

# Niagara On-The-Lake HYDRO

February 23, 2012  
Ms. Kirsten Walli  
Board Secretary, Ontario Energy Board  
P.O. Box 2319, 26<sup>th</sup> Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

## **Request to Schedule Rebasing for 2014 Rates**

Dear Ms. Walli:

On January 20, 2012, I wrote to you to request Board approval to defer the rebasing of rates for Niagara-on-the-Lake Hydro Inc. ("NOTLHI") one year to the 2014 rate year. Subsequently, we received your letter of January 26, 2012 to all LDCs, which lists in Appendix A the LDCs expected to rebase for 2013. We note that NOTLHI is on the list.

For the reasons set out in our letter of January 20<sup>th</sup>, and re-iterated below, NOTLHI would like to confirm its request for Board approval to defer the rebasing of its rates for one year to the 2014 rate year:

1. Our IFRS implementation is well underway but will be a primary focus through 2012 requiring the commitment of key staff resources.
2. We have just recently implemented TOU rates and are in the process of establishing the necessary business processes over the next several months.
3. An in-depth Asset Management Plan needs to be developed, which is expected to require most of 2012 to complete.
4. A GEA Plan needs to be developed in advance of the rate rebasing submission.
5. We are in an adequate financial position to sustain us for an additional year.

The numerous "one-time" initiatives referenced above require a major commitment beyond the norm for our modest staff resources through 2012. The staff resources level has been exacerbated by the unexpected vacancy in the Operations Manager position in the fall of 2011, followed by the recruitment process and the necessary orientation to NOTLHI, which is underway with the appointment effective January 12,

February 23, 2012

2012. An established Operations Manager is necessary for rebasing and all the initiatives mentioned above.

In 2013 however, NOTLHI would be in a good position to re-align the staff resources to complete the rebasing work. We believe that the requested deferral of the cost of service filing would result in a higher quality submission to the Board, providing a basis for rates that will be more sound and evidence that will better facilitate the assessment of the proposed rates by Board staff and intervenors.

In accordance with your letter of January 26, I have included an Excel model in Appendix A showing calculations of return on equity and return on rate base for both 2010 and 2011. For completeness of rate of return information since our last rebasing, the Appendix also includes return calculations for 2009. Explanations of the drivers for the levels of return are provided in Appendix B. The model shows that, excluding the one-time SIMPIL adjustment in 2011, the 2011 rates of return are within the plus/minus 3% band around the approved rates of return in our 2009 rebasing.

Please note that the 2011 calculations are based on unaudited financial results, since NOTLHI's auditors (KPMG) are not scheduled to begin the audit until early March 2012, with 2011 Financial Statements available in late April. However, we are not expecting that the audited results will significantly change the conclusions as to rates of return.

Please note that the estimated tax results for 2011 have been carried out by an external accounting firm familiar with NOTLHI from previous audits and tax return preparation.

We would be pleased to provide any further information that you require.

Sincerely



Jim Huntingdon

President

Encl.

