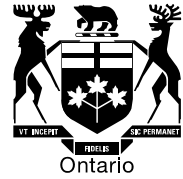


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BY E-MAIL

June 21, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Niagara-on-the-Lake Hydro Inc.
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories
Board File No. EB-2012-0026**

In accordance with the Notice of Application and Hearing, please find attached Board Staff Interrogatories in the above proceeding.

As a reminder, Niagara-on-the-Lake Hydro Inc.'s responses to interrogatories are due by July 9, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst – Applications & Regulatory Audit

Encl.

Niagara-on-the-Lake Hydro Inc. (NOTL)
Disposition of Account 1562 – Deferred PILs
Board Staff Interrogatories

Reference: 2001 through 2005 SIMPIL Models and 1562_Continuity
Schedule 2006 to 2012_20120418
Income Tax Rates

- 1) In the Combined Proceeding EB-2008-0381, the three applicants were all subject to the maximum blended income tax rates based on the tax evidence they each submitted in the case. That proceeding was not a generic proceeding, and therefore the Board's findings on income tax rates do not apply to every distributor. Blended income tax rates determined from the applicants' own tax evidence are used to calculate the tax variances in SIMPIL models that form part of the entries in account 1562 deferred PILs. NOTL incurred losses or used loss carry-forward for tax purposes in each year from 2001 through 2003.

NOTL has used the income tax rates as shown in the table below in its SIMPIL models. However, NOTL's tax evidence indicates that it was eligible for a small business deduction in those tax years and therefore, would have been subject to a lower income tax rate. Corporate taxpayers are eligible for the full federal small business deduction when taxable capital is below \$10 million. The small business deduction is phased out on a straight-line basis as taxable capital increases above \$10 million, and is completely eliminated when taxable capital reaches \$15 million.¹ The taxpayer pays a lower rate of income tax than the maximum rate as long as taxable capital remains below \$15 million.

The Board-approved rate base was taken from the 2002 PILs proxy application evidence. Rate base was considered in the 2002 application to be a regulatory proxy for taxable paid-up capital.

	2001	2002	2003	2004	2005
Rate base (\$)	13,859,589	13,859,589	13,859,589	13,859,589	13,859,589
Income tax rate used in SIMPIL	40.62%	36.54%	36.62%	36.12%	36.12%

- a) Did NOTL consider using the minimum income tax rates shown on page 17 of the decision in the combined proceeding? If NOTL did not consider using the minimum income tax rates, please explain why.

¹ Income Tax Act, section 125 (5.1)

- b) NOTL experienced tax losses and utilized loss carry forwards from 2001 through 2003 and had no taxable income. Please explain why NOTL considers the maximum income tax rates to be more correct than the minimum income tax rates for these three years?
- c) Please make copies of the 2001 to 2005 SIMPIL models in Excel format and insert the minimum income tax rates in sheet TAXCALC in the 2001 to 2005 SIMPIL models. Please update the 2001 to 2012 PILs continuity schedule in Excel format with the revised variances and the final balance for disposition created by the changed income tax rates.
- d) Can NOTL suggest a different approach to determining the income tax rates to be used in the true-up calculations? Please use these income tax rates and file the revised SIMPIL models for 2001 through 2005 with a revised continuity schedule. Please ensure that the income tax rate includes the surtax of 1.12% to calculate the tax impact, and excludes the 1.12% to compute the grossed-up taxes.

Gains and Losses on Disposals of Fixed Assets

- 2) NOTL included its fixed assets in the calculation of rate base for the 2000 - 2001 application. The Board approved the rate base for use in the determination of distribution rates. NOTL continued to receive the return on these assets from ratepayers even though it may have disposed of assets during the period 2002 through 2005.
 - a) Please explain why the variances caused by disposals of fixed assets that NOTL input on TAXREC2 sheet should true up to ratepayers in the 2002 through 2005 SIMPIL models.
 - b) If NOTL agrees that it should not true up to ratepayers, please move the fixed asset transactions to the SIMPIL model TAXREC3 sheet and update the PILs continuity schedule and final balance for disposition.

