NORFOLK POWER DISTRIBUTION INC. (Norfolk)

RESPONSES TO

INTERROGATORIES

FROM THE

SCHOOL ENERGY COALITION (SEC)

1. **Please confirm that the following table correctly sets out the comparative PP&E per customer of the Applicant relative to ten similar distributors, based on the 2010 Electricity Distributors' Yearbook. Please provide the main reasons why, in the Applicant's opinion, its PP&E/customer is so much higher than all but one of these other similar distributors.**

PP&E per Customer

Utility	*PPE/Customer*	*% of Average*
COLLUS Power Corporation	$857	53%
Welland Hydro-Electric System Corp.	$1,018	63%
St. Thomas Energy Inc.	$1,142	70%
Erie Thames Powerlines Corporation	$1,245	77%
Westario Power Inc.	$1,373	85%
Woodstock Hydro Services Inc.	$1,397	86%
Innisfil Hydro Distribution Systems Limited	$1,537	95%
Haldimand County Hydro Inc.	$1,657	102%
Festival Hydro Inc.	$1,712	106%
Norfolk Power Distribution Inc.	$2,608	161%
Canadian Niagara Power Inc.	$3,282	202%
AVERAGE	$1,621	

Response:

Norfolk confirms the net book value of PPE/ Customer provided in the table above is correct.

However, Norfolk cannot accept that these distributors are "similar" to each other. The LDCs in question vary widely in terms of the size of the service areas they operate in, the amount of rural and urban areas, km of line, customer density, age of plant and other factors. Norfolk is not in a position to evaluate each LDC in comparison to itself, considering all of these factors, and give evidence to that effect. However, Norfolk provides below its view as to some of the sources as

likely explanations for the differences in the reported data between Norfolk and the other distributors in the list.

Norfolk is of the view that operating in a mostly rural area is significantly different than operating in an urban area. Almost 80% of Norfolk's service area is rural, with the remaining 20% made up of several 'pockets' of urban areas throughout its distribution area. Servicing these pockets of urban areas is considerably different than servicing one large urban area, with or without rural area. Likewise, PPE requirements to service several urban areas within a large rural area may be significantly different than PPE requirements to service a large rural area.

Norfolk suggests that examining the utilities provided for comparison based on their percentage of rural area would provide a more meaningful comparison. In the table below, Norfolk has calculated the rural area as a percentage of each LDC's distribution area, as reported in the OEB 2010 yearbook, which was provided by Schools with the interrogatory. When the list of LDCs is sorted based on the percentage of rural territory it is noted that 6 of the comparators have no rural area at all, while the 5 other LDCs have significant percentages of rural area.

PP&E per Customer			
Utility	***PPE/Customer***	***% of Average***	***% Rural***
Westario Power Inc.	$1,373	85%	0.0%
COLLUS Power Corporation	$857	53%	0.0%
Welland Hydro-Electric System Corp.	$1,018	63%	0.0%
Woodstock Hydro Services Inc.	$1,397	86%	0.0%
St. Thomas Energy Inc.	$1,142	70%	0.0%
Festival Hydro Inc.	$1,712	106%	0.0%
Innisfil Hydro Distribution Systems Limited	$1,537	95%	43.1%
Canadian Niagara Power Inc.	$3,282	202%	79.2%
Norfolk Power Distribution Inc.	$2,608	161%	79.2%
Haldimand County Hydro Inc.	$1,657	102%	97.1%
Erie Thames Powerlines Corporation	$1,245	77%	97.5%
AVERAGE	$1,621		
Average of Utilities with Rural Area	$2,066		

When calculating the average PPE / Customer of the 5 LDCs with rural areas, the average PPE / Customer rises from $1,621 to $2,066.

There may be several other reasons for the remaining variance between Norfolk and the average for LDCs with rural areas. One notable reason for Norfolk's increased PPE/Customer is it recently completed a Transformer Station in 2010. The net book value of this asset at the end of 2010 was $10,208,298 or approximately $539 per customer. Although Norfolk is not familiar with the distribution assets of each of the LDCs to which it is asked to compare itself to, it does know that some of the distributors in the list do not own their own transformer stations. Also

some LDCs who do own their own transformer station may have owned them for several years, resulting in a significantly decreased NBV of PPE compared to Norfolk's newly constructed station. When Norfolk's new Transformer Station is taken into consideration at $539 / customer, Norfolk suggests that the deviation from the average rural utilities in list may not be material.

2. Please confirm that the following two tables correctly set out the comparative Capital Additions per customer and Capital Additions as a percentage of Depreciation relative to ten similar distributors, based on the 2010 Electricity Distributors' Yearbook. Please explain why, in light of the Applicant's relatively high levels of existing PP&E compared to its peers, it continues to incur capital expenditures above the average for comparable utilities.

Capital Additions per Customer

Utility	*Capex/Customer*	*% of Average*
St. Thomas Energy Inc.	$92.42	50%
Erie Thames Powerlines Corporation	$101.85	55%
Welland Hydro-Electric System Corp.	$132.22	72%
Westario Power Inc.	$133.44	73%
COLLUS Power Corporation	$133.58	73%
Haldimand County Hydro Inc.	$154.71	84%
Festival Hydro Inc.	$207.41	113%
Norfolk Power Distribution Inc.	$224.56	122%
Woodstock Hydro Services Inc.	$234.42	127%
Canadian Niagara Power Inc.	$273.62	149%
Innisfil Hydro Distribution Systems Limited	$336.29	183%
AVERAGE	$184.05	

Capital Additions/Depreciation

Utility	*Capex%Depr.*	*% of Average*
St. Thomas Energy Inc.	113.17%	69%
Haldimand County Hydro Inc.	114.71%	70%
Erie Thames Powerlines Corporation	124.34%	76%
Canadian Niagara Power Inc.	140.35%	86%
Welland Hydro-Electric System Corp.	151.37%	93%
Festival Hydro Inc.	155.87%	96%
Westario Power Inc.	158.28%	97%
Norfolk Power Distribution Inc.	180.86%	111%
Woodstock Hydro Services Inc.	190.22%	117%
COLLUS Power Corporation	214.52%	131%
Innisfil Hydro Distribution Systems Limited	251.66%	154%
AVERAGE	163.21%	

Response:

Norfolk confirms that the information provided in the tables is correct.

However, Norfolk cannot accept that these distributors are "similar" to each other. The LDCs in question vary widely in terms of the size of the service areas they operate in, the amount of rural and urban areas, km of line, customer density, age of plant and other factors. Norfolk is not in a position to evaluate each LDC in comparison to itself, considering all of these factors, and give evidence to that effect. However, Norfolk provides below its view as to some of the sources as likely explanations for the differences in the reported data between Norfolk and the other distributors in the list.

Similar to Interrogatory #1, Norfolk has re-sorted the comparators based on their percentage of Rural area in the table below.

Capital Additions per Customer			
Utility	***Capex/Custome***	***% of Average***	***% Rural***
St. Thomas Energy Inc.	$92.42	50%	0.0%
Welland Hydro-Electric System Corp.	$132.22	72%	0.0%
Westario Power Inc.	$133.44	73%	0.0%
COLLUS Power Corporation	$133.58	73%	0.0%
Festival Hydro Inc.	$207.41	113%	0.0%
Woodstock Hydro Services Inc.	$234.42	127%	0.0%
Innisfil Hydro Distribution Systems Limited	$336.29	183%	43.1%
Norfolk Power Distribution Inc.	$224.56	122%	79.2%
Canadian Niagara Power Inc.	$273.62	149%	79.2%
Haldimand County Hydro Inc.	$154.71	84%	97.1%
Erie Thames Powerlines Corporation	$101.85	55%	97.5%
AVERAGE	$184.05		
Average of Utilities with Rural Area	$218.21		
Capital Additions/Depreciation			
Utility	***Capex%Depr.***	***% of Average***	***% Rural***
St. Thomas Energy Inc.	113.17%	69%	0.0%
Welland Hydro-Electric System Corp.	151.37%	93%	0.0%
Festival Hydro Inc.	155.87%	96%	0.0%
Westario Power Inc.	158.28%	97%	0.0%
Woodstock Hydro Services Inc.	190.22%	117%	0.0%
COLLUS Power Corporation	214.52%	131%	0.0%
Innisfil Hydro Distribution Systems Limited	251.66%	154%	43.1%
Canadian Niagara Power Inc.	140.35%	86%	79.2%
Norfolk Power Distribution Inc.	180.86%	111%	79.2%
Haldimand County Hydro Inc.	114.71%	70%	97.1%
Erie Thames Powerlines Corporation	124.34%	76%	97.5%
AVERAGE	163.21%		
Average of Utilities with Rural Area	162.38%		

In comparing the capital additions per customer Norfolk notes it is approximately $6 or 2.8% above the average of those LDCs servicing a rural area. For Capital Additions / Depreciation, Norfolk is 180.9% compared to an average of 163.2% of all comparators or 162.4% of those LDCs with rural areas.

The differences may be largely or at least partly due to the completion of Norfolk's transformer station, as noted in response to School's Interrogatory #1. In addition differences in capitalization polices may explain some of these differences. Changes in these policies with the adoption to IFRS may smooth these variances out in future years.

Moreover, Norfolk believes that it is neither the practice nor the intent of the Board to use Capital Additions / Customer and Capital Additions / Depreciation comparisons for ratemaking purposes.

For the above reasons, Norfolk questions the validity or probative value of comparing it with the other utilities in the list with respect to Capital Additions / Customer and Capital Additions / Depreciation.

