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# Niagara-on-the-Lake Hydro Inc.

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November 17, 2008

**BY E-MAIL, RESS and CANADA POST**

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

**Niagara-on-the-Lake Hydro Inc. 2009 Rate Application**  
**OEB Case EB-2008-0237**

Dear Ms. Walli

Please find attached NOTL Hydro's responses to the OEB staff interrogatories, including an interim response for IR 8.1. The complete response to 8.1 will be provided on or before November 24, 2008 pursuant to the extension kindly granted by the Board.

NOTL Hydro has made some changes to the original application as a result of the interrogatories received from all parties, summarized below:

- OEB staff:
  - IR#2 - SSM – Gross-up for taxes removed
  - IR# 6.1 - PILs – Regulatory Asset change removed
  - IR# 6.2 - PILs – Tax calculation revised
- Energy Probe:
  - IR#5 and 8 - Fixed Assets – meter disposals added
  - IR#11 - Other Revenue – Administrative Expense Recovery revised

The critical changes in evidence resulting from these changes are provided in the Attachment to this letter.

Yours truly

Jim Huntingdon, President  
Cc VECC, SEC, Energy Probe, OEB case manager  
Attachment

**ATTACHMENT – Critical Evidence Changes**

**Exhibit 4 Tab 3 Schedule 1**

NOTL Hydro's revised detailed tax calculations are provided in the following Table 1:

**Table 1**  
**Tax Calculations**

Description	2006 Board Approved	2008 Bridge	2009 Test
<b>Determination of Taxable Income</b>			
Utility Income Before Taxes	889,437	1,098,779	1,190,291
Book to Tax Adjustments			
<b>Additions to Accounting Income:</b>			
Depreciation and amortization	1,085,204	1,295,112	1,331,069
Interest and penalties on taxes	1,894		
Income or Loss for tax Purposes-joint ventures or partnerships		0	0
Employee Benefit Plans - accrued, not paid	15,414		
Meals & entertainment / Mileage		0	0
Non-deductible club fees and dues		0	0
Taxable Capital Gains		0	0
Tax reserves beginning of year		0	0
Reserves from financial statements -balance at year end		0	0
Change in regulatory assets		0	0
Change in employee future benefits		1,000	1,000
<b>Total Additions</b>	<b>1,102,512</b>	<b>1,296,112</b>	<b>1,332,069</b>
<b>Deductions from Accounting Income:</b>			
Capital Cost Allowance	1,204,489	1,212,678	1,235,844
Excess Interest Expense for 2006 PILs	90,096		
Gain on disposal of assets per financial statements		0	0
Cumulative eligible capital deduction	1,321	1,063	988
Tax reserves end of year		0	0
Reserves from financial statements balance at beginning of year		0	0
Other deductions		85,218	86,361
ITC Booked in Accounting Income			0
<b>Total Deductions</b>	<b>1,295,907</b>	<b>1,298,959</b>	<b>1,323,194</b>
<b>Regulatory Taxable Income</b>	<b>696,042</b>	<b>1,095,932</b>	<b>1,199,167</b>
Effective Corporate Income Tax Rate	29.60%	31.93%	31.93%
<b>Subtotal</b>	<b>206,062</b>		
<b>Less: R&amp;D ITC (0.3)</b>			
<b>Regulatory Income Tax</b>	<b>206,062</b>	<b>349,964</b>	<b>382,940</b>
<b>Calculation of Utility Income Taxes</b>			
Income Taxes	206,062	349,964	382,940
Large Corporation Tax	0	0	0
Ontario Capital Tax	29,296	18,883	15,169
<b>Total Taxes</b>	<b>235,358</b>	<b>368,848</b>	<b>398,109</b>

Tax Rates			
Federal Tax	22.12%	19.50%	19.00%
Federal Surtax			
Effective Provincial Tax (5.5% on 1st \$500,000;18.25% on next \$1,000,000)	7.48%	12.43%	12.93%
<b>Total Effective Tax Rate</b>	<b>29.60%</b>	<b>31.93%</b>	<b>31.93%</b>

#### Calculation of Large Corporation Tax

Total Rate Base	19,765,266	21,625,732	21,741,681
<b>Less:</b> Exemption	<b>50,000,000</b>		

<b>Taxable Capital</b>	<b>0</b>		
LCT Rate	0.125%	0.125%	0.125%
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>
Federal Surtax	0	0	0
<b>Large Corporation Tax</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Calculation of Ontario Capital Tax

Total Rate Base	19,765,266	21,625,732	21,741,681
Less Exemption	10,000,000	15,000,000	15,000,000

<b>Taxable Capital /Deemed taxable capital</b>	<b>9,765,266</b>	<b>6,625,732</b>	<b>6,741,681</b>
OCT Rate	0.300%	0.285%	0.225%
<b>Ontario Capital Tax</b>	<b>29,296</b>	<b>18,883</b>	<b>15,169</b>

#### Summary of Income Taxes

Description	2006 Board Approved	2008 Bridge	2009 Test
Income Taxes	206,062	349,964	382,940
Large Corporation Tax	0	0	0
Ontario Capital Tax	29,296	18,883	15,169
<b>Total Taxes</b>	<b>235,358</b>	<b>368,848</b>	<b>398,109</b>

**Exhibit 7 Tab 1 Schedule 1**

The revised revenue deficiency calculations are as follows:

**Calculation of Revenue Deficiency**

	2009 Test Existing Rates	2009 Test Proposed Rates
<b>Revenue</b>		
Suff/ Def From Below.		\$181,579
Distribution Revenue	\$4,623,334	\$4,623,334
Other Operating Revenue (Net)	\$361,622	\$361,622
Total Revenue	\$4,984,956	\$5,166,535
<b>Distribution Costs</b>		
Operation, Maintenance, and Administration	\$1,867,474	\$1,867,474
Depreciation & Amortization	\$1,244,576	\$1,244,576
PropertyTax	\$34,650	\$34,650
Capital Tax	\$15,169	\$15,169
Interest- Deemed Interest	\$814,375	\$814,375
Total Costs and Expenses	\$3,976,244	\$3,976,244
Utility Income Before Income Taxes	\$1,008,712	\$1,190,291
Net Adjustments per 2008 Pils	\$8,876	\$8,876
Taxable Income	\$1,017,588	\$1,199,167
<b>Income Tax</b>	\$315,301	\$382,940
Tax rate when Taxable Income is above \$1.5 million	33.00%	33.00%
When Taxable Income is below \$1.5 million		
First \$500,000	24.50%	37.25%
Remaining	37.25%	37.25%
<b>Effective Corporate Income Tax Rate</b>	30.99%	31.93%
<b>Utility Income</b>	\$693,411	\$807,351
<b>Rate Base</b>	\$21,741,681	\$21,741,681
<b>Equity</b>	43.33%	43.33%
<b>Equity Component Rate Base</b>	\$9,420,671	\$9,420,671
Income / Equity Rate Base %	7.36%	8.57%
<b>Target Return -Equity on Rate Base</b>	8.57%	8.57%
Return- Equity on Rate Base	\$807,351	\$807,351
Revenue Deficiency	\$113,941	
Revenue Deficiency (Gross-up)	\$181,579	

**Exhibit 7 Tab 1 Schedule 1**

The revised rates schedule (part 1) is as follows:

**RATES SCHEDULE (Part 1)**  
*Schedule of Distribution Rates and Charges*  
*Effective May 1, 2009*

Customer Class	Item Description	Unit	Rate (\$)
<b>RESIDENTIAL</b>	Monthly Service Charge	per month	18.98
	Distribution Volumetric Rate	per kWh	0.0134
	LRAM and SSM Rate Rider	per kWh	0.0001
	Smart Meter Rate Rider	per month	1.00
	DVA Recovery Rate Rider	per kWh	0.0003
<b>GENERAL SERVICE &lt; 50 kW</b>	Monthly Service Charge	per month	47.58
	Distribution Volumetric Rate	per kWh	0.0143
	LRAM and SSM Rate Rider	per kWh	0.0001
	Smart Meter Rate Rider	per month	1.00
	DVA Recovery Rate Rider	per kWh	0.0003
<b>GENERAL SERVICE &gt; 50 kW</b>	Monthly Service Charge	per month	368.43
	Distribution Volumetric Rate	per kW	2.8720
	Smart Meter Rate Rider	per month	1.00
	DVA Recovery Rate Rider	per kW	0.0629
<b>STREET LIGHTING</b>	Monthly Service Charge	per month	2.99
	Distribution Volumetric Rate	per kW	11.7318
	DVA Recovery Rate Rider	per kW	0.1291
<b>UNMETERED SCATTERED LOAD</b>	Monthly Service Charge	per month	36.09
	Distribution Volumetric Rate	per kWh	0.0109
	DVA Recovery Rate Rider	per kWh	0.0045

**Exhibit 9 Tab 1 Schedule 8**

The Tables below provide the revised summary of fixed charge and variable charge data, and the revised revenue reconciliation:

Customer Class	Number of Customers/ Connections	Proposed Fixed Rate \$ per month
Residential	6,584	\$18.98
GS <50 kW	1,209	\$47.58
GS>50 kW	123	\$368.43
Street Light	1,953	\$2.9937
Unmetered Scattered Load	32	\$36.09

Customer Class	Volumes kW or kWh		Proposed Variable Rate \$ per kW or kWh
Residential	66,320,829	kWh	\$0.0134
GS <50 kW	34,349,093	kWh	\$0.0143
GS>50 kW	207,437	kW	\$2.8720
Street Light	2,900	kW	\$11.7318
Unmetered Scattered Load	302,169	kWh	\$0.0109

**2009 Test Year Distribution Revenue Reconciliation**

Customer Class	Fixed Distribution Revenue at Proposed Rates	Variable Distribution Revenue at Proposed Rates	Total Fixed and Variable Distribution Revenue	Transformer Allowance Credit	Total Distribution Revenue	Expected (Base Revenue Requirement)
Residential	\$ 1,499,572	\$ 888,699	\$ 2,388,271		\$ 2,388,271	\$ 2,385,471
GS <50 kW	\$ 690,291	\$ 491,192	\$ 1,181,483		\$ 1,181,483	\$ 1,182,199
GS>50 kW	\$ 544,482	\$ 595,760	\$ 1,140,242	(\$24,326.33)	\$ 1,115,916	\$ 1,115,918
Street Light	\$ 70,160	\$ 34,021	\$ 104,181		\$ 104,181	\$ 104,182
Unmetered Scattered Load	\$ 13,860	\$ 3,294	\$ 17,154		\$ 17,154	\$ 17,143
<b>Total</b>	<b>\$ 2,818,365</b>	<b>\$ 2,012,966</b>	<b>\$ 4,831,331</b>	<b>(\$24,326.33)</b>	<b>\$ 4,807,005</b>	<b>\$ 4,804,913</b>

Difference Due to Rate Rounding

-\$ 2,092 Excess

### Exhibit 9 Tab 1 Schedule 9

The revised bill impacts for typical customers are as follows:

#### BILL IMPACTS (Monthly Consumptions)

RESIDENTIAL									
Consumption		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
1,000 kWh	Monthly Service Charge			17.47			18.98	1.51	8.64%
	Distribution (kWh)	1,000	0.0123	12.30	1,000	0.0134	13.40	1.10	8.94%
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	LRAM & SSM Rider (kWh)	1,000	0.0000		1,000	0.0001	0.10	0.10	0.09%
	DVA Recovery Rider (kWh)	1,000	0.0000	0.00	1,000	0.0003	0.30	0.30	0.26%
	Sub-Total			30.01			33.78	3.77	12.56%
	Other Charges (kWh)	1,050	0.0199	20.90	1,050	0.0199	20.90	0.00	0.00%
	Cost of Power Commodity (kWh)	600	0.0530	31.80	600	0.0530	31.80	0.00	0.00%
	Cost of Power Commodity (kWh)	450	0.0620	27.91	450	0.0620	27.91	0.00	0.00%
	Total Bill			110.61			114.38	3.77	3.41%
GENERAL SERVICE < 50 kW									
Consumption		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
2,000 kWh	Monthly Service Charge			39.87			47.58	7.71	19.34%
	Distribution (kWh)	2,000	0.0120	24.00	2,000	0.0143	28.60	4.60	19.17%
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	LRAM & SSM Rider (kWh)	2,000	0.0000		2,000	0.0001	0.20	0.20	0.08%
	DVA Recovery Rider (kWh)	2,000	0.0000	0.00	2,000	0.0003	0.60	0.60	0.25%
	Sub-Total			64.11			77.98	13.87	21.63%
	Other Charges (kWh)	2,100	0.0194	40.74	2,100	0.0194	40.74	0.00	0.00%
	Cost of Power Commodity (kWh)	750	0.0530	39.75	750	0.0530	39.75	0.00	0.00%
	Cost of Power Commodity (kWh)	1,350	0.0620	83.71	1,350	0.0620	83.71	0.00	0.00%
	Total Bill			228.32			242.19	13.87	6.07%
GENERAL SERVICE > 50 kW									
Consumption		2008 BILL			2009 BILL			IMPACT	
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %
500,000 kWh 1,100 kW	Monthly Service Charge			463.48			368.43	(95.05)	(20.51%)
	Distribution (kWh)	500,000	0.0000	0.00	500,000	0.0000	0.00	0.00	0.00%
	Distribution (kW)	1,100	3.4654	3,811.94	1,100	2.8720	3,159.20	(652.74)	(17.12%)
	Smart Meter Rider (per month)			0.24			1.00	0.76	316.67%
	DVA Recovery Rider (kW)	1,100	0.0000	0.00	1,100	0.0629	69.19	69.19	0.15%
	Sub-Total			4,275.66			3,597.82	(677.84)	(15.85%)
	Other Charges (kWh)	525,050	0.0132	6,930.66	525,050	0.0132	6,930.66	0.00	0.00%
	Other Charges (kW)	1,100	2.4755	2,723.05	1,100	2.4755	2,723.05	0.00	0.00%
	Cost of Power Commodity (kWh)	0	0.0530	0.00	0	0.0530	0.00	0.00	0.00%
	Cost of Power Commodity (kWh)	525,050	0.0620	32,553.10	525,050	0.0620	32,553.10	0.00	0.00%
	Total Bill			46,482.47			45,804.63	(677.84)	(1.46%)



Street Lighting										
		2008 BILL			2009 BILL			IMPACT		
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %	% of Total Bill
Billing Determinants	Monthly Service Charge	435	1.1000	478.50	435	2.9937	1,302.26	823.76	172.15%	19.16%
	435 Connections	27,600	0.0000	0.00	27,600	0.0000	0.00	0.00		0.00%
	27,600 kWh	60	4.3107	258.64	60	11.7318	703.91	445.27	172.16%	10.36%
	60 kW	60	0.0000	0.00	60	0.1291	7.75	7.75		0.18%
	Sub-Total			737.14			2,013.91	1,276.77	173.21%	29.70%
	Other Charges (kWh)	28,983	0.0132	382.57	28,983	0.0132	382.57	0.00	0.00%	0.00%
	Other Charges (kW)	60	1.8793	112.76	60	1.8793	112.76	0.00	0.00%	0.00%
	Cost of Power Commodity (kWh)	750	0.0530	39.75	750	0.0530	39.75	0.00	0.00%	0.00%
	Cost of Power Commodity (kW)	28,233	0.0620	1,750.43	28,233	0.0620	1,750.43	0.00	0.00%	0.00%
	Total Bill			3,022.65			4,299.43	1,276.77	42.24%	29.70%

Unmetered Scattered Load										
		2008 BILL			2009 BILL			IMPACT		
		Volume	RATE \$	CHARGE \$	Volume	RATE \$	CHARGE \$	Change \$	Change %	% of Total Bill
Consumption	Monthly Service Charge			39.87			47.58	7.71	19.34%	6.34%
	Distribution (kWh)	800	0.0120	9.60	800	0.0109	8.72	(0.88)	(9.17%)	(0.72%)
	DVA Recovery Rider (kW)	800	0.0000	0.00	800	0.0045	3.60	3.60		2.96%
	Sub-Total			49.47			59.90	10.43	21.08%	8.58%
	Other Charges (kWh)	840	0.0194	16.30	840	0.0194	16.30	0.00	0.00%	0.00%
	Cost of Power Commodity (kWh)	750	0.0530	39.75	750	0.0530	39.75	0.00	0.00%	0.00%
	Cost of Power Commodity (kW)	90	0.0620	5.58	90	0.0620	5.58	0.00	0.00%	0.00%
	Total Bill			111.10			121.53	10.43	9.39%	8.58%

**Board Staff Interrogatories  
2009 Electricity Distribution Rates  
Niagara-on-the-Lake Hydro Inc.  
EB-2008-0237**

**RESPONSES**

**1 OPERATING COSTS**

**1.1 General – Historical OM&A Expenses Data**

Ref: [http://www.oeb.gov.on.ca/OEB/Documents/EB-2006-0268/Comparison of Distributors with 2007 data.xls](http://www.oeb.gov.on.ca/OEB/Documents/EB-2006-0268/Comparison_of_Distributors_with_2007_data.xls)

The figures in Table 1 below are taken directly from the public information filing in the Reporting and Record-keeping Requirements (“RRR”) initiative of the OEB. The figures are available on the OEB’s public website.

