

February 23, 2012 Ms. Kirsten Walli Board Secretary, Ontario Energy Board P.O. Box 2319, 26th 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 20th, 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, 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

	А	В		D	E	F	G	н	I	J
			E REQUIREMENT WORK FORM USED AS E		TE OF RETU	RN CALCULA	TOR			
	Name	e o	f LDC: Niagara-on-the-Lake Hydr	ro Inc.						
3					DEEMED C	APITAL ST	TRUCTURE			
6	Line			2009	2009	2010		011		
7	No.		Particulars	Approved	Audited*	Audited*		udited*	Calculation	DRIVERS
8							Including one-time SIMPIL adjustment	Excluding one-time SIMPIL adjustment		
9	1		Distribution Revenue	¢ 4 5 7 7 000	Ć 4 F10 227	¢ 4 F16 F10	¢ 4.014.205	¢ 4 599 050		See Appendix P
10 11	2		Other Operating Revenue Offsets - net	\$ 4,577,999 \$ 376,994	\$ 4,519,337 \$ 374,668	\$ 4,516,510 \$ 411,935	\$ 4,914,295 \$ 494,387	\$ 4,588,059 \$ 393,857		See Appendix B 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		\$ 708,676	\$ 768,871	\$ 5,551,505 \$ 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	1
19				+ _/	+ _//	+ , - · · ·	+ -//	+		J
20 21	8 9		Tax Adjustments Taxable Income	\$ 5,634 \$ 1,115,470	\$ 205,595 \$ 1,231,133				Line 7 + Line 8	See Appendix B
21							\$ (362,862)	\$ (362,861)	For 2009 to 2011, assumed equals	
22	10		Effective tax rate	31.5%	32.5%	23.7%	23.0%	23.0%	Row 10 below	
23 24	11 12		Income Tax on Taxable Income Income Tax Credits	\$ 351,762 \$ -	\$ 399,855 \$ (24,273)				Line 9 x Line 10	
24	12	а	Provision for Future Taxes	7	\$ (50,465)					See Appendix B
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	а	Utility Rate Base	\$ 21.857.011	\$ 21.897.862	\$ 22.379.533	\$ 22,558,450	\$ 22,558,450	See "Rate Base and WCA" Sheet	1
29		b	Deemed Equity - %	43.3%						
30 31		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	
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	1
36		_	Note: Row 5 here is Deemed Interest, not Actua		0.43/0	0.44/0	0.54/0	7.03/0		
37		1			ACTUAL C	APITAL ST	RUCTURE			
38 39	Line		Particulars		2009	2010	2	011		
40	No.				Audited	Audited	Una	udited	Calculation	DRIVERS
41								Excluding one-time SIMPIL adjustment		
42	4		Distribution Devenue		¢ 4 540 227	¢ 4 540 540	¢ 4.014.205	Ć 4 500 050		
43 44	1 2		Distribution Revenue Other Operating Revenue Offsets - net		\$ 4,519,337 \$ 374,668	\$ 4,516,510 \$ 411,935				Same as above Same as above
45	3		Total Revenue		\$ 4,894,005				Line 1 + Line 2	
46 47	4		Operating Expenses		\$ 3,159,791	\$ 3,187,227	\$ 3,391,363	\$ 3,392,649		Same as above
47	4 5		Actual Interest Expense		\$ 5,159,791 \$ 706,058					See Appendix B
49	6		Total Cost and Expenses		\$ 3,865,849	\$ 3,872,856			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)					1
53 54	8 9		Tax Adjustments Taxable Income		\$ 205,595 \$ 1,222,751				Line 7 + Line 8	1
54 55	9 10		Effective tax rate		\$ 1,233,751 <i>32.5%</i>	\$ 418,953 23.7%			Line 7 + Line 8 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 58	12 12	-	Income Tax Credits Provision for Future Taxes		\$ (24,273) \$ (50,465)					Same as above
