

December 7, 2010

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON  
M4P 1E4

Dear Ms. Walli,

**RE: Kingston Hydro Corporation  
EB-2010-0136 Cost of Service Rate Application  
Responses to Vulnerable Energy Consumers Coalition (VECC) Second Round  
Interrogatories**

---

Pursuant to the Board's Procedural Order No. 1, issued on October 12, 2010, please find attached Kingston Hydro Corporation responses to VECC second round interrogatories for this rate proceeding which have been filed electronically through the Board's RESS filing system and emailed to intervenors in the proceeding.

Yours truly,



J.A. Keech, President & CEO  
Kingston Hydro Corporation

Copy: Andrew Taylor, Energy Law (by email)  
Vulnerable Energy Consumers Coalition, Michael Buonaguro (by email)  
Energy Probe Research Foundation, Randy Aiken (by email)  
School Energy Coalition, Jay Shepherd (by email)

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by Kingston Hydro  
Corporation for an order approving just and reasonable  
rates and other charges for electricity distribution to be  
effective May 1, 2011.

---

**SECOND ROUND INTERROGATORIES OF  
THE VULNERABLE ENERGY CONSUMERS COALITION**

---

**LOAD FORECAST/REVENUE OFFSETS**

**Second Round Interrogatory #40**

**Reference:** VECC #1 a)

***a) The referenced exhibit (/Exhibit 3/Tab 1/Schedule 1, Attachment1) does not report Revenue Offsets. Please confirm if the exhibit referred to is Exhibit 3/Tab 3/Schedule 4, Attachment 1. If not, please provide the correct reference.***

In Kingston Hydro's response to VECC #1 a), paragraph two, the intended exhibit reference that reports Revenue Offsets and includes the microFIT (there is no FIT) revenue forecast as a revenue offset is Exhibit 3/Tab 3/Schedule 6, Attachment 1.

**Second Round Interrogatory #41**

**Reference: VECC #6 a)**

***a) In both 2008 and 2009 the changes to Accounts 4210, 4225, 4325, 4390, 4375 and 4405 do not sum to the change in account 4235 due to restatements. Please respond to the original question and identify those "restatements" for 2008 and 2009 that impact on the total reported level of Other Revenue.***

For 2009, the restated total level of Other Revenue went down \$53,153. This was the result of two items:

- a. \$41,952 of revenue was recorded in account #4235 related to IFRS transition costs. This revenue and the corresponding expenses recorded to account #5630 had a net effect of zero on the financial reports. The \$41,952 was recorded to move the expenses from the income statement to the OEB deferral account. The revenue and the corresponding expenses were removed and in the future, IFRS transition costs will be recorded directly to the deferral account
- b. \$11,561 of revenue was recorded to #4405 Interest and Dividend Income. This revenue related to 2008 and was moved from 2009 to 2008. \$41,952 plus \$11,561 total \$53,153.

For 2008, the restated total level of Other Revenue went up \$11,561. This was made up of one item; as explained above \$11,561 of revenue recorded to #4405 Interest and Dividend Income was reallocated from 2009 to 2008.

## **COST ALLOCATION**

### **Second Round Interrogatory #42**

**Reference: VECC #10**  
**Exhibit 2/Tab 3/Schedule 3, Attachment 1**

***a) Please provide the rationale for the 2006 Cost Allocation assigning 100% of contributed capital to the GS>50 class.***

Per the 2006 Cost Allocation filing summary, the rationale for the 2006 Cost Allocation assigning 100% of contributed capital to the GS 50 to 4,999 kW class was that capital contributions recorded in 2004 were exclusively for interval metering for GS 50 to 4,999 kW customers.

***b) Over the past 10 years, has Kingston received contributed capital related other customer classes?***

Over the past 10 years, contributed capital received has typically been related to the GS 50 to 4,999 kW customer class however there has been some contributed capital received that was related to other customer classes. Part (d) response provides further detail. Kingston Hydro will rerun the 2011 CA to reflect contributed capital received that is related to other customer classes.

***c) Please confirm that the contributed capital directly allocated to GS>50 in the 2006 CA was \$52,297 versus the \$596,125 directly allocated in the 2011 CA.***

The contributed capital directly allocated to GS 50 to 4,999 kW in the 2006 CA was \$52,297 and this amount is the 2006 EDR adjusted accounting data value. The contributed capital directly allocated to GS 50 to 4,999 kW in the 2011 CA was \$596,128.