## **Appendix A**

Rate of Return Calculations

	A	B	C	D	E	F	G	H	I	J	
1	REVENUE REQUIREMENT WORK FORM USED AS BASIS FOR RATE OF RETURN CALCULATOR										
2	Name of LDC:   Niagara-on-the-Lake Hydro Inc.										
3											
4	DEEMED CAPITAL STRUCTURE										
6	Line		Particulars	2009 Approved	2009 Audited*	2010 Audited*	2011		Calculation	DRIVERS	
7	No.						Unaudited*				
8							Including one-time SIMPIL adjustment	Excluding one-time SIMPIL adjustment			
9											
10	1		Distribution Revenue	\$ 4,577,999	\$ 4,519,337	\$ 4,516,510	\$ 4,914,295	\$ 4,588,059		See Appendix B	
11	2		Other Operating Revenue Offsets - net	\$ 376,994	\$ 374,668	\$ 411,935	\$ 494,387	\$ 393,857		See Appendix B	
12	3		Total Revenue	\$ 4,954,993	\$ 4,894,005	\$ 4,928,445	\$ 5,408,682	\$ 4,981,916	Line 1 + Line 2		
13											
14	4		Operating Expenses	\$ 3,137,803	\$ 3,159,791	\$ 3,187,227	\$ 3,391,363	\$ 3,392,649		See Appendix B	
15	5		Deemed Interest Expense	\$ 707,354	\$ 708,676	\$ 768,871	\$ 775,018	\$ 775,018	See "Deemed Interest" Sheet		
16	6		Total Cost and Expenses	\$ 3,845,157	\$ 3,868,467	\$ 3,956,099	\$ 4,166,381	\$ 4,167,667	Line 4 + Line 5		
17											
18	7		Utility Income Before Income Taxes	\$ 1,109,836	\$ 1,025,538	\$ 972,347	\$ 1,242,301	\$ 814,249	Line 3 - Line 6		
19											
20	8		Tax Adjustments	\$ 5,634	\$ 205,595	\$ (636,636)	\$ (1,605,163)	\$ (1,177,110)		See Appendix B	
21	9		Taxable Income	\$ 1,115,470	\$ 1,231,133	\$ 335,711	\$ (362,862)	\$ (362,861)	Line 7 + Line 8		
22	10		Effective tax rate	31.5%	32.5%	23.7%	23.0%	23.0%	For 2009 to 2011, assumed equals Row 10 below		
23	11		Income Tax on Taxable Income	\$ 351,762	\$ 399,855	\$ 79,497			Line 9 x Line 10		
24	12		Income Tax Credits	\$ -	\$ (24,273)	\$ -				See Appendix B	
25	12	a	Provision for Future Taxes		\$ (50,465)	\$ 221,254					
26	13		Utility Net Income	\$ 758,073	\$ 700,421	\$ 671,596	\$ 1,242,301	\$ 814,249	Line 7 - Lines 11 to 12a		
27											
28	14	a	Utility Rate Base	\$ 21,857,011	\$ 21,897,862	\$ 22,379,533	\$ 22,558,450	\$ 22,558,450	See "Rate Base and WCA" Sheet		
29		b	Deemed Equity - %	43.3%	43.3%	40.0%	40.00%	40.00%	Given by OEB		
30		c	Deemed Equity Portion of Rate Base	\$ 9,464,086	\$ 9,481,774	\$ 8,951,813	\$ 9,023,380	\$ 9,023,380	Line 14a x Line 14b		
31											
32											
33	15		Return on Equity	8.01%	7.39%	7.50%	13.77%	9.02%	Line 13 / Line 14c		
34											
35	17		Return on Rate Base	6.70%	6.43%	6.44%	8.94%	7.05%	(Line 5 + Line 13) / Line 14a		
36		*	Note: Row 5 here is Deemed Interest, not Actual interest								
37	ACTUAL CAPITAL STRUCTURE										
38											
39	Line		Particulars			2009 Audited	2010 Audited	2011		Calculation	DRIVERS
40	No.							Unaudited			
41								Including one-time SIMPIL adjustment	Excluding one-time SIMPIL adjustment		
42											
43	1		Distribution Revenue			\$ 4,519,337	\$ 4,516,510	\$ 4,914,295	\$ 4,588,059		Same as above
44	2		Other Operating Revenue Offsets - net			\$ 374,668	\$ 411,935	\$ 494,387	\$ 393,857		Same as above
45	3		Total Revenue			\$ 4,894,005	\$ 4,928,445	\$ 5,408,682	\$ 4,981,916	Line 1 + Line 2	
46											
47	4		Operating Expenses			\$ 3,159,791	\$ 3,187,227	\$ 3,391,363	\$ 3,392,649		Same as above
48	5		Actual Interest Expense			\$ 706,058	\$ 685,629	\$ 674,800	\$ 674,800		See Appendix B
49	6		Total Cost and Expenses			\$ 3,865,849	\$ 3,872,856	\$ 4,066,162	\$ 4,067,449	Line 4 + Line 5	
50											
51	7		Utility Income Before Income Taxes			\$ 1,028,156	\$ 1,055,589	\$ 1,342,520	\$ 914,467	Line 3 - Line 6	
52			Checksum Financial Statements			\$ (1)	\$ 2				
53	8		Tax Adjustments			\$ 205,595	\$ (636,636)	\$ (1,605,163)	\$ (1,177,110)		
54	9		Taxable Income			\$ 1,233,751	\$ 418,953	\$ (262,643)	\$ (262,643)	Line 7 + Line 8	
55	10		Effective tax rate			32.5%	23.7%	23.0%	23.0%	Line 11 / Line 9 [2011 is per IRM]	
56	11		Income Tax on Taxable Income			\$ 400,705	\$ 99,209			Line 9 x Line 10	
57	12		Income Tax Credits			\$ (24,273)	\$ -				Same as above
58	12	a	Provision for Future Taxes			\$ (50,465)	\$ 221,254				
59	13		Utility Net Income			\$ 702,189	\$ 735,126	\$ 1,342,520	\$ 914,467	Line 7 - Lines 11 to 12a	
60			Checksum Financial Statements			\$ (1)	\$ 2				
61	14	a	Utility Rate Base			\$ 21,897,862	\$ 22,379,533	\$ 22,558,450	\$ 22,558,450	See "Rate Base and WCA" Sheet	
62		b	Actual Equity - %			43.9%	44.7%	48.6%	47.8%	See "Actual Equity Percent" Sheet	
63		c	Actual Equity Portion of Rate Base			\$ 9,609,798	\$ 9,998,042	\$ 10,964,801	\$ 10,782,927	Line 14a x Line 14b	
64											
65											
66	15		Return on Equity			7.31%	7.35%	12.24%	8.48%	Line 13 / Line 14c	
67											
68	17		Return on Rate Base			6.43%	6.35%	8.94%	7.05%	(Line 5 + Line 13) / Line 14a	