3. Please confirm that the following table correctly sets out the comparative Distribution Revenue per customer of the Applicant relative to ten similar distributors, based on the 2010 Electricity Distributors' Yearbook. Please explain why the Applicant's existing revenue per customer is so much higher than similar distributers, especially in light of the fact that the Applicant's percentage of revenue from residential customers is higher than the average of its peers. Please provide a description of any components of the Applicant's cost structure that are consistently higher than its peers, if known to the Applicant, and the primary reasons for that difference.

Dx Revenue per Customer

Utility	*Revenue/Customer*	*% of Average*
COLLUS Power Corporation	$376.22	75%
St. Thomas Energy Inc.	$394.89	79%
Westario Power Inc.	$414.89	83%
Welland Hydro-Electric System Corp.	$421.27	84%
Woodstock Hydro Services Inc.	$446.43	89%
Erie Thames Powerlines Corporation	$457.99	91%
Festival Hydro Inc.	$501.29	100%
Innisfil Hydro Distribution Systems Limited	$540.77	108%
Norfolk Power Distribution Inc.	$585.34	117%
Haldimand County Hydro Inc.	$649.65	129%
Canadian Niagara Power Inc.	$735.38	146%
AVERAGE	$502.19	

Response:

Norfolk confirms the numbers are correct in the table above.

However, Norfolk cannot accept that these distributors are "similar" to each other. The LDCs in question vary widely in terms of the size of the service areas they operate in, the amount of rural and urban areas, km of line, customer density, age of plant and other factors. Norfolk is not in a position to evaluate each LDC in comparison to itself, considering all of these factors, and give evidence to that effect. However, Norfolk provides below its view as to some of the sources as likely explanations for the differences in the reported data between Norfolk and the other distributors in the list.

Similar to the responses for Interrogatories 1 and 2, Norfolk has re-sorted the list of comparators based on percentage of rural area in the table below.

Dx Revenue per Customer				
Utility		***Revenue/Customer***	***% of Average***	***% Rural***
COLLUS Power Corporation		$376.22	75%	0
St. Thomas Energy Inc.		$394.89	79%	0
Westario Power Inc.		$414.89	83%	0
Welland Hydro-Electric System Corp.		$421.27	84%	0
Woodstock Hydro Services Inc.		$446.43	89%	0
Festival Hydro Inc.		$501.29	100%	0
Innisfil Hydro Distribution Systems Limited		$540.77	108%	43.10%
Norfolk Power Distribution Inc.		$585.34	117%	79.20%
Canadian Niagara Power Inc.		$735.38	146%	79.20%
Haldimand County Hydro Inc.		$649.65	129%	97.10%
Erie Thames Powerlines Corporation		$457.99	91%	97.50%
AVERAGE		$502.19		
Average of Utilities with Rural Area		$593.83		

When considering only those LDCs with rural service areas the average revenue per customer increases from $502.19 to $593.83. Norfolk's revenue per customer of $585.34 is less than the average revenue per customer of LDCs with comparable rural areas.

Norfolk is not aware of any areas of its cost structure that are consistently higher than its peers. However, from the data provided in the Board's Electricity Distributors' Yearbook 2010, Norfolk has provided the OM&A / Customer in the table below. Compared to the average OM&A / Customer, Norfolk is slightly higher, but compared to those utilities that service rural areas, Norfolk's OM&A / Customer is considerably lower than average.

OM&A per Customer				
Utility		***OM&A/Customer***	***% of Average***	***% Rural***
Westario Power Inc.		$200.37	76%	0.0%
Festival Hydro Inc.		$206.34	79%	0.0%
St. Thomas Energy Inc.		$210.22	80%	0.0%
Welland Hydro-Electric System Corp.		$224.13	86%	0.0%
Woodstock Hydro Services Inc.		$243.45	93%	0.0%
COLLUS Power Corporation		$275.69	105%	0.0%
Innisfil Hydro Distribution Systems Limited		$267.36	102%	43.1%
Norfolk Power Distribution Inc.		$263.65	101%	79.2%
Canadian Niagara Power Inc.		$352.44	134%	79.2%
Haldimand County Hydro Inc.		$328.76	125%	97.1%
Erie Thames Powerlines Corporation		$310.93	119%	97.5%
AVERAGE		$262.12		
Average of Utilties with Rural Area		$304.63		

4. [Ex. 1/2/1, p. 1 and Ex. 2/6/1, App. A, p. 5] Please explain why the Corporate Goals in the Application show that the Applicant is one of the very few distributors to have as a goal "establish the lowest retail rates possible", while the Asset Management Plan does not include that as one of the Corporate Values. Please advise when "establish the lowest retail rates possible" was added to the Corporate Goals, and the circumstances of that addition.

Response:

The corporate goal referenced in Exhibit 1, Tab 2, Schedule 1 states:

> "Establish the lowest retail rates possible without compromising the financial integrity of the Corporation in compliance to our Shareholder's direction and Corporate Strategic Plan."

This is considerably different than a goal to "establish the lowest retail rate possible". In addition an individual goal such as this should be taken in context with the other goals of the corporation, as well as the mission statement, both of which are provided on the same page of the application and are reproduced here:

Corporate Goals:

> "Promote a safe and reliable electricity distribution system with capacity to meet expectations of our customers and support local economic growth
>
> Promote and practice excellence in safety.
>
> Establish the lowest retail rates possible without compromising the financial integrity of the Corporation in compliance to our Shareholder's direction and Corporate Strategic Plan."

Mission Statement:

> "Norfolk Power Distribution Inc. is committed to provide a reliable supply of electricity at competitive distribution rates in an environment which focuses on safety, efficiency and increased economic development."

The corporate values outlined in the Asset Management Plan in Exhibit 2 Appendix A, page 5, state:

> The team at Norfolk Power Distribution Inc. is dedicated to:
>
> - Delivery of safe and reliable electricity to the consumer

- Responding to power outages and emergencies quickly and efficiently
- Building and maintaining the electrical distribution system
- Providing the highest level of service to customers.

On the following page of the Asset Management Plan under the title Asset Management Overview it states

"NPDI has established inspection, maintenance and renewal programs to address these challenges, as well as the reporting requirements of the OEB's Distribution System Code (DSC), while cost-effectively improving system performance and reliability, optimizing distribution system asset utilization and meeting or exceeding customer expectations for the safe delivery of electricity at reasonable prices."

While the corporate goals were not recorded word for word in the Asset Management Plan, Norfolk believes the values reported in that plan, along with the intention of the plan as reported in the Asset Management Overview section are consistent with the corporate goals and mission, as they relate to asset management.

The corporate goals have been in existence since at least 2004, which is longer than current senior management has been with the organization. Therefore it is not possible to advise of the circumstances under which the addition of this goal occurred.

5. [Ex. 1/3/2] Please confirm that in the Applicant's last rebasing, EB-2007-0753, depreciation was calculated using the full year rule in the year of acquisition, and rates were set on that basis. Please provide a copy of any accounting order subsequent to that time authorizing the Applicant to change to the half year rule. Please provide a detailed calculation of the difference in January 1, 2012 opening rate base between the amount using the half year rule since 2007, as noted in this exhibit, and the amount that would arise if the half year rule is used commencing in 2012.

Response:

In Norfolk's last rebasing in 2008, EB-2007-0753, depreciation was not calculated using the full year rule in the year of acquisition. In that application depreciation was calculated using the half year rule and rates were set on that basis. Due to a change in management shortly following the final decision of that application, the half year rule was not immediately reflected on Norfolk's financial statements. In 2010 when Norfolk noted the oversight, it adjusted the depreciation expense based on the half year rule for 2010 and prior years to reflect the 2008 decision and the depreciation method used to set distribution rates in that year.

Tables illustrating the change in 2012 opening rate base have been provided below.

EFFECT OF HALF-YEAR RULE ON 2012 OPENING RATE BASE ~ CGAAP

** 2012 Test Accumulated Depreciation Revised from original submission due to error in calculating depreciation on "regular" meters in Account 1860 after removing Stranded Meters. A reconciliation between the original 2012 Rate Base figures and the revised figures showing depreciation calculated after removing stranded meters for 2012 is provided below.*

CGAAP RATE BASE (Reconciliation of 2012 Test Year Under CGAAP Using 1/2 Year, Revised for Removal of Stranded Meters to Calculate Depreciation Expense for Account 1860, To Original Submission Table 1.6)	**2012 Test (Original Submission - Exh 2/Tab 1/Sched 2/Table 1.6)**	**Change in Depreciation Expense (Accumulated Depreciation) Relating to Meters (Acct 1860) after Removing Stranded Meters**	**2012 Test (Revised for Change in Accum. Depreciation re: Acct 1860)**
Gross Fixed Assets	84,994,791		84,994,791
Accumulated Depreciation	31,482,220	(76,181)	31,406,039
Net Book Value	**53,512,571**		**53,588,752**
Average NBV	***52,991,494***		***53,029,585***
Working Capital Expense	39,952,900		39,952,900
Working Capital Allowance (15%)	5,992,935		5,992,935
Rate Base	**58,984,429**		**59,022,520**