**Table 1**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Operation</b>	\$261,360	\$302,739	\$275,943
<b>Maintenance</b>	\$205,536	\$309,308	\$256,663
<b>Billing and Collection</b>	\$313,858	\$294,158	\$297,737
<b>Community Relations</b>	\$4,463	\$8,556	\$21,984
<b>Administrative and General Expenses</b>	\$454,953	\$494,381	\$511,250
<b>Total OM&amp;A Expenses</b>	<b>\$ 1,240,171</b>	<b>\$ 1,409,142</b>	<b>\$ 1,363,577</b>

- a) Please confirm the NOTL’s agreement with the numbers for Total OM&A Expenses that are summarized in Table 1. If NOTL does not agree with any figures in the table, please explain why not and provide amended tables with a full explanation of all changes.

**Response**

*NOTL agrees with Table 1.*

*[Note: NOTL observes that the PEG report from which this data is taken categorizes general advertizing expenses (account 5660) as "Community Relations", whereas Tables 2 and 3 below categorize account 5660 as Administrative and General Expenses. The amounts for account 5660 are:*

*Included in Community Relations in Table 1 from PEG report:*

- 2003 \$2,162
- 2004 \$7,843
- 2005 \$3,977

*Included in Administration and General Expenses in Tables 2 and 3:*

- 2006 approved \$7,843
- 2006 actual \$1,907
- 2007 actual \$1,500
- 2008 bridge \$1,000
- 2009 test \$1,020]

## 1.2 General – OM&A Expenses

Ref: Exhibit 4/Tab 1/Schedule 2/ p. 1

Board staff took the figures from the evidence provided in Exhibit 4 of the application and prepared Table 2 as a summary of NOTL's OM&A expenses. Note rounding differences may occur, but are not material to the questions that follow.

Table 2

	2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
Operation	\$323,382	\$260,994	\$342,844	\$377,390	\$373,710
Maintenance	\$304,410	\$388,961	\$431,315	\$474,671	\$521,359
Billing and Collection	\$270,862	\$310,202	\$355,606	\$312,374	\$318,798
Community Relations	\$713	\$29,210	\$8,783	\$1,000	\$1,020
Administrative and General Expenses	\$582,047	\$557,582	\$580,205	\$589,054	\$649,774
<b>Total OM&amp;A Expenses</b>	<b>\$1,481,414</b>	<b>\$1,546,949</b>	<b>\$1,718,753</b>	<b>\$1,754,489</b>	<b>\$1,864,661</b>

Board Staff took the figures from the evidence provided in Exhibit 4 of the application and prepared Table 3 to review NOTL's OM&A forecasted expenses. Note rounding differences may occur, but are not material to the questions that follow.

Table 3

Summary of OMA Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	323,382	-62,388	260,994	81,850	342,844	34,546	377,390	-3,680	373,710	112,716
		-19.3%		31.4%		10.1%		-1.0%		43.2%
Maintenance	304,410	84,551	388,961	42,354	431,315	43,356	474,671	46,688	521,359	132,398
		27.8%		10.9%		10.1%		9.8%		34.0%
Billing & Collections	270,862	39,340	310,202	45,404	355,606	-43,232	312,374	6,424	318,798	8,596
		14.5%		14.6%		-12.2%		2.1%		2.8%
Community Relations	713	28,497	29,210	-20,427	8,783	-7,783	1,000	20	1,020	-28,190
		3996.8%		-69.9%		-88.6%		2.0%		-96.5%
Administrative and General Expenses	582,047	-24,465	557,582	22,623	580,205	8,849	589,054	60,720	649,774	92,192
		-4.2%		4.1%		1.5%		10.3%		16.5%
<b>Total OM&amp;A Expenses</b>	<b>1,481,414</b>	<b>65,535</b>	<b>1,546,949</b>	<b>171,804</b>	<b>1,718,753</b>	<b>35,736</b>	<b>1,754,489</b>	<b>110,172</b>	<b>1,864,661</b>	<b>317,712</b>
		4.42%		11.11%		2.08%		6.28%		20.54%

- a) Please confirm that NOTL agrees with the figures presented in Table 2 and Table 3. If NOTL does not agree with any figures in the table please explain why not and provide amended tables with a full explanation of all changes.

**Response**

NOTL agrees with Tables 2 and 3 for years up to 2007 and largely for 2008 and 2009. For 2008 and 2009, a small revision has been made related to administrative expenses (please see covering letter to these responses, and specifically response to Energy Probe IR#11 i). [Please also see Note under 1.1 a)]

Revised Tables 2 and 3 are provided below:

**Table 2 (revised)**

Description	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
<b>OM&amp;A expenses</b>					
Operation	323,382	260,994	342,844	377,390	373,710
Maintenance	304,410	388,961	431,315	474,671	521,359
Billing and Collections	270,862	310,202	355,606	312,374	318,798
Community Relations	713	29,210	8,783	1,000	1,020
Administrative and General Expenses	582,047	557,582	580,205	591,409	652,587
<b>Total OM&amp;A expenses</b>	<b>1,481,413</b>	<b>1,546,948</b>	<b>1,718,754</b>	<b>1,756,845</b>	<b>1,867,474</b>

**Table 3 (revised)**

Summary of OM&A Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	323,382	(62,388)	260,994	81,850	342,844	34,546	377,390	(3,680)	373,710	112,716
		-19.29%		31.36%		10.08%		-0.98%		43.19%
Maintenance	304,410	84,551	388,961	42,355	431,315	43,356	474,671	46,688	521,359	132,399
		27.78%		10.89%		10.05%		9.84%		34.04%
Billing and Collections	270,862	39,340	310,202	45,405	355,606	(43,232)	312,374	6,423	318,798	8,596
		14.52%		14.64%		-12.16%		2.06%		2.77%
Community Relations	713	28,497	29,210	(20,426)	8,783	(7,783)	1,000	20	1,020	(28,190)
		3997.03%		-69.93%		-88.61%		2.00%		-96.51%
Administrative and General Expenses	582,047	(24,465)	557,582	22,623	580,205	11,204	591,409	61,178	652,587	95,005
		-4.20%		4.06%		1.93%		10.34%		17.04%
<b>Total OM&amp;A expenses</b>	<b>1,481,413</b>	<b>65,535</b>	<b>1,546,948</b>	<b>171,807</b>	<b>1,718,754</b>	<b>38,090</b>	<b>1,756,845</b>	<b>110,629</b>	<b>1,867,474</b>	<b>320,526</b>
		<b>4.42%</b>		<b>11.11%</b>		<b>2.22%</b>		<b>6.30%</b>		<b>20.72%</b>

- b) Please complete Table 4 by identifying and listing the key cost drivers that are contributing to the overall increase of 20.5% in total 2009 OM&A expenses over 2006 historical actuals. Please add additional rows to Table 4 if there are more than four cost drivers. Some examples of specific costs drivers include items such as X% increase in staff compensation, hiring x staff, X% increase in cost of contractors, X% increase in inflation, etc.

**Table 4**

	2006	2007	2008	2009
<b>Opening Balances</b>	<b>1,481,414</b>	<b>1,546,949</b>	<b>1,718,753</b>	<b>1,754,489</b>
e.g., hiring X staff,;				
e.g., X% increase in cost of contractors				
<b>Closing Balances</b>	<b>1,546,949</b>	<b>1,718,753</b>	<b>1,754,489</b>	<b>1,864,661</b>

## **Response**

Table 4 below lists the key cost drivers and their net effect through the overall period from 2006 Approved through to the 2009 Test Year. The cost drivers are categorized as external drivers and company priorities.

Table 4

<b>Opening OM&amp;A Balance - 2006 approved</b>	<b>\$1,481,413</b>	<b>See 1.2 c) below</b>
		<b>Explanation #</b>
<b><u>COST DRIVERS</u></b>		
<b><u>External Drivers:</u></b>		
<b><i>Company-wide</i></b>		
Inflation (GDP-IPI)	\$74,321	1
Collective Agreement Wage Rates (3%)	\$116,774	2
<b><i>Administrative &amp; General Expenses</i></b>		
NOTL Energy Inc management fees	\$20,000	3
2009 Rate Rebasing costs	\$33,333	4
<b><i>Operations &amp; Maintenance</i></b>		
New regulatory fees	\$17,500	5
Subtotal external drivers	\$261,928	
<b><u>Company Priorities:</u></b>		
<b><i>Company-wide</i></b>		
Safety	\$11,300	6
<b><i>Operations &amp; Maintenance</i></b>		
Line skills continuity		
- 2 Apprentice positions - OM&A portion	\$33,646	7
- Apprentice annual training costs	\$11,000	8
Distribution system maintenance	\$82,367	9
GIS/SCADA system best practice	\$8,300	10
Subtotal company priorities	\$146,613	
<b><i>Net all other changes to 2009</i></b>	<b>(\$22,481)</b>	<b>11</b>
Total changes	\$386,061	
<b>Closing OM&amp;A balance - 2009</b>	<b>\$1,867,474</b>	

- c) For the period 2006 to 2009, please provide detailed and specific explanations for each cost driver in Table 4 above.

**Response**

*NOTL Hydro wish to convey that we have and continue to manage our company in a manner by which we provide safe and reliable power delivery with high customer service levels all at an efficient, low cost means. This is a challenge given that we have a large (135 km<sup>2</sup>), mostly rural operating territory with low density. As a small LDC we are cognizant of the pressures to compete with larger LDC to prove we are just as viable. This effort is*

*illustrated in several OEB reports primarily related to the PEG study. NOTL Hydro continues to be rated in the top quartile and as high as 2<sup>nd</sup> in productivity and unit cost when ranked with our cohorts. We are also proud that our current rates are lower or comparable to our larger LDC neighbours.*

1) Inflation (GDP-IPI) - \$74,321

*It is difficult to determine the varying impact of inflation on individual non-labour OM&A expenses. However, the above estimate of the overall impact of inflation uses the OEB IRM GDP-IPI indices as a basis for estimation - 1.92% for 2004 actual (2006 approved) to 2005, 2006 and 2007, and 1.9% to 2008 and 2009 - to calculate the 5-year impact through to 2009 on the 2004 base year non-labour OM&A of \$748,247*

2) Collective Agreement Wage Rates (3%) – \$116,744

*The Collective Agreements between NOTL Hydro and the IBEW Union, Local 636, for the periods May 1, 2003 to April 30, 2006 and May 1, 2006 to April 30 2009 provide for 3% increments in the wage rates for each classification from May 1, 2005 onward. Management pay rate bands are incremented by the same %age as the Union. The above estimate of the overall impact of Union wage rate and management pay band increases calculates the 5-year impact through to 2009 of 3% on the 2004 base year labour OM&A of \$733,166. The Niagara Peninsula is dominated by LDC's with IBEW representation. In an effort to attract and maintain good employees, NOTL Hydro must at least match union settlements of neighbouring LDC's. The 3% increase was a typical wage increase amongst our cohorts over the past 4-5 years.*

3) NOTL Energy Inc. management fees - \$20,000

*In 2006, our independent auditor brought to our attention the need to disperse our Holding Company's (NEI) annual costs between Energy Services Niagara Inc. (ESNI) and Niagara-on-the-Lake Hydro Inc. This Corporate Governance cost is listed as NEI management fees and primarily consists of Board of Directors' cost and annual audit fees. The division of fees between the two companies was determined by asset levels and results in an annual assessment of approximately \$20,000 to NOTL Hydro. A 2006 back billing of NEI costs resulted in a one-time fee to NOTL Hydro of approximately \$48,000 that year but has levelled off since to the order of \$20,000. The NEI Board provides invaluable guidance to NOTL Hydro Inc. and this disbursement of costs is a legitimate corporate cost.*

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4) 2009 Rate Rebasing Costs - \$33,333

*This item is described in Exhibit 4 Tab 2 Schedule 2 Pages 5/6. The costs represent 1/3<sup>rd</sup> of the estimated total cost to be incurred as a result of the 2009 rates rebasing. The reason for the 1/3<sup>rd</sup> factor is that the objective is to recover the total cost through rates over the 3-year period from 2009 to 2011 to which the rates are currently expected to apply before the next rebasing.*

5) New Regulatory Fees - \$17,500

*The impact of the Electrical Distribution Safety Regulation in Ontario (2004) continues to grow. Commencing in 2006, NOTL Hydro was subject to annual Electrical Safety Authority fees and costs (\$7,500) related to independent audit and development of design and material specifications. In an effort to reduce development costs, NOTL Hydro actively participates in the Utility Standards Forum (USF) (\$10,000) which continues to be instrumental in the development of design and material standards that are required to meet ESA approval. We have identified over \$17,000 in additional annual cost related to this activity.*

6) Safety - \$11,300

*In our opinion, there is no company priority that exceeds that of the safety of our employees and the public. NOTL Hydro has always had an excellent safety record in comparison to our cohorts, but we could not boast that we had no injuries. To move to the next level of achieving zero accidents, we knew that we needed to step up our safety program and develop a new culture of safety in our organization. In 2006, we enrolled in the E&USA ZeroQuest program (\$6,300) and we have quickly become a provincial leader in positive results. In May, 2008, we became one of only 4 LDC's in the province (and the only small LDC) to achieve the GOLD level (Outcomes) award. Our entire organization is proud of this accomplishment and enthused with the prospect of being the first LDC to achieve the highest level (Platinum) in two years. To assist with development of our safety goals, we joined and actively participate in the IAPA, the CEO Charter and the Our Youth at Work (OYAW) organizations.*

*In response to our growing enthusiasm and safety culture development as well as compliance with section 4.6.3 of the Distribution System Code (Public Education and Public Safety Initiatives), NOTL Hydro organized our first Community Health and Safety Day in 2007 (\$5,000 annually). Our May 2008 event was held in our community arena and featured over a dozen organizations including the Regional Police and Paramedics, Coast Guard, State Farm, NOTL Fire Dept., Rescare Head Injury Group, Block Parents, YMCA and the Regional Childrens' Safety Village and NOTL Hydro.*