59	13	-	Utility Net Income		\$ 702,189		\$ 1,342,520	\$ 914,467	Line 7 - Lines 11 to 12a	
60			Checksum Financial Statements		\$ (1)		ć - 22 550 450	é - 22.550.450		
61 62	14	-	Utility Rate Base Actual Equity - %		\$ 21,897,862 43.9%	\$ 22,379,533 44. 7 %	\$ 22,558,450 48.6%		See "Rate Base and WCA" Sheet See "Actual Equity Percent" Sheet	
02		-	Actual Equity Portion of Rate Base		\$ 9,609,798	\$ 9,998,042	\$ 10,964,801	\$ 10,782,927	Line 14a x Line 14b	
63										
63 64										
63	15		Return on Equity		7.31%	7.35%	12.24%	8.48%	Line 13 / Line 14c]
63 64 65	15		Return on Equity Return on Rate Base		7.31% 6.43%]

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12 Eved Assets Opening Balance \$ 20,045,005 13 Fixed Assets Cosing Balance \$ 19,822,096 14 Fixed Assets Cosing Balance \$ 20,056 15 Average Fixed Asset Balance \$ 20,056 14 Fixed Assets Cosing Balance \$ 20,056 15 19,822,096 Ked Assets Cosing Balance \$ 20,056 14 Working Capital Allowance \$ 2,445,932 Working Capital Allowance \$ 2,65 14 [1] Allowance for Working Capital - Derivation [1] Allowance for Working Capital Allowance \$ 19,9 2 Cost of Power \$ 10,63,00,211 S 10,602 \$ 19,9 3 Working Capital Allowance \$ 2,66 S 2,66 5 10 S 2,445,992 S 2,66 6 Distribution Expenses \$ 2,66 S 2,66 <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></td<>									
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Image: Section 2	42			ې د				ې د	20,056,868.58
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52 Working Capital Base \$ 16,306,215 53 Working Capital Rate % 15.00% 4 Working Capital Allowance \$ 2,445,932 55 S S 56 S S 57 WORKING CAPITAL ALLOWANCE FOR 2010 Working Capital Allowance \$ 2,6 56 S S S S 57 WORKING CAPITAL ALLOWANCE FOR 2010 Working Capital Allowance \$ 2,6 56 S S S S 60 Distribution Expenses 2010 Audited Distribution Expenses 2011 Unau 51 Billing and Collecting S 33,308 S 4 62 Community Relations \$ 34,949 Community Relations \$ 4 63 Administrative and General Expenses \$ 31,673 S Community Relations \$ 5 64 Taxes Other than Income Taxes \$ 14,509,9924.34 S S 15,545, 69 Total Working Capital Allowance rate of 15% \$ 2,445,932.25 S 1		· · · · · · · · · · · · · · · · · · ·		ې د				-	1,914,723 15,545,062
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56 WORKING CAPITAL ALLOWANCE FOR 2010 57 WORKING CAPITAL ALLOWANCE FOR 2010 58 Distribution Expenses 2010 Audited 59 Distribution Expenses - Operation & Maintenance \$ 745,229 60 Distribution Expenses - Operation & Maintenance \$ 333,308 61 Billing and Collecting \$ 333,308 62 Community Relations \$ 3,949 64 Taxes Other than Income Taxes \$ 1,796,220.64 65 Total Eligible Distribution Expenses \$ 14,509,994.34 66 Total Working Capital Expenses \$ 16,306,214.98 69 Total Working Capital Allowance rate of 15% \$ 2,445,932.25 71 Power Supply Expenses \$ 12,212,351.24 73 4705-Power Purchased \$ 12,212,351.24 74 4705-Power Adjustments \$ 60,265.09 74 Your Cost of Power Adjustments \$ 61,225.11.33 74 4715-System Control and Load Dispatching \$ 1,025,211.33 78 4730-Rural Rate Assistance Expense \$ 290,085.63	54			\$	2,445,932			\$	2,618,968
