

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL ONLY

November 4, 2011

Phillip Wormwell
Director of Corporate Services
Niagara-on-the-Lake Hydro Inc.
P.O. Box 460
8 Henegan Road
Virgil, ON L0S 1T0

Dear Mr. Wormwell:

**Re: Niagara-on-the-Lake Hydro Inc. ("NOTL")
2012 Incentive Regulation Mechanism Rate Application
Board File Number EB-2011-0186
Disposition of Account 1562**

In its Decision in the EB-2008-0381 Combined PILs (Payments in Lieu of Taxes) proceeding ("Combined PILS Decision"), the Board indicated that distributors will be expected to apply for final disposition of Account 1562 (Deferred PILS) with their next general rates application, either IRM or cost of service. The Board also indicated in the Combined PILS Decision that if the distributors files evidence in accordance with the various decisions made in the course of the Combined PILS proceeding, including the use of the updated SIMPIL model, the determination of the final account balance will be handled expeditiously and in a largely administrative manner. However, if a distributor files on a basis which differs from what is contemplated by the Combined PILS Decisions, the application can take some time to process, and therefore should not be included in an IRM application. Deviations from the Combined PILS Decision could include taking a different position on issues considered by the Board in the Combined PILS proceeding, addressing issues not arising in the Combined PILS proceeding or filing older SIMPIL models rather than the updated models containing the Excel worksheet 'TAXREC 3' as used by Halton Hills Hydro Inc.

Board staff reviewed the evidence filed by NOTL supporting the disposition of Account 1562 and the Board has determined that NOTL's application is not consistent with the various decisions made in the course of the Combined PILs proceeding. The inconsistencies identified are related to the source of the actual interest expense and not using the Board-approved maximum deemed interest expense as the threshold in the interest claw-back penalty calculations. In addition, the selection of the income tax

rates used to compute the true-up variances for each year is not based on NOTL's specific tax evidence.

Therefore, the Board will not hear the request for disposition of Account 1562 as part of NOTL's 2012 IRM application but will consider it on a stand-alone basis in a separate application. The Board expects NOTL to address the disposition of account 1562 in a stand-alone application to be filed no later than April 1, 2012.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

cc: Michael Buonaguro, Counsel, VECC
Shelley Grice, Econalysis Consulting Services