**d) Please provide a schedule that sets out the sources of the capital contributions reported in Exhibit 2 for the years 2005-2011 (i.e., for each year provide a breakdown of contributed capital by customer class).**

The following table provides the capital contributions reported in Exhibit 2 for the years 2005-2011, and the breakdown of the capital contribution sources by customer class for each year:

OEB Account #1995 - Contributions and Grants				Sources of Capital Contributions by Customer Class and Year				
Year	Beginning Balance	Additions	Ending Balance	Residential	GS < 50	GS 50 to 4,999	Large Use	Total
2005	(55,549)	-	(55,549)	-	-	-	-	-
2006	(55,549)	(23,158)	(78,707)	-	-	(23,158)	-	(23,158)
2007	(78,707)	(124,494)	(203,201)	-	(26,572)	(97,922)	-	(124,494)
2008	(203,201)	(298,831)	(502,032)	(5,342)	(39,818)	(253,671)	-	(298,831)
2009	(502,032)	(94,096)	(596,128)	(12,079)	(2,652)	(79,365)	-	(94,096)
2010	(596,128)	-	(596,128)	-	-	-	-	-
2011	(596,128)	-	(596,128)	-	-	-	-	-
Total		(540,579)		(17,422)	(69,042)	(454,116)	-	(540,579)

Unmetered scattered load and street lighting customer classes were not capital contribution sources for 2005-2011.

## DEFERRAL ACCOUNTS

### Second Round Interrogatory #43

**Reference:** VECC #16

**a) Please provide a schedule that sets out the current rates supporting the revenues for Accounts #1518 and #1548. In the same schedule please set out the rates that would required (assuming a uniform increase in all rate elements) so as to close the “gap” between costs and revenues based on:**

- 2009 costs and revenues
- Average costs and revenues for 2007-2009.

The following table sets out the current rates supporting the revenues for Accounts #1518 and #1548 and as well sets out the rates that would be required (assuming a uniform increase in all rate elements) so as to close the “gap” between costs and revenues based on a) 2009 costs and revenues and b) average costs and revenues for 2007-2009.

RCVA_Retail OEB Account #1518					
				#1518- rates based on closing gap between	
				a) 2009 costs and revenues	b) Average costs and revenues for 2007-2009
			gap:	148.70%	99.30%
Tariff of Rates and Charges - Description of Charge	Metric	Current Rate		a) Rate	b) Rate
One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00		248.70	199.30
Monthly Fixed Charge, per retailer	\$	20.00		49.74	39.86
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50		1.24	1.00
Distributor-consolidated billing charge, per customer, per retailer	\$/cust.	0.30		0.75	0.60
Retailer-consolidated billing credit, per customer, per retailer	\$/cust.	(0.30)		(0.75)	(0.60)
RCVA_STR OEB Account #1548					
				#1548- rates based on closing gap between	
				a) 2009 costs and revenues	b) Average costs and revenues for 2007-2009
			gap:	4075.87%	2058.12%
Tariff of Rates and Charges - Description of Charge	Metric	Current Rate		a) Rate	b) Rate
<b>Service Transaction Requests (STR)</b>					
Request fee, per request, applied to the requesting party	\$	0.25		10.44	5.40
Processing fee, per request, applied to the requesting party	\$	0.50		20.88	10.79
<b>Electronic Business Transaction (EBT) system, applied to the requesting party</b>					
Up to twice a year		no charge		no charge	no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00		83.52	43.16

## **CAPITAL SPENDING**

### **Second Round Interrogatory #44**

**Reference:** *Energy Probe #6, VECC #23, and VECC #24 a)*

**a) Please provide the forecasted grants and contributions for 2010 and 2011.**

Net expenditure amounts (capital costs) for the Princess St. Reconstruction project were forecast by USofA account in the Capital Projects Table for 2010 of Exhibit 2 Tab 4 Schedule 7 Attachment 1. The following table summarizes the amounts netted out of the 2010 forecast for the Princess St. Reconstruction project:

#### **Princess St. Reconstruction – 2010 Forecast Expenditures**

<b>USofA Account #</b>	<b>Net Amount (as filed)</b>	<b>Gross Amount</b>	<b>Amount Netted Out</b>
1840	\$858,000	\$1,114,000	\$256,000
1845	\$297,000	\$341,000	\$44,000
1995		(\$300,000)	(\$300,000)
<b>Total</b>	<b>\$1,155,000</b>	<b>\$1,155,000</b>	<b>\$0</b>

We are not aware of any other forecasted grants and contributions for 2010 or 2011.