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*Primary themes included, water, fire, electrical, bicycle and internet safety along with a 911 simulator, head injury prevention and a child fingerprinting service. This event attracted over 1000 people and NOTL Hydro plan to continue to organize and grow this event in years to come. It should be noted that a majority of NOTL Hydro employees volunteered their time during the weekend event. NOTL Hydro also participated in a May 2008 OYAW presentation to our local high school students on 'Safety in Your Summer Job' which was followed by a simultaneous province-wide video by Rob Ellis. Finally, NOTL Hydro co-hosted a 2007 CEO Charter workshop with one of our community safety partners that shared knowledge of successful safety initiatives. The event was attended by safety professionals from all over the province.*

*Of course there is a financial cost to stepping up our safety program. We have identified over \$11,000 in new non-labour costs. The cost of not maintaining and participating in this safety activity is certainly immeasurably higher.*

7) Line skills continuity: 2 Apprentice Positions OM&A - \$33,646

*As part of Niagara-on-the-Lake Hydro's long term strategic planning, employee development and retirement planning are key factors. Upon review of each employee's retirement window, Line Trades were identified as a critical area with the potential retirement of 2 Qualified Lineman in 2012. To ensure skill level continuity for our core business it was reviewed with NOTL Hydro Board of Directors and approved to hire 2 Line Apprentices, one in 2007 and one in 2008, with the Apprentice Training Program beginning in 2008.*

*As part of the field activities of the Apprentice Training Program, general maintenance practices and troubleshooting skills are mandatory. Each Apprentice will spend a minimum of 30% of their respective training hours in Operations and Maintenance activities.*

8) Line skills continuity: Apprentice annual training costs - \$11,000

*Line Apprenticeship Training is five years in length with each Apprentice becoming a Qualified Lineman in 2013. This four-year bridge scenario ensures excellent on-the-job training by experienced Line Staff and a minimal shortfall to our skill level continuity by the end of the training cycle.*

9) Distribution system maintenance - \$82,367

*NOTL Hydro's mission statement strategy to remain a top quartile Utility in the Province of Ontario includes overall system performance (i.e. SAIDI,*

*CAIFI). NOTL Hydro identified, through Outage Reports and the System Inspection Program, three key areas driving our results: Overhead Services, Underground Services, & Line Transformers.*

*As part of our overall System Maintenance Plan programs were developed to improve our overall performance with the focus on these three key factors. The Overhead Services Program (\$21,717) is designed to proactively replace all two-bolt style and split-bolt style connections from the system and replace them with compression style connections. In 2007 NOTL Hydro had a significant spike in Underground Service failures. Investigation revealed the U/G services were of the same vintage and a large number remained in the system. Due to Operations staff time requirements for repairs of this type, the repair and replacement activity (\$20,903) will be through purchase of contracted services including material costs. A Line Transformer Program (\$39,747) commencing in 2006 was designed to systematically test, clean, and maintain every underground transformer in our system on a five-year rotational basis. This systematic approach will allow NOTL Hydro to ensure the integrity of its underground transformer assets and minimize unplanned outages.*

*NOTL Hydro Operational staff core competencies are in the area of Overhead Capital Construction. Therefore it is NOTL Hydro's intention to purchase the services of companies whose core competencies best suit the Programs in question to assist in improving our overall system performance.*

10) GIS/SCADA system best practice - \$8,300

*As part of NOTL Hydro's strategy to remain a top quartile Utility in the Province of Ontario, best practices in all aspects of our Operations are investigated and reviewed. Information Technology advancements in the utility industry are an area that can enhance a utilities ability to monitor its system, track data and changes to the system, and best respond to issues when they arise. To this end NOTL Hydro has invested in up-to-date GIS and AutoCAD (\$3,000) for accurate and timely changes and storage of information, and as part of our NERC requirements with the ownership and operation of our Transmission Stations, purchased and installed a SCADA system to ensure proper tracking of activity, and the ability to remotely monitor and operate vital equipment in our system (\$5,300). Licensing and Maintenance fees for these systems have gradually increased over time.*

11) Net all other changes (Cost Saving Measures) – (\$22,481)

*During the period post 2005, NOTL Hydro was successful in implementing a number of cost saving measures as listed in Section 1.3 below. Our cost sharing arrangement related to Town of NOTL water billing services is*

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*highlighted as our Billing and Collecting costs have actually dropped since 2006 when considering the inflation factor. The elimination of Broker fees in favour of a 'direct pay' system for our employee benefits program has positively affected the spiralling cost increase in the health and dental benefits. A new contract for Transformer Station operating and monitoring services results in notable savings to the Operations account.*

### **1.3 General – Cost Efficiency Programs**

*Ref: Exhibit 4/Tab 2/Schedule 1 p. 1-4*

Please describe and quantify the benefits of any cost efficiency programs that NOTL has undertaken, e.g. cost reduction, contract negotiations, system automation, cost savings or other programs that are either in place now or are contemplated at some future time.

**Response**

*The following are some of the examples of measures that NOTL Hydro has undertaken to reduce costs since 2005;*

- 1) Eliminated the broker and moved to a direct pay employee health benefits program – reduction of \$2,055 to date.*
- 2) Tendered and secured a favourable contract for operating control of our two transformer stations – annual savings of \$17,800.*
- 3) Accepted contract terms to provide water billing services for the Town of NOTL in 2005. Costs for items such as postage and stationary are also reduced through cost sharing. Estimated annual savings \$23,700 vs stand alone.*
- 4) Continued participation in the HD Supply co-operative purchasing group. We are provided favourable Ontario group pricing (fixed for the year). This has allowed NOTL Hydro to operate with a part time stockkeeper position for estimated annual cost savings of \$25,000.*
- 5) Joint meter reading with the Town (electric and water) avoided an increase in meter reading cost. Estimated annual savings \$9120.*
- 6) Tender property, machinery and Crime Insurance and saved \$4,808 off annual premiums.*
- 7) Diligently tender or receive quotations for items such as audit services, bill forms, tree trimming, yard maintenance etc.*
- 8) additional cost saving measures include favourable revised cell phone and long distance plans, downsizing fleet by one truck as well as reduced EBT services contract to name a few.*

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## 1.4 Contracted Services

Ref: Exhibit 4/Tab 2/Schedule 1 p. 1-4

- a. From 2006 through 2009, please identify the portion of total OM&A expenses that is related to contracted services.

**Response**

*The portion of total OM&A expenses related to contracted services is as follows:*

*2006: \$597,281.10*

*2007: \$722,794.33*

*2008 forecast: \$702,050.00*

*2009 forecast: \$809,214.55*

- b. For each of the years, 2006 through 2009, please identify the selection process for the contracted services.

**Response**

*For this period, Niagara-on-the-Lake Hydro has followed and will follow Board approved Purchase of Services policies attached as Appendix I (updated in February 2008 with regard to purchase and signing authority dollar limits only, as indicated in the header rows of the summary chart).*

- c. For each contracted service, please identify the year in which the selection process was used to select a particular contractor.

**Response**

*As per NOTL Hydro Board approved purchase of services policy Niagara-on-the-Lake Hydro endeavours for best price and service for all contracted services purchased. A sample of selection processes, based on materiality threshold of \$28,251, by year is:*

**2006 Actual:**

*Hydro One Networks for Station Monitoring- \$30,500.00*

- Final year of a three-year contract signed in 2003*

*Peninsula Video & Sound Inc. for Locates- \$33,450.40*

- 2<sup>nd</sup> year of 4-year contract.*

*Pineridge Tree Service for Tree Trimming services- \$68,975.00*

- One-year contract with full tender process used. Pineridge Tree Service was the low bid chosen after the Tender process. Tender documents are available upon request.*

*Postage By Phone - \$44,343.89*

- Market Price based on cost of postage per letter, price point is set by the Post Office.*

**2007 Actual**

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*Collective Utility for Meter Reading Services - \$30,271.24*

- *Cost of service provided is based on joint reading with the Town of Niagara-on-the-Lake. The Town of Niagara-on-the-Lake Tendered for the joint water and hydro meter reading services in 2004. Contract is extended year-to-year based on agreed upon inflationary increases. With the advent of Smart Meters in 2010 for NOTL Hydro it was not deemed necessary to re-tender the joint meter reading agreement at this time.*

*Ground Aerial Maintenance Service Ltd. for Transformer Inspection and Maintenance - \$58,180.00*

- *Project specific, Contractor chosen based on availability and on time and material basis based on lowest rate for 4-man crew known to Niagara-on-the-Lake Hydro via previous requests to Utility Contractors.*

*Peninsula Video & Sound Inc. for Locates- \$29,284.08*

- *3<sup>rd</sup> year of 4-year contract*

*Postage By Phone – \$40,045.28*

- *Market Price based on cost of postage per letter, price point is set by the Post Office.*

*Regional Tree Service for tree trimming services - \$67,500.00*

- *One-year contract with full tender process used. Regional Tree Service was the low bid chosen after the Tender process. Tender documents are available upon request, opening letter attached as Appendix II.*

**2008 Budget**

*Collective Utility for Meter Reading Services - \$35,000.00*

- *As stated for 2007.*

*Micro Tech Niagara for IT Maintenance Services - \$32,000.00*

- *Niagara-on-the-Lake Hydro purchased a new Linux Server in 2007 and required IT services to maintain the new system. Through research it was found that Micro Tech Niagara was the only IT service provider in our area knowledgeable on Linux servers. Therefore Niagara-on-the-Lake Hydro engaged Micro Tech Niagara on an hourly basis for its Linux system and other IT related services.*

*Peninsula Video & Sound Inc. for Locates- \$30,000.00*

- *4<sup>th</sup> year of 4-year contract. NOTL Hydro has conducted a review of available locate services in our territory. Peninsula Video & Sound Inc. (PVS) remains the low cost option for this service. NOTL Hydro and PVS are in the process of negotiating a contract for 2008 to 2011.*

*Pineridge Tree Service for Tree Trimming services- \$70,000.00*

- *One-year contract with full tender process used. Pineridge Tree Service was the low bid chosen after the Tender process. Tender Documents are available upon request, opening letter attached as Appendix II*

*Postage By Phone – \$36,400.00*

- *Market Price based on cost of postage per letter, price point is set by the Post Office.*

### **2009 Budget**

Cost of rate rebasing including Borden Ladner Gervais for consulting services and potential legal fees, potential OEB cost orders and eligible intervenor costs (see Exhibit 4, Tab 2, Schedule 2, pages 5/6) - \$33,333.33

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*Collective Utility for Meter Reading Services - \$35,750.00*

- *As stated for 2007.*

*Micro Tech Niagara for IT Maintenance Services - \$32,000.00*

- *As stated in 2008.*

*Peninsula Video & Sound Inc. for Locates- \$33,000.00*

- *1st-year of 4-year contract*

*Pineridge Tree Service for Tree Trimming services- \$85,000.00*

- *Full Tender process to be used and currently out to Tender.*

*Postage By Phone – \$37,100.00*

- *Market Price based on cost of postage per letter, price point is set by the Post Office.*

- d. Please provide examples of contracted services for the period of 2006 through 2009 in which NOTL negotiated cost savings or will contemplate to achieve costs savings. Regarding contracted services, please provide evidence, if any, that demonstrates NOTL has implanted cost efficiency initiatives or it is contemplating to undertake initiatives that help NOTL achieve savings at some future time.

### **Response**

*The following are some of the examples of measures that NOTL Hydro has undertaken to reduce costs since 2006;*

*1) tendered and secured a favourable contract for operating control of our two transformer stations – annual savings of \$17,800.*

*2) accepted contract terms to provide water billing services for the Town of NOTL through ESNI. Ongoing costs for items such as postage and stationary are also reduced through this arrangement. Estimated annual savings are \$23,700 vs stand alone service.*

*3) Continued participation in the HD Supply co-operative purchasing group. We are provided favourable Ontario group pricing (fixed for the year). This has allowed NOTL Hydro to operate with a part time stockkeeper position for estimated annual cost savings of \$25,000.*

*4) Joint meter reading with the Town (electric and water) avoided an increase in meter reading cost. Estimated annual savings \$9,120.*



5) Outsourced most revenue metering activities to a neighbouring LDC with an accredited meter shop. Our Technologists can concentrate engineering activities and we have avoided training and certifying a Meter Technologist internally. Assuming labour costs are neutral (internal vs external) estimated annual savings would be approximately \$5,500/yr times 4 years (Journeyman training program).

6) Renegotiated EBT hub service contract resulting in a \$3000/year reduction.

7) Tendered property, machinery and Crime Insurance and saved \$4808 off annual premiums.

8) Tender pricing for annual tree trimming and major line and underground construction projects are also tendered.

### 1.5 Capitalization of Employee Compensation contracts is received in addition to all major line

Ref: Exhibit 4/Tab 2/Schedule 5/ p. 1-2, Table 1

Using the information from evidence provided in Exhibit 4 of the application, Board staff developed Table 5 below which shows the total compensation charged to OM&A. As this Table 5 illustrates, in 2007 NOTL capitalized 18% of total compensation which represents a 10% change from the previous year.

According to the evidence provided in Exhibit 4 of the application, in 2009, NOTL has increased its capitalization of employee compensation to 34%, as shown in Table 5 below.

**Table 5**

	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
<b>Total Compensation</b>	\$ 1,113,356	\$ 1,317,798	\$ 1,381,568	\$ 1,560,132	\$ 1,581,879
Less Capitalized Amount	\$ 318,371	\$ 374,254	\$ 244,162	\$ 533,020	\$ 545,366
Less Billable	\$ 61,818	\$ 142,935	\$ 125,925	\$ 162,145	\$ 170,641
<b>Compensation charged to OMA</b>	<b>\$ 733,167</b>	<b>\$ 800,609</b>	<b>\$ 1,011,481</b>	<b>\$ 864,967</b>	<b>\$ 865,872</b>
Capitalized	29%	28%	18%	34%	34%

Please confirm that NOTL has not made changes to the company's accounting policies in respect of capitalization of operation expenses and/or has not made any changes to accounting estimates used in the allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been

made post 2004 fiscal year end, please explain the changes including the rationale. Provide all supporting documentation and a discussion highlighting the impact of the changes.

**Response**

*Niagara-on-the-Lake Hydro has made no changes to the company's accounting practices with respect to capitalization of operating expenses and/or changes to accounting estimates used in the allocation of costs between operations and capital expenses post fiscal year end 2004.*

*In 2007 Niagara-on-the-Lake Hydro did not complete a significant portion of the Queenston Road Project due to time requirements and unfavourable contractor quotations received. Therefore, a decision was made to shift the focus to a back log of maintenance activities from NOTL Hydro system inspection records. This one time shift in priority from Capital works to OMA activity reduced overall capitalization and increased OMA compensation on a one time basis.*

*Going forward, NOTL Hydro has made a strategic decision to use its own employees on capital overhead construction projects which are the focus of the core competencies of our Operations staff. Purchased capital contracted services will only be used when the competencies required exceed those of NOTL Hydro operations staff. Conversely, the bulk of larger scale maintenance programs (i.e. Station Equipment, U/G transformer and service maintenance, Switchgear, etc.) will be completed via purchased contracted service companies whose core competencies best fit the programs in question.*

**1.6 Average Total Base Wage Per Employee**

*Ref: Exhibit 4/Tab 2/Schedule 5/ p.1 Table 1*

Referencing to Table 1 from the above evidence provided in Exhibit 4 of the application ("Components of Total Compensation – Average Per Employee"), Board staff notes that the total base wage per employee for non-union employees (including part-time employees) increased from \$17,321 in 2007 to \$24,222 in 2008. This represents an increase of 40% in compensation per employee for non-union staff. Furthermore, Board staff notes that the total base wage per employee for union employees increased from \$50,567 in 2007 to \$55,196 in 2008. This represents an increase of 9% in compensation per employee for union staff.

Please provide an explanation and justification for these increases.