CGAAP RATE BASE (Original Application)	**2011 Bridge**	**2012 Test - Opening Balance (Include SM Capital, Excluding Stranded Meters)**	**2012 Test * (see reconciliation above)**
Gross Fixed Assets	79,147,237	80,586,792	84,994,791
Accumulated Depreciation	28,808,038	28,116,375	31,406,039
Net Book Value	**50,339,199**	**52,470,417**	**53,588,752**
Average NBV	***49,864,556***		***53,029,585***
Working Capital Expense	38,295,629		39,952,900
Working Capital Allowance (15%)	5,744,344		5,992,935
Rate Base	**55,608,900**		**59,022,520**

CGAAP RATE BASE (1/2 Year Rule Not Adopted until 2012)	**2011 - Revised Bridge**	**2012 Test - Opening Balance REVISED (Include SM Capital, Excluding Stranded Meters)**	**2012 Revised Test (Using Stranded Meter Figures from Original Submission)**
Gross Fixed Assets	79,147,237	80,586,791	85,043,013
Accumulated Depreciation	***29,316,029***	***28,696,960***	***32,129,519***
Net Book Value	**49,831,208**	**51,889,831**	**52,913,494**
Average NBV	***49,411,044***		***52,437,958***
Working Capital Expense	38,295,629		39,952,900
Working Capital Allowance (15%)	5,744,344		5,992,935
Rate Base	**55,155,389**		**58,430,893**

Net Difference in Rate Base	**(580,586)**	**(591,627)**

MIFRS –Rate Base Using Full Year Rule 2007 to 2011

MIFRS RATE BASE (Original Application)	2008 A	2009 A	2010 - A	2011 Bridge *	2012 Test
Gross Fixed Assets	76,092,228	79,544,106	75,225,237	52,667,450	59,274,191
Accumulated Depreciation	33,574,501	36,317,914	25,835,324	1,970,919	4,984,969
Net Book Value	**42,517,727**	**43,226,192**	**49,389,913**	**50,696,531**	**54,289,222**
Average NBV	***41,884,268***	***42,871,960***	***46,308,053***	***50,043,222***	***53,568,246***
Working Capital Expense	32,632,012	33,329,699	35,897,823	38,892,695	39,952,900
Working Capital Allowance (15%)	4,894,802	4,999,455	5,384,673	5,833,904	6,085,418
Rate Base	**46,779,070**	**47,871,414**	**51,692,726**	**55,877,126**	**59,653,664**

** 2011 Working Capital Expense under MIFRS used 2011 CGAAP expenses + $597,066 in overheads not capitalized*

MIFRS RATE BASE (1/2 Year Rule Not Adopted until 2012)	2008 Actual	2009 Actual	2010 - Revised Actual	2011 - Revised Bridge	2012 Test - Opening Balance (Revised)	2012 Revised Test (Using Stranded Meter Figures from Original Submission)
Gross Fixed Assets	76,092,228	79,544,106	75,225,237	52,268,419	54,981,217	58,881,737
Accumulated Depreciation	33,574,501	36,317,914	***26,234,356***	***1,947,469***	***3,184,813***	***5,005,749***
Net Book Value	**42,517,727**	**43,226,192**	**48,990,881**	**50,320,951**	**51,796,404**	**53,875,988**
Average NBV	***41,884,268***	***42,871,960***	***46,108,536***	***49,655,916***		***53,176,980***
Working Capital Expense	32,632,012	33,329,699	35,897,823	38,892,695		40,569,455
Working Capital Allowance (15%)	4,894,802	4,999,455	5,384,673	5,833,904		6,085,418
Rate Base	**46,779,070**	**47,871,414**	**51,493,210**	**55,489,820**		**59,262,398**

NET IMPACT ON 2012 RATE BASE	**(391,266)**

6. [Ex. 1/3/5, App. G] With respect to the Norfolk Power Inc. Consolidated Financial Statements:

a. P. 5. Please advise how much of the 2010 difference in Administrative and General Expense between NPI consolidated ($2,022,382) and NPDI ($1,682.502), a net of $339,881, represents expenditures of the holding company, and how much represents expenditures allocated to the non-regulated affiliate. Please reconcile the figure for the holding company to the figure of $71,987 in total holding company expenses in its 2010 non-consolidated statement.

Response:

The 2010 NPI expenses of $71,987 are allocated to NPDI and NEI based on their respective revenue. NPDI was allocated $63,708 and NEI was allocated $8,279, both of which were recorded in Administrative and General Expenses of the respective companies. (Please note in Exhibit 4, Tab 1, Schedule 1, Page 2 of the application the $63,708 has been removed from Norfolk's expenses as Norfolk is not seeking to recover this amount through rates).

Therefore of the $339,881 in expenses noted above, $8,279 is relating to NPI and the balance of $331,602 is relating to NEI, the non-regulated affiliate.

b. P. 23. Please advise how much of the $738,318 of expenses of the affiliate represents:

i. Amounts expended by the Applicant and allocated or charged to the affiliate;

Response:

$600,108 of the $738,318 are allocated expenses from the Applicant. Response to Interrogatory 17c provides additional details.

ii. Amounts paid by the affiliate to arms-length third party service providers; and

Response:

$56,475 of the $738,318 was paid to arms-length third party service providers.

iii. Amounts paid by the affiliate for its own employees and other direct costs.

Response:

$81,735 of the $738,318 was compensation for the affiliate's employees.

7. [Ex. 2/1/1, p. 8] Please provide details of the last three times the Applicant's Board directed management to make a material change to the Budget as set out in lines 12 and 13.

Response:

The following changes were made to the capital budget:

1. In September 2011 the following changes to the capital budget were made:
   - The replacement of a failing transformer in a distribution station was added to the capital budget for $100,000.
   - The original 2011 budget contained two conversion projects, one in Waterford for $129,000, and a second one in Port Dover for $370,000. During the year it was determined that the required scope and expense of Waterford was significantly underestimated and this project was increased to $549,000. The Port Dover project which was second in priority to the Waterford job was delayed one year.
   - Green Energy Projects were separated from the capital budget to reflect their accounting treatment, and were updated to reflect the projections provided to the OPA as part of Norfolk's Green Energy Plan earlier in the year.
   - Installation of iXP accounting software and other software upgrades were removed from the budget.
   - The capital budget for meter expenses was reduced by $22,000 to reflect the most recent update.

   All of these changes, except the additional $100,000 to replace the failing transformer, are reflected in the application.

2. In April 2010 the following changes to the capital budget were made:
   - Fibre communication link was added to the capital budget $415k (net of contributions)
   - Maple Street Renewal project was added to the budget for $265k
   - Cockshutt feeder project was reduced by $265k
   - Installation of iXP accounting software and other software upgrades was removed from the budget $160k.
   - A provision was added to participate in the EDA plan to purchase the MDMR, if approved.

3. In September 2008, the following changes to the capital budget were made:
   - Construction related to the second phase of the transformer station was delayed until 2009, for $100,000.
   - Distribution Station upgrades were delayed, totaling $400,000.

- The Hillcrest Rebuild project required an additional $200,000, while 3 smaller rebuild projects costing the same amount were delayed.
- The purchase of $100,000 of transformers was removed from the budget as a review of existing inventory indicated sufficient quantities.
- $150,000 of meter projects ($100,000 wholesale meters and $50,000 residential) was cancelled, as the wholesale meters were not required and the $50,000 related to residential meter purchases that were not required due to smart meters.
- Accounting software upgrade to iXP was removed from the budget, $120,000.
- Building renovations of $41,000 were removed from the budget.

8. [Ex. 2/1/2] Please restate tables 1.2 through 1.6 assuming that fully depreciated assets had been removed as planned in 2008, and then each year thereafter as more became fully depreciated. Please advise the amount of the fully depreciated asset adjustment for each year, and restate tables 2.6 and 2.7 excluding fully depreciated assets in each year.

Response:

Norfolk has provided revised tables 1.2 through 1.6 assuming that fully depreciated assets had been removed as planned in 2008, and then each year thereafter as more became fully depreciated. Please see tables below.

Table 1.2 - REVISED FOR REMOVAL OF FULLY-DEPRECIATED ASSETS

	2008 Board Approved	2008 Actual (given in original Table 1.2)	2008 - Remove Fully Depreciated Assets & Accumulated Depreciation	2008 Revised Actual	Variance (2008 Board Approved to 2008 Revised Actual)
Gross Fixed Assets	66,271,193	76,092,228	(1,581,078)	74,511,150	8,239,957
Accumulated Depreciation	21,488,308	33,574,501	(1,581,078)	31,993,423	10,505,115
Net Book Value	44,782,885	42,517,727	0	42,517,727	(2,265,158)
Average Net Book Value	***43,155,630***	***41,884,268***		***41,884,268***	***(1,271,362)***
Working Capital Expenses	33,307,800	32,632,012		32,632,012	(675,788)
Working Capital Allowance (15%)	4,996,170	4,894,802		4,894,802	(101,368)
Rate Base	**48,151,800**	**46,779,070**		**46,779,070**	**(1,372,730)**

Table 1.3 - REVISED FOR REMOVAL OF FULLY-DEPRECIATED ASSETS

	2008 Revised Actual (see Table 1.2 - Revised)	2009 Actual (given in original Table 1.3)	2009 - Remove Fully Depreciated Assets & Accumulated Depreciation (2008 Adj.)	2009 Revised Actual	Variance (2008 Revised Actual to 2009 Revised Actual)
Gross Fixed Assets	74,511,150	79,544,106	(1,581,078)	77,963,028	3,451,878
Accumulated Depreciation	31,993,423	36,317,914	(1,581,078)	34,736,836	2,743,413
Net Book Value	42,517,727	43,226,192	0	43,226,192	708,465
Average Net Book Value	***41,884,268***	***42,871,960***		***42,871,960***	***987,692***
Working Capital Expenses	32,632,012	33,329,699		32,632,012	0
Working Capital Allowance (15%)	4,894,802	4,999,455		4,894,802	0
Rate Base	**46,779,070**	**47,871,414**		**47,766,761**	**987,692**

