft Rate Order contains an income tax rate for 2011 of 26.79%. This is the effective tax rate reflecting tax credits. However, the Revenue Requirement Work Form contains the nominal tax rate of 28.25%, with the dollar amount of tax credits (\$87,250) included separately. NPEI has revised the Revenue Requirement Work Form, to remove the separate tax credit amount and include the tax credits in the effective rate of 26.79%. The resulting deficiency amounts now agree with the Revenue Deficiency table on page 169 and Table 1 on page 5. The revised Revenue Requirement Work Form has been included in the Final version of the Draft Rate Order.

NPEI agrees with Energy Probe that this issue did not impact the gross revenue deficiency.

4. Board Staff noted that NPEI has received approval from the Board to recover the costs and damages arising from the LPP class action settlement in the EB-2010-0295 proceeding, and that the Draft Rate Order does not include the LPP Rate Riders that NPEI filed on March 1, 2011. Further, Staff indicated that they have reviewed the rate rider calculations submitted by NPEI on March 1, 2011, and concurs that they are consistent with the Board's Decision and Order in EB-2010-0295. Staff therefore submits that the rate riders filed by NPEI should be included in the Rate Order.

NPEI agrees with Board Staff that the LPP Rate Riders, as filed on March 1, 2011, should be included in the Rate Order. NPEI has revised the Final Draft Rate Order to include the LPP Rate Riders.