## Response

### Non-Union

*The Table below details the increase in average base wages from \$17,321 in 2007 to \$24,222 in 2008:*

Non-Union (Full-Time and Part-Time)	2007		2008	
	No.	Wages	No..	Wages
Total Base Wages	3	\$ 51,962	3	\$ 72,665
Average Base Wages				
Part-Time Staff	3	\$ 17,321	2	\$ 12,900
Full-Time Staff	0	\$ -	1	\$ 46,865
Overall Average	3	\$ 17,321	3	\$ 24,222

*The part-time staff in 2007 were a labourer, a summer student and a co-op student. The part-time staff in 2008 are a labourer and a co-op student. The full-time staff position in 2008 is a Corporate Services Assistant in place of a fee-for-service contractor (i.e. not an employee) who provided payroll, administrative and executive support, which affects the average employee wage calculation but does not represent a real "manpower" increase.*

### Union

*The Table below details the increase in average base wages from \$50,567 in 2007 to \$55,196 in 2008.*

Situation	2007	2008	% Increase
a) Full-time all year	\$ 384,958	\$ 398,814	
Average	\$ 54,994	\$ 56,973	3.6%
Number of positions	7	7	
b) Job Reclassification	\$ 44,185	\$ 49,133	
Average	\$ 44,185	\$ 49,133	11.2%
Number of positions	1	1	
c) Vacant periods in 2007	\$ 177,665	\$ 202,417	
Average	\$ 44,416	\$ 50,604	13.9%
Number of positions	4	4	
d) Additional Lineman		\$ 67,186	
Average		\$ 67,186	n/a
Number of positions		1	
Total Base Wages	\$ 606,808	\$ 717,550	
Average	\$ 50,567.37	\$ 55,196.15	9.2%
Number of positions	12	13	

*The four situations tabulated above were:*

- a) 7 positions were filled in 2007 and 2008 with the same employees.*
- b) 1 position was reclassified to reflect additional duties of the incumbent.*
- c) 4 positions had gaps in 2007 between an employee leaving and a new employee recruited, so that the 2007 average wages represent fewer actual hours paid.*
- d) An additional apprentice line person was recruited in 2008, as referred to in the response to 1.7 below.*

## **1.7 Personnel Management**

*Ref: Exhibit 4/Tab 2/Schedule 5/ p. 3*

NOTL stated in the evidence provided in the Exhibit 4 of the application that “Efficient planning requires the effective use of staff and external resources and the development of shared services and mutual assistance relationships primarily with neighboring LDC’s that result in improved quality of our business and service levels”. Please provide a description and benefit of plans (if any) to address the issue of an aging workforce.

### **Response**

*NOTL Hydro has three employees that have indicated their intention to retire in less than 3 years. Two are line trade employees. We have since hired two apprentice line persons (2007 and 2008) with varying degrees of experience (first and second year) that are expected to fill the void left by the impending retirements. While there is currently labour overlap and a financial impact, we found this direction necessary during this critical period of qualified labour shortages.*

**1.8 and 1.11 below have been replaced by the OEB by 1.12**

## **1.8 ~~Corporate Cost Allocation~~**

*Ref: [http://www.oeb.gov.on.ca/documents/minfilingrequirements\\_report\\_141106.pdf](http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf)*

~~Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications (see reference above), applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.~~

~~Please file with the Board the documentation described above.~~

## **1.9 Corporate Cost Allocation**

*Ref: EB-2005-0001 Decision with Reason for Enbridge Gas Distribution Inc. Chapter 10 p.69-91*

The five principles listed below formed the basis of the Board's acceptance of Enbridge's corporate cost allocations in EB-2005-0001.

1. The service is specifically required by the utility;
2. The level of service provided is required by the utility;
3. The costs are allocated based on cost causality and cost drivers;
4. The cost to provide the service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher; and
5. There are scale economies.

Please comment on how NOTL's corporate cost allocations policy meets each of these principles.

### **Response**

*We have examined the five principles of Corporate Cost Allocation per EB-2005-0001 as it pertains to our affiliate company Energy Services Niagara Inc. and our Holding company NOTL Energy Inc. and have the following response:*

*The principles do not apply to our relationship with Energy Services Niagara Inc. (ESNI). ESNI does not perform any function on behalf of NOTL Hydro. NOTL Hydro does provide billing services and street light maintenance service for ESNI on a full cost recovery methodology and per a service contract. In accordance with the Affiliate Relations Code, an annual review of this cost structure is completed and adjusted as required to ensure there is no subsidy (full recovery) passed on to ESNI.*

*The principles have been examined for NOTL Hydro's relationship with our Holding company Niagara-on-the-Lake Energy Inc. (NEI). Annual management fees of approximately \$20,000, representing Board of Directors' services and audit costs are passed on to NOTL Hydro. This methodology was accepted by our auditor citing the fact that the Holding company provides corporate (Board) services to NOTL Hydro but has no revenue stream.*

- 1) The service is specifically required by the utility;

*Yes – The NEI Board provides corporate guidance (management services) necessary for NOTL Hydro operation.*

2) The level of service provided is required by the utility;  
*The level of service is typical for a Board with monthly meetings and an annual independent audit*

3) The costs are allocated based on cost causality and cost drivers;  
*The actual management fee costs are assessed for reasonableness and consistency and are allocated between ESNi and NOTL Hydro based on applicable asset values. No mark up is added.*

4) The cost to provide this service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher;  
*The Holding company is integral to our corporate structure and it would be unreasonable to seek this service externally on a stand alone basis.*

5) There are scale economies;  
*As above.*

*The tables provided in response to 1.12 list the actual corporate cost allocations.*

#### **1.10 Purchase of Services**

*Ref: Exhibit 4/Tab 2/Schedule 4/ P. 18*

The total amount for 2009 purchase of services is stated to be \$809,215. In relation to 2007 and 2006, this represents an increase of \$86,421 (12%) and \$211,934 (35%), respectively.

Please provide an explanation for these increases.

#### **Response**

*In review of Niagara-on-the-Lake Hydro's purchase of services it was found that few services purchased exceeded the materiality threshold of \$28,251.00 when comparing variances of 2006 and 2007 Actuals to 2009 budgetary figures. Therefore, to assist in the explanation of the respective increases Niagara-on-the-Lake Hydro will lower the materiality threshold variance to \$5,000.00 for the 2006 to 2009 variances and \$10,000.00 for the 2007 to 2009 variance. Threshold amounts used account for 91% of variance with the remaining 9% below the threshold amount.*

#### **2006 to 2009 comparator with explanation, \$5,000.00 threshold: Increase**

*Cost of rate rebasing including Borden Ladner Gervais for consulting services and potential legal fees, potential OEB cost orders and eligible intervenor costs (see Exhibit 4, Tab 2, Schedule 2, pages 5/6)*

*\$33,000.00*

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<i>Collective Utility for meter reading services</i>	<i>\$10,000.00</i>
<i>E&amp;USA Auditing Services for Niagara-on-the-Lake Hydro's involvement in the ZeroQuest Program</i>	<i>\$8,000.00</i>
<i>EDA for membership renewal, training, and seminars</i>	<i>\$10,000.00</i>
<i>ESA Annual Fee</i>	<i>\$5,370.00</i>
<i>E&amp;USA Training services for Line Apprentice and other</i>	<i>\$11,000.00</i>
<i>Ground Aerial Maintenance Services for U/G Transformer Inspection and Maintenance Program</i>	<i>\$10,000.00</i>
<i>Grafton (HD Supplies) for U/G transformer repairs</i>	<i>\$10,000.00</i>
<i>Micro Tech Niagara for Linux system and IT related Maintenance</i>	<i>\$32,000.00</i>
<i>Modern Landfill new fee related to the disposal of treated poles</i>	<i>\$5,800.00</i>
<i>Niagara Analytical oil tests and new test related to treated poles</i>	<i>\$5,200.00</i>
<i>Oshawa Public Utilities for Station Metering Services (IESO)</i>	<i>\$10,000.00</i>
<i>Penner Building Supplies for general building maintenance supplies, increase in pricing of materials for building maintenance projects</i>	<i>\$7,000.00</i>
<i>Pineridge Tree Service (actual Contractor for this area has not been determined), area to be trimmed in 2009 has higher tree count than area trimmed in 2006</i>	<i>\$15,000.00</i>
<i>Raven Engineering for SCADA troubleshooting and Maintenance, Station communication maintenance</i>	<i>\$7,200.00</i>
<i>Scout Services for printing services</i>	<i>\$9,215.00</i>
<i>Tiltran Services for Station Equipment Maintenance Program</i>	<i>\$9,800.00</i>
<i>Utilities Standard Forum fee for utility construction standards as per ESA Regulations and the development of new regulations as required</i>	<i><u>\$10,000.00</u></i>
<b><i>Total</i></b>	<b><i>\$193,587.00</i></b>

**2007 to 2009 comparator with explanation, \$10,000.00 threshold: Increase**

*Cost of rate rebasing including Borden Ladner Gervais for consulting services and potential legal fees, potential OEB cost orders and eligible intervenor costs (see Exhibit 4, Tab 2, Schedule 2, pages 5/6)*

*\$33,000.00*

*Grafton (HD Supplies) for U/G transformer repairs* *\$10,000.00*

*Micro Tech Niagara for Linux system and IT related Maintenance* *\$11,000.00*

*Oshawa Public Utilities for Station Metering Services (IESO)* *\$10,000.00*

*Pineridge Tree Service (actual Contractor for this area has not been determined), area to be trimmed in 2009 has higher tree count than area trimmed in 2007*

*\$15,000.00*

**Total** **\$79,000.00**

**1.11 Shared Services**

~~Ref: Exhibit 4/Tab 2/Schedule 3/p.p. 1-2~~

~~Ref: [http://www.oeb.gov.on.ca/documents/minfilingrequirements\\_report\\_141106.pdf](http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf)~~

~~Pursuant to section 2.5 (Exhibit 4 Operating & Maintenance and Other Costs) of the Filing Requirements for Transmission and Distribution Applications, an applicant is to file the type of shared service and the total annual expense by service. Please file with the Board the type of shared services and the total annual expense by service for 2006 through 2009.~~

**1.12 Shared Services / Corporate Cost Allocation**

~~Ref: [http://www.oeb.gov.on.ca/documents/minfilingrequirements\\_report\\_141106.pdf](http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf)~~

~~Pursuant to section 2.5 (Exhibit 4 Part A and D) of the Filing Requirements for Transmission and Distribution Applications (see reference above), applicants are to file the following information:~~

- ~~i. The type of shared service and the total annual expense by service.~~

- ii. A detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please complete Table 1.12 below for the years 2006 through 2009 describing all services that NOTL provides and receives from its parent company as well as affiliate companies. Please use additional rows if necessary.

Please note that this question replaces questions #1.8 and #1.11.

**Table 1.12**

Year: \_\_\_\_\_

Name of Company		Type of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	% Allocation	Explanation
From	To						

**Type of Service Offered:** Services such as billing, accounting, payroll, etc.

**Pricing Methodology:** Pricing Methodology includes approaches such as cost-base, market-base, tendering, etc.

**Price for the Service:** The amount the entity pays for the service that it receives.

**Cost for the Service:** The cost of to provide the service.

**%Allocation:** % of the costs that is allocated to the entity for the service being offered

### **Response**

*Please see Tables below for services from NOTL Hydro Inc. to Energy Services Niagara Inc.*

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2006								
Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	Markup \$	% Allocation	Explanation
NOTL Hydro Inc	Energy Services Inc	<b>Water Billing</b> Customer Service-Billing/Collecting/Account Inquiries Water Meter reading counts	Cost-Base	\$ 57,842	\$ 48,549	\$ 9,293	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Sentinel Lights</b> Repairs and Maintenance	Cost-Base	\$ 1,015	\$ 880	\$ 135	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Street Light Maintenance</b> Repairs and Maintenance	Cost-Base	\$ 43,416	\$ 37,390	\$ 6,026	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Electric Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 8,803	\$ 7,582	\$ 1,221	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Gas Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 35,072	\$ 29,558	\$ 5,514	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>FibreOptics</b> Postage mailing costs	Cost-Base	\$ 73	\$ 67	\$ 7	100%	Service Cost is marked up as follows: Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Water Bills Printed</b> Billing for bills printed	Cost-Base	\$ 20,798	\$ 18,907	\$ 1,891	100%	# of bills printed*proportion of water bills *cost of bill to print plus mark-up of 10%
NOTL Hydro Inc	Energy Services Inc	<b>Building Overhead Services</b> Mtce of general office and plant Property Taxes-Henegan Rd	Cost-Base	\$ 5,320	\$ 4,836	\$ 484	100%	5% of total costs for building mtce and taxes is allocated
TOTALS				\$ 172,340	\$ 147,769	\$ 24,570		

2007								
Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	Markup \$	% Allocation	Explanation
NOTL Hydro Inc	Energy Services Inc	<b>Water Billing</b> Customer Service-Billing/Collecting/Account Inquiries Water Meter reading counts	Cost-Base	\$ 44,494	\$ 37,091	\$ 7,403	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Sentinel Lights</b> Repairs and Maintenance	Cost-Base	\$ 453	\$ 386	\$ 66	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Street Light Maintenance</b> Repairs and Maintenance	Cost-Base	\$ 40,379	\$ 34,831	\$ 5,548	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Electric Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 14,628	\$ 12,432	\$ 2,197	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Gas Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 41,851	\$ 35,206	\$ 6,645	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>FibreOptics</b> Postage mailing costs	Cost-Base	\$ 18	\$ 16	\$ 2	100%	Service Cost is marked up as follows: Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Water Backbilling</b> Customer Service-Billing/Collecting/Account Inquiries Accounting-Billing/Collecting	Cost-Base	\$ 4,191	\$ 3,495	\$ 696	100%	Service Cost is marked up as follows: Labour-20% Material-10%
NOTL Hydro Inc	Energy Services Inc	<b>Water Bills Printed</b> Billing for bills printed	Cost-Base	\$ 23,268	\$ 21,153	\$ 2,115	100%	# of bills printed*proportion of water bills *cost of bill to print plus mark-up of 10%
NOTL Hydro Inc	Energy Services Inc	<b>Building Overhead Services</b> Mtce of general office and plant Property Taxes-Henegan Rd	Cost-Base	\$ 6,068	\$ 5,516	\$ 552	100%	5% of total costs for building mtce and taxes is allocated
TOTALS				\$ 175,349	\$ 150,125	\$ 25,224		



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2008								
Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	Markup \$	% Allocation	Explanation
NOTL Hydro Inc	Energy Services Inc	<b>Water Billing</b> Customer Service-Billing/Collecting/Account Inquiries Water Meter reading counts	Cost-Base	\$ 78,086	\$ 65,072	\$ 13,014	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Sentinel Lights</b> Repairs and Maintenance	Cost-Base	\$ 2,826	\$ 2,400	\$ 427	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Street Light Maintenance</b> Repairs and Maintenance	Cost-Base	\$ 42,171	\$ 38,957	\$ 3,214	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Electric Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 18,076	\$ 14,583	\$ 3,493	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Gas Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 44,335	\$ 38,059	\$ 6,277	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Water Bills Printed</b> Billing for bills printed	Cost-Base	\$ 23,259	\$ 21,144	\$ 2,114	100%	# of bills printed*proportion of water bills *cost of bill to print plus mark-up of 10%
NOTL Hydro Inc	Energy Services Inc	<b>Building Overhead Services</b> Mtce of general office and plant Property Taxes-Henegan Rd	Cost-Base	\$ 5,879	\$ 5,344	\$ 534	100%	5% of total costs for building mtce and taxes is allocated
TOTALS				\$ 214,632	\$ 185,559	\$ 29,074		