Table 1.4 - REVISED FOR REMOVAL OF FULLY-DEPRECIATED ASSETS

	2009 Revised Actual (see Table 1.3 - Revised)	2010 Actual (given in original Table 1.4)	2010 - Remove Fully Depreciated Assets & Accumulated Depreciation	2010 Revised Actual	Variance (2009 Revised Actual to 2010 Revised Actual)
Gross Fixed Assets	77,963,028	75,225,237	0	75,225,237	(2,737,791)
Accumulated Depreciation	34,736,836	25,835,324	0	25,835,324	(8,901,512)
Net Book Value	43,226,192	49,389,913	0	49,389,913	6,163,721
Average Net Book Value	***42,871,960***	***46,308,053***		***46,308,053***	***3,436,093***
Working Capital Expenses	32,632,012	35,897,823		32,632,012	0
Working Capital Allowance (15%)	4,894,802	5,384,673		4,894,802	0
Rate Base	**47,766,761**	**51,692,726**		**51,202,854**	**3,436,093**

Table 1.5 - REVISED FOR REMOVAL OF FULLY-DEPRECIATED ASSETS

	2010 Revised Actual (see Table 1.4 - Revised)	2011 Bridge (given in original Table 1.5)	2011 - Remove Fully Depreciated Assets & Accumulated Depreciation	2011 Revised Bridge	Variance (2010 Revised Actual to 2011 Revised Bridge)
Gross Fixed Assets	75,225,237	79,147,237	0	79,147,237	3,922,000
Accumulated Depreciation	25,835,324	28,808,038	0	28,808,038	2,972,714
Net Book Value	49,389,913	50,339,199	0	50,339,199	949,286
Average Net Book Value	***46,308,053***	***49,864,556***		***49,864,556***	***3,556,504***
Working Capital Expenses	32,632,012	35,897,823		32,632,012	0
Working Capital Allowance (15%)	4,894,802	5,384,673		4,894,802	0
Rate Base	**51,202,854**	**55,249,229**		**54,759,358**	**3,556,504**

Table 1.6 - REVISED FOR REMOVAL OF FULLY-DEPRECIATED ASSETS

	2011 Revised Bridge (see Table 1.5 - Revised)	2012 Test (given in original Table 1.5, Revised for Removal of Stranded Meters - See Response to SEC #5)	2012 - Remove Fully Depreciated Assets & Accumulated Depreciation	2012 Revised Test	Variance (2011 Revised Bridge to 2012 Revised Test)
Gross Fixed Assets	79,147,237	84,994,791	0	84,994,791	5,847,554
Accumulated Depreciation	28,808,038	31,406,039	0	31,406,039	2,598,001
Net Book Value	50,339,199	53,588,752	0	53,588,752	3,249,553
Average Net Book Value	***49,864,556***	***51,963,976***		***51,963,976***	***2,099,420***
Working Capital Expenses	32,632,012	35,897,823		32,632,012	0
Working Capital Allowance (15%)	4,894,802	5,384,673		4,894,802	0
Rate Base	**54,759,358**	**57,348,649**		**56,858,777**	**2,099,420**

Norfolk has restated tables 2.6 & 2.7 excluding fully depreciated assets in each year as tables below.

GROSS FIXED ASSETS TABLE - CGAAP

Table 2.6 ~ REVISED (SEC Interrogatory #8)

	Description	2008 Board Approved	2008 Actual	2008 - Remove Fully Depreciated Assets	2008 Revised Actual	Variance - 2008 Approved to 2008 Revised Actual	2009 Actual	2009 - Remove Fully Depreciated Assets	2009 Revised Actual (Incl. 2008 Adj.)	Variance - 2008 Revised Actual to 2009 Revised Actual	2010 Actual	2010 - Add Back Assets Removed in Previous Years	2010 Revised Actual (Incl. 2008 & 2009 Adj)	Variance - 2009 Revised Actual to 2010 Revised Actual	2011 Bridge (CGAAP)	Variance - 2010 Revised Actual to 2011 Bridge	2012 Test (CGAAP)	Variance - 2011 Bridge to 2012 Test
														No changes		*No changes*		
Land & Buildings (Distribution Plant)																		
1805	Land	380,064	385,116	-	385,116	5,052	391,259	-	391,259	6,144	391,259	-	391,259	(0)	391,259	0	391,259	-
1806	Land Rights	302,911	300,911	-	300,911	(2,000)	302,784	-	302,784	1,873	302,784	-	302,784	(0)	303,784	1,000	303,784	-
1808	Buildings and Fixtures	1,530,070	1,524,961	-	1,524,961	(5,109)	1,615,717	-	1,615,717	90,757	1,620,078	-	1,620,078	4,361	1,620,078	0	1,620,078	-
	SUBTOTAL LAND & BUILDINGS	2,213,045	2,210,987	-	2,210,987	(2,058)	2,309,761	-	2,309,761	98,774	2,314,121	-	2,314,121	4,360	2,315,122	1,001	2,315,122	-
Distribution Stations																		
1815	Transformer Station Equipment	3,199,994	3,215,596		3,215,596	15,602	3,215,596	-	3,215,596	-	8,912,383	-	8,912,383	5,696,787	8,912,383	-	8,912,383	-
1820	Distribution Station Equipment	2,990,092	3,884,654	(1,386,755)	2,497,899	(492,193)	4,120,928	-	2,734,173	236,274	2,767,848	1,386,755	2,767,848	33,675	2,842,848	75,000	3,117,848	275,000
	SUBTOTAL DISTRIBUTION STATIONS	6,190,086	7,100,250	(1,386,755)	5,713,495	(476,591)	7,336,524	-	5,949,769	236,274	11,680,231	1,386,755	11,680,231	5,730,463	11,755,231	75,000	12,030,231	275,000
Poles & Wires																		
1830	Poles, Towers and Fixtures	18,697,529	24,691,484	-	24,691,484	5,993,955	25,698,012	-	25,698,012	1,006,528	20,857,358	-	20,857,358	(4,840,654)	22,053,733	1,196,375	23,516,733	1,463,000
1835	Overhead Conductors & Devices	9,925,797	12,983,070	-	12,983,070	3,057,273	13,715,614	-	13,715,614	732,544	11,716,783	-	11,716,783	(1,998,832)	12,566,695	849,912	13,491,695	925,000
1840	Underground Conduit	3,828,245	3,532,583	-	3,532,583	(295,662)	3,845,066	-	3,845,066	312,484	4,005,396	-	4,005,396	160,329	4,225,396	220,000	4,325,396	100,000
1845	Underground Conductors & Devices	7,467,211	7,120,863	-	7,120,863	(346,348)	7,636,026	-	7,636,026	515,163	6,686,432	-	6,686,432	(949,594)	7,074,432	388,000	7,277,432	203,000
	SUBTOTAL POLES & WIRES	39,918,782	48,328,000	-	48,328,000	8,409,218	50,894,719	-	50,894,719	2,566,720	43,265,968	-	43,265,968	(7,628,751)	45,920,255	2,654,287	48,611,255	2,691,000
Line Transformers																		
1850	Line Transformers	10,656,687	10,816,541	-	10,816,541	159,854	11,237,917	-	11,237,917	421,375	11,982,442	-	11,982,442	744,525	12,885,387	902,945	13,837,387	952,000
	SUBTOTAL TRANSFORMERS	10,656,687	10,816,541	-	10,816,541	159,854	11,237,917	-	11,237,917	421,375	11,982,442	-	11,982,442	744,525	12,885,387	902,945	13,837,387	952,000
Services & Meters																		
1855	Services	2,245,317	2,230,186	-	2,230,186	(15,131)	2,507,308	-	2,507,308	277,121	2,778,384	-	2,778,384	271,076	3,046,493	268,109	3,421,493	375,000
1860	Meters	4,523,474	3,891,529	-	3,891,529	(631,945)	4,025,165	-	4,025,165	133,636	4,157,134	-	4,157,134	131,969	4,229,133	71,999	2,396,302	(1,832,831)
1860	Smart Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,214,012	3,214,012
	SUBTOTAL SERVICES & METERS	6,768,791	6,121,716	-	6,121,716	(647,075)	6,532,473	-	6,532,473	410,757	6,935,518	-	6,935,518	403,045	7,275,625	340,107	9,031,806	1,756,181
Land & Buildings (General Plant)																		
1905	Land	236,830	243,636	-	243,636	6,806	243,636	-	243,636	-	243,636	-	243,636	0	243,636	(0)	243,636	-
1908	Buildings and Fixtures	2,209,188	2,189,477	-	2,189,477	(19,711)	2,215,638	-	2,215,638	26,161	2,307,289	-	2,307,289	91,651	2,317,288	9,999	2,317,288	-
1910	Leasehold Improvements	11,177	6,177	-	6,177	(5,000)	6,177	-	6,177	-	6,177	-	6,177	-	6,177	-	6,177	-
	SUBTOTAL LAND & BUILDINGS (G.P.)	2,457,195	2,439,290	-	2,439,290	(17,905)	2,465,451	-	2,465,451	26,161	2,557,102	-	2,557,102	91,651	2,567,101	9,998	2,567,101	-
I/T Assets																		
1920	Computer Equipment - Hardware	626,816	1,256,300	(136,534)	1,119,766	492,950	1,280,299	-	1,143,765	23,999	714,926	136,534	714,926	(428,839)	744,926	30,000	784,926	40,000
1925	Computer Software	356,656	350,963	-	350,963	(5,693)	406,997	-	406,997	56,034	295,773	-	295,773	(111,225)	322,773	27,000	465,273	142,500
1925	Computer Software - Smart Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	406,373	406,373
	SUBTOTAL I/T ASSETS	983,472	1,607,263	(136,534)	1,470,729	487,257	1,687,296	-	1,550,762	80,033	1,010,699	136,534	1,010,699	(540,064)	1,067,699	57,000	1,656,572	588,873
Equipment																		
1915	Office Furniture and Equipment	163,706	407,613	(57,790)	349,823	186,117	411,687	-	353,897	4,075	152,930	57,790	152,930	(200,967)	167,930	15,000	183,430	15,500
1930	Transportation Equipment	1,490,157	2,267,042	-	2,267,042	776,885	2,122,603	-	2,122,603	(144,439)	1,538,637	-	1,538,637	(583,966)	1,978,637	440,000	2,018,637	40,000
1935	Stores Equipment	44,068	120,021	-	120,021	75,953	120,335	-	120,335	314	39,562	-	39,562	(80,773)	40,562	1,000	41,562	1,000
1940	Tools, Shop and Garage Equipment	277,866	709,787	-	709,787	431,921	727,933	-	727,933	18,146	317,724	-	317,724	(410,209)	340,724	23,000	360,724	20,000
1945	Measurement and Testing Equipment	193,041	162,717	-	162,717	(30,324)	178,973	-	178,973	16,256	180,868	-	180,868	1,895	186,868	6,000	188,868	2,000
1955	Communication Equipment	112,931	106,906	-	106,906	(6,025)	106,906	-	106,906	-	107,927	-	107,927	1,021	115,927	8,000	168,927	53,000
1960	Miscellaneous Equipment	151,827	168,061	-	168,061	16,234	412,334	-	412,334	244,273	428,220	-	428,220	15,885	433,220	5,000	438,220	5,000
1970	Load Mgmt Controls - Customer Premises	88,276	16,565	-	16,565	(71,711)	16,565	-	16,565	-	-	-	-	(16,565)	-	-	-	-
2005	Property under Capital Lease	10,039	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-
	SUBTOTAL EQUIPMENT	2,531,911	3,968,751	(57,790)	3,910,961	1,379,050	4,107,376	-	4,049,586	138,625	2,775,906	57,790	2,775,906	(1,273,680)	3,273,906	498,000	3,410,406	136,500
Other Distribution Assets																		
1980	System Supervisory Equipment	748,152	622,036	-	622,036	(126,116)	626,609	-	626,609	4,573	1,176,773	-	1,176,773	550,164	1,421,773	245,000	1,521,773	100,000
1995	Contributions and Grants	(6,196,930)	(7,122,607)	-	(7,122,607)	(925,677)	(7,654,021)	-	(7,654,021)	(531,414)	(8,473,522)	-	(8,473,522)	(819,501)	(9,334,862)	(861,340)	(9,986,862)	(652,000)
2055	Work in Process	-	-	-	-	-	5,472,038	-	5,472,038	5,472,038	-	-	-	(5,472,038)	-	-	-	-
	SUBTOTAL OTHER DISTRIBUTION ASSETS	(5,448,778)	(6,500,571)	-	(6,500,571)	(1,051,793)	(1,555,373)	-	(1,555,373)	4,945,197	(7,296,749)	-	(7,296,749)	(5,741,376)	(7,913,089)	(616,340)	(8,465,089)	(552,000)
TOTAL GROSS FIXED ASSETS		66,271,191	76,092,228	(1,581,079)	74,511,149	8,239,958	85,016,143	-	83,435,064	8,923,915	75,225,238	1,581,079	75,225,238	(8,209,826)	79,147,238	3,921,999	84,994,792	5,847,554