57 WORKING CAPITAL ALLOWANCE FOR 2010 58 Distribution Expenses 2010 Audited 59 Distribution Expenses - Operation & Maintenance \$ 745,299 60 S 333,308 61 Billing and Collecting \$ 333,308 62 Community Relations \$ 3,349 63 Administrative and General Expenses \$ 686,992 64 Taxes Other than Income Taxes \$ 31,673 65 Less: Capital Taxes within 6105 \$ 5 66 Total Eligible Distribution Expenses \$ 1,796,220.44 67 Power Supply Expenses \$ 16,306,214.98 68 Total Working Capital Allowance rate of 15% \$ 2,445,932.25 71 Power Supply Expenses \$ 10,25,211.33 72 4708-Charges-NW \$ 10,25,211.33 73 4708-Charges-NW \$ 10,25,211.33 74 741-Charges-NW \$ 10,25,211.33 78 4730-Rural Rate Assistance Expense \$ 269,587.54									
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64 Taxes Other than Income Taxes \$ 31,673 65 Less: Capital Taxes within 6105 \$ 5,000 66 Total Eligible Distribution Expenses \$ 1,796,220.64 67 Power Supply Expenses \$ 14,509,994.34 68 Total Working Capital Expenses \$ 16,306,214.98 69 Verking Capital Allowance rate of 15% \$ 2,445,932.25 70 Working Capital Allowance rate of 15% \$ 2,445,932.25 71 Power Supply Expenses \$ 12,212,351.24 72 4705-Power Purchased \$ 12,212,351.24 73 4708-Charges-WMS \$ 942,579.14 74 4710-Cost of Power Adjustments \$ 60,265.09 75 4714-Charges-NW \$ 1,025,211.33 76 4715-System Control and Load Dispatching 4716-Charges-CN \$ 269,587.54 78 4730-Rural Rate Assistance Expense \$ -	62			\$				\$	2,445
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754714-Charges-NW\$ 1,025,211.334714-Charges-NW\$ 1,094,316.09764715-System Control and Load Dispatching4715-System Control and Load Dispatching4716-Charges-CN\$ 290,085.63784730-Rural Rate Assistance Expense\$ -4730-Rural Rate Assistance Expense\$ -	173	,			_				
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78 4730-Rural Rate Assistance Expense \$ - 4730-Rural Rate Assistance Expense \$ -	<u> </u>					14/15-System Control and Load Lispatching			
79 Power Supply Expenses Total \$14,509,994.34 Power Supply Expenses Total \$15,545,062.31	<u> </u>	4715-System Control and Load Dispatching	\$ 269,587.54			· · · ·	\$ 290,085.63		
	75 76 77	4715-System Control and Load Dispatching 4716-Charges-CN	\$ 269,587.54 \$			4716-Charges-CN	\$ 290,085.63 \$		

X:\Philip's Files\RATE APPLICATIONS\RATE REBASING 2013\Deferral\To OEB\NOTL_Rate of Return Calculator_20120223Deemed Interest

Deemed Interest 20	09 Approved	
Rate Base		\$21,857,0
Approved % of Long-term Debt	52.70%	
Approved Long-term debt rate	6.04%	
Deemed Long-term debt interest		\$695,726
Approved % of Short-term Debt	4.00%	
Approved Short-term debt rate	1.33%	
Deemed Short-term debt interest		\$11,627
Deemed Interest		\$707, 3
Deemed Interest 20	009 Audited	
Rate Base		\$21,897,8
Approved % of Long-term Debt	52.70%	φ <u>ε</u> ±,057,0
Approved Long-term debt rate	6.04%	