2009								
Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	Markup \$	% Allocation	Explanation
NOTL Hydro Inc	Energy Services Inc	<b>Water Billing</b> Customer Service-Billing/Collecting/Account Inquiries Water Meter reading counts	Cost-Base	\$ 81,000	\$ 67,000	\$ 14,000	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Sentinel Lights</b> Repairs and Maintenance	Cost-Base	\$ 2,700	\$ 2,300	\$ 400	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Street Light Maintenance</b> Repairs and Maintenance	Cost-Base	\$ 42,050	\$ 38,950	\$ 3,100	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Electric Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 18,000	\$ 15,000	\$ 3,000	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Gas Water Heaters</b> Preparing/Completing work orders for all new installations Customer Service-Billing/Collecting/Account Inquiries Accounting-Accounts Payable/Inventory/Accounts Receivable Account Reconciliation Payroll	Cost-Base	\$ 44,000	\$ 37,000	\$ 7,000	100%	Service Cost is marked up as follows: Labour-20% Truck-10% Material-10% Contractor-10% Accounts Payable-10%
NOTL Hydro Inc	Energy Services Inc	<b>Water Bills Printed</b> Billing for bills printed	Cost-Base	\$ 23,000	\$ 21,000	\$ 2,000	100%	# of bills printed*proportion of water bills *cost of bill to print plus mark-up of 10%
NOTL Hydro Inc	Energy Services Inc	<b>Building Overhead Services</b> Mtce of general office and plant Property Taxes-Henegan Rd	Cost-Base	\$ 6,000	\$ 5,500	\$ 500	100%	5% of total costs for building mtce and property taxes is allocated
TOTALS				\$ 216,750	\$ 186,750	\$ 30,000		

*Please see Tables below for services from the parent company NOTL Energy Inc. to NOTL Hydro Inc. Extracts from the 2007 financial statements for NOTL Energy Inc. are provided in Appendix II to indicate the management fees charged in 2006 and 2007. The larger amount in 2006 covered fees for 2006 and prior years.*

## 2006

Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	% Allocation	Explanation
NOTL Energy Inc	NOTL Hydro Inc	Management Fees	Cost-Base	\$ 43,877	\$ 46,186	95%	No mark-up is involved
<i>*Allocation based on 95%/5% ratio of NOTL Hydro Inc. assets/ESNI assets. Remaining 5% charged to ESNI. Price = cost x 95%</i>							

## 2007

Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	% Allocation	Explanation
NOTL Energy Inc	NOTL Hydro Inc	Management Fees	Cost-Base	\$ 20,045	\$ 21,100	95%	No mark-up is involved
<i>*Allocation based on 95%/5% ratio of NOTL Hydro Inc. assets/ESNI assets. Remaining 5% charged to ESNI. Price = cost x 95%</i>							

## 2008

Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	% Allocation	Explanation
NOTL Energy Inc	NOTL Hydro Inc	Management Fees	Cost-Base	\$ 20,000	\$ 21,053	95%	No mark-up is involved
<i>*Allocation based on 95%/5% ratio of NOTL Hydro Inc. assets/ESNI assets. Remaining 5% charged to ESNI. Price = cost x 95%</i>							

## 2009

Name Of Company From	To	Type Of Service Offered	Pricing Methodology	Price for the Service (\$)	Cost for the Service (\$)	% Allocation*	Explanation
NOTL Energy Inc	NOTL Hydro Inc	Management Fees	Cost-Base	\$ 20,000	\$ 21,053	95%	No mark-up is involved.
<i>*Allocation based on 95%/5% ratio of NOTL Hydro Inc. assets/ESNI assets. Remaining 5% charged to ESNI. Price = cost x 95%</i>							

## 2 SSM REQUEST

Ref: Exhibit 10/Tab 1/Schedule 4/ p. 2/Table 1

In its evidence, NOTL is requesting \$8,563 in relation to the shared savings mechanism (SSM). As provided in Exhibit 10 of the application, the amount has been grossed up for PILs. On September 11, 2007, the Board issued a Decision and Order for Toronto Hydro (EB-2007-0096) where it confirmed that it was not appropriate to gross up the SSM amount for PILs.

Please file with the Board a revised Table 1 for "SSM Amounts by Program and Class" if NOTL agrees that it was an oversight on its part and the amount for SSM should not be grossed up for PILS. Otherwise, please provide an explanation for grossing-up the SSM amount for PILS.

### Response

*NOTL agrees that it was an oversight on its part and the amount for SSM should not be grossed up for PILS. The revised Table 1 is:*

**Table 1 (Revised)**

**SSM Amounts by Program and Class**

<b>Rate Group</b>	<b>Non-Rate Base TRC Savings</b>	<b>5% Recovery</b>
Residential	\$ 35,698	\$ 1,785
GS <50 kW	\$ 73,700	\$ 3,685
	<b>\$ 109,398</b>	<b>\$ 5,470</b>

### 3 COST OF CAPITAL (CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL)

#### 3.1 Long Term Debt Rate

*Ref: Exhibit 6/Tab 1/Schedule 3*

*Ref: Exhibit 1/Appendix E," Audited Financial Statements at December 31, 2007", Note 10, page 14.*

*Ref: Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors December 20, 2006, page 14 - [http://www.oeb.gov.on.ca/documents/cases/EB-2006-0088/report\\_of\\_the\\_board\\_201206.pdf](http://www.oeb.gov.on.ca/documents/cases/EB-2006-0088/report_of_the_board_201206.pdf)*

Note 10 of NOTL's 2007 Audited Financial Statements states the following:

"Long-term note payable to the Town of Niagara-on-the-Lake, interest is payable at 7.25% and amounts paid and accrued for the year amounted to \$483,309 (\$498,927 – 2006). During the year, the Board approved the repayment of \$100,000 (\$235,000 – 2006) to the Town. There are no fixed terms of repayment."

On Long-Term Debt, Section 2.2.1 of the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors - December 20, 2006 states, in part:

**“For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate.** When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for a change.” [Emphasis in original]

- i) Please provide a copy of the long-term note.

**Response**

*Please see Appendix III.*

- ii) Based on the terms of the long-term note and the guidelines in the Board Report, please state why NOTL believes that a rate of 7.25% should be applied to this debt, as compared to the 6.10% rate contained in the Board’s March 7, 2008 letter, as updated in 2009. In this context, please specifically comment on the absence of fixed terms of repayment for this debt and why in the utility’s view this would the rate for this debt should not be determined as per Section 2.2.1 of the guidelines.

**Response**

*Our Note Payable to the Town is non-callable and expires in 2018 but will be automatically renewed unless either party gives 90 days notice. The 7.25% interest rate was originally set and approved by the OEB and has been in place since its inception in the year 2000. **This rate (7.25%) has never been re-negotiated.** The December 20, 2006 direction from the OEB states “The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.” We have explored the financial market to see if this rate (7.25%) or anything close to it is available for the same loan. A loan that does not require repayment of principal (our current loan) is not available. While not obliged by the terms, we have made a few principal pay downs on our current loan when our financial position has allowed.*

## 4 RATE BASE AND CAPEX

### 4.1 Capital Expenditures

*Ref: Exhibit 2/Tab 3/Schedule 1/ p. 3*

On this page it is noted that the Five-Year Capital Plan includes a major underground project known as "Chautauqua," which is a \$1.5 million project commenced in 2008 and to be completed over three years.

NOTL further states that while it originally considered completing this project equally over the three year period at \$0.5 million per year within the normal annual capital budget level of approximately \$1.3 million, three primary reasons have prompted it to ramp up the construction of this project in 2009 to the level of \$1 million. These are:

- (1) to ease the impact of excessive construction on local residents,
- (2) to gain financial savings that can reasonably be expected from having a single large construction contract versus two or three contracts, and
- (3) to take advantage of the Town of Niagara-on-the-Lake's schedule to complete and restore Chautauqua roadways in late 2009.

In the context of the above reasons:

- i) Please state whether or not assessments of alternative means of undertaking this project have been undertaken; for example, on the basis of completing it equally over three years, or over a longer period, such as five years. If so, please file these assessments, if not, please explain why not.

#### **Response**

*Niagara-on-the-Lake Hydro reviewed the option of a three year or longer construction period but did not complete a comprehensive assessment of the option. Upon review of the Project and its direct impact on the residents of the area, and consultation with The Town of Niagara-on-the-Lake it was determined to be in the best interest of all parties to complete our rebuild Project in conjunction with the Town's water main and roadway rehabilitation Project. To this end, we've established a variant of the three year cost allocation: \$300 thousand in year-one for material purchases, \$1 million for installation and customer conversion, and \$200 thousand for overhead equipment removal and the completion of civil restoration. We have attached a letter of support from the Town of NOTL for this coordinated construction effort (Appendix V). Please note that the Chautauqua area is also referred to as Mississauga Beach.*

- ii) Please clarify what is meant by reason (2) above. Please specify what would be encompassed by a single large construction contract versus two or three contracts and the time frames of such contracts. Please state why it would have been necessary under the non ramp-up alternative to have two or three construction contracts and quantify the financial savings that resulted from having only one. Please comment on whether or not under the non ramp-up alternative it would have been possible to have had one three-year contract and, if not, why not.

**Response**

*Costs associated with multiple contracts or conversely one contract over a longer period is the mobilization costs attached to the contracts and material costs increases year-to-year. The cost to move crews, equipment, and other logistical requirements associated with a field project of this scope are factored into the individual price points of the tender price. Costs that a Contractor would be required to consider with a longer Project scope are; required tender off-set for Contractors projected labour cost increases, fuel costs, and benefits over the life of the contract by the Contractor. These considerations would increase the cost of the tender price over a one year fixed period where all costs are known.*

- iii) Chautauqua project is a major underground construction that NOTL has undertaken and is proposing an expenditure of \$1 million on this project for the test year. Please provide an explanation on the measures that NOTL has taken or will undertake, e.g. use of tendering process and deploying the lowest bid contractor, negotiations with suppliers on purchase of material and equipment, etc. to execute this project in the most cost-effective way. Please file with the Board any evidence that demonstrates NOTL's effort in undertaking and implementing measures that would achieve cost savings for NOTL.

**Response**

*Niagara-on-the-Lake Hydro has hired an Engineering Consulting firm with experience in tendering, awarding, and management of large electrical conversion projects to assist Niagara-on-the-Lake Hydro of best practice procedure for the awarding of this Project. Use of the Consultant ensured a thorough tender document was prepared, Contractors qualified in this type of Project were tendered, and the bids were vetted by a qualified and experienced Engineer. The tender document was provided to eight qualified electrical contractors, two replies were received, Wiens Underground Electric Ltd. bid \$860,254.85 and Avertex Utility Solutions Inc. bid \$1,215,164.58, tenders were opened with contractors present, after in-depth analysis of the bids by the*

*Engineering Consultant to ensure no variables could inflate costs, the low bid was successful and Wiens Underground Electric Ltd. was awarded the Contract. The tender opening letter is provided in Appendix II. The Tender documents and analysis are available upon request. Niagara-on-the-Lake Hydro's participation in the HD Supply co-operative purchasing group provides favourable Ontario group pricing (fixed for the year) ensuring material costs lower than we could achieve alone. Lastly, we will be jointly sharing road and boulevard restoration costs with the Town of NOTL in conjunction with their sewer/water main project in Chautauqua.*

- iv) Please discuss the extent to which the Chautauqua project involves the refurbishment of existing facilities as compared to the installation of new facilities. To the extent that the installation of new facilities is planned, please state whether or not refurbishment was considered as an alternative. If yes, please explain why it was not adopted, if no, please explain why not.

**Response**

*The poles and equipment in the Chautauqua area are generally over 50 years of age and require replacement. Due to the Town by-law restrictions and NOTL Hydro's Conditions of Service, any reconstruction of utility facilities in the Old Town urban area are required to be buried with the aim of preserving the historical ambiance. Therefore refurbishment of the existing overhead facilities was not an option.*

**4.2 Asset Condition Study**

*Ref: Exhibit 2/Tab 3/Schedule 5/ p.p. 1- 8*

Please indicate whether NOTL has utilized any asset condition study in developing its Asset Management Plan. Please file any such study.

**Response**

*At this time Niagara-on-the-Lake Hydro has not conducted an asset condition study. The Asset Management Plan is in the early stages of development and NOTL Hydro will be conducting an asset condition study as the program develops. NOTL Hydro currently uses the information received through system inspections, observations reported by staff, and good utility practices on life cycles of equipment in the system.*

**4.3 Service Quality and Reliability**



*Ref: Exhibit 2/Tab 3/Schedule 6*

In this schedule NOTL provides statistics for SAIDI, SAIFI and CAIDI for the years 1998 to 2007. NOTL's service reliability performance, as measured by these statistics, demonstrated deterioration in 2007 relative to 2006 with SAIDI increasing from 0.42 in 2006 to 2.41 in 2007, SAIFI from 0.75 in 2006 to 2.07 in 2007 and CAIDI from 0.56 in 2006 to 1.16 in 2007. Please provide an explanation for this change.

**Response**

*Chart 1 in the referenced Schedule clearly indicates that 2006 reflects our best performing year. There was a single major outage in 2007 resulting from a lightning arrestor failure in our main Transformer Station MTS #2 that resulted in loss of supply to 2/3 of our customers for several hours. Upon reviewing outage logs for 2007 and 2008, we can convey that we had above average winter storm and summer lightning related activity contributing to increased outages. With our proximity to the lake, river and escarpment backdrop, NOTL is susceptible to damaging storms. With the exception of the MTS#2 outage in 2007, our outage logs do not reflect specific increased equipment failure or tree contact outages over this period that are obvious signs of the need for an increased specific maintenance activity over-and-above our current proactive programs.*

*Our aggressive three year tree trimming cycle will continue in 2009 and beyond. As part of our ongoing system improvements in 2008, NOTL Hydro invested approximately \$130,000 in new protection and control equipment at our Transformer Station MTS#2. NOTL Hydro has also proactively embarked on two new maintenance programs. 1) The Overhead Services Program is designed to proactively replace all two-bolt style and split-bolt style connections from the system and replace them with compression style connections. 2) A Line Transformer Program commencing in 2006 was designed to systematically test, clean, and maintain every underground transformer in our system on a five-year rotational basis. We expect this new TS equipment and proactive maintenance programs to have a positive affect on our future indices.*

## **5 SMART METERS**

*Ref: Exhibit 9/Tab 1/Schedule 1/ p. 7*

On this page it is stated that:

"At the time of this submission, negotiations are underway with a Fairness Commissioner-designated vendor. It is anticipated that NOTL Hydro will be scheduled for full implementation of Smart meters in mid to late 2009 in a



process expected to take less than two months and require a capital outlay estimated at \$1.6-\$1.7 million. NOTL Hydro has noted OEB decisions for those 2008 cost of service rate Applicants that are in a similar situation to NOTL Hydro (for example, Lakefront Utilities Inc. and PUC Distribution Inc.). In keeping with these decisions, NOTL Hydro seeks a rate rider of **\$1.00 per customer per month** to fund Smart Meter activities.”