GROSS FIXED ASSETS TABLE - MIFRS

Table 2.7 ~ REVISED (SEC Interrogatory #8)

	Description	2008 Board Approved	2008 Actual	2008 - Remove Fully Depreciated Assets	2008 Revised Actual	Variance - 2008 Approved to 2008 Revised Actual	2009 Actual	2009 - Remove Fully Depreciated Assets	2009 Revised Actual (Incl. 2008 Adj.)	Variance - 2008 Revised Actual to 2009 Revised Actual	2010 Actual	2010 - Add Back Assets Removed in Previous Years	2010 Revised Actual (Incl. 2008 & 2009 Adj)	Variance - 2009 Revised Actual to 2010 Revised Actual	2011 Bridge (MIFRS)	Variance - 2010 Revised Actual to 2011 Bridge	2012 Test (MIFRS)	Variance - 2011 Bridge to 2012 Test
														No changes		*No changes*		
Land & Buildings (Distribution Plant)																		
1805	Land	380,064	385,116	-	385,116	5,052	391,259	-	391,259	6,144	391,259	-	391,259	(0)	391,259	0	391,259	-
1806	Land Rights	302,911	300,911	-	300,911	(2,000)	302,784	-	302,784	1,873	302,784	-	302,784	(0)	303,784	1,000	303,784	-
1808	Buildings and Fixtures	1,530,070	1,524,961	-	1,524,961	(5,109)	1,615,717	-	1,615,717	90,757	1,620,078	-	1,620,078	4,361	1,439,503	(180,575)	1,439,503	-
	SUBTOTAL LAND & BUILDINGS	2,213,045	2,210,987	-	2,210,987	(2,058)	2,309,761	-	2,309,761	98,774	2,314,121	-	2,314,121	4,360	2,134,547	(179,574)	2,134,547	-
Distribution Stations																		
1815	Transformer Station Equipment	3,199,994	3,215,596		3,215,596	15,602	3,215,596	-	3,215,596	-	8,912,383	-	8,912,383	5,696,787	8,387,996	(524,387)	8,387,996	-
1820	Distribution Station Equipment	2,990,092	3,884,654	(1,386,755)	2,497,899	(492,193)	4,120,928	-	2,734,173	236,274	2,767,848	1,386,755	2,767,848	33,675	2,469,645	(298,203)	2,715,209	245,564
	SUBTOTAL DISTRIBUTION STATIONS	6,190,086	7,100,250	(1,386,755)	5,713,495	(476,591)	7,336,524	-	5,949,769	236,274	11,680,231	1,386,755	11,680,231	5,730,463	10,857,641	(822,590)	11,103,205	245,564
Poles & Wires																		
1830	Poles, Towers and Fixtures	18,697,529	24,691,484	-	24,691,484	5,993,955	25,698,012	-	25,698,012	1,006,528	20,857,358	-	20,857,358	(4,840,654)	14,698,027	(6,159,331)	16,004,426	1,306,399
1835	Overhead Conductors & Devices	9,925,797	12,983,070	-	12,983,070	3,057,273	13,715,614	-	13,715,614	732,544	11,716,783	-	11,716,783	(1,998,832)	9,398,843	(2,317,940)	10,224,830	825,987
1840	Underground Conduit	3,828,245	3,532,583	-	3,532,583	(295,662)	3,845,066	-	3,845,066	312,484	4,005,396	-	4,005,396	160,329	2,694,608	(1,310,787)	2,783,904	89,296
1845	Underground Conductors & Devices	7,467,211	7,120,863	-	7,120,863	(346,348)	7,636,026	-	7,636,026	515,163	6,686,432	-	6,686,432	(949,594)	5,260,304	(1,426,128)	5,441,575	181,271
	SUBTOTAL POLES & WIRES	39,918,782	48,328,000	-	48,328,000	8,409,218	50,894,719	-	50,894,719	2,566,720	43,265,968	-	43,265,968	(7,628,751)	32,051,782	(11,214,187)	34,454,735	2,402,953
Line Transformers																		
1850	Line Transformers	10,656,687	10,816,541	-	10,816,541	159,854	11,237,917	-	11,237,917	421,375	11,982,442	-	11,982,442	744,525	6,056,004	(5,926,438)	6,906,101	850,097
	SUBTOTAL TRANSFORMERS	10,656,687	10,816,541	-	10,816,541	159,854	11,237,917	-	11,237,917	421,375	11,982,442	-	11,982,442	744,525	6,056,004	(5,926,438)	6,906,101	850,097
Services & Meters																		
1855	Services	2,245,317	2,230,186	-	2,230,186	(15,131)	2,507,308	-	2,507,308	277,121	2,778,384	-	2,778,384	271,076	2,490,838	(287,546)	2,825,698	334,860
1860	Meters	4,523,474	3,891,529	-	3,891,529	(631,945)	4,025,165	-	4,025,165	133,636	4,157,134	-	4,157,134	131,969	1,844,522	(2,312,612)	1,241,108	(603,414)
1860	Smart Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,214,012	3,214,012
	SUBTOTAL SERVICES & METERS	6,768,791	6,121,716	-	6,121,716	(647,075)	6,532,473	-	6,532,473	410,757	6,935,518	-	6,935,518	403,045	4,335,361	(2,600,157)	7,280,819	2,945,458
Land & Buildings (General Plant)																		
1905	Land	236,830	243,636	-	243,636	6,806	243,636	-	243,636	-	243,636	-	243,636	0	243,636	(0)	243,636	-
1908	Buildings and Fixtures	2,209,188	2,189,477	-	2,189,477	(19,711)	2,215,638	-	2,215,638	26,161	2,307,289	-	2,307,289	91,651	1,476,546	(830,743)	1,476,546	-
1910	Leasehold Improvements	11,177	6,177	-	6,177	(5,000)	6,177	-	6,177	-	6,177	-	6,177	-	2,314	(3,863)	2,314	-
	SUBTOTAL LAND & BUILDINGS (G.P.)	2,457,195	2,439,290	-	2,439,290	(17,905)	2,465,451	-	2,465,451	26,161	2,557,102	-	2,557,102	91,651	1,722,496	(834,606)	1,722,496	-
I/T Assets																		
1920	Computer Equipment - Hardware	626,816	1,256,300	(136,534)	1,119,766	492,950	1,280,299	-	1,143,765	23,999	714,926	136,534	714,926	(428,839)	189,156	(525,770)	229,156	40,000
1925	Computer Software	356,656	350,963	-	350,963	(5,693)	406,997	-	406,997	56,034	295,773	-	295,773	(111,225)	149,771	(146,001)	292,271	142,500
1925	Computer Software - Smart Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	406,373	406,373
	SUBTOTAL I/T ASSETS	983,472	1,607,263	(136,534)	1,470,729	487,257	1,687,296	-	1,550,762	80,033	1,010,699	136,534	1,010,699	(540,064)	338,928	(671,771)	927,801	588,873
Equipment																		
1915	Office Furniture and Equipment	163,706	407,613	(57,790)	349,823	186,117	411,687	-	353,897	4,075	152,930	57,790	152,930	(200,967)	73,409	(79,521)	88,909	15,500
1930	Transportation Equipment	1,490,157	2,267,042	-	2,267,042	776,885	2,122,603	-	2,122,603	(144,439)	1,538,637	-	1,538,637	(583,966)	916,107	(622,530)	956,107	40,000
1935	Stores Equipment	44,068	120,021	-	120,021	75,953	120,335	-	120,335	314	39,562	-	39,562	(80,773)	14,447	(25,115)	14,447	-
1940	Tools, Shop and Garage Equipment	277,866	709,787	-	709,787	431,921	727,933	-	727,933	18,146	317,724	-	317,724	(410,209)	168,419	(149,305)	196,419	28,000
1945	Measurement and Testing Equipment	193,041	162,717	-	162,717	(30,324)	178,973	-	178,973	16,256	180,868	-	180,868	1,895	28,040	(152,828)	28,040	-
1955	Communication Equipment	112,931	106,906	-	106,906	(6,025)	106,906	-	106,906	-	107,927	-	107,927	1,021	46,739	(61,188)	99,739	53,000
1960	Miscellaneous Equipment	151,827	168,061	-	168,061	16,234	412,334	-	412,334	244,273	428,220	-	428,220	15,885	265,335	(162,885)	265,335	-
1970	Load Mgmt Controls - Customer Premises	88,276	16,565	-	16,565	(71,711)	16,565	-	16,565	-	-	-	-	(16,565)	-	-	-	-
2005	Property under Capital Lease	10,039	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-	10,039	-	4,015	(6,023)	4,015	-
	SUBTOTAL EQUIPMENT	2,531,911	3,968,751	(57,790)	3,910,961	1,379,050	4,107,376	-	4,049,586	138,625	2,775,906	57,790	2,775,906	(1,273,680)	1,516,512	(1,259,395)	1,653,012	136,500
Other Distribution Assets																		
1980	System Supervisory Equipment	748,152	622,036	-	622,036	(126,116)	626,609	-	626,609	4,573	1,176,773	-	1,176,773	550,164	1,057,200	(119,573)	1,146,496	89,296
1995	Contributions and Grants	(6,196,930)	(7,122,607)	-	(7,122,607)	(925,677)	(7,654,021)	-	(7,654,021)	(531,414)	(8,473,522)	-	(8,473,522)	(819,501)	(7,403,019)	1,070,503	(8,055,019)	(652,000)
2055	Work in Process	-	-	-	-	-	5,472,038	-	5,472,038	5,472,038	-	-	-	(5,472,038)	-	-		-
	SUBTOTAL OTHER DISTRIBUTION ASSETS	(5,448,778)	(6,500,571)	-	(6,500,571)	(1,051,793)	(1,555,373)	-	(1,555,373)	4,945,197	(7,296,749)	-	(7,296,749)	(5,741,376)	(6,345,819)	950,930	(6,908,523)	(562,704)
TOTAL GROSS FIXED ASSETS		66,271,191	76,092,228	(1,581,079)	74,511,149	8,239,958	85,016,143	-	83,435,064	8,923,915	75,225,238	1,581,079	75,225,238	(8,209,826)	52,667,450	(22,557,788)	59,274,191	6,606,741