Deemed Long-term debt interest	0.0470	\$697,026
Approved % of Short-term Debt	4.00%	JUJ7,020
Approved Short-term debt rate	1.33%	
Deemed Short-term debt interest	1.5570	\$11,649
Deemed Interest		\$11,049 \$708,6
		<i>,,,,</i> ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Deemed Interest 20	010 Audited	
Rate Base		\$22,379,5
Approved % of Long-term Debt	56.00%	
Approved Long-term debt rate	6.04%	
Approved Long-term debt rate Deemed Long-term debt interest	6.04%	\$756,965
	6.04% 4.00%	\$756,965
Deemed Long-term debt interest		\$756,965
Deemed Long-term debt interest Approved % of Short-term Debt	4.00%	
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate	4.00%	\$756,965 \$11,905 \$768,8
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate Deemed Short-term debt interest	4.00%	\$11,905
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate Deemed Short-term debt interest Deemed Interest Deemed Interest 20:	4.00%	\$11,905 \$768,8
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate Deemed Short-term debt interest Deemed Interest Deemed Interest CDEEMED Interest 20: Rate Base	4.00% 1.33% 1.33% 11Unaudited	\$11,905
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate Deemed Short-term debt interest Deemed Interest Deemed Interest Component Interest Interest Component Interest Interest Component I	4.00% 1.33% 1.33% 11Unaudited 56.00%	\$11,905 \$768,8
Deemed Long-term debt interest Approved % of Short-term Debt Approved Short-term debt rate Deemed Short-term debt interest Deemed Interest Deemed Interest Deemed Short-term Debt Approved % of Long-term Debt Approved Long-term debt rate	4.00% 1.33% 1.33% 11Unaudited	\$11,905 \$768,8 \$22,558,4
Deemed Long-term debt interestApproved % of Short-term DebtApproved Short-term debt rateDeemed Short-term debt interestDeemed InterestDeemed InterestDeemed InterestApproved % of Long-term DebtApproved Long-term debt interestDeemed Long-term debt interest	4.00% 1.33% 1.33% 110naudited 110naudited 56.00% 6.04%	\$11,905 \$768,8
Deemed Long-term debt interestApproved % of Short-term DebtApproved Short-term debt rateDeemed Short-term debt interestDeemed InterestDeemed InterestDeemed InterestDeemed InterestDeemed Short-term DebtApproved % of Long-term DebtApproved Long-term debt interestDeemed Long-term debt interestApproved % of Short-term DebtApproved % of Short-term DebtApproved % of Short-term Debt	4.00% 4.00% 4.00% 4.00% 4.00% 4.00% 4.00%	\$11,905 \$768,8 \$22,558,4
Deemed Long-term debt interestApproved % of Short-term DebtApproved Short-term debt rateDeemed Short-term debt interestDeemed InterestDeemed InterestDeemed InterestApproved % of Long-term DebtApproved Long-term debt interestDeemed Long-term debt interest	4.00% 1.33% 1.33% 110naudited 110naudited 56.00% 6.04%	\$11,905 \$768,8 \$22,558,4

	А		В	С	D		E	F	G
1	2009 Audited								
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	2010 Audited								
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	2011 Unaudited incl. SIMPIL ad	djust	ment			Rem	ove SIMPIL	Excl. SIN	ЛРIL