Please provide the following information related to the above:

- i) The estimated number of meters to be installed in the rate test year;

**Response**

*NOTL Hydro expect to install approximately 7200 meters during the rate test year*

- ii) The actual or estimated costs per installed meter and in total;

**Response**

*We are at this time still receiving tendered costs for the smart meter system and installation, but estimate the cost per meter to be \$141 and total cost of \$1,015,200. The recent drop in the value of the Canadian dollar has inflated this cost by more than 10%.*

- iii) A statement as to whether the distributor has purchased, or expects to purchase (included the estimated costs), smart meters or advanced metering infrastructure (“AMI”) whose functionality exceeds the minimum functionality adopted in Ontario Regulation 425/06; and

**Response**

*NOTL Hydro will not be purchasing the bulk of our smart meters until later in 2009, however, we are considering conducting a small pilot project (<100 meters) during the spring of 2009. The purpose of the pilot project is to test the effectiveness of customer cost reduction ‘tools’ such as in-home displays and load control devices. We are aware of the Ontario Regulation 425/06 and the OEB Smart Meter funding requirements and are currently seeking funding for this excessive functionality through the Ontario Power Authority or perhaps the EDA’s Tomorrow Fund.*

- iv) A statement and the estimated costs as to whether the distributor has incurred, or expects to incur, costs associated with functions for which the SME has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

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**Response**

*Along with our Niagara Erie Power Alliance (NEPA) partners, we will be seeking an Operational Data Storage service either through a purchase or an ASP solution. We understand from 'Phase 1' distributors that this system is crucial for storing and retrieving operational data in order to obtain the maximum benefit from the smart meter system. Under no circumstances will this system be used for billing purposes in duplication of the SME. Estimated costs for the ODS system is not expected to be available to NEPA until early 2009.*

## **6 PILS**

### **6.1 Change in Regulatory Assets**

*Ref: Exhibit 4/Tab 3/ Schedule 1/p. 1*

On this page, NOTL provides its tax calculations, which include as an addition to accounting income an item "Change in Regulatory Assets" in the amount of \$17,723 in the 2009 test year.

The Board, in a number of EDR 2008 decisions denied increasing regulatory taxable income through the addition of movements, or recoveries, in regulatory assets, e.g Brantford Power, PUC. For instance in the Brantford Power Decision (EB-2007-0698) the Board stated that "The appropriate forum for the issues raised by the Company is the Board's pending proceeding on account 1562. Until that proceeding is concluded, there is no basis for the Board to deviate from the findings it has made in other cases where the same issue has been identified."

Please explain why, in light of these decisions, NOTL believes that the Board should approve its request to include this item in its regulatory taxable income.

**Response**

*Upon reviewing the above decisions and the 2006 EDR tax model, NOTL Hydro acknowledges that an error was made and the addition referred to above has been removed from the tax calculations.*

### **6.2 Tax Rate**

*Ref: Exhibit 4/Tab 3 /Schedule 1/ p. 1*

NOTL's tax calculations for the 2009 test year are based on a 33% tax rate. However, NOTL's taxable income for 2009 is stated as \$1,245,550, which is below the \$1.5 million income threshold for the 33% tax rate. Please state why NOTL believes that the 33% rate is the correct one to use, or if not, please provide a revised version of this evidence making use of the appropriate rate.

**Response**

*The NOTL Hydro tax calculation reflected the approach in the 2006 EDR OEB tax model and, to the best of our knowledge, the approach used by 2008 rate rebasing applicants. However, the tax calculation is now revised in accordance with the Energy Probe\* request # 19 c. A revised Exhibit 4, Tab 3 Schedule 1, Table 1 and a revised Exhibit 7, Tab 1, Schedule 1, Table 1, are attached to the covering letter to this response and in summary below (including Ontario capital tax):*

	<i>Per August 6 Application</i>	<i>Recalculation</i>
<i>2008 corporate tax</i>	<i>\$384,470</i>	<i>\$368,848</i>
<i>2009 corporate tax</i>	<i>\$411,031</i>	<i>\$398,109</i>

*[\*Please also see responses to Energy Probe interrogatories # 19.]*

*The rates applicable to NOTL's taxable income amounts in 2008 are:*

*1<sup>st</sup> \$500,000 = 19.5% federal + 5.5% provincial small business;  
Next \$1,000,000 = 19.5% federal + 14% provincial + 4.25% provincial claw-back.*

*The federal rate in 2009 changes to 19.0%.*

## **7 WEATHER NORMALIZATION AND MODELLING**

### **7.1 Forecasting Average Consumption**

*Ref: Exhibit 3/Tab 2/ Schedule 2*

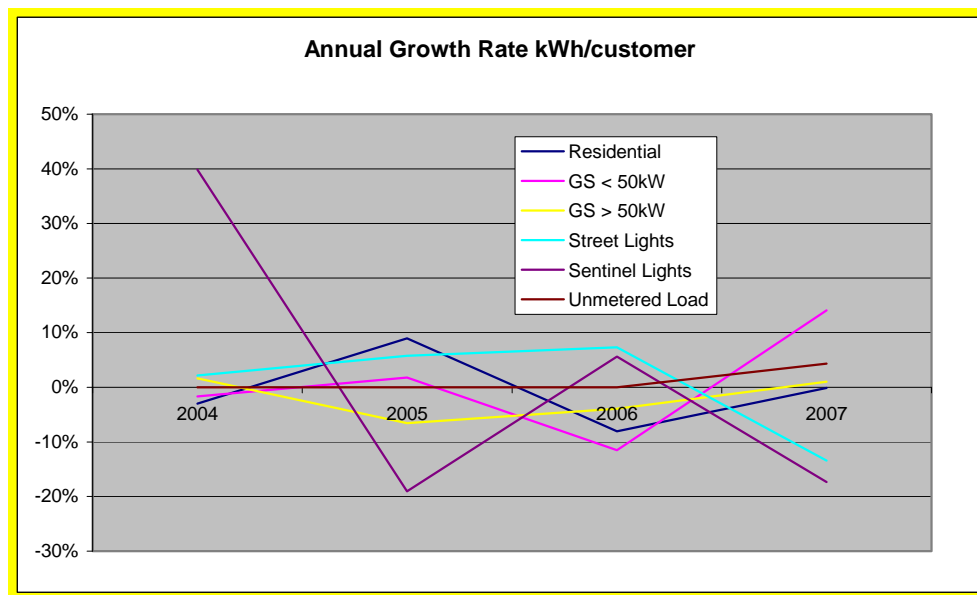
On pages 25 and 26, NOTL shows Table 17 titled "Alignment of Non-Normalized to Weather-Normalized Billed Energy Forecasts" for 2008 and 2009. It appears the non-normalized billed energy forecast is based on the actual 2007.

Please explain why it is appropriate to forecast the estimated average consumption for 2009 using the 2007 actual annual usage per customer after

taking CDM and weather adjustment into consideration instead of a trend in consumption use over time.

### **Response**

As stated on Page 23 of Exhibit 3 Tab 2 Schedule 2, the data presented in Table 14 of Page 23 “did not suggest a consistent pattern that should be projected”. The chart below shows the data visually. The lack of pattern coupled with the few data points (only 4) available for each class do not provide adequate confidence of a trend existing in the data. Thus, the most recent year’s usage was felt to more reasonably represent the non-normalized usage for the next 2 years.



## **7.2 Customer Count**

Ref: Exhibit 3/Tab 2/Schedule 2 /p.p. 18-19

On page 19, NOTL states: “An additional 85 customers are expected in 2008 and a further 75 in 2009. In 2009, approx. 50 customers are expected to transfer to St. Catharines (Horizon Utilities) as part of the resolution of load transfers. The resulting forecasts are 6,509 customers in 2008 and 6,584 customers in 2009. Application of the geometric mean growth rate is considered to over-estimate the customer count in 2008 and 2009.”

- a) Please confirm whether the addition in 2009 residential forecast includes the impact of load transfers.

---

**Response**

*Confirmed that the 2009 residential forecast includes the impact of load transfers. The reference to "further 75 in 2009" in the text means 125 new customers less 50 transfers equals a net increase of 75.*

- b) Please explain why geometric mean growth rate is considered to over-estimate the customer count for residential class, yet the geometric mean growth rate is considered to be appropriate for GS < 50kW, GS > 50kW, and Streetlights classes.

**Response**

*[Note – This question is similar to SEC IR 10 d)]*

*The residential class customer growth in Niagara-on-the-Lake is driven by the number of lots in subdivisions known to be under development, including location and timing, as well as an estimate of in-fill opportunities. A total of 190 lots in 9 specific sub-divisions are forecast to come on stream through 2008 and 2009, plus 20 in-fill lots, for a total of 210 – 85 in 2008 and 125 in 2009 as indicated in the application. Using the geometric mean growth rate would contradict and be inconsistent with these known subdivision plans.*

*The customer growth in the general service and streetlight classes does not bring NOTL Hydro into advanced planning to the same degree as sub-divisions and often business customers request to be connected at relatively short notice. Thus, the specific customers are not known in advance and only a historical growth rate approach is feasible.*

*[Please note that the 1st sentence of the paragraph on pages 21/22 of the referenced schedule should read "For the streetlights class, the geometric mean growth rate for the period 2002 to 2007 is considered to be appropriate as an estimator of the customer counts for 2008 and 2009, together with the increase of 14 mentioned above regarding conversion of Town sentinel lights." The stated forecasts in the paragraph remain correct.]*

- c) If the geometric mean growth rate is used to forecast residential customer for 2008 and 2009, please provide the forecast residential customer count for 2008 and 2009.

**Response**

*With the geometric growth rate of 1.0313 per Table 11, the forecasts would be as follows:*

*2007 actual = 6,424*

*2008 forecast = 6,424 x 1.0313 = 6,625 (vs 6,509 in the application)*  
*2009 forecast = 6,625 x 1.0313 = 6,832 (vs 6,584 in the application)*

- d) Please provide the overall revenue and load impact on the residential class if the geometric mean growth rate is used to forecast 2008 and 2009.

**Response**

*The 2008 impacts are summarized below:*

<i>2008</i>	<i>Per Application</i>	<i>At "Geomean" rate</i>	<i>Difference</i>
<i>Customer Count</i>	<i>6,509</i>	<i>6,625</i>	<i>116</i>
<i>Revenue<sup>1</sup></i>	<i>\$2,174,476</i>	<i>\$2,207,014</i>	<i>\$32,538</i>
<i>Normalized Load<sup>2</sup></i>	<i>65,784,382 kWh</i>	<i>66,452,104 kWh</i>	<i>667,722 kWh</i>
<i>Non-normalized Load<sup>2</sup></i>	<i>66,365,764 kWh</i>	<i>67,548,149 kWh</i>	<i>1,182,385 kWh</i>

*1. Revenue calculated from underlying 2008 models supporting the rate application.*

*2. Residential Loads per Application from Exhibit 3, Tab 2, Schedule 2, Page 25*

*The "geomean" load amounts are tabulated below in the same format as Table 17 in Exhibit 3 Tab 2 Schedule 2 Page 25:*

<i>Year 2008</i>	<i>Non-Normalized Billed Energy Forecast</i>	<i>Weather Sensitive %</i>	<i>Weather Sensitive Energy</i>	<i>Weather Adjustment</i>	<i>Weather-Adjusted</i>	<i>CDM Adjustment</i>	<i>Weather Normalized Billed Forecast</i>
Residential	66,365,764	100%	66,365,764	-356,952	66,008,812	-0.34%	65,784,382
GS <50 kW	34,867,109	100%	34,867,109	-187,535	34,679,574	-0.34%	34,561,664
GS >50kW	80,069,864	68%	54,569,691	-293,506	79,776,357	-0.34%	79,505,118
Sentinel Lights	49,173	0%	0	0	49,173	-0.34%	49,006
Street Lights	1,049,040	0%	0	0	1,049,040	-0.34%	1,045,473
Unmetered Load	303,200	0%	0	0	303,200	-0.34%	302,169
TOTAL	182,704,150		155,802,564	-837,993	181,866,156		181,247,811

*The 2009 impacts are summarized below:*

<i>2009</i>	<i>Per Application</i>	<i>At "Geomean" rate</i>	<i>Difference</i>
<i>Customer Count</i>	<i>6,584</i>	<i>6,832</i>	<i>323</i>
<i>Revenue<sup>1</sup></i>	<i>\$2,397,869</i>	<i>\$2,397,427</i>	<i>-\$442</i>
<i>Normalized Load<sup>2</sup></i>	<i>66,320,829 kWh</i>	<i>67,747,326 kWh</i>	<i>1,426,497 kWh</i>
<i>Non-normalized</i>	<i>67,130,464 kWh</i>	<i>69,661,295 kWh</i>	<i>2,530,831 kWh</i>

<u>Load<sup>2</sup></u>			
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1. Revenue "per Application" from Exhibit 9, Tab 1, Schedule 1, Page 2.
2. Residential Loads "per Application" from Exhibit 3, Tab 2, Schedule 2, Page 26.

The "geomean" load amounts are tabulated below in the same format as Table 17 in Exhibit 3 Tab 2 Schedule 2 Page 26:

Year 2009	<u>Non-Normalized Billed Energy Forecast</u>	<u>Weather Sensitive %</u>	<u>Weather Sensitive Energy</u>	<u>Weather Adjustment</u>	<u>Weather- Adjusted</u>	<u>CDM Adjustment</u>	<u>Weather Normalized Billed Forecast</u>
Residential	67,130,464	100%	67,130,464	-583,375	66,547,089	-0.34%	66,320,829
GS <50 kW	34,768,422	100%	34,768,422	-302,143	34,466,279	-0.34%	34,349,093
GS >50kW	81,382,914	71%	57,772,807	-502,055	80,880,859	-0.34%	80,605,864
Sentinel Lights	0	0%	0	0	0	-0.34%	0
Street Lights	1,089,774	0%	0	0	1,089,774	-0.34%	1,086,069
Unmetered Load	303,200	0%	0	0	303,200	-0.34%	302,169
TOTAL	184,674,774		159,671,693	-1,387,574	183,287,200		182,664,024

The "geomean" revenue amount is tabulated below in the same format as the Table in Exhibit 9 Tab 1 Schedule 1 Page 2, reflecting what the revised rates would be:

Customer Class	Proposed Revenue
Residential	\$2,385,471
GS <50 kW	\$1,182,199
GS>50 kW	\$1,115,918
Street Light	\$104,182
Sentinel	N/A
Unmetered Scattered Load	\$17,143
Total	\$4,804,913

The revised (i.e. reduced due to the impact on Regulated Return on Capital, PILS and revenue offsets) revenue requirement above is detailed below in the same format as Exhibit 9 Tab 1 Schedule 1 Page 1:

### Service Revenue Requirement

OM&A Expenses	1,902,124
Amortization Expenses	1,244,576
Total Distribution Expenses	<b>3,146,700</b>
Regulated Return On Capital	1,621,726
PILs	398,109
<b>Service Revenue Requirement</b>	<b>5,166,535</b>

### Base Revenue Requirement

Service Revenue Requirement	5,166,535	
<b>Less:</b> Revenue Offsets	-361,622	
<b>Base Revenue Requirement</b>		<b>4,804,913</b>
Allocated to:		
Low Voltage Wheeling Costs	0	
Directly Assigned CDM	0	
Other	4,804,913	
<b>Total</b>		<b>4,804,913</b>

- e) On page 18, the NOTL calculates the “Geomean Annual Growth Rate” under Table 11. Please confirm whether the calculation is based on arithmetic average or geometric mean.

#### Response

*NOTL has checked the Excel cell formulae feeding Table 11 and confirms that the calculations are based on geometric mean. It may appear to be arithmetic average because when rounded to 4 decimal places, the average equals the geometric mean for both residential and GS<50 classes.*

### 7.3 kWh Load and Revenue

Ref: Exhibit 3/Tab 2/Schedule 2

On page 23, NOTL adjusted for Cangro closure by 23,392 kWh/customer (from 684,216 kWh/customer to 660,824 kWh/customer), which is constant in 2008 and 2009. On page 14-15, NOTL provides the adjustments for the impact of the closure of Cangro for 2008 and 2009 from the total system purchases. The adjustment for 2008 is the reduction of 2,693,736 kWh and the adjustment for 2009 is the reduction of 5,387,472 kWh.

- a) Please explain whether and how the 23,392 kWh/customer adjustment is reflected in the total adjustment of 2,693,736kWh for 2008.