9. [Ex. 2/3/1, p. 2] Please confirm that all figures in table 3.1 are based on CGAAP. Please restate this table in MIFRS for 2011 and 2012.

Response:

Norfolk confirms the figures in Table 3.1 are based on CGAAP. The table has been restated in MIFRS for 2011 and 2012 below.

Year	Total Distribution Plant ($)	Capital Contributions	Net Distribution Plant	General Plant	Total Capital net of Contributions	$ Increase / (Decrease)	% Increase / (Decrease)
2006	4,343,309	(886,512)	3,456,797	706,447	4,163,244	1,585,115	61%
2007	5,883,106	(994,216)	4,888,890	575,515	5,464,405	1,301,161	31%
2008	3,838,726	(331,461)	3,507,265	437,917	3,945,182	(1,519,223)	-28%
2009	9,205,936	(531,414)	8,674,522	393,832	9,068,354	5,123,172	130%
2010	3,423,518	(819,501)	2,604,017	829,591	3,433,608	(5,634,746)	-62%
2011	3,450,622	(861,340)	2,589,282	777,761	3,367,043	(66,565)	-2%
2012	4,144,224	(652,000)	3,492,224	408,296	3,900,520	533,477	16%
* 2009 includes $5,562,793 of spending for the Bloomsburg TS which was considered Work-In-Progress at the end of 2009							

10. [Ex. 2/3/2, p. 39] Please provide details of all involvement by Norfolk Energy in the project in which $493,323 was spent for a fibre communication link, including all amounts paid by the Applicant to the affiliate and the terms and reasons for those payments.

Response:

Norfolk Energy (NEI) originally planned to build this fibre link which Norfolk Distribution (Norfolk) intended to lease services from to connect its control room to its stations in Delhi and other SCADA points in this area. In 2010 NEI informed Norfolk it would not complete the project or at least delay the project indefinitely. Norfolk decided to proceed with the project on their own at that point and purchased design and make ready work and materials from NEI at a total cost of $145,215. All payments were based on actual costs from 3rd parties - no mark up was applied of any kind.

In addition, throughout the course of the project the manager of NEI provided project management oversight. A total of $4,906.91 was allocated from NEI to Norfolk for this purpose. The basis of this cost was the fully burdened hourly rate of the manager, for a total of 74 hours. NEI did not book any profit as a result of these transactions.

Norfolk recognizes this project should have been identified under the section Charges To and From Affiliates for Services Provided, in Exhibit 4. Its absence was an oversight and unintentional. NEI's involvement in Norfolk's capital projects has been limited to this onetime occurrence which explains the oversight.

11. [Ex. 2/3/2, p. 40, 55, 56] Please confirm that each of tables 3.6 (2011), 3.6 (2012) and 3.9 are based on CGAAP. Please restate these tables in MIFRS.

Response:

Norfolk confirms the tables in question are based on CGAAP. The tables listed in the interrogatory are restated below in MIFRS.

DISTRIBUTION PLANT - 2011 Budget										
Category	**TOTAL**	**Land Rights (1806)**	**MS/DS Equip (1820)**	**Pole (1830)**	**OH Cond (1835)**	**Conduit (1840)**	**UG Cond (1845)**	**Trans (1850)**	**Services (1855)**	**Meters (1860 & 1555)**
Land Rights	1,000	1,000								
Substations	65,131		65,131							
Security	122,447			13,896	108,551					
Security	73,815						73,815			
Renewal	476,758			208,418	156,315			112,025		
Renewal	89,446			43,421	39,078			6,947		
Renewal	132,867			4,342	17,368	60,790	43,420	6,947		
Renewal	153,709			48,631	42,552			62,526		
Renewal	60,789			31,263	15,631			13,895		
Renewal	118,103			17,368		43,420	43,420	13,895		
Renewal	103,341			43,421	39,078			20,842		
Renewal	416,836			347,363				69,473		
Renewal	421,177			108,551	86,841	43,420	43,420	138,945		
Regulatory	305,109			85,430	184,896			32,952	1,831	
Regulatory	69,473							69,473		
Regulatory	127,657			52,105	47,763			27,789		
Customer Demand	263,129			34,736		43,420	132,868	52,105		
Customer Demand	387,310							156,313	230,997	
Transformers	0									
Meters	62,526									62,526
SUBTOTAL	3,450,623	1,000	65,131	1,038,945	738,073	191,050	336,943	784,127	232,828	62,526
Capital Contributions	**(861,340)**									
TOTAL DISTRIB. PLANT CAPITAL EXPENDITURES	**2,589,283**	**1,000**	**65,131**	**1,038,945**	**738,073**	**191,050**	**336,943**	**784,127**	**232,828**	**62,526**