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	Checksum								
22	* Consists of:								
23	Long-Term Note Payable to Shareholder								
24	Ontario Infrastructure Corp. loan for Smart Meters p	ourch	ase						
25	CIBC Demand Instalment loans ("SWAPs") for transf	orme	er stations cons	truction and	l purchase				

	A	В	С	D	E	F	G
1			Balance				
2			This month				
	+OEB = [1005]	CASH	\$568,266.58				
	+OEB = [1010]	CASH ADVANCE PETTY CASH	1,550.00				
	+OEB = [1100]	CUSTOMER ACCOUNTS RECEIVABLE	1,398,760.28				
	+OEB = [1102]	ACCOUNTS RECEIVABLE - RETAILER SERVICES	(31,540.79)				
	+OEB = [1104]	CUSTOMER AR BILLED WORK	305,918.24				
	+OEB = [1110]	OTHER ACCOUNTS RECEIVABLE	591,078.92				
	+OEB = [1120]	ACCRUED UTILITY REVENUES	1,196,018.72				
	+OEB = [1130]	ACCUM PROVISION DOUBTFUL ACCT	(30,000.00)				
_	+OEB = [1170]	NOTES RECEIVABLE					
	+OEB = [1180]	PREPAYMENTS	83,201.73				
	+OEB = [1190]	MISC CURRENT & ACCRUED ASSETS					
	+OEB = [1210]	Notes Receivable from Assoc Cos					
	+OEB = [1330]	PLANT MATERIAL & OPERATING SU	403,256.63				
	+OEB = [1332]	INVENTORY OFFSET DUMMY	100)200100				
	+OEB = [1405]	INVESTMENT IN ENERCONNECT LTD	12,394.84				
	+OEB = [1410]	SPECIAL FUNDS CUSTOMER DEPOSI	347,482.78				
	+OEB = [1460]	OTHER NON CURRENT ASSETS	547,402.70				
	+OEB = [1508]	OTHER REG ASSETS	25,480.05				
	+OEB = [1518]	RETAIL SERVICE VARIANCE ACCT	79,485.97				
	+OEB = [1521]	SPC 2010 Assessment Variance	(2,809.34)				
	+OEB = [1525]	MISC DEFERRED DR	(2,005.54)				
	+OEB = [1531]	Renewable Connection Capital	15,324.70				
	+OEB = [1532]	Renewable Connection OM&A	7,816.77				
	+OEB = [1533]	Renewable Gen Connection - Rate revenue	7,010.77				
	+OEB = [1534]	Smart Grid Capital	278,175.24				
	+OEB = [1535]	Smart Grid OM&A	82,973.74				
	+OEB = [1536]	Smar Grid Funding Adder revenue	02,575.74				
	+OEB = [1548]	SERVICE TRANS REQUEST VARIANC	131,721.51				
_	+OEB = [1550]	LV Variance Account	151,721.51				
	+OEB = [1555]	SMART METER Capex and RECOVERY	1,355,245.53				
	+OEB = [1556]	Smart Meter OM&A Variance acc	315,822.94				
	+OEB = [1550] +OEB = [1562]	DEFERRED PILS RECOVERY RESIDE	316,681.64				
	+OEB = [1565]	C&DM MARR RECVOERY	510,081.04				
	+OEB = [1566]	C&DM Contra Account					
_	+OEB = [1567]	Board Approved CDM Variance Account					
	+OEB = [1570]	TRANSITION BILLING ACTIVITIES					
	+OEB = [1571]	Pre-Mkt Open POWER VARIANCE					
	+OEB = [1572]	Extra-Ordinary Events	75,180.09				
_	+OEB = [1580]	WHOLESALE MARKET SERV VARIANC	(571,985.65)				
	+OEB = [1582]	ONE TIME VARIANCE	12,271.03				
	+OEB = [1584]	NETWORK SERVICE VARIANCE	12,271.03				
_	+OEB = [1586]	CONNECTION SERVICE VARIANCE	(74,538.85)				
	+OEB = [1588]	RETAIL SETTLEMENT VAR POWER	981,761.04				
	+OEB = [1588] +OEB = [1590]	RECOVERY REG ASSETS PHASE 2	501,701.04				
	+OEB = [1592]	Tax Var - HST/OVAT ITCs					
_	+OEB = [1595]	RECOVERY DVA	(229,859.85)				
_	+OEB = [1606]	ORGANIZATION	25,037.68		Fixed Assets		20,056,868.58
	+OEB = [1610]	Miscellaneous Intangible Plant	23,037.08				20,030,000.38