**b) The response to VECC #24 states that “The Board of Directors approved a \$4.5 million capital budget for both 2010 and 2011, and the President & CEO provided a verbal overview of that planned spending, of which the Applicant has supplied capital project details at Exhibit 2 Tab 4 Schedule 7.” Please provide the date(s) on which the Board of Directors approved the capital budgets for 2010 and 2011. If both were approved at the same time, please indicate whether the Board of Directors had previously ever approved more than one year of capital spending at the same time.**

The 2011 Capital and Operating Expenditures were approved by the Board of Directors on July 12, 2010.

The 2010 Capital and Operating Expenditures were approved by the Board of Directors on September 14, 2009.

***c) Please provide the dates on which the Board of Directors approved the capital budgets for each year 2005-2009 inclusive.***

- 2009 Capital and Operating Expenditures: approved November 17, 2008
- 2008 Capital and Operating Expenditures: approved November 26, 2007
- 2007 Capital and Operating Expenditures: approved October 30, 2006
- 2006 Capital and Operating Expenditures: approved November 28, 2005
- 2005 Capital and Operating Expenditures: approved November 29, 2004

***d) Please provide a copy of all hard and electronic materials, e.g., presentation slides, summaries, etc., provided to the Board of Directors in conjunction with the 2010 and 2011 capital budget proposals presented for approval.***

Please see attached reports to the Board

***e) Please indicate whether the presentation made to the Board of Directors for approval of the 2010 and 2011 capital budgets differed either in form or content detail from the presentations than had been made to the Board of Directors for approval of earlier capital budgets. If there was a change in form or content of the 2010 and 2011 capital budgets presented to the Board of Directors for approval, from the form and content of the capital budgets presented to the Board of Directors in previous years, please provide details of the changes for the 2010 and 2011 capital budget presentations and explain why.***

There was no change in form or content with respect to the 2010 or 2011 budget presentations.

***f) The response to VECC #24 indicates that for the vast majority of projects proposed for 2010 and 2011, no contingency amounts are included in the capital budget.***

***(i) Has it been Kingston's experience that in most projects contingencies don't arise OR is there some "headroom" built into the capital budgets for projects that isn't identified as contingency, i.e., is the forecast expenditure greater than the expected project cost? Please explain.***

The Applicant has not found it necessary to include contingency amounts for most project estimations. Kingston Hydro endeavours to estimate what projects will cost as accurately as possible, and only include contingency amounts if specific considerations warrant it prudent to do so. Estimates are based on market conditions (materials & labour), past contractual pricing, scope of work involved, our understanding of the asset's condition, location, complexity of work, etc.

***(ii) Are there any contingency amounts included in any OM&A expenditures associated with these projects? If so, please provide details.***

No, there are not.

## REPORT TO BOARD OF DIRECTORS KINGSTON HYDRO CORPORATION



**MEETING NO. 2009-02**

**Report KH09-09**

Subject: Approval of the 2010 Operating and Capital Expenditures

Date of Meeting: September 14, 2009

From: J A. Keech, President & C.E.O, Kingston Hydro Corporation

Prepared By: J. A. Keech, President & CEO, Kingston Hydro Corporation  
R. Murphy, Treasurer, Kingston Hydro Corporation  
J. Miller, Manager, Technical Services, Utilities Kingston

### **Recommendation**

It is recommended that the Board approve expenditures of \$60,000,000 to purchase electricity, \$6,354,000 for Operating Expenditures, and \$4,500,000 for Net Capital Expenditures for 2010

*~And Further~*

The Board approves in principal the 2011 and 2012 Financial Plan which will entail applying for significant distribution rate increases.

### **Purpose**

Following is an analysis of the Financial Plan for the Company.

#### **Financial Plan 2008 through 2012**

Kingston Hydro's Financial Plan Summary for 2008 through 2012 is included in this report as Appendix A. The 2008 dollar figures are audited numbers while 2009 and beyond are forecasted numbers.

The approach taken in the development of the financial plan for the next 3 years is different than in the past. The financial plans developed in the past looked at available revenues and then allocated those revenues amongst operating expenditures, capital expenditures, interest and dividend payments. With the exception of the May 1, 2006 distribution rate increase, the amount of revenues available has not increased in any year in any material way. This has resulted in operational challenges from a capital reinvestment and operating and maintenance perspective. Over the past 12 months, Kingston Hydro has commenced preparations for its 2011 rate application. This application is very different than all other applications submitted for rate approval. The 2011 application will be based on projected future capital and operating expenses as