	A	B	C	D	E	F	G
1	RATE BASE CALCULATION 2009		2009 Approved		RATE BASE CALCULATION 2009		2009 Audited
2	Fixed Assets Opening Balance		\$ 19,213,148		Fixed Assets Opening Balance		\$ 19,399,670
3	Fixed Assets Closing Balance		\$ 19,746,167		Fixed Assets Closing Balance		\$ 20,045,105
4	Average Fixed Asset Balance		\$ 19,479,658		Average Fixed Asset Balance		\$ 19,722,388
5	Working Capital Allowance		\$ 2,377,354		Working Capital Allowance		\$ 2,175,474
6	Rate Base		\$ 21,857,012		Rate Base		\$ 21,897,862
7							
8	(1) Allowance for Working Capital - Derivation				(1) Allowance for Working Capital - Derivation		
9							
10	Controllable Expenses		\$ 1,878,790		Controllable Expenses		\$ 1,849,399
11	Cost of Power		\$ 13,970,236		Cost of Power		\$ 12,653,763
12	Working Capital Base		\$ 15,849,027		Working Capital Base		\$ 14,503,162
13	Working Capital Rate %		15.00%		Working Capital Rate %		15.00%
14	Working Capital Allowance		\$ 2,377,354		Working Capital Allowance		\$ 2,175,474
15							
16							
17	WORKING CAPITAL ALLOWANCE FOR 2009				WORKING CAPITAL ALLOWANCE FOR 2009		
18	Distribution Expenses		2009 Approved		Distribution Expenses		2009 Audited
19	Distribution Expenses - Operation & Maintenance		\$ 895,069		Distribution Expenses - Operation & Maintenance		\$ 839,030
20							
21	Billing and Collecting		\$ 318,798		Billing and Collecting		\$ 315,290
22	Community Relations		\$ 1,020		Community Relations		\$ 3,584
23	Administrative and General Expenses		\$ 629,254		Administrative and General Expenses		\$ 659,991
24	Taxes Other than Income Taxes		\$ 50,078		Taxes Other than Income Taxes		\$ 42,505
25	Less: Capital Taxes within 6105		\$ 15,428		Less: Capital Taxes within 6105		\$ 11,000
26	Total Eligible Distribution Expenses		\$ 1,878,790.48		Total Eligible Distribution Expenses		\$ 1,849,398.96
27	Power Supply Expenses		\$ 13,970,236.20		Power Supply Expenses		\$ 12,653,763.44
28	Total Working Capital Expenses		\$ 15,849,026.68		Total Working Capital Expenses		\$ 14,503,162.40
29							
30	Working Capital Allowance rate of 15%		\$ 2,377,354.00		Working Capital Allowance rate of 15%		\$ 2,175,474.36
31	Power Supply Expenses				Power Supply Expenses		
32	4705-Power Purchased	\$ 11,532,145.71			4705-Power Purchased	\$ 10,317,947.55	
33	4708-Charges-WMS	\$ 1,189,376.51			4708-Charges-WMS	\$ 1,067,787.74	
34	4710-Cost of Power Adjustments	\$ 35,500.00			4710-Cost of Power Adjustments	\$ 75,467.93	
35	4714-Charges-NW	\$ 888,051.73			4714-Charges-NW	\$ 871,322.28	
36	4715-System Control and Load Dispatching				4715-System Control and Load Dispatching		
37	4716-Charges-CN	\$ 325,162.26			4716-Charges-CN	\$ 321,237.94	
38	4730-Rural Rate Assistance Expense	\$ -			4730-Rural Rate Assistance Expense	\$ -	
39	Power Supply Expenses Total	13,970,236.20			Power Supply Expenses Total	\$ 12,653,763.44	
40							
41	RATE BASE CALCULATION 2010		2010 Audited		RATE BASE CALCULATION 2011		2011 Unaudited
42	Fixed Assets Opening Balance		\$ 20,045,105		Fixed Assets Opening Balance		\$ 19,822,096
43	Fixed Assets Closing Balance		\$ 19,822,096		Fixed Assets Closing Balance		\$ 20,056,868.58
44	Average Fixed Asset Balance		\$ 19,933,601		Average Fixed Asset Balance		\$ 19,939,482
45	Working Capital Allowance		\$ 2,445,932		Working Capital Allowance		\$ 2,618,968
46	Rate Base		\$ 22,379,533		Rate Base		\$ 22,558,450
47							
48	(1) Allowance for Working Capital - Derivation				(1) Allowance for Working Capital - Derivation		
49							
50	Controllable Expenses		\$ 1,796,221		Controllable Expenses		\$ 1,914,723
51	Cost of Power		\$ 14,509,994		Cost of Power		\$ 15,545,062
52	Working Capital Base		\$ 16,306,215		Working Capital Base		\$ 17,459,785
53	Working Capital Rate %		15.00%		Working Capital Rate %		15.00%
54	Working Capital Allowance		\$ 2,445,932		Working Capital Allowance		\$ 2,618,968
55							
56							
57	WORKING CAPITAL ALLOWANCE FOR 2010				WORKING CAPITAL ALLOWANCE FOR 2011		
58	Distribution Expenses		2010 Audited		Distribution Expenses		2011 Unaudited
59	Distribution Expenses - Operation & Maintenance		\$ 745,299		Distribution Expenses - Operation & Maintenance		\$ 790,129
60							
61	Billing and Collecting		\$ 333,308		Billing and Collecting		\$ 408,859
62	Community Relations		\$ 3,949		Community Relations		\$ 2,445
63	Administrative and General Expenses		\$ 686,992		Administrative and General Expenses		\$ 684,808
64	Taxes Other than Income Taxes		\$ 31,673		Taxes Other than Income Taxes		\$ 28,483
65	Less: Capital Taxes within 6105		\$ 5,000		Less: Capital Taxes within 6105		\$ -
66	Total Eligible Distribution Expenses		\$ 1,796,220.64		Total Eligible Distribution Expenses		\$ 1,914,722.93
67	Power Supply Expenses		\$ 14,509,994.34		Power Supply Expenses		\$ 15,545,062.31
68	Total Working Capital Expenses		\$ 16,306,214.98		Total Working Capital Expenses		\$ 17,459,785.24
69							
70	Working Capital Allowance rate of 15%		\$ 2,445,932.25		Working Capital Allowance rate of 15%		\$ 2,618,967.79
71	Power Supply Expenses				Power Supply Expenses		
72	4705-Power Purchased	\$ 12,212,351.24			4705-Power Purchased	\$ 13,142,756.34	
73	4708-Charges-WMS	\$ 942,579.14			4708-Charges-WMS	\$ 956,432.00	
74	4710-Cost of Power Adjustments	\$ 60,265.09			4710-Cost of Power Adjustments	\$ 61,472.25	
75	4714-Charges-NW	\$ 1,025,211.33			4714-Charges-NW	\$ 1,094,316.09	
76	4715-System Control and Load Dispatching				4715-System Control and Load Dispatching		
77	4716-Charges-CN	\$ 269,587.54			4716-Charges-CN	\$ 290,085.63	
78	4730-Rural Rate Assistance Expense	\$ -			4730-Rural Rate Assistance Expense	\$ -	
79	Power Supply Expenses Total	\$ 14,509,994.34			Power Supply Expenses Total	\$ 15,545,062.31	