	+OEB = [1805]	LAND DISTRIBUTION KING ST	258,134.21				
	+OEB = [1805] +OEB = [1815]	TRANSFORMER STATION YORK RD	5,401,260.65				
52	1010 - [1010]		3,401,200.05				

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53	+OEB = [1820]	DISTRIBUTION STATION KING ST	160,630.29	D	<u> </u>	•	, , , , , , , , , , , , , , , , , , ,
	+OEB = [1830]	POLES, TOWERS & FIXTURES	5,031,708.43				
_	+OEB = [1835]	O/H CONDUCTOR & DEVICES	6,569,140.63				
	+OEB = [1840]	U/G CONDUIT	4,659,957.69				
	+OEB = [1845]	U/G CONDUCTORS & DEVICES	8,584,399.38				
	+OEB = [1850]	LINE TRANSFORMERS	7,495,224.22				
	+OEB = [1851]	LINE TRANSFORMERS INVENTORY	171,013.40				
	+OEB = [1852]	TRANSFORMERS DAMAGED/RETURNS	171,010110				
	+OEB = [1853]	TRANSFORMERS SPARE	100,925.09				
_	+OEB = [1855]	SERVICES O/H	2,504,514.63				
_	+OEB = [1860]	METERS	1,029,695.51				
64	+OEB = [1861]	METERS INVENTORY	49,365.18				
65	+OEB = [1862]	METERS DAMAGED/REPAIRS					
_	+OEB = [1863]	SMART METERS					
_	+OEB = [1899]	FIXED ASSETS ACQUISITION CLEARING					
68	+OEB = [1905]	LAND UTILITY 8 HENEGAN RD	49,000.00				
	+OEB = [1908]	BUILDING & FIXTURES 8 HENN WO	1,022,965.20				
70	+OEB = [1915]	OFFICE FURNITURE & EQUIPMENT	214,124.57				
	+OEB = [1920]	COMPUTER EQUIPMENT HARDWARE	351,551.22				
_	+OEB = [1925]	COMPUTER SOFTWARE MAJOR	1,591,837.93				
	+OEB = [1930]	TRANSPORT EQUIP TRUCKS < 3 TO	1,035,722.42				
-	+OEB = [1935]	STORES EQUIPMENT	24,638.14				
75	+OEB = [1940]	TOOLS, SHOP & GARAGE EQUIPMEN	459,521.11				
	+OEB = [1955]	COMMUNICATION EQUIPMENT	54,383.11				
-	+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				
_	+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)				
_	+OEB = [2252]	TRANSMISSION CHARGES PAYABLE	(98,444.03)				
_	+OEB = [2256]	IESO FEES & PENALTIES PAYABLE	(1,062,363.91)				
91	+OEB = [2260]	CURRENT PRTN LG TRM DEBT YORK	(3,429,038.19)				
92		EMPLOYEE FUTURE BENFIT CURREN					
-	+OEB = [2268]	ACCRUED INTER LONG TERM DEBT	(10,167.13)				
_	+OEB = [2285]	OBLIGATIONS CAPITAL LEASE					
	+OEB = [2290]	COMMODITY TAXES GST ITC	39,002.47				
_	+OEB = [2292]	EMPLOYEE DENTAL INS PAYABLE	(47.85)				
	+OEB = [2293]	PAYROLL CLEARING					
_	+OEB = [2294]	ACCRUAL FOR TAXES CORP TAXES	213,375.43				
	+OEB = [2306]	EMPL FUTURE BENEFIT LONG TERM	(454,343.08)				
_	+OEB = [2307]	EMPLOYEE BANKED OVERTIME	(1,773.10)				
-	+OEB = [2310]	VESTED SICK LEAVE LIABILITY					
	+OEB = [2330]	DEV CHARGES FUND FUTURE WORKS					
103	+OEB = [2335]	LONG TERM CUSTOMER DEPOSITS	(349,467.06)				

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104 +OEB = [2337]	LONG TERM JOB DEPOSITS	(6,220.00)	D		╉
105 +OEB = [2345]	UNAMORTIZ PREMIUM L.T. DEBT	(0)			+
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	1
126 +OEB = [4082]	RETAILER MONTHLY CHARGES	(7,815.80)			1
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	Т
130 +OEB = [4225]	LATE PAYMENT CHARGES	(48,274.96)			1
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)			1
141 +OEB = [4380]	EXPENSES NON-UTILITY OPERATIO	364,731.98			1