opposed to past capital and operating expenses. In order to provide for a strong, sustainable electric system, significant asset management analysis and planning has been performed over the past 12 months. The analysis has resulted in significant capital replacement work that needs to be done over the next 6-8 years as well as a required increase in operating and maintenance activities in order to sustain the assets to their expected useful lives. In order to achieve this, the Company will be required to obtain additional financing. Consequently, distribution rates must increase in order for the Company to have the capability to service the debt that is required. Therefore we will be applying for a distribution rate increase of approximately 25% in 2011 which will result in an increase in a typical residential customer's total monthly bill of approximately 7%. The results of this work is not unexpected as recent publications from the Ontario Energy Board report that Kingston Hydro's distribution rates rank 65<sup>th</sup> lowest out of 77 reported distributors. Furthermore, we rank 13<sup>th</sup> lowest of our 15 cohorts in distribution rates. In addition, our operating costs per customer ranked 13<sup>th</sup> lowest out of 15 for 2007, 15% below the cohort average.

Given the above facts and in order to provide sustainability to our Corporation and our customers, we will be focusing on preparing and submitting the best possible rate application in 2010 in order to get our distribution rates up to the top 1/3 of our cohorts effective May 1, 2011.

A dividend payment of \$250,000 is included in the financial plan for 2009 however future dividend payments to the City of Kingston will be suspended while the Corporation reinvests that money into capital infrastructure.

The Company's affiliate, 1425445 Ontario Limited (o/a Utilities Kingston) is still expected to repay its loan to Kingston Hydro in the amount of \$250,000 each in 2009 and 2010.

### **Distribution Revenue**

The 2010 distribution revenue is based on our approved 2006 rate application and rates in effect as of May 1, 2006 plus 2<sup>nd</sup> generation Incentive Regulation Mechanism adjustments for May 1, 2007, May 1, 2008 and May 1, 2009 and May 1, 2010. These revenues have also been adjusted for customer classification changes that have occurred since May 1, 2006.

The 2011 and 2012 distribution revenue is a preliminary estimate of our rebased revenues that we are hopeful of receiving effective May 1, 2011. These rebased revenues are based on the expected Net Book Value of the Company's assets, a regulated rate of return on the approved operating expenditures by the OEB.

### Operating Expenditures

The following chart summarizes the actual audited operating expenses for 2003 through 2008 and the forecasted operating expenses for 2009 and 2010.

	Amount	Change
Audited 2003	\$5,399,000	
Audited 2004	\$5,451,000	1.0%
Audited 2005	\$5,348,000	-1.9%
Audited 2006	\$4,743,000	-11.3%
Audited 2007	\$4,928,000	5.2%
Audited 2008	\$5,333,000	8.2%
Forecast 2009	\$5,860,000	9.9%
Forecast 2010	\$6,354,000	8.4%

Kingston Hydro is projecting its 2010 and 2011 operating and maintenance expenses to increase from 2009. The main reasons for this increase are a 2 stage increase in our maintenance activities. In particular, maintenance activities on our substations need to increase in order to ensure continued reliability of our system and that are assets will remain in service for as long as we expect them to. In addition, we anticipate the following expenditures in 2010:

- Increased accounting expenses to facilitate the preparation of 2 different sets of financial statements.
- Additional expenses for the preparation and review of our 2011 Cost of Service Rate application.
- Increase expenses to absorb the requirements of the Low Income Consumers Consultation

The large increase in operating expenses for 2009, 2010 and 2011 follow a number of years whereby operating and maintenance activities were performed to the extent that monies are available from the revenue that is collected. Distribution revenue collected is a function of approved revenue requirements based on 2004 operating expenses with very low yearly inflationary increase less a 1% productivity factor. The 2006 rate increase was the first substantial increase for Kingston Hydro since deregulation.

Consequently we believe that it is imperative that the required maintenance and operating activities be identified and included in our financial planning in order to have the best chance at getting the required revenue increase in 2011, which will be based on 2011 expected expenses. The OEB has preferred staged increases in operating expenses as opposed to one time increases.

### Capital Budgets

The chart below summarizes the actual capital expenditures for 2005, 2006, 2007 and 2008 and the forecasted capital expenditures for 2009 and 2010. Please note that these expenditures are shown on a net basis. Any amount of customer funded work we do is in addition to this work but has minimal impact on the company's cash flow.