	<b>Deemed Interest 2009 Approved</b>		
	Rate Base		\$21,857,011
	Approved % of Long-term Debt	52.70%	
	Approved Long-term debt rate	6.04%	
	Deemed Long-term debt interest		\$695,726.15
	Approved % of Short-term Debt	4.00%	
	Approved Short-term debt rate	1.33%	
	Deemed Short-term debt interest		\$11,627.93
	<b>Deemed Interest</b>		<b>\$707,354</b>
	<b>Deemed Interest 2009 Audited</b>		
	Rate Base		\$21,897,862
	Approved % of Long-term Debt	52.70%	
	Approved Long-term debt rate	6.04%	
	Deemed Long-term debt interest		\$697,026.46
	Approved % of Short-term Debt	4.00%	
	Approved Short-term debt rate	1.33%	
	Deemed Short-term debt interest		\$11,649.66
	<b>Deemed Interest</b>		<b>\$708,676</b>
	<b>Deemed Interest 2010 Audited</b>		
	Rate Base		\$22,379,533
	Approved % of Long-term Debt	56.00%	
	Approved Long-term debt rate	6.04%	
	Deemed Long-term debt interest		\$756,965.32
	Approved % of Short-term Debt	4.00%	
	Approved Short-term debt rate	1.33%	
	Deemed Short-term debt interest		\$11,905.91
	<b>Deemed Interest</b>		<b>\$768,871</b>
	<b>Deemed Interest 2011 Unaudited</b>		
	Rate Base		\$22,558,450
	Approved % of Long-term Debt	56.00%	
	Approved Long-term debt rate	6.04%	
	Deemed Long-term debt interest		\$763,017.02
	Approved % of Short-term Debt	4.00%	
	Approved Short-term debt rate	1.33%	
	Deemed Short-term debt interest		\$12,001.10
	<b>Deemed Interest</b>		<b>\$775,018</b>



	A	B	C	D	E	F	G
1	<b>2009 Audited</b>						
2		\$	%				
3	Year End Shareholder's Equity	\$ 11,595,885	43.9%				
4	Year End Long-term Debt*	\$ 10,246,673	38.8%				
5	Other Liabilities	\$ 4,581,003	17.3%				
6	Total Liabilities and Shareholder's Equity	\$ 26,423,561	100.0%				
7							
8	<b>2010 Audited</b>						
9		\$	%				
10	Year End Shareholder's Equity	\$ 12,331,013	44.7%				
11	Year End Long-term Debt*	\$ 10,935,987	39.6%				
12	Other Liabilities	\$ 4,334,636	15.7%				
13	Total Liabilities and Shareholder's Equity	\$ 27,601,636	100.0%				
14							
15	<b>2011 Unaudited incl. SIMPIL adjustment</b>				Remove SIMPIL	Excl. SIMPIL	
16		\$	%		\$	\$	%
17	Year End Shareholder's Equity	\$ 13,470,960	48.6%		\$ (428,053)	\$ 13,042,907	47.8%
18	Year End Long-term Debt*	\$ 10,075,559	36.4%		\$ -	\$ 10,075,559	36.9%
19	Other Liabilities	\$ 4,167,982	15.0%		\$ -	\$ 4,167,982	15.3%
20	Total Liabilities and Shareholder's Equity	\$ 27,714,501	100.0%		\$ (428,053)	\$ 27,286,449	100.0%
21	<i>Checksum</i>						
22	<i>* Consists of:</i>						
23	<i>Long-Term Note Payable to Shareholder</i>						
24	<i>Ontario Infrastructure Corp. loan for Smart Meters purchase</i>						
25	<i>CIBC Demand Instalment loans ("SWAPs") for transformer stations construction and purchase</i>						

	A	B	C	D	E	F	G
1			<b>Balance</b>				
2			<b>This month</b>				
3	+OEB = [1005]	CASH	\$568,266.58				
4	+OEB = [1010]	CASH ADVANCE PETTY CASH	1,550.00				
5	+OEB = [1100]	CUSTOMER ACCOUNTS RECEIVABLE	1,398,760.28				
6	+OEB = [1102]	ACCOUNTS RECEIVABLE - RETAILER SERVICES	(31,540.79)				
7	+OEB = [1104]	CUSTOMER AR BILLED WORK	305,918.24				
8	+OEB = [1110]	OTHER ACCOUNTS RECEIVABLE	591,078.92				
9	+OEB = [1120]	ACCRUED UTILITY REVENUES	1,196,018.72				
10	+OEB = [1130]	ACCUM PROVISION DOUBTFUL ACCT	(30,000.00)				
11	+OEB = [1170]	NOTES RECEIVABLE					
12	+OEB = [1180]	PREPAYMENTS	83,201.73				
13	+OEB = [1190]	MISC CURRENT & ACCRUED ASSETS					
14	+OEB = [1210]	Notes Receivable from Assoc Cos					
15	+OEB = [1330]	PLANT MATERIAL & OPERATING SU	403,256.63				
16	+OEB = [1332]	INVENTORY OFFSET DUMMY					
17	+OEB = [1405]	INVESTMENT IN ENERCONNECT LTD	12,394.84				
18	+OEB = [1410]	SPECIAL FUNDS CUSTOMER DEPOSI	347,482.78				
19	+OEB = [1460]	OTHER NON CURRENT ASSETS					
20	+OEB = [1508]	OTHER REG ASSETS	25,480.05				
21	+OEB = [1518]	RETAIL SERVICE VARIANCE ACCT	79,485.97				
22	+OEB = [1521]	SPC 2010 Assessment Variance	(2,809.34)				
23	+OEB = [1525]	MISC DEFERRED DR					
24	+OEB = [1531]	Renewable Connection Capital	15,324.70				
25	+OEB = [1532]	Renewable Connection OM&A	7,816.77				
26	+OEB = [1533]	Renewable Gen Connection - Rate revenue					
27	+OEB = [1534]	Smart Grid Capital	278,175.24				
28	+OEB = [1535]	Smart Grid OM&A	82,973.74				
29	+OEB = [1536]	Smar Grid Funding Adder revenue					
30	+OEB = [1548]	SERVICE TRANS REQUEST VARIANC	131,721.51				
31	+OEB = [1550]	LV Variance Account					
32	+OEB = [1555]	SMART METER Capex and RECOVERY	1,355,245.53				
33	+OEB = [1556]	Smart Meter OM&A Variance acc	315,822.94				
34	+OEB = [1562]	DEFERRED PILS RECOVERY RESIDE	316,681.64				
35	+OEB = [1565]	C&DM MARR RECVOERY					
36	+OEB = [1566]	C&DM Contra Account					
37	+OEB = [1567]	Board Approved CDM Variance Account					
38	+OEB = [1570]	TRANSITION BILLING ACTIVITIES					
39	+OEB = [1571]	Pre-Mkt Open POWER VARIANCE					
40	+OEB = [1572]	Extra-Ordinary Events	75,180.09				
41	+OEB = [1580]	WHOLESALE MARKET SERV VARIANC	(571,985.65)				
42	+OEB = [1582]	ONE TIME VARIANCE	12,271.03				
43	+OEB = [1584]	NETWORK SERVICE VARIANCE	12,498.41				
44	+OEB = [1586]	CONNECTION SERVICE VARIANCE	(74,538.85)				
45	+OEB = [1588]	RETAIL SETTLEMENT VAR POWER	981,761.04				
46	+OEB = [1590]	RECOVERY REG ASSETS PHASE 2					
47	+OEB = [1592]	Tax Var - HST/OVAT ITCs					
48	+OEB = [1595]	RECOVERY DVA	(229,859.85)				
49	+OEB = [1606]	ORGANIZATION	25,037.68		Fixed Assets		20,056,868.58
50	+OEB = [1610]	Miscellaneous Intangible Plant					
51	+OEB = [1805]	LAND DISTRIBUTION KING ST	258,134.21				
52	+OEB = [1815]	TRANSFORMER STATION YORK RD	5,401,260.65				



