niagara
peninsula
energy

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December 14, 2011

Delivered by RESS and Courier

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.
2012 IRM3 Distribution Rate Application
Board File Number: EB-2011-0185

Dear Ms. Walli:

Please find attached Niagara Peninsula Energy Inc.'s responses to Board Staff interrogatories on its 2012 IRM3 Rate Application. Two hard copies will follow by courier.

Please contact myself should anything further be required, I can be reached at 905-353-6004 or Suzanne.Wilson@npei.ca.

Yours truly,

S. Wilson

Suzanne Wilson
VP Finance

Niagara Peninsula Energy Inc.

2012 Distribution Rates

EB-2011-0185

Response to Board Staff Interrogatories

1. Taxable Capital

Ref: Shared Tax Savings Model

A portion of Sheet "5. Z-Factor Tax Changes" from the Shared Tax Savings Model is reproduced below.

1. Tax Related Amounts Forecast from Capital Tax Rate Changes	2011	2012
Taxable Capital	$ 119,144,943	$ 119,144,943
Deduction from taxable capital up to $15,000,000	$ 15,000,000	$ 15,000,000
Net Taxable Capital	$ 104,144,943	$ 104,144,943
Rate	0.000%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	$ -	$ -

a) Board Staff notes that the 2011 Taxable Capital amount of $119,144,943 is the amount provided in Niagara Peninsula's 2011 Cost-of-Service application (EB-2010-0138). Board Staff further notes that the corresponding amount per Board Decision is $119,567,689.

   If this is an error, Board staff will make the relevant corrections.

Response:

NPEI confirms that this is an error. The 2011 Taxable Capital amount should be $119,567,689, as per the Board Decision column of the Final Revenue Requirement Workform from NPEI's 2011 Cost-of-Service application EB-2010-0138, included below.

Ontario

REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Niagara Peninsula Energy Inc.
File Number: EB-2010-0138
Rate Year: 2011

Rate Base

Line No.	Particulars		Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	$205,000,203	($528,857)	$204,471,346	$ -	$204,471,346
2	Accumulated Depreciation (average)	(3)	($103,031,549)	($309,731)	($103,341,280)	$ -	($103,341,280)
3	Net Fixed Assets (average)	(3)	$101,968,654	($838,588)	$101,130,066	$ -	$101,130,066
4	Allowance for Working Capital	(1)	$17,176,290	$1,261,334	$18,437,623	$ -	$18,437,623
5	**Total Rate Base**		$119,144,943	$422,746	$119,567,689	$ -	$119,567,689

Line No.	(1) Allowance for Working Capital - Derivation		Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
6	Controllable Expenses		$14,517,909	($441,227)	$14,076,682	$ -	$14,076,682
7	Cost of Power		$99,990,688	$8,850,119	$108,840,807	$ -	$108,840,807
8	Working Capital Base		$114,508,597	$8,408,892	$122,917,489	$ -	$122,917,489
9	Working Capital Rate %	(2)	15.00%	0.00%	15.00%	0.00%	15.00%
10	Working Capital Allowance		$17,176,290	$1,261,334	$18,437,623	$ -	$18,437,623

Notes

(2) Generally 15%. Some distributors may have a unique rate due as a result of a lead-lag study.
(3) Average of opening and closing balances for the year.

2. Revenue-to-Cost Ratios

Ref: Revenue-to-Cost Ratio Model
Ref: Manager's Summary
Ref Proposed Settlement Agreement (EB-2010-0138)

A portion of Sheet "6. Decision Cost Revenue Adj" from the Revenue-to-Cost Ratio Model is reproduced below.

Rate Class	Direction	Current Year 2011	Transition Year 1 2012	Transition Year 2 2013	Transition Year 3 2014	Transition Year 4 2015	Transition Year 5 2016
Residential	No Change	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%
General Service Less Than 50 kW	No Change	109.10%	109.10%	109.10%	109.10%	109.10%	109.10%
General Service 50 to 4,999 kW	Change	147.98%	147.01%	146.02%	146.02%	146.02%	146.02%
Unmetered Scattered Load	No Change	101.50%	101.50%	101.50%	101.50%	101.50%	101.50%
Sentinel Lighting	Change	38.70%	54.10%	70.00%	70.00%	70.00%	70.00%
Street Lighting	Change	48.10%	58.90%	70.00%	70.00%	70.00%	70.00%

The Final Revenue to Cost Ratios table from p.17 of the Manager's Summary is reproduced below.