GENERAL PLANT - 2011 Budget										
Category	Total	Land (1905)	Serv. Ctre. Bldg. (1908)	Office Equip. (1915)	Comp. Hardware (1920)	Comp Software (1925)	Trucks (1930)	Tools and Equip. (1935) (1940) (1945) (1960)	SCADA Equip (1980) (1981)	Commun. Equip. (1955)
Land										
Facilities	10,000		10,000							
Office Equip	15,000			15,000						
Computer HW	30,000				30,000					
Computer SW	27,000					27,000				
Trucks	440,000						440,000			
Tools & Equip.	35,000							35,000		
Commun Equip	8,000									8,000
SCADA	212,761								212,761	
TOTAL GENERAL PLANT CAPITAL EXPENDITURES	**777,761**		**10,000**	**15,000**	**30,000**	**27,000**	**440,000**	**35,000**	**212,761**	**8,000**
Capital Expenditures for IFRS	**777,761**		**10,000**	**15,000**	**30,000**	**27,000**	**440,000**	**35,000**	**212,761**	**8,000**

Renewable Energy - 2011 Budget							
Category	TOTAL	TS Equip (1815)	Poles (1830)	OH Conductor (1835)	Trans (1850)	Services (1855)	Meters (1860 & 1555)
MicroFit	122,446		21,710	5,211	32,999	43,421	19,105
Fit Projects	68,604		8,684	17,368	16,500	8,684	17,368
Enhancement	86,841	86,841					
Total	**277,891**	**86,841**	**30,394**	**22,579**	**49,499**	**52,105**	**36,473**
Less Contributions	**(20,660)**						
Capital Expenditures for IFRS	**257,231**	**86,841**	**30,394**	**22,579**	**49,499**	**52,105**	**36,473**

DISTRIBUTION PLANT - 2012 Budget (Test Year)											
Category	TOTAL	Land Rights (1806)	TS Equip (1815)	MS/DS Equip (1820)	Pole (1830)	OH Cond (1835)	Conduit (1840)	UG Cond (1845)	Trans (1850)	Services (1855)	Meters (1860 & 1555)
Land Rights	0										
Substations	66,972			66,972							
Substations	178,592			178,592							
Security	196,451				89,296	80,366			26,789		
Renewal	205,381				89,296	71,437			17,859	26,789	
Renewal	1,428,735				525,060	419,691			332,181	151,803	
Renewal	89,296				35,718	26,789			8,930	17,859	
Renewal	428,620				357,184	35,718			35,718		
Renewal	433,085				111,620	89,296	44,648	44,648	107,155	35,718	
Regulatory	133,944				35,718	89,296			8,930		
Customer Demand	270,567				35,718		44,648	136,623	53,578		
Customer Demand	401,832				26,789	13,394			258,958	102,690	
Transformers	0										
Meters	310,750										310,750
SUBTOTAL	4,144,224			245,564	1,306,399	825,987	89,296	181,271	850,097	334,860	310,750
Capital Contributions	**(652,000)**										
TOTAL DISTRIBUTION PLANT CAPITAL EXPENDITURES	**3,492,224**			**245,564**	**1,306,399**	**825,987**	**89,296**	**181,271**	**850,097**	**334,860**	**310,750**

GENERAL PLANT - 2012 Budget (Test Year)											
Category	Total	Land (1905)	Land Rights (1906)	Serv. Ctre. Bldg. (1908)	Office Equip. (1915)	Comp. Hardware (1920)	Comp Software (1925)	Trucks (1930)	Tools and Equip. (1935) (1940) (1945) (1960)	SCADA Equip (1980) (1981)	Commun Equip. (1955)
Office Equip	15,500				15,500						
Computer HW	40,000					40,000					
Computer SW	100,000						100,000				
Computer SW	42,500						42,500				
Trucks	40,000							40,000			
Tools & Equip.	28,000								28,000		
Commun Equip	53,000										53,000
SCADA	89,296									89,296	
TOTAL GENERAL PLANT CAPITAL EXPENDITURES	**408,296**	**0**	**0**	**0**	**15,500**	**40,000**	**142,500**	**40,000**	**28,000**	**89,296**	**53,000**
IFRS - Less Overhead to be expensed	**0**										
Capital Expenditures for IFRS	**408,296**	**0**	**0**	**0**	**15,500**	**40,000**	**142,500**	**40,000**	**28,000**	**89,296**	**53,000**

Renewable Energy - 2012 Budget (Test Year)								
Category	TOTAL	TS Equip (1815)	Pole (1830)	OH Conductor (1835)	Trans (1850)	Services (1855)	Meters (1860 & 1555)	(SCADA 1980/1)
Expansion - MicroFit	125,907		22,324	5,358	33,932	44,648	19,645	
Expansion - Fit	676,863		169,662	352,719	89,296	20,538	44,648	
Enhancement	107,155	89,296						17,859
Total	**909,925**	**89,296**	**191,986**	**358,077**	**123,228**	**65,186**	**64,293**	**17,859**
Less Contributions	**(261,500)**							
Capital Expenditures for IFRS	**648,425**	**89,296**	**191,986**	**358,077**	**123,228**	**65,186**	**64,293**	**17,859**

12. [Ex. 2/3/5, p. 1] Please explain why the 2011 reliability targets are lower than the 2010 actuals.

Response:

Norfolk Power strives to continuously improve on its reliability targets year over year through efficient asset management and maintenance plans. Thus, targets should be consistently lower year over year.

13. [Ex. 2/5/1, p. 2] With respect to the MIFRS 2011 continuity schedule, Table 5.1:

a. Please restate this table in compliance with the Board's July 2009 Report on MIFRS, specifically page 14, requiring that utilities retain gross fixed assets and accumulated depreciation for regulatory purposes.

Response:

Please refer to Norfolk's response to Board Staff IR #10 (a) for revised Fixed Asset continuity statements which maintain gross fixed asset and accumulated depreciation values upon adoption of MIFRS as of January 1, 2011.

b. Please confirm that the only differences between Table 5.1 (MIFRS) and Table 2.5 (CGAAP) for 2011 are:

i. MIFRS depreciation is lower by $1,001,792;
ii. MIFRS capital additions are lower by $554,957;
iii. MIFRS includes $89,504 of disposals that are the result of the end of pooling; and
iv. MIFRS closing net book value is $357,331 higher, being the net of the other three adjustments.

Response:

i) Norfolk confirms that MIFRS depreciation is lower by $1,001,792

ii) Norfolk confirms that MIFRS capital additions are lower by $554,957, plus an additional $42,109 removed from GEA projects for a total of $597,066 (See Exhibit 2, Tab 5, Schedule 2, page 2).

iii) Norfolk confirms that MIFRS includes $89,504 of disposals that are the result of the end of pooling

iv) Norfolk confirms that closing net book value is $357,331 higher, being the net of the other three adjustments

c. Please confirm that this breakdown is the same as the amount of $357,332 in Ex. 9/7/1, the amount of rate base increase being refunded to ratepayers.

Response:

Norfolk confirms that this breakdown is the same as the amount of $357,332 in Exhibit 9/Tab 7/Schedule 1, the amount of rate base increase being refunded to taxpayers.

14. [Ex. 2/5/1, p. 3] With respect to the MIFRS 2012 continuity schedule, Table 5.2;

a. Please restate this table in compliance with the Board's July 2009 Report on MIFRS, specifically page 14, requiring that utilities retain gross fixed assets and accumulated depreciation for regulatory purposes.

Response:

With respect to the MIFRS 2012 continuity schedule which retains gross fixed assets and accumulated depreciation for regulatory purposes, please refer to Norfolk's response to Board Staff IR #10 (b).

b. Please confirm that the only differences between Table 5.2 (MIFRS) and Table 2.6 (CGAAP) for 2012 are:

i. MIFRS depreciation is lower by $907,275;
ii. MIFRS capital additions are lower by $507,480;
iii. MIFRS fully allocated depreciation is lower by $231,966; and
iv. MIFRS closing net book value is $776,651 higher, being the net of the other three adjustments, $399,795, plus the $357,331 difference from the previous year, plus $19,525 difference in the MIFRS and CGAAP adjustments for the removal of stranded meters.

Response

i) Norfolk confirms that MIFRS depreciation is lower by $907,275

ii) Norfolk confirms that MIFRS capital additions are lower by $507,480, plus an additional amount of $109,075 for GEA projects for a total of $616,555 (see Exhibit 2, Tab 5, Schedule 2, page 2).

iii) Norfolk confirms that fully allocated depreciation is lower by $231,996

iv) Norfolk confirms that the closing net book value is $776,651 higher, being the net of the other three adjustments, $399,795, plus the $357,331 difference from the previous year, plus $19,525 difference in the MIFRS and CGAAP adjustments for the removal of stranded meters.

c. Please explain why:

i. Under CGAAP, the opening gross fixed assets for old meters was reduced by $2,180,831, and the opening accumulated depreciation was reduced by $1,300,635, for a net of $880,196; and

ii. Under MIFRS, the opening gross fixed assets for old meters was reduced by $914,164, and the opening accumulated depreciation was reduced by $53,493, for a net of $860,671.

iii. The 2012 opening net book value for old meters under CGAAP is $814,026 and under MIFRS is $886,144, but the 2011 closing net book value for old meters under CGAAP is $1,694,224 and under MIFRS is $1,746,815.