#### Response

*[For the following explanation, please refer to Exhibit 3 Tab 2 Schedule 2 Table 7 on Page 22 and Table 22 on Page 29.]*



a) 23,392 kWh/customer adjustment =

*(actual 2007 GS>50 kWh /actual 2007 GS>50 customers)*

*minus*

*((actual 2007 GS>50 kWh less Cangro actual 2007 kWh) /  
(actual 2007 customers less actual 2007 Cangro customer  
sites))*

*= (78,684,896/115) minus ((78,684,896 – 5,333,460) / (115 – 4))*

*= (78,684,896/115) minus (73,351,436/111)*

*= 684,216 – 660,824*

*= 23,392*

b) *Total purchases adjustment for 2008 of 2,693,736 kWh =*

*8-year average Cangro consumption 2000 to 2007 x loss factor x  
proportion of 2008 for which Cangro in operation*

*= 5,130,438 x 1.0501 x 50% {closed end of June}*

*= 2,693,736*

c) *From a) and b), it would be inaccurate to answer simply “yes” or “no” as to whether 23,392 is “reflected in” 2,693,736. Rather, both numbers are consistently driven by the same data set (in Tables 7 and 22).*

b) Since the adjustments for the total system purchases are different in 2008 and 2009, please explain why the forecast annual kWh non-normalized usage per customer for GS > 50kW is constant in 2008 and 2009.

**Response**

*In hindsight, the presentation of 2008 in Table 15 may have mis-represented the actual calculations in the application. In the application, the detailed calculations of 2008 GS>50 kWh, excluding half-year Cangro, use a blend of the average usage per customer (AUC) with and without Cangro, rather than the apparent constant AUC presented in this Table:*

- Non-normalized forecast of 2008 GS>50 kWh per Table 17 on Page 25 of Exhibit 3 Tab 2 Schedule 2 = 80,069,864 kWh*

- *This forecast is calculated as:*

$$\begin{aligned} & ((\text{AUC including Cangro full-year} \times \text{customer count including Cangro}) \\ & + \\ & \text{AUC excluding Cangro full-year} \times \text{customer count excluding Cangro})) \\ & /2 \quad \quad \quad [\text{divided by 2 to reflect half-year with and half-year without Cangro}] \\ & = ((684,216 \times 121) + (660,824 \times 117))/2 \\ & = (82,823,320 + 77,316,408)/2 \quad \{ \text{may not appear to multiply due to rounding} \} \\ & = 80,069,864 \end{aligned}$$

#### 7.4 CDM Impact

*Ref: Exhibit 3/ Tab 2/Schedule 2*

On page 16, NOTL states: "NOTL Hydro proposes to apply a 0.34% reduction to the 2008 and 2009 adjusted calculations of purchases tabulated above, to reflect the impact of the successful NOTL Hydro 3<sup>rd</sup> tranche CDM programs. This percentage is based on the results of the application of the OEB-endorsed Total Resource Cost (TRC) model for NOTL Hydro CDM programs. These results were included NOTL Hydro's 2007 Annual CDM Report to the OEB..."

- a) Please advise whether the 2007 consumption data used in the regression model included the effect of the 3<sup>rd</sup> tranche CDM programs.

**Response**

*Yes – confirmed.*

- b) If your answer to (a) is affirmative, please provide the reason for applying a 0.34% reduction to the weather normalized forecast kWh purchases for 2008 and 2009 when the historic information has already accounted for the 2007 CDM impact.

**Response**

*A bulk of our 3<sup>rd</sup> tranche CDM programs were completed in 2006 which would have an impact on 2007 load. The regression model utilized 144 data points (monthly data 1996-2007) so in effect, the last 12 points would in fact include the impact of 2006 CDM. We felt it was prudent to not to reduce the 0.34% factor given that the far greater impact of CDM programs not included in our 3<sup>rd</sup> tranche reports (completed and ongoing). For example, records will show that NOTL*

*Hydro led the province per capita in the OPA Refrigerator Roundup in 2007 (reduction impact in 2008). We also received an award from the OPA in 2008 for achieving the highest per capita participation in the provincial Summer Savings program. NOTL Hydro continues to support aggressive OPA Every Kilowatt Counts activities as well as our own promotion. This past year we issued thousands of compact fluorescent lights to our residents. The regression model provided does not consider any of these extra curricular CDM activities beyond third tranche programs. In summary, we believe that the 0.34% is highly underestimated and the impact of the 2007 CDM activities embedded in the regression model is far outweighed by the corresponding CDM effect post 2007.*

## **7.5 Customer Count, kWh load, kW load and Revenue**

*Ref: Exhibit 3/ Tabs 1 & 2*

Some of the evidence may need to be adjusted as a result of responses to the preceding customer count, load and revenue forecasting interrogatories.

Please re-file tables in Exhibit 3 that are required to be updated as a result of any changes in the evidence.

### **Response**

*No tables require to be re-filed as no changes are proposed to the forecasting methodology as a result of the interrogatories.*

## **8 DEFERRAL AND VARIANCE ACCOUNTS**

### **8.1 Continuity Schedule for Regulatory Assets**

*Ref: Exhibit 5/Tab 1/ Schedule 1*

NOTL is requesting that the Board dispose of the regulatory variance accounts enumerated in Exhibit 5/Tab 1/Schedule 1, p. 1. Please complete the attached continuity schedule for regulatory assets

### **Interim Response**

*NOTL notes that in Board\_Response\_IR Extension\_20081113, the Board expects the response to this interrogatory by November 24, 2008. In earlier consultation with OEB Staff, it had been requested that a DVA schedule for the*

*two accounts enumerated in the Exhibit should be provided, but a complete schedule with all DVAs including these two must also be provided. The schedule for the two accounts has been completed and is provided as a pdf in Appendix VI and submitted as an Excel file as an interim response to 8.1. The schedule for all the DVA accounts will be provided in the complete response to IR 8.1 by November 24, 2008.*

and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition as provided in Exhibit 5/Tab 1/Schedule 1, p. 1. Please note that forecasting principal transactions beyond 2007 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

**Response**

*As the claim in the Exhibit is the same as in the continuity schedule, no further reconciling schedule is possible, i.e.:*

Total claim per continuity schedule	1508	\$110,104
	1550	<u>\$ 20,926</u>
	Total	<u>\$131,030</u>

Total claim per Exhibit	1508	\$110,104
	1550	<u>\$ 20,926</u>
	Total	<u>\$131,030</u>

## 9 LOSS FACTORS

*Ref: Exhibit 4/Tab 2 /Schedule 7*

On Page 1, NOTL states that it proposes to leave its current Board approved loss factor of 1.0501 unchanged, due to the remaining debit balance of \$264,801 in the power purchase variance account. NOTL further states that it plans to approach the OEB with a proposed reduction of the total loss factor when the debit balance is reduced or eliminated.

- (a) Please provide a time estimate for when NOTL expects the debit balance to be cleared.

**Response**

*We are not certain that we can estimate this time factor with any significant accuracy. Recently, our load has declined (loss of our largest customer and slower economy) which will have a delaying effect on reducing this debit balance. While we continue to make system improvements that result in line loss*

*improvements, the 'low hanging fruit' projects have been previously completed and new projects have less of an impact on loss reduction. We are anxious to reduce the Loss Factor for our customers' benefit at a future rate process when the debit balance has been depleted perhaps as early as the 2010 or 2011 IRM filing.*

- (b) Please indicate whether or not NOTL expects to improve on its losses during the clearance period. If so, what impact will this have on NOTL's time estimate for clearing the debit balance?

**Response**

*NOTL Hydro is continuing with an aggressive capital plan to replace the aging, higher line loss 4 kV system with an efficient 27.6 kV distribution network. Projects completed in 2008 and planned in 2009 that will reduce line losses include Queenston and York Road conversions as well as the Chauatauqua conversion and burial, which are estimated to offload the 4 kV system by as much as 500 kW. Upon completion of the Chauatauqua project, we will assess the feasibility of removing our last (of five) 4 kV substations from service. We are hopeful that we can further reduce our distribution loss factor by 0.1 -0.2% which will become apparent in 2010. As indicated in a) above, it is our intention to assess the clearing of the debit balance for possible loss factor reduction at our 2010 or 2011 IRM filing.*

**COST ALLOCATION**

**9.1 Sentinel Light Class**

*Ref: Exhibit 9/Tab 1 /Schedule 6*

On Page 2, NOTL proposes to eliminate its Sentinel Light class based on "the latest version of the Affiliate Relations Code [which] confirms the OEB's direction that LDC's must not participate in the sentinel light rental business either directly or through an affiliate."

Compliance Bulletin 200605, issued July 10, 2006, stated that "under section 71 (1) of the Ontario Energy Board Act, 1998, a distributor may not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity". The Bulletin further stated that sentinel lighting services is not a distribution activity and is not a permitted business activity for a distributor under section 71(1) of the Act".

- (a) Please explain NOTL's interpretation of Compliance Bulletin 200605 and how it relates to its proposal to eliminate the sentinel light class.

**Response**

*Upon incorporation in 2000, the existing sentinel light assets and rental business were transferred to our affiliate Energy Services Niagara Inc. (ESNI). NOTL Hydro was committed, through a service contract with ESNI, to install, maintain and provide billing/collecting services related to sentinel lights. The compliance bulletin #200605 specifically lists sentinel lights as a non-distribution activity. Further, the May 16, 2008 amended Affiliate Relations Code (ARC) section 2.2.3 states "A utility shall not share with an affiliate that is an Energy Service Provider, employees that are directly involved in collecting or have access to, confidential information." Although ESNI and NOTL Hydro have a valid service contract for provision of these services, the business has experienced negative growth and ESNI has indicated that it is only providing sentinels as a community service with little or no return. Accordingly, both companies have mutually agreed to terminate the business and services contract related to sentinel lights on or before April 30, 2009.*

(b) Please explain NOTL's justification for eliminating its sentinel light class.

**Response**

*Our affiliate ESNI has indicated that the sentinel light rental business is low return and their valid service contract with NOTL Hydro must expire in September 2012 per the ARC. NOTL Hydro does not have many sentinel light customers (47 ). It is the intention of ESNI to offer the sentinel light assets at no charge to the current rental customers. Our largest sentinel customer by number is the Town of Niagara-on-the-Lake. The Town primarily utilize sentinel lights for smaller access roads and it is expected that these lights will be converted or transferred to the street light account or will be resupplied from their own facilities. A few of the other multiple light customers may choose to hire qualified personnel to maintain their lights and will be moved to a USL account. Unfortunately, there are several individual legacy sentinel lights (mostly single light) currently positioned on NOTL Hydro high voltage distribution poles. We have determined that in the interest of public safety, we will not allow such lights to remain on our poles, fearing potential serious injuries by unqualified personnel repairing the lights. NOTL expect that a few of these customers may choose to relocate the lights to their own poles and either resupply from their own home source or shift to a USL account with a flat rate supply. Our load forecast outlines our estimates/projections related to the final arrangement of current sentinel light customers.*

(c) What is the financial impact to sentinel light customers who are transferred to the USL or street lighting rate class?

**Response**

*This exercise is difficult to complete because Sentinel light customers are currently paying light and pole rental to ESNI along with regulated charges to*

*NOTL Hydro. The bill impact illustrated in the rate application Exhibit 9, Tab 1, Schedule 9, page 2 of 2 (USL) indicates that the total distribution charges will be \$47.83 + \$8.72 for a total of **\$56.55**. This load (800 kWh/month) roughly represents 8-250 watt sentinel lights. A current customer with 8 such lights would pay  $8 * \$2.92 + \$5.8909 * 2.2 \text{ kW}$  (total \$36.32) plus ESNI rental (\$37.12) for a total of **\$73.44**. Similarly, a current customer with only 3-250 watt lights is paying  $3 * \$2.92 + \$5.8909 * 0.855 \text{ kW}$  (total \$13.80) plus ESNI rental (\$13.92) for a total of **\$27.27**. As a USL customer, they would pay \$47.83 + \$3.36 for a total of **\$51.19**. It would appear that a current sentinel light customer with 5 lights or more would have an overall positive impact converting to USL.*

*Given that there will no longer be 'sentinel lights' after April 30, 2009, we have not calculated a 2009 rate for sentinel lights. Using the example above for 8-250 watt lights, the current (2008) sentinel light rate with ESNI rental included is **\$73.44**. At the proposed 2009 street light rate, the bill would be  $8 * \$3.0087 + 2.2 \text{ kW} * \$11.7906$  for a total of **\$50.01**.*

---

**LIST OF APPENDICES to RESPONSE**

*I. Purchasing Policy*

*II. Tender Opening Letters*

*III. NOTL Energy Inc. – financial statement extract.*

*IV. Promissory Note*

*V. Town support letter - Chautauqua ("Mississauga Beach")*

*VI. DVA Continuity Schedule*



---

**APPENDIX**

*I. Purchasing Policy*

# SUMMARY OF PURCHASING AND PAYMENT AUTHORITY

for Energy Inc, Resolution, February 11, 2008

Purchasing	Dollar Value From																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						</
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## **BOARD DIRECTIVE ON SIGNING AUTHORITY**

### **Signing Officers**

Further to the Minutes of the Board of the holding company, Niagara-on-the-Lake Energy Inc., dated February 11, 2008, and the Summary of Purchasing and Payment Authority approved at that meeting, the signing officers for the company of **NIAGARA-ON-THE-LAKE ENERGY INC.** are as follows:

- Board Members:
  - Jim Ryan (Chair)
  - Bob Cheriton
  - Bob Henderson
  - Richard Ventresca

### **Issuance of Cheques**

Items previously approved by Budget:

- Cheques under \$20,000 must be hand-signed by any one Board member.
- Cheques over \$20,000 must be hand-signed by any two Board members.

Items not approved by Budget:

- Authorization for expenditure must be approved by resolution of the Board before any purchase orders are issued.

Approved by: \_\_\_\_\_

Jim Ryan (Chair)

Date: \_\_\_\_\_

March 11/08

## **BOARD DIRECTIVE ON SIGNING AUTHORITY**

### **Signing Officers**

Further to the Minutes of the Board of the holding company, Niagara-on-the-Lake Energy Inc., dated February 11, 2008, and the Summary of Purchasing and Payment Authority approved at that meeting, the signing officers for the subsidiary **NIAGARA-ON-THE-LAKE HYDRO INC.** are as follows:

- Board Members:
  - Jim Ryan (Chair)
  - Bob Cheriton
  - Richard Ventresca
- President:
  - Jim Huntingdon
- Director of Corporate Services
  - Philip Wormwell

### **Issuance of Cheques**

Items previously approved by Budget

- The approved facsimile may be used for cheques under \$20,000. The facsimile will be the two signatures of the Chair (Jim Ryan) and the President (Jim Huntingdon).
- Cheques over \$20,000 must be hand-signed by any two of the three Board members, or by the President (Jim Huntingdon) and any one of the three Board members. Exceptions to this include cheques to government entities including CCRA, GST, Workers' Compensation, PILs, and the Town of Niagara-on-the-Lake, which can be signed by the President (Jim Huntingdon) and Director of Corporate Services (Philip Wormwell) or by Hydro Board Members as alternates.

Items not approved by Budget

- Authorization for expenditure must be approved by resolution of the Board before any purchase orders are issued.
- Materials required as a result of an emergency may be ordered/purchased by staff but brought to the attention of the Board at the earliest convenience.

Approved by: \_\_\_\_\_

Jim Ryan (Chair)

Date: \_\_\_\_\_

March 11/08



## **BOARD DIRECTIVE ON SIGNING AUTHORITY**

### **Signing Officers**

Further to the Minutes of the Board of the holding company, Niagara-on-the-Lake Energy Inc., dated February 11, 2008, and the Summary of Purchasing and Payment Authority approved at that meeting, the signing officers for the subsidiary **ENERGY SERVICES NIAGARA INC.** are as follows:

- ESNI Board Member:
  - Bob Henderson (President)
- Niagara-on-the-Lake Energy Inc. Board Members:
  - Richard Ventresca
  - Bob Cheriton

### **Issuance of Cheques**

Items previously approved by Budget:

- The approved facsimile may be used for cheques under \$20,000. The facsimile will be the signature of the President, Bob Henderson.
- Cheques over \$20,000 must be hand-signed by any two of the above-listed signing officers.