Interest Expense for Tax Years 2001 to 2005

- 3) When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in sheet TAXCALC as an extra deduction in the true-up calculations.

In the 2001 Q4, 2002 and 2003 SIMPIL models, the TAXCALC worksheet row 206 cell E206 "interest adjustment for tax purposes" is calculated as interest reported in the tax returns less "*total deemed interest*". In NOTL's

2004 and 2005 SIMPIL models, interest reported in the tax returns is subtracted from “*actual interest paid*” to calculate the adjustment.

- a) Please explain why the calculation for “interest adjustment for tax purposes” shows a deduction of total deemed interest in the 2001 Q4, 2002 and 2003 SIMPIL models, whereas in the 2004 and 2005 SIMPIL models the calculation deducts actual interest paid?
 - b) Where is the “actual interest paid” amount derived from in these years?
 - c) Should NOTL be subject to the settlement of Issue 13 related to the excess interest claw-back in the combined proceeding? Please explain.
 - d) If an adjustment is made to the excess interest claw-back calculations, please file the revised SIMPIL models and update the PILs continuity schedule and final balance for disposition.
- 4) For the tax years 2001 to 2005:
- a) Please provide a table for the years 2001 to 2005 that shows all of the components of NOTL’s interest expense and the amount associated with each type of interest.
 - b) Did NOTL have interest expense related to other than debt that is disclosed as interest expense in its financial statements?
 - c) Did NOTL net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.
 - d) Did NOTL include interest expense on customer security deposits in interest expense?
 - e) Did NOTL include interest income on customer security deposits in interest expense?
 - f) Did NOTL include interest expense on IESO prudentials in interest expense?
 - g) Did NOTL include interest carrying charges on regulatory assets or liabilities in interest expense?
 - h) Did NOTL include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

- i) Did NOTL deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

Reference: Acct 1562_PILs_Billed_20120312_20120228
PILs Recoveries from Customers

- 5) In the application evidence filed in 2002, 2004 and 2005, NOTL provided statistics of demand data. In 2006 EDR, NOTL also provided statistics for 2002-2004. The trend for the majority of distributors is that the PILs recoveries exceed the proxies for the full years of 2003, 2004 and 2005. PILs rates slivers were derived in 2002 using billing determinants estimated for the 2001 fiscal year. As demand and population grew, the PILs dollar amounts recovered were higher than the proxy set using 2001 billing determinants. The table below shows NOTL's evidence for the full years of 2003, 2004 and 2005.

- a) Please explain why the PILs proxies in rates were greater than the PILs recoveries in 2004 as seen in the table below.

PILs Proxies vs. Recoveries	2003	2004	2005	2006 partial
PILs Proxies in Rates	451,654	352,297	258,155	79,271
PILs Recovery Calculations	463,286	335,960	263,114	97,099
Difference	-11,632	16,337	-4,959	-17,828

- b) The billing determinant data for the Street Lights class used for PILs recovery is not consistent with the load forecast data contained in NOTL's 2006 EDR model as seen in the table below for the ten months in 2002. Please explain why the volumes shown as billed in 2002 are much lower than prorated actual volumes for the entire 2002 year.

Year	Billing Parameter	Billed Consumption in PILs Recovery	Statistics Filed in 2006 EDR	Prorated Statistics Filed 2006 EDR ¹	Difference
Mar - Dec 2002	kW's	234	1,393	1,161	-927
2003	kW's	2,436	2,417		19
2004	kW's	2,526	2,577		-51
2005	kW's	2,627	2,626		1
Jan - Apr 2006	kW's	896	2,644	881	15

¹ 2002 was a partial collection year from March 1, 2002 to December 31, 2002. 2006 was a partial collection year from January 1, 2006 to April 30, 2006. The statistics filed in 2006 EDR was for the full year. Billing determinants were prorated for 10 months in 2002 and 4 months in 2006.

- c) If there are any adjustments that need to be made to the PILs recovery calculations, please update and file the revised PILs continuity schedule in Excel format.

Reference: Tax Returns and Notices of Assessment Tax Years – Statute-barred

- 6) Please confirm that all tax years from 2001 to 2005 are now statute-barred.