142 +OEB = [4390]	MISC INCOME INVEST DISPOS	(20,287.21)			1
143 +OEB = [4405]	INT & DIV INCOME SUN LIFE INS	(168,707.03)			1
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	Т
146 +OEB = [4710]	COST OF POW ADJ LOAD T ST.CAT	67,930.25		4708-Charges-WMS	1
147 +OEB = [4711]	COST OF POW ADJ LOAD TR N.FAL	(6,458.00)		4710-Cost of Power Adjustments	1
148 +OEB = [4712]	CHARGES ONE TIME				1
149 +OEB = [4714]	CHARGES NETWORK SERVICE RATE	1,094,316.09		4714-Charges-NW	Ť
150 +OEB = [4716]	CHARGES CONNECTION SERVICE RT	290,085.63		4716-Charges-CN	1
151 +OEB = [4750]	SHARED LV LINE CHARGE				-
152 +OEB = [5005]	OPERATION SUPERVISION & ENG	46,696.78		Distribution Expenses	
153 +OEB = [5010]	OPERATIONS LOAD DISPATCHING	20,325.44			_
154 +OEB = [5014]	OPERATIONS TRANS STATION LAB	· · · ·		Distribution Expenses - Operation & Mainten	۱Ľ
155 +OEB = [5015]	OPERATIONS TRANS STATION EXP	4,656.34			
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156	+OEB = [5016]	OPERATIONS STATION GENERAL				-	
	+OEB = [5017]	Operations King St Expenses					
	+OEB = [5020]	OPERATIONS O/H LINES LABOUR	44,098.18				
-	+OEB = [5025]	OPERATIONS O/H LINES SUP & EX	30,642.03				
-	+OEB = [5035]	OPERATIONS O/H TRANSFORMERS					
	+OEB = [5040]	OPERATIONS U/G LINES LABOUR	15,837.37				
	+OEB = [5045]	OPERATIONS U/G LINES SUP & EX	14,629.62				
_	+OEB = [5055]	OPERATIONS U/G TRANSFORMERS					
	+OEB = [5065]	OPERATIONS METER	34,648.49				
	+OEB = [5070]	OPER CUST PREMISES LABOUR	50,194.65				
	+OEB = [5075]	OPER CUST PREMISES EXPENSE	56,399.69				
	+OEB = [5085]	OPERATIONS MISC DIST EXPENSES	72,198.52				
	+OEB = [5095]	OPERATIONS O/H RENTAL PAID	18,244.85				
	+OEB = [5105]	MTCE SUPERVISION & ENGINEERIN	20,630.95				
	+OEB = [5112]	MTCE STATION EQUIP YORK RD	57,819.37				
	+OEB = [5114]	MTCE STATION EQUIPMENT GENERA	5,542.06				
	+OEB = [5120]	MTCE POLES	66,090.33				
	+OEB = [5125]	MTCE O/H CONDUCTOR	64,756.35				
	+OEB = [5130]	MTCE O/H SERVICES	32,225.25				
	+OEB = [5135]	MTCE O/H TREE TRIMMING	34,831.35				
	+OEB = [5145]	MTCE U/G CONDUIT					
	+OEB = [5150]	MTCE U/G CONDUCTORS	6,898.56				
	+OEB = [5155]	MTCE U/G SERVICES	54,456.12				
	+OEB = [5160]	MTCE TRANSFORMERS	33,544.86				
	+OEB = [5175]	MTCE METERS	4,761.38				
181	+OEB = [5305]	B&C SUPERVISION	18,794.22		Distribution Expenses		2011 Unaudited
	+OEB = [5310]	B&C METER READING	24,651.22		Billing and Collecting		\$ 408,859
	+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			Distribution Expenses		2011 Unaudited
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					
	+OEB = [5605]	ADMIN EXECUTIVE SALARIES & EX	93,272.25		Distribution Expenses		2011 Unaudited
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				
	+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				
	+OEB = [5675]	ADMIN MTCE OF GENERAL PLANT	149,903.82				
206	+OEB = [5680]	ESA FEES	4,848.76				

	А	В	С	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-2012-0026¹ 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

¹ 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.