	A	B	C	D	E	F	G
53	+OEB = [1820]	DISTRIBUTION STATION KING ST	160,630.29				
54	+OEB = [1830]	POLES, TOWERS & FIXTURES	5,031,708.43				
55	+OEB = [1835]	O/H CONDUCTOR & DEVICES	6,569,140.63				
56	+OEB = [1840]	U/G CONDUIT	4,659,957.69				
57	+OEB = [1845]	U/G CONDUCTORS & DEVICES	8,584,399.38				
58	+OEB = [1850]	LINE TRANSFORMERS	7,495,224.22				
59	+OEB = [1851]	LINE TRANSFORMERS INVENTORY	171,013.40				
60	+OEB = [1852]	TRANSFORMERS DAMAGED/RETURNS					
61	+OEB = [1853]	TRANSFORMERS SPARE	100,925.09				
62	+OEB = [1855]	SERVICES O/H	2,504,514.63				
63	+OEB = [1860]	METERS	1,029,695.51				
64	+OEB = [1861]	METERS INVENTORY	49,365.18				
65	+OEB = [1862]	METERS DAMAGED/REPAIRS					
66	+OEB = [1863]	SMART METERS					
67	+OEB = [1899]	FIXED ASSETS ACQUISITION CLEARING					
68	+OEB = [1905]	LAND UTILITY 8 HENEGAN RD	49,000.00				
69	+OEB = [1908]	BUILDING & FIXTURES 8 HENN WO	1,022,965.20				
70	+OEB = [1915]	OFFICE FURNITURE & EQUIPMENT	214,124.57				
71	+OEB = [1920]	COMPUTER EQUIPMENT HARDWARE	351,551.22				
72	+OEB = [1925]	COMPUTER SOFTWARE MAJOR	1,591,837.93				
73	+OEB = [1930]	TRANSPORT EQUIP TRUCKS < 3 TO	1,035,722.42				
74	+OEB = [1935]	STORES EQUIPMENT	24,638.14				
75	+OEB = [1940]	TOOLS, SHOP & GARAGE EQUIPMEN	459,521.11				
76	+OEB = [1955]	COMMUNICATION EQUIPMENT	54,383.11				
77	+OEB = [1980]	SYSTEM SUPERVISORY EQUIPMENT	323,679.78				
78	+OEB = [1995]	CONTRIBUTIONS & GRANTS O/H	(6,253,643.70)				
79	+OEB = [2055]	INTERNAL-CONSTRUCTION WORK IN PROGRESS	4,246.82				
80	+OEB = [2056]	PROJECT-CONSTRUCTION WORK IN PROGRESS	327,357.77				
81	+OEB = [2057]	SMART METERS- CONSTRUCTION WORK IN PROGRESS	2,138.88				
82	+OEB = [2105]	ACCUMULATED DEPREC. BUILDING	(21,191,661.66)				
83	+OEB = [2205]	ACCOUNTS PAYABLE TRADE	(2,711,978.47)				
84	+OEB = [2208]	CUST CR BALANCES EQUAL BILLIN	(8,510.20)				
85	+OEB = [2210]	CURRENT PORTION CUSTOMER DEPO	(322,900.00)				
86	+OEB = [2220]	MISC CURRENT & ACCRUED LIABIL	(166,693.90)				
87	+OEB = [2221]	PURCHASE ACCRUAL					
88	+OEB = [2250]	DEBT RETIREMENT CHARGE PAYABL	(96,020.92)				
89	+OEB = [2252]	TRANSMISSION CHARGES PAYABLE	(98,444.03)				
90	+OEB = [2256]	IESO FEES & PENALTIES PAYABLE	(1,062,363.91)				
91	<b>+OEB = [2260]</b>	<b>CURRENT PRTN LG TRM DEBT YORK</b>	<b>(3,429,038.19)</b>				
92	+OEB = [2264]	EMPLOYEE FUTURE BENFIT CURREN					
93	+OEB = [2268]	ACCRUED INTER LONG TERM DEBT	(10,167.13)				
94	+OEB = [2285]	OBLIGATIONS CAPITAL LEASE					
95	+OEB = [2290]	COMMODITY TAXES GST ITC	39,002.47				
96	+OEB = [2292]	EMPLOYEE DENTAL INS PAYABLE	(47.85)				
97	+OEB = [2293]	PAYROLL CLEARING					
98	+OEB = [2294]	ACCRUAL FOR TAXES CORP TAXES	213,375.43				
99	+OEB = [2306]	EMPL FUTURE BENEFIT LONG TERM	(454,343.08)				
100	+OEB = [2307]	EMPLOYEE BANKED OVERTIME	(1,773.10)				
101	+OEB = [2310]	VESTED SICK LEAVE LIABILITY					
102	+OEB = [2330]	DEV CHARGES FUND FUTURE WORKS					
103	+OEB = [2335]	LONG TERM CUSTOMER DEPOSITS	(349,467.06)				