Final Revenue to Cost Ratios						
Class	2011 Cost Allocation Study	2011 Proposed Ratios	2012 Proposed Ratios	2013 Proposed Ratios	Board Targets Min to Max	
Residential	83.4%	85.0%	85.0%	85.0%	85.0%	115.0%
GS < 50	109.1%	109.1%	109.1%	109.1%	80.0%	120.0%
General Service 50 to 4999 kW	155.2%	148.0%	147.0%	146.0%	80.0%	180.0%
Streetlight	7.4%	48.1%	58.9%	70.0%	70.0%	120.0%
Sentinel Lights	26.3%	38.7%	54.1%	70.0%	70.0%	120.0%
Unmetered Scattered Load	101.5%	101.5%	101.5%	101.5%	80.0%	120.0%

The Updated Revenue to Cost Ratios table from p.81 of the Proposed Settlement Agreement related to Niagara Peninsula's 2011 Cost-of-Service application (EB-2010-0138) is reproduced below.

Niagara Peninsula Energy
EB-2010-0138
Proposed Settlement Agreement
Filed: May 4, 2011
Page 81 of 102

Updated Revenue to Cost Ratios						
Class	2011 Cost Allocation Study	2011 Proposed Ratios	2012 Proposed Ratios	2013 Proposed Ratios	Board Targets Min to Max	
Residential	83.4%	85.0%	85.0%	85.0%	85.0%	115.0%
GS < 50	109.3%	109.3%	109.3%	109.3%	80.0%	120.0%
General Service 50 to 4999 kW	154.8%	147.7%	146.7%	145.7%	80.0%	180.0%
Streetlight	7.3%	48.1%	58.9%	70.0%	70.0%	120.0%
Sentinel Lights	26.2%	38.7%	54.1%	70.0%	70.0%	120.0%
Unmetered Scattered Load	101.2%	101.2%	101.2%	101.2%	80.0%	120.0%

a) Board Staff notes that the revenue-to-cost ratios for the years 2011, 2012 and 2013 are aligned between the Revenue-to-Cost Ratio Model and the Manager's Summary. Board staff further notes that the same revenue-to-cost ratios are not aligned with the table in the Proposed Settlement Agreement related to Niagara Peninsula's 2011 Cost-of-Service application (EB-2010-0138) for rate classes GS<50, GS 50 to 4999 and Unmetered Scattered Load.

Please provide an explanation for this apparent discrepancy.

Response:

The revenue-to-cost ratios in Appendix K of the Proposed Settlement Agreement are not the final ratios in NPEI's Cost-of-Service application, EB-2010-0138. Two issues were not settled in this proceeding: the cost of long-term debt and the effective date of the new rates. The Board issued its decision on these two issues on May 30, 2011. NPEI updated its models to reflect the approved long-term debt rate, which resulted in a change to the revenue-to-cost ratios. NPEI then submitted a Draft Rate Order, and the Board issued NPEI's Rate Order on June 15, 2011.

The revenue-to-cost ratios from Appendix E of the Draft Rate Order have been included below. These are the final ratios in the EB-2010-0138 rate application, and they align with the revenue-to-cost ratios from the Revenue-to-Cost Ratio Model and Manager's Summary in NPEI's 2012 IRM3 application.

Revenue to Cost Ratios from Appendix E of NPEI's Draft Rate Order in EB-2010-0138

Final Revenue to Cost Ratios						
Class	2011 Cost Allocation Study	2011 Proposed Ratios	2012 Proposed Ratios	2013 Proposed Ratios	Board Targets Min to Max	
Residential	83.4%	85.0%	85.0%	85.0%	85.0%	115.0%
GS < 50	109.1%	109.1%	109.1%	109.1%	80.0%	120.0%
General Service 50 to 4999 kW	155.2%	148.0%	147.0%	146.0%	80.0%	180.0%
Streetlight	7.4%	38.7%	58.9%	70.0%	70.0%	120.0%
Sentinel Lights	26.3%	48.2%	54.1%	70.0%	70.0%	120.0%
Unmetered Scattered Load	101.5%	101.5%	101.5%	101.5%	80.0%	120.0%

3. Account 1521 – Special Purpose Charge ("SPC")

Ref: Manager's Summary, Table 6, Page 20 and Table 7, Page 21.

a) Please confirm Niagara Peninsula's SPC assessment amount and provide a copy of the original SPC invoice.

b) Please complete the following table related to the SPC.

SPC Assessment (Principal balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount recovered from customers in 2011	Carrying Charges for 2011	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan.1 to Apr.30)	Total for Disposition (Principal & Interest)

Response:

a) The amount of NPEI's SPC assessment is $470,095. A copy of the SPC invoice has been included below.

Revised Invoice

Ministry of Energy and Infrastructure
Conservation and Renewable Energy Program Costs

To: Niagara Peninsula Energy Inc.
7447 Pin Oak Drive, P.O. Box 120
Niagara Falls, ON L2E 6S9
Attn: Brian Wilkie, President

Customer No./No du client **472764**
Customer Site No./ N° d'emplacement du client 1061030
Invoice Date/Date de la facture **April 16, 2010**
Invoice No./ N° de la facture 50049
Due Date/ Date d'échéance **July 30, 2010**
Payment Amount/ Montant remis **CAD $ 470,095**

Item Description:

Assessment for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs.
Quote-part pour les coûts des programme de conservation et d'énergie renouvelable du ministère de l'Énergie et de l'Infrastructure.