Items not approved by Budget:

- Authorization for expenditure must be approved by resolution of the Board before any purchase orders are issued.

Approved by: Bob Henderson  
Bob Henderson (President)

Date: Feb 11, 2008

## **POLICY MANUAL**

### **PURCHASING AND TENDERING POLICY**

Updated 11/11/2008

The goal of this policy is to derive maximum value and to provide guidance to staff involved in the procurement of goods and services.

#### **Authority**

- The designated purchasing assistant has signing authority for budgeted items up to \$2000. Budgeted items are defined as described in the capital budget, usual or common inventory and service items
- Items/Services \$2000 - \$10,000 and all non-budgeted items requires approval by the appropriate department manager
- Items/Services \$10,000 - \$20,000 require approval of the president (or designate) or a board director.
- Items/Services >\$20,000 require the approval of the president and one designated board director or two designated board directors

Exceptions – Payment remittances to government entities including Revenue Canada, Debt retirement Fund, GST, Workers' Compensation, EHT, PIL's and Town of Niagara-on-the-Lake can be signed by the president and director of corporate services.

#### **Procedures**

- < \$500            Discretion will be used by the purchasing assistant or management to obtain optimal value for a product or service.
- \$500 to \$2000    Attempt to obtain a minimum of 3 quoted prices. Normally, the lowest price will be accepted. In the event that the item/service is selected based on other than price, the appropriate department manager must be consulted.
- \$2000 to \$10,000    Obtain a minimum of 3 written prices (where possible) for items/services that meet a prepared specification. Approval of the department manager is required for the purchase. In the event that a vendor is selected not based on lowest price but on delivery or comparative quality etc., a written record shall be filed with the purchasing documents.
- >\$10,000            Procedure as above. Approval of the president (or designate) and one board director is required.

### Services Procurement

All tendered contracts will require the vendor to provide a WSIB clearance certificate for the period of the contract, an insurance policy in the amount of \$5 million indemnifying NOTL Hydro Inc. from any actions that may arise from the project. A 10% holdback, in accordance with the Construction Liens Act will apply.

\$0 to \$10,000 As above

\$10,000-\$50,000 A tendering process is required in accordance with the company's established tendering forms for services and contracts. A minimum of 3 written prices are to be obtained (where possible).

>\$50,000 Contracts estimated to exceed \$50,000 should require participating vendors to submit a performance bond in the amount of the submitted bid.

Current company-approved contracts with vendors for services or inventory items may eliminate the need for obtaining multiple prices on specific goods or services.

## APPENDIX

### *II. Tender Opening Letters*



2007 Tree Tender Opening  
Section 3, without Village of Queenston  
Monday, November 20, 2006  
8:30 a.m.

Tender call for Section 3, without Village of Queenston closed on Friday, November 17, 2006 at 12:00 p.m.

Contractors called were: Pineridge Tree Service, Regional Tree Service, Asplundh Canada ULC.

Respondents were: Regional Tree Service, Asplundh Canada ULC.

Present for the opening of the tender documents:

Kevin Sidey - Engineering Technologist

Craig McLean - Supervisor, Line Services

David Steinschifter - Supervisor, Construction Services

The results are as follows:

Regional Tree Service - \$67,500.00 for Section 3 without Village of Queenston, hourly rate of \$135.00


Asplundh Canada - \$108,917.88 for Section 3 without Village of Queenston, hourly rate of \$127.11

Regional Tree Service being the low bidder was awarded the contract pending acceptance.

Regional Tree Service was contacted by Craig McLean on Monday, November 20 via phone and accepted the award and associated contract documents.

By signing below, I endorse the above written as fact.

  
\_\_\_\_\_  
David Steinschifter  
Operations Manager

  
\_\_\_\_\_  
Craig McLean  
Supervisor, Line Services

  
\_\_\_\_\_  
Kevin Sidey  
Engineering Technologist

2008 Tree Tender Opening  
Section 1,  
Monday, December 17, 2007  
12:30 p.m.

Tender call for Section 1 closed on Monday, December 17, 2007 at 12:00 p.m.

Contractors called were: Pineridge Tree Service, Regional Tree Service, Asplundh Canada ULC, Davey Tree Service.

Respondents were: Pineridge Tree Service, Asplundh Canada ULC.

Present for the opening of the tender documents:  
Craig McLean - Supervisor, Line Services  
David Steinschifter - Supervisor, Construction Services


The results are as follows:  
Pineridge Tree Service - \$37,695.00 for Section 1, hourly rate of \$110.00 with an eight hour minimum

Asplundh Canada - Responded via fax dated Saturday, December 15, 2007 at 21:31 that due to their schedule they could not bid on this tender

Pineridge Tree Service being the low bidder was awarded the contract pending acceptance.

By signing below, I endorse the above written as fact.

  
\_\_\_\_\_  
David Steinschifter  
Operations Manager

  
\_\_\_\_\_  
Craig McLean  
Supervisor, Line Services

Chautauqua Project Tender Opening  
Friday, October 31, 2008  
1:30 p.m.

Tender call for Chautauqua Project closed on Friday, October 31, at 1:00 p.m.

Contractors called were: Con-Elco, Carillion, R.B. Somerville, Aecon, Avertex Utility Solutions Inc., Regional, Wiens Underground Electric Ltd., Utility Installations Limited, T.P.L. Construction Limited.

Respondents were: Avertex Utility Solutions Inc., Wiens Underground Electric Ltd.

Tenders were opened on Friday, October 31, 2008 at 1:30 p.m.

Present for the opening of the tender documents:  
Representing Niagara-on-the-Lake Hydro:  
David Tomingas P Eng. - Datom Group Engineering Consulting  
David Steinschifter - Operations Manager  
Kevin Sidey - Engineering Technologist  
Todd Watson - Engineering Technologist

Contractors Present:  
Werner Wiens - Wiens Underground Electric Ltd.  
Bob McKee P Eng. - Avertex Utility Solutions Inc.

The results are as follows:  
Wiens Underground Electric Ltd. - \$860,254.58.00

Avertex Utility Solutions Inc. - \$1,215,164.58

The Tender documents will be reviewed in detail for any discrepancies and the Contractors will be notified of final results.

Wiens Underground Electric Ltd. being the low bidder is tentatively awarded the contract pending full review of documentation.

By signing below, I endorse the above written as fact.

  
\_\_\_\_\_  
David Steinschifter  
Operations Manager

  
\_\_\_\_\_  
Kevin Sidey  
Engineering Technologist

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**APPENDIX**

*III. NOTL Energy Inc. – financial statement extract.*

## NIAGARA-ON-THE-LAKE ENERGY INC.

### NON-CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 2007

	2007 \$	2006 \$
<b>Revenue</b>		
Investment income	1,737	429
Management fees	21,000	45,782
	22,737	46,211
<b>Expense</b>		
General administration	20,446	9,982
<b>Net Earnings Before Payments in Lieu of Corporate Income Taxes</b>	2,291	36,229
<b>Payments in Lieu of Corporate Income Taxes</b>	862	4,954
<b>Net Earnings for the Year</b>	<b>1,429</b>	<b>31,275</b>

## NIAGARA-ON-THE-LAKE ENERGY INC.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2007

#### 4. Related Party Transactions

The Company is wholly owned by The Corporation of the Town of Niagara-on-the-Lake (the "Town"). Transactions between the Company, Niagara-on-the-Lake Hydro Inc. and Energy Services Niagara Inc. occur in the ordinary course of operations and consideration paid is on similar terms as those to unrelated parties.

During the period, Niagara-on-the-Lake Energy Inc. charged a fee for management services to its subsidiaries in the following amounts:

	2007 \$	2006 \$
Niagara-on-the-Lake Hydro Inc.	20,045	43,877
Energy Services Niagara Inc.	955	1,905
	<b>21,000</b>	<b>45,782</b>

#### 5. Investment in Subsidiaries

2007 \$	2006 \$
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**APPENDIX**

*IV. Promissory Note*

## PROMISSORY NOTE

FOR VALUE RECEIVED, Niagara-on-the-Lake Hydro Inc. ("WiresCo") hereby promises to pay to or to the order of The Corporation of the Town of Niagara-on-the-Lake (the "Town") the principal sum of \$6,566,333.12 (the "Principal") with interest at the rate specified herein, on August 1, 2018.

### Interest

The outstanding Principal shall bear interest at 7.25%, such interest to be paid monthly, not in advance. Interest shall accrue until the Principal is paid in full.

### Renewal

This Promissory Note shall be automatically renewed for an additional ten (10) year term upon its maturity on the same terms and conditions contained herein, save as to any further right of renewal, unless either the Town or WiresCo gives ninety (90) days' prior written notice to the other that the Promissory Note shall not be renewed.

### Adjustments

The Promissory Note is not assignable by the Town without the consent of WiresCo, such consent not to be unreasonably withheld.

### Replacement Note

This Promissory Note replaces the Promisory Note executed by WiresCo in favour of the Town dated as of the 1<sup>st</sup> day of Novemeber, 2000 and remains in accordance with Town of Niagara-on-the-Lake By-law No. 3531-01.

Dated as of the 15<sup>th</sup> day of July, 2008.

NIAGARA-ON-THE-LAKE HYDRO INC.

  
\_\_\_\_\_  
Authorized Signing Officer

  
\_\_\_\_\_  
Authorized Signing Officer

---

**APPENDIX**

*V. Town support letter - Chautauqua ("Mississauga Beach")*





RECEIVED OCT 15 2008

**Department of  
Public Works**

TELEPHONE 905-468-3278  
FACSIMILE 905-468-1722

The Town of  
**Niagara-On-The-Lake**

1593 FOUR MILE CREEK ROAD  
P.O. BOX 100  
VIRGIL, ONTARIO  
L0S 1T0

October 10, 2008

Ontario Energy Board  
c/o Niagara-on-the-Lake Hydro Inc.  
8 Henegan Road, Box 460  
Virgil, ON.  
L0S 1T0

Attn: Mr. J. Huntingdon, President

Dear Sir,

**Re: Mississauga Beach Infrastructure Improvements**

This will acknowledge and confirm the efforts of Niagara-on-the-Lake Hydro Inc. (NOTL Hydro) to assist the Town and its residents, particularly in the Mississauga Beach area of the Old Town, in completing much needed infrastructure improvements in a coordinated joint effort.

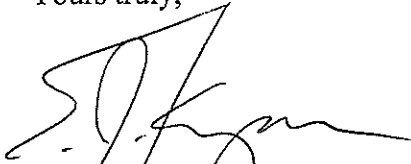
The Town's Public Works Department has engaged a contractor to commence replacement of its cast iron watermain in this vicinity beginning mid-October of this year and continuing on into 2009. We understand that NOTL Hydro's contract to bury hydro lines will commence in two to four weeks time following on these same streets. This will ensure that disturbed areas will be restored in a timely manner and thereby minimize disruption to the neighbourhood as a whole. The removal of overhead lines will take place in 2009, at which time new street light poles and fixtures will be installed and the corresponding hydro poles, many bearing Town street lights, will be removed.

There have been several coordinating meetings held between NOTL Hydro and Town staff as well as general meetings with Mississauga Beach residents to explain the nature and the phasing of the work, and to obtain support for burying lines on private property. Both the watermain replacement and hydro conversion projects are intended to reduce the interruption of service to the same water and electricity customers. The Town has a debenture in the amount of \$1.8 million for the watermain replacement project and forecast expenditures of \$125,000.00 in each of 2009 and 2010 for street light replacements. Our collective costs for reinstatement of disturbed areas should be minimized by coordinating our projects at this time.

*Cont'd....*

We are advised that NOTL Hydro has sought an increase in their capital investment for 2009 to complement our joint initiative. The Town supports their position vis-à-vis efficiency and customer service benefits. We trust that Niagara-on-the-Lake Hydro Inc. will be able to follow through with its planned program commitments.

Yours truly,

A handwritten signature in black ink, appearing to read 'E. Kuczera', written over a horizontal line.

Ewald Kuczera, P.Eng.  
Director of Public Works  
EK/djl

cc P. Wormwel, NOTL Hydro  
L. Holloway, C.A.O.

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**APPENDIX**

*VI. DVA Continuity Schedule*

SHEET 1 - Regulatory Assets - Continuity Schedule												
NAME OF UTILITY		Niagara-on-the-Lake Hydro Inc.			LICENCE NUMBER		ED-2002-0547					
NAME OF CONTACT		Philip Wormwell			DOCID NUMBER		EB-2008-0237					
E-mail Address		pwormwell@nothydro.com										
VERSION NUMBER		v3.0			PHONE NUMBER		905.468.4235					
Date		17-Nov-08			(extension)		38					
Enter appropriate data in cells which are highlighted in yellow only.												
Enter the total applied for Regulatory Asset amounts for each account in the appropriate cells below:												
Debits should be recorded as positive numbers and credits should be recorded as negative numbers.												
Repeat cells going across as necessary for each year in application												
2005												
Account Description		Account Number	Opening Principal Amounts as of Jan-1- 05 <sup>1</sup>	Transactions (additions) during 2005, excluding interest and adjustments <sup>6</sup>	Transactions (reductions) during 2005, excluding interest and adjustments <sup>6</sup>	Adjustments during 2005 - instructed by Board <sup>2</sup>	Adjustments during 2005 - other <sup>3</sup>	Closing Principal Balance as of Dec-31-05	Opening Interest Amounts as of Jan-1-05	Interest Jan-1 to Dec31-05	Closing Interest Amounts as of Dec-31-05	
Other Regulatory Assets - Sub-Account - OEB Cost Assessments		1508	\$ 7,412	\$ 15,528				\$ 22,940	\$ 107	\$ 813	\$ 920	
Other Regulatory Assets - Sub-Account - Pension Contributions		1508	\$ -	\$ 50,216				\$ 50,216	\$ -	\$ 827	\$ 827	
LV Variance Account		1550	\$ -					\$ -			\$ -	
Total			\$ 7,412	\$ 65,744	\$ -	\$ -	\$ -	\$ 73,156	\$ 107	\$ 1,640	\$ 1,746	
<sup>1</sup> As per general ledger, if does not agree to Dec-31-04 balance filed in 2006 EDR then provide supplementary analysis												
<sup>2</sup> Provide supporting statement indicating whether due to denial of costs in 2006 EDR by the Board, 10% transition costs write-off, and etc.												
<sup>3</sup> Provide supporting statement indicating nature of this adjustments and periods they relate to												
<sup>4</sup> Not included in sub-total												
<sup>5</sup> Closed April 30, 2002												
<sup>6</sup> For RSVA accounts only, report the net additions to the account during the year. For all other accounts, record the additions and reductions separately.												
<sup>7</sup> Please describe "other" components of 1508 and add more component lines if necessary.												
<sup>8</sup> 1563 is a contra-account and is not included in the total but is shown on a memo basis. Account 1562 establishes the obligation to the ratepayer.												
<sup>9</sup> Interest projected on December 31, 2007 closing principal balance.												

[illegible][illegible]

SHEET 1 - Regulatory Assets - Continuity Schedule												
NAME OF UTILITY	Niagara-on-the-Lake Hydro Inc.											
NAME OF CONTACT	Philip Wormwell											
E-mail Address	pwormwell@nolhydro.com											
VERSION NUMBER	v3.0											
Date	17-Nov-08											

[illegible]