	A	B	C	D	E	F	G
104	+OEB = [2337]	LONG TERM JOB DEPOSITS	(6,220.00)				
105	+OEB = [2345]	UNAMORTIZ PREMIUM L.T. DEBT					
106	+OEB = [2350]	Future Income Tax - Non-Current	868,570.00				
107	+OEB = [2425]	DEFERRED CREDIT H1 HVDS CHGES					
108	+OEB = [2525]	LG TERM PRTN LTD - ONTARIO INFRA	(1,500,000.06)				
109	+OEB = [2550]	PROMISSORY NOTE TOWN	(5,146,521.22)				
110	+OEB = [3005]	CAPITAL STOCK	(2,632,307.61)				
111	+OEB = [3022]	DEV CHARGES TRANSF TO EQUITY	(4,269,025.51)				
112	+OEB = [3045]	UNAPPROPRIATED RETAINED EARNI	(5,429,674.90)				
113	+OEB = [3046]	BALANCE TRANSFERRED FROM INCO					
114	+OEB = [3047]	OTHER APPROP RETAINED EARNING					
115	+OEB = [4006]	RES ENERGY SALES - DONT USE	(4,523,274.92)				
116	+OEB = [4025]	S L ENERGY SALES COP \$/KWH	(79,359.38)				
117	+OEB = [4030]	SENT LIGHT EN SALES-DONT USE					
118	+OEB = [4035]	GENERAL ENERGY SALES TX DISCT	(2,442,215.96)				
119	+OEB = [4036]	GEN E SALES >50 COP \$/KWH	(5,352,317.50)				
120	+OEB = [4051]	PRIOR YEAR BILLING ADJUSTMENT					
121	+OEB = [4055]	SALES FOR RETAILERS	(807,060.83)				
122	+OEB = [4062]	BILLED WHOLESALE MARKET S RAT	(956,432.00)				
123	+OEB = [4066]	BILLED NETWORK SERVICE RATE	(1,094,316.09)				
124	+OEB = [4068]	BILLED CONNECTION SERVICE RAT	(290,085.63)				
125	+OEB = [4080]	RESIDENTIAL SERVICE CHARGE	(4,906,326.06)		Distribution Revenue	(4,914,294.61)	
126	+OEB = [4082]	RETAILER MONTHLY CHARGES	(7,815.80)				
127	+OEB = [4084]	RETAILER STR FEES	(152.75)				
128	+OEB = [4090]	TRANSFORMATION REV YORK NOTL					
129	+OEB = [4210]	RENT FROM ELECTRIC PROPERTY	(75,069.62)		Other Operating Revenue Offsets - net	(494,387.46)	
130	+OEB = [4225]	LATE PAYMENT CHARGES	(48,274.96)				
131	+OEB = [4235]	MISC REV SUPPLIERS DISCOUNTS	(47,203.30)				
132	+OEB = [4239]	MARKUP	(6,946.51)				
133	+OEB = [4315]	REVENUES FROM ELECTRIC LEASED					
134	+OEB = [4324]	Special Purpose Charge Recovery					
135	+OEB = [4325]	REVENUE FROM JOBS	(41,600.38)				
136	+OEB = [4335]	PROFIT LOSS FIN INSTR HEDGES					
137	+OEB = [4340]	PROFIT/LOSS ON INVESTMENT	(3,643.03)				
138	+OEB = [4355]	GAIN ON DISP OF PROPERTY	(53,986.35)				
139	+OEB = [4360]	LOSS ON DISP OF PROPERTY					
140	+OEB = [4375]	REVENUES NON-UTILITY OPERATIO	(393,401.05)				
141	+OEB = [4380]	EXPENSES NON-UTILITY OPERATIO	364,731.98				
142	+OEB = [4390]	MISC INCOME INVEST DISPOS	(20,287.21)				
143	+OEB = [4405]	INT & DIV INCOME SUN LIFE INS	(168,707.03)				
144	+OEB = [4705]	POWER PURCHASED	13,142,756.34		Power Supply Expenses		
145	+OEB = [4708]	CHARGES WHOLESALE MKT SERVICE	956,432.00		4705-Power Purchased	\$ 13,142,756.34	
146	+OEB = [4710]	COST OF POW ADJ LOAD T ST.CAT	67,930.25		4708-Charges-WMS	\$ 956,432.00	
147	+OEB = [4711]	COST OF POW ADJ LOAD TR N.FAL	(6,458.00)		4710-Cost of Power Adjustments	\$ 61,472.25	
148	+OEB = [4712]	CHARGES ONE TIME					
149	+OEB = [4714]	CHARGES NETWORK SERVICE RATE	1,094,316.09		4714-Charges-NW	\$ 1,094,316.09	
150	+OEB = [4716]	CHARGES CONNECTION SERVICE RT	290,085.63		4716-Charges-CN	\$ 290,085.63	
151	+OEB = [4750]	SHARED LV LINE CHARGE					
152	+OEB = [5005]	OPERATION SUPERVISION & ENG	46,696.78		Distribution Expenses		2011 Unaudited
153	+OEB = [5010]	OPERATIONS LOAD DISPATCHING	20,325.44		Distribution Expenses - Operation & Maintenance		\$ 790,129
154	+OEB = [5014]	OPERATIONS TRANS STATION LAB					
155	+OEB = [5015]	OPERATIONS TRANS STATION EXP	4,656.34				