1521-00-00 SW

Questions related to the remittance should be directed to the Non-Tax Revenue Management Branch Contact Centre at 1-877-535-0554 or Fax (416) 326-5177. Les questions concernant la remise doivent être posées à l'InfoCentre de la Direction de la gestion des revenus non fiscaux au 1 877 535-0554 ou par télécopieur au 416 326-5177.

This assessment was calculated by the Ontario Energy Board, 2300 Yonge St. 27th Floor, P.O. Box 2319, Toronto, ON M4P 1E4.Questions related to the invoice should be directed to the Market Operations Hotline 416-440-7604. La présente quote-part a été fixée par la Commission de l'énergie de l'Ontario, 2300, rue Yonge, 27e étage, case postale 2319, Toronto (Ontario) M4P 1E4. Les questions relatives à la facture doivent être posées au service de téléassistance du service Activités du marché : 416 440-7604.

Payments are to be made to the Minister of Finance not the Ontario Energy Board.
Les paiements doivent être faits au ministre des Finances et non à la Commission de l'énergie de l'Ontario.

Detach Here/ Détacher ici

Ontario

Ministry of Finance/Ministère des Finances
Payment Processing Centre/Centre de traitement des paiements
33 King St. West/33 rue King Ouest
PO Box 647/CP 647
Oshawa, ON L1H 8X3

Customer No. / N° du client 472764
Customer Site No./ N° d'emplacement du client 1061030
Invoice No./ N° de la facture 50049
Payment Amount / Montant remis CAD $ 470,095.00

Please detach and return this portion with your payment in the enclosed envelope. Make your cheque or money order payable to the **Minister of Finance**. Veuillez détacher et retourner cette partie avec votre remise dans l'enveloppe ci-jointe. Libellez votre chèque ou votre mandat à l'ordre du **ministre des Finances**.

Niagara Peninsula Energy Inc.
7447 Pin Oak Drive, P.O. Box 120
Niagara Falls, ON L2E 6S9
Attn: Brian Wilkie, President

45 AR 50049

b) The SPC table provided by Board Staff has been completed below.

SPC Assessment (Principal balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charge Balance	Amount recovered from customers in 2011 (up to Aug 31, 2011)	Carrying Charges for 2011(up to Aug 31, 2011)	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Year End Carrying Charge Balance	Forecasted Carrying Charges for 2012 (Jan 1 to Apr 30)	Total for Disposition (Principal & Interest)
470,095	(321,778)	2,116	148,317	2,116	(202,648)	502	(54,331)	2,337	(266)	(52,260)

4. Deferral and Variance Account Disposition Period

Ref: Manager's Summary, p.19

Niagara Peninsula seeks disposition of deferral and variance account balances over a 4-year period.

Board Staff notes that the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report") provides that, the default disposition period used to clear Account balances through a rate rider should be one year. The report further states that that a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

a) Please provide the rationale to support the proposed 4-year disposition period rather that the default one year period.

Response:

The rationale for proposing a 4-year disposition period, rather than the default one year period is based on NPEI's concern for the impact that a one year disposition would have on cash flows.

The Deferral and Variance account balance for disposition, as filed in NPEI's 2012 IRM3 application, is a credit of $5,742,526, including account 1562. On November 22, 2011, NPEI received a letter from the Board indicating that disposition of Account 1562 would not be considered as part of NPEI's IRM application, but will be considered on a stand-alone basis in a separate application. The Board directed NPEI to file this stand-alone application by April 1, 2012. The balance to be considered for disposition in the 2012 IRM3 application, excluding account 1562, is a credit of $3,318,937.

In the Decision and Order for NPEI's 2010 IRM Rate Application (EB-2009-0205 and EB-2009-0206), the Board approved Deferral and Variance account disposition of a credit balance of $7,774,829 over a two year period, from May 1, 2010 until April 30, 2012.

NPEI's gross capital additions, for 2010 actual, 2011 projected and 2012 budgeted are as follows:

Year	Gross Capital Additions ($ millions)
Actual 2010	9.0
Projected 2011	7.8
Budgeted 2012	13.5

The table below shows NPEI's year ending cash balances for 2009 and 2010 actual, 2011 projected and 2012 budgeted.

Year Ending	Cash Balance ($ millions)
Actual 2009	9.6
Actual 2010	8.0
Projected 2011	6.6
Budgeted 2012 (including additional long-term financing)	4.0

Due to NPEI's decreasing cash position from 2009 to 2012, NPEI has budgeted additional long-term financing in 2012. If the stand-alone PILs application is approved, NPEI will have an additional pay back of $2.4 million combined between the two service areas.

A one year disposition period would result in NPEI requiring additional long-term financing, which would increase interest expense.