Response:

i) Under CGAAP, the opening gross fixed assets for old meters was reduced by $2,180,831, and the opening accumulated depreciation was reduced by $1,300,635 for a net of $880,196 due to removal of Stranded Meters upon bringing Smart Meters into rate base as of January 1, 2012. Please refer to Table 9.3: Stranded Asset Values, filed in Norfolk's original submission [Exhibit 9/Tab 5/Schedule 4].

ii) Under MIFRS, the opening gross fixed assets for old meters was reduced by $914,164 and the opening accumulated depreciation was reduced by $53,493 for a net of $860,671 due to the removal of Stranded Meters upon bringing Smart Meters into rate base as of January 1, 2012. Please refer to Table 9.3: Stranded Asset Values, filed in Norfolk's original submission [Exhibit 9/Tab 5/Schedule 4].

iii) The 2012 opening net book value for old meters under CGAAP is $814,026 and under MIFRS is $886,144, but the 2011 closing net book value for old meters under CGAAP is $1,694,224 and under MIFRS is $1,746,815 can be explained with the following table which shows the removal of stranded assets:

RECONCILIATION OF NET BOOK VALUES - CGAAP

Account 1860	Year-End 2011	Adjustments to 2012 Opening Balances	Adjusted 2012 Opening Balance
Gross Fixed Assets	$4,229,133	($2,180,831)	$2,048,302
Accumulated Depreciation	$2,534,911	($1,300,635)	$1,234,276
Net Book Value	**$1,694,222**	**($880,196)**	**$814,026**

RECONCILIATION OF NET BOOK VALUES - MIFRS

Account 1860	Year-End 2011	Adjustments to 2012 Opening Balances	Adjusted 2012 Opening Balance
Gross Fixed Assets	$1,844,522	($914,164)	$930,358
Accumulated Depreciation	$97,707	($53,493)	$44,214
Net Book Value	**$1,746,815**	**($860,671)**	**$886,144**

Please refer to Table 9.3: Stranded Asset Values, filed in Norfolk's original submission [Exhibit 9/Tab 5/Schedule 4] for further details.

15. [Ex. 2, App. A] Please confirm that this document was prepared entirely by internal staff of the Applicant. If it was not, please advise what consultants or other outside parties were used in its preparation, and in each case the role of that external resource.

Response:

Although the input was provided by internal staff, an outside consultant was used to assemble the body of the Asset Management Plan. The outside consultant used was AESI who prepared an Asset Management review. AESI then assisted Norfolk's Distribution Manager in preparing an Asset Management Strategy and the Asset management Plan.

16. [Ex. 4/2/4, p. 3] Please explain why the columns for 2008 Board-approved and 2008 Actual are the same.

Response:

As described in Exhibit 4, Tab 2, Schedule 4, page 4, in the decision for Norfolk's 2008 application the Board stated "The Board will not make specific disallowance with respect to this category of costs, and the company will have to manage this area, as with all areas of OM&A, within the envelope of funding approved by the Board in this Decision (EB-2007-0753 p16).

With no specific decision on employee numbers or compensation, Norfolk was unsure of how to compare actual results and therefore made the approved the same as actual. In retrospect Norfolk could have left this column blank or indicated 'NA'.

17. [Ex. 4/2/5] With respect to the transactions between the Applicant and Norfolk Energy Inc:

a. P. 1. Please advise the number of employees of Norfolk Energy Inc.

Response:

The number of employees at Norfolk Energy has fluctuated at various times. Currently Norfolk Energy has 1 full time staff, 1 full time contract employee and 1 part time employee. These employees are fully dedicated to NEI and have employment agreements with NEI.

For clarity, these employees are paid through the NPDI payroll, the full amount of which is charged to NEI. The cost to administer the payroll is also charged to NEI under Management Related Services.

b. P. 3. Please advise the original cost and accumulated depreciation as of January 1, 2012 of the building rented to Norfolk Energy. Please provide a calculation comparing the annual rent to the total of the property taxes, maintenance costs, depreciation, interest, ROE, PILs and all other costs associated with that asset in the Test Year.

Response:

In 2007 Norfolk purchased a prefabricated building which is rented Norfolk Energy. The total cost of the building, including installation was $72,026. At the end of 2011, accumulated depreciation will total $6,482 resulting in a January 1st, 2012 net book value of $65,544. A schedule outlining the depreciation and net book value is provided below.

In addition $14,085 was spent on furnishings. At the end of 2011, accumulated depreciation will total $6,338, resulting in a January 1st 2012 net book value of $7,747. A schedule outlining the depreciation and net book value is provided below.

Using the balances described above Norfolk has provided the following calculations of costs for the Test Year in comparison to the rent.

NBV Building	2007	2008	2009	2010	2011	2012
Opening Balance	72,026	71,306	69,865	68,425	66,984	65,544
Depreciation (50 years)	720	1,441	1,441	1,441	1,441	1,441
Ending Balance	71,306	69,865	68,425	66,984	65,544	64,103
NBV Furnishings	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Opening Balance	14,085	13,381	11,972	10,564	9,155	7,747
Depreciation (10 years)	704	1,409	1,409	1,409	1,409	1,409
Ending Balance	13,381	11,972	10,564	9,155	7,747	6,338
2012 Ave NBV - Building	$64,823					
2012 Ave NBV - Furnishings	7,043					
Total	$71,866					
4% Short term debt	$2,875					
56% Long term debt	40,245					
40% Equity	28,746					
Short term debt @ 2.46%	$71					
Long term debt @ 5.51%	2,217					
Equity @ 9.58%	2,754					
PILs @ 22.5%	800					
Depreciation ($1,441+$1,409)	2,849					
Property Taxes*	2,448					
Total	$11,139					
Actual Rent Paid	$9,600					
Variance	$1,539					
*Property Taxes are not seperately identified on Norfolk's Property Tax Assessment.						
Norfolk has estimated them using the existing tax rates multiplied by the value of the building.						
Norfolk County Tax @ 1.801280% x $72,026		$1,297				
Education Tax @ 1.597490% x $72,026		$1,151				
Total		$2,448				

Since 2009 NEI has been responsible to pay its own utilities and maintenance expenses and NPDI has not included any amounts for these in the expenses it is seeking for recovery through distribution rates in this application.

Norfolk has been charging NEI rent based on what it believes is fair market value of $9,600 per year. However Norfolk understands it must charge NEI the higher of fair market value or actual cost and based on the above analysis Norfolk will now charge NEI $11,139 per year for rent. Norfolk will adjust its Revenue Offsets to reflect this change.

c. P. 7. Please reconcile the total of actual charges by the Applicant to Norfolk Energy in 2010, $641,586, with the total of $738,318 of expenses for Norfolk Energy for 2010 on page 23 of the 2010 consolidated financials [Ex. 1/3/5, app. G]. Please confirm that the difference of $96,732 is the total of all expenses incurred by Norfolk Energy directly. Please provide a breakdown of the nature of those expenses.

Response:

The total charges from the applicant to Norfolk Energy for 2010 as found in Exhibit 4, Tab 2, Schedule 5, totals $642,086. Of this amount, $41,978 ($32,378 in Management Related Services and $9,600 in Rent) are reported under Norfolk Energy's Administrative and General Expenses. The balance of $600,108 is allocated to Norfolk Energy and reported as part of the $738,318 direct expenses.

The difference of $138,210 (not $96,723) is incurred by Norfolk Energy and primarily includes:

- NEI employee expenses
- Repair and maintenance expenses for its fleet of water heater rental units.
- Billing, collecting and customer service expenses for water heater rental units (partial year only)
- Billing, collecting, maintenance and customer service expenses for telecommunications

In regard to the total expenses incurred by Norfolk Energy directly, as noted in Interrogatory 6a, Norfolk Energy also has $339,881 of Administrative and General Expenses. $41,978 is related to NPDI ($32,378 for Management Related Services and $9,600 for rent). $8,279 of this amount is allocated from the parent company NPI. The balance of $289,624 of Administrative and General Expenses is related to NEI employees and third party suppliers.

d. P. 7. Please explain why the $483,214 of Billing and Collection costs allocated to Norfolk Energy do not include an allocation for overheads.

Response:

The method for allocating expenses related to billing and collection costs is the same method used since 2001. This method allocates 35% of the total billing and collecting expenses, but as observed, does not allocate a specified amount for overheads. However in reviewing the actual costs of providing the service it is noted that 35% of supervision, meter reading expenses, customer billing and collecting expenses is a significant over-estimate of the actual expenses incurred to deliver this

service. In table 2.22 of Exhibit 4, Tab 2, Schedule 5 page 3, Norfolk has provided an estimate of the 2012 expenses it expects to incur to complete the water and sewer billing and collecting. The total amount of these expenses is $190,296. This would suggest that while an allocation for overheads has not been specifically identified, the amount allocated above the $190,296 is in fact an allocation of overheads and is used to reduce the amount of expense recovered in rates.

18. [Ex. 5/1/2, p. 6] Please explain the use of June 30, 2012 as the issuance date for the $6 million 4.39% debt, in light of Ex. 5/1/1 p. 2 which says that $4.5 million of the debt will be drawn on September 15, 2011.

Response:

The $4.5 million was advanced to Norfolk on a short-term construction line of credit. As per the Financing Agreement with Ontario Infrastructure this has been treated as short term:

> 1 (b) "Advance" means a short-term loan made by OILC to the Borrower in Canadian dollars pursuant to the terms and conditions of this Agreement.

Norfolk intends to draw an additional $1.5 million, for a total of $6 million, over the following months before converting this amount to a long term debenture. Norfolk expects to make this conversion to long-term debt on or about June 30th, 2012.