	A	B	C	D	E	F	G
156	+OEB = [5016]	OPERATIONS STATION GENERAL					
157	+OEB = [5017]	Operations King St Expenses					
158	+OEB = [5020]	OPERATIONS O/H LINES LABOUR	44,098.18				
159	+OEB = [5025]	OPERATIONS O/H LINES SUP & EX	30,642.03				
160	+OEB = [5035]	OPERATIONS O/H TRANSFORMERS					
161	+OEB = [5040]	OPERATIONS U/G LINES LABOUR	15,837.37				
162	+OEB = [5045]	OPERATIONS U/G LINES SUP & EX	14,629.62				
163	+OEB = [5055]	OPERATIONS U/G TRANSFORMERS					
164	+OEB = [5065]	OPERATIONS METER	34,648.49				
165	+OEB = [5070]	OPER CUST PREMISES LABOUR	50,194.65				
166	+OEB = [5075]	OPER CUST PREMISES EXPENSE	56,399.69				
167	+OEB = [5085]	OPERATIONS MISC DIST EXPENSES	72,198.52				
168	+OEB = [5095]	OPERATIONS O/H RENTAL PAID	18,244.85				
169	+OEB = [5105]	MTCE SUPERVISION & ENGINEERIN	20,630.95				
170	+OEB = [5112]	MTCE STATION EQUIP YORK RD	57,819.37				
171	+OEB = [5114]	MTCE STATION EQUIPMENT GENERA	5,542.06				
172	+OEB = [5120]	MTCE POLES	66,090.33				
173	+OEB = [5125]	MTCE O/H CONDUCTOR	64,756.35				
174	+OEB = [5130]	MTCE O/H SERVICES	32,225.25				
175	+OEB = [5135]	MTCE O/H TREE TRIMMING	34,831.35				
176	+OEB = [5145]	MTCE U/G CONDUIT					
177	+OEB = [5150]	MTCE U/G CONDUCTORS	6,898.56				
178	+OEB = [5155]	MTCE U/G SERVICES	54,456.12				
179	+OEB = [5160]	MTCE TRANSFORMERS	33,544.86				
180	+OEB = [5175]	MTCE METERS	4,761.38				
181	+OEB = [5305]	B&C SUPERVISION	18,794.22			<b>Distribution Expenses</b>	<b>2011 Unaudited</b>
182	+OEB = [5310]	B&C METER READING	24,651.22			Billing and Collecting	\$ 408,859
183	+OEB = [5315]	B&C CUSTOMER BILLING	276,456.03				
184	+OEB = [5320]	B&C COLLECTING	70,831.87				
185	+OEB = [5325]	B&C COLLECTING CASH OVER&SHOR	71.76				
186	+OEB = [5330]	B&C COLLECTION CHARGES					
187	+OEB = [5335]	B&C BAD DEBT EXPENSE	15,867.14				
188	+OEB = [5340]	MISC CUSTOMER ACCOUNTS EXPENS	2,186.64				
189	+OEB = [5405]	COMM RELATIONS SUPERVISION				<b>Distribution Expenses</b>	<b>2011 Unaudited</b>
190	+OEB = [5415]	COMM RELATIONS ENERGY CONSERV				Community Relations	\$ 2,445
191	+OEB = [5420]	COMM RELATIONS SAFETY PROGRAM					
192	+OEB = [5425]	COMM RELATIONS MISC INF & EXP	2,444.74				
193	+OEB = [5555]	Clearing Account for Harris Cash Receipts					
194	+OEB = [5605]	ADMIN EXECUTIVE SALARIES & EX	93,272.25			<b>Distribution Expenses</b>	<b>2011 Unaudited</b>
195	+OEB = [5610]	ADMIN MGMT SALARIES & EXPENSE	91,936.20			Administrative and General Expenses	\$ 684,808
196	+OEB = [5615]	ADMIN STAFF SALARIES & EXPENS	91,166.92				
197	+OEB = [5620]	ADMIN OFFICE SUPPLIES & EXP	41,720.77				
198	+OEB = [5630]	ADMIN OUTSIDE SERVICES AUDITO	35,499.97				
199	+OEB = [5635]	ADMIN PROPERTY INSURANCE	35,468.28				
200	+OEB = [5640]	ADMIN INJURIES & DAMAGES	29,772.26				
201	+OEB = [5645]	ADMIN RETIREES PENSIONS & BEN	27,025.17				
202	+OEB = [5655]	ADMIN REG EXPENSES TRANSITION	47,547.25				
203	+OEB = [5660]	ADMIN GENERAL ADVERTISING EXP	299.24				
204	+OEB = [5665]	ADMIN MISC GENERAL EXPENSES	36,346.66				
205	+OEB = [5675]	ADMIN MTCE OF GENERAL PLANT	149,903.82				
206	+OEB = [5680]	ESA FEES	4,848.76				

	A	B	C	D	E	F	G
207	+OEB = [5681]	Special Purpose Charge Expense					
208	+OEB = [5685]	IMO FEES & PENALTIES					
209	+OEB = [5695]	SMART METER OM&A CONTRA ACCT					
210	+OEB = [5705]	AMORTIZATION EXPENSE BUILDING	1,448,838.94		Amortization		\$ 1,448,839
211	+OEB = [5725]	MISCELLANEOUS AMORTIZATION					
212	+OEB = [6005]	INTEREST ON LONG TERM DEBT	645,833.33		Actual Interest Expense	674,799.74	
213	+OEB = [6035]	OTHER INTEREST EXPENSE	35,696.30				
214	+OEB = [6042]	Allowance for Other FUDC	(6,729.89)				
215	+OEB = [6105]	TAXES PROPERTY	28,483.22		Taxes Other than Income Taxes		\$ 28,483
216	+OEB = [6110]	TAXES FEDERAL INCOME TAX	202,567.57				
217	+OEB = [6115]	Provision for Future Income Taxes					
218	+OEB = [6205]	DONATIONS	27,800.65		Other Deductions		\$ 27,801
219	+OEB = [6305]	EXTRAORDINARY INCOME					
220	+OEB = [6310]	EXTRAORDINARY DEDUCTIONS					
221	+OEB = [7777]	Outstanding billed work from APPX					
222	+OEB = [8888]	Used for AR billed work set-up					
223	+OEB = [9040]	STORES PPV					
224	+OEB = [9070]	TRUCK EXPENSE MISCELLANEOUS					
225	+OEB = [9090]	PAYROLL BURDEN CPP			BURDENS		\$ -
226	+OEB = [9999]	Used for CPY Setup					
227		Total Balance	\$0.00		Total Operating Expenses		\$ 3,391,363
228							

## **Appendix B**

### **Explanations of Drivers of Levels of Return**

*(Please refer to Line numbers in rate of return calculator in Appendix A)*

#### **Both Deemed and Actual Capital Structures**

##### **Line 1 – Distribution Revenue**

- The key driver is a one-time SIMPIL adjustment in 2011 is as a result of NOTLHI's analysis, assisted by KPMG, for case EB-2012-0026<sup>1</sup> regarding disposition of account 1562. This analysis showed that the total balance of account 1562 as of December 31, 2011 should be a debit amount of approximately \$317,000, not the credit amount of \$111,000 that was on the books, a difference of \$428,000.
- The necessary debit adjusting entry to account 1562 debits the principal balance by \$326,000 and the interest balance by \$102,000. The offsets in this adjustment are a credit to distribution revenue of \$326,000, a credit to other revenue of \$101,000 and a credit to interest expense of \$1,000.
- Excluding this SIMPIL adjustment, the variation in distribution revenue from 2009 through to 2011 has been small – varying less than +/- 1% above or below the average for those years. This can be expected with normal weather variations year-to-year, over an IRM rate-adjustment period and with the minor growth in numbers of customers that NOTLHI has experienced.

##### **Line 2 – Other Operating Revenue Offsets – net**

- The key driver is the one-time impact of the SIMPIL adjustment in 2011, as explained above for Line 1.
- Excluding this SIMPIL adjustment, the decrease from 2010 to 2011 back to more normal levels is mainly due to reductions in items that could be termed as “non-distribution”, namely the net of Revenues/Expense of non-utility operations (OEB accounts 4380 and 4385) resulting from OPA payment timing differences, and the termination of the Special Purpose Charge recovery (OEB account 4324) in 2011.

##### **Line 4 – Operating Expenses**

- The change in operating expenses from 2009 approved to 2009 audited was small (less than 1% increase). Similarly, the change from 2009 audited to 2010 audited was small (less than 1% increase).
- There is an increase in operating expenses from 2010 to unaudited 2011 of approx. \$204,000. The major portions of this increase are:
  - The one-time class-action “late payment” settlement of approx. \$25,000, which NOTLHI chose not to recover from customers;
  - An increase in depreciation expense of approx. \$63,000, over a range of fixed assets but in particular due to recent major investments in customer information and

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<sup>1</sup> Evidence for case EB-2012-0026 is being submitted separately.

financial systems software, with their relatively short amortization periods of 3 years under CGAAP;

- An increase of \$51,000 in “customer premises” expenses mainly related to implementation of the microFIT program, with its increasing take-up in NOTL from 11 active generators at the end of 2010 to 43 active generators at the end of 2011;
- An increase of \$75,000 in staff time and support services to strengthen the billing and collection function, address the needs of time-of-use billing and prepare for the future CIS/GIS integration initiative.

#### Line 8 – Tax Adjustments

- The two key drivers for the tax adjustments are the difference that typically occurs between capital cost allowances and amortization expenses (CCA exceeding amortization, creating a net tax deduction), and the year-to-year changes in regulatory asset balances.
- In particular, the regulatory asset change component of the total tax adjustment was a tax addition of approximately \$492,000 in 2009, a tax deduction of \$463,000 in 2010 and a tax deduction of \$1,401,000 in 2011.

#### Actual Capital Structure

##### Line 5 – Actual Interest Expense

- NOTLHI's actual interest expense is largely driven by its long-term debt, comprising the Long-Term Note Payable to Shareholder, two CIBC Demand Instalment loans ("SWAPs") for transformer stations construction and purchase, and a more recent Ontario Infrastructure Corp. ("OIC") loan for Smart Meters purchase.
- The OIC and CIBC SWAP loans are “mortgage-style” equal payments with blended principal and interest, thus reducing the monthly interest expense over time.
- NOTLHI has, whenever the cash position has allowed, made extra principal payments on the Shareholder loan to reduce NOTLHI's debt ratio and interest expenses.
- Thus, whereas the deemed interest expense calculation has increased, the actual interest expense is showing a small decline, despite taking on the recent OIC smart meter loan.