	Capital
2005 Audited (net)	\$2,967,000
2006 Audited (net)	\$2,502,000
2007 Audited (net)	\$3,083,000
2008 Audited (net)	\$3,757,000
2009 Forecast (net)	\$4,029,000
2010 Forecast (net)	\$4,500,000

### 2010 and 2011 Infrastructure Investment

This year marks the first year in which Kingston Hydro utility begins to integrate the budgeting exercise with formal asset management practices. At first glance noticeable changes in the budget format are evident as the budget identifies the key infrastructure components of the system and the spending associated with those assets. The budget now identifies the major asset classification such as conductors, poles, transformers and substations and then breaks those assets into sub-components such as found under Conductors: 44kv over head, 3 Phase Primary over head and 1 phase primary over head. In this way the tracking of the asset or component, for its life cycle, its maintenance, repair and replacement activity can be identified for proper planning. This new format also fits with new work order/management systems currently being developed and will enhance the ability to track our investments in our systems. In addition the capital budget format more closely parallels new financial accounting practices identified under the IFRS requirements.

The asset management program also identifies theoretical spending levels associated with maintaining the optimum life of our assets in the distribution system. The following is a total of the spending levels by year required from our asset management analysis.

2010	2011	2012	2013	2014	2015
\$5,363,598	\$5,498,622	\$16,372,122	\$5,954,297	\$7,879,315	\$6,055,172
2016	2017	2018	2019		
\$4,216,941	2,703,622	2,703,622	2,703,622		

As can be seen, the spending levels in the first 5-6 years are more developed and refined than those in the last 4-5 year period. Work continues in the asset management area to better define condition assessment methodologies, tracking of activities that affect life cycle costing, criticality analysis etc to improve the capital asset budget

planning process and to improve our decision making processes and assets requiring expenditures. Of note the major increase in projected spending for 2012 reflects the reconstruction of Municipal Substation No. 1. The budget as presented is a compilation of various capital projects involving overhead, underground, vaults, transformer type projects. Please see Appendix B for further details.

## Appendices

---

Appendix A: Kingston Hydro Corporation Financial Summary

Appendix B: Kingston Hydro Corporation Infrastructure Projects

  
\_\_\_\_\_  
Jim Keech President & C.E.O.  
Kingston Hydro Corporation

# Kingston Hydro Corporation

## Balance sheet

Assets	Audited 2008	Budget 2009	Budget 2010	Forecast 2011	Forecast 2012
Current assets:					
Cash	20,034	1	1	1	1
Due from City of Kingston	3,191,061	3,708,339	3,223,571	3,355,476	2,710,537
Accounts and billed receivables	7,240,055	7,240,055	7,240,055	7,240,055	7,240,055
Income taxes receivable	240,480	0	0	0	0
Unbilled revenue	5,801,927	6,300,000	6,500,000	6,500,000	7,532,000
Inventory	1,081,106	1,081,106	1,081,106	1,081,106	800,000
Prepaid expense	99,240	150,000	150,000	150,000	75,000
	17,673,903	18,479,501	18,194,733	18,326,638	18,357,593
Deferred charges					
Incorporation costs	35,640	18,454	1,268	0	0
Regulatory assets - Smart Meters	0	3,000,000	6,000,000	6,000,000	6,000,000
	35,640	3,018,454	6,001,268	6,000,000	6,000,000
Capital assets:					
Cost	39,771,477	43,800,477	48,300,477	52,800,477	59,131,277
Accumulated depreciation	(13,648,252)	(15,748,252)	(18,032,338)	(20,359,292)	(22,758,208)
	26,123,225	28,052,225	30,268,139	32,441,185	36,373,069
Note receivable from Utilities Kingston	500,000	250,000	0	0	0
Total assets	44,332,768	49,800,180	54,464,140	56,767,822	60,730,663
Liabilities and Shareholder's Equity					
Current liabilities					
Bank loan, TD	300,000	300,000	300,000	300,000	300,000
Accounts payable & accruals	10,251,327	10,250,000	10,250,000	10,250,000	10,250,000
Regulatory liabilities	1,614,340	1,500,000	500,000	0	0
Employee future benefits	1,140,247	1,140,247	1,200,000	1,200,000	1,200,000
	13,305,914	13,190,247	12,250,000	11,750,000	11,750,000
Long term debt					
Note payable to City of Kingston	10,880,619	10,880,619	10,880,619	10,880,619	10,880,619
Capital Loan - TD Bank	2,700,000	2,400,000	2,100,000	1,800,000	1,500,000
Capital Loan - Smart Meters		3,000,000	6,000,000	6,000,000	6,000,000
Capital Loan - Approved 2009 Capex		2,250,000	3,000,000	3,000,000	3,000,000
Capital Loan - Future		0	1,850,000	4,800,000	8,000,000
	13,580,619	18,530,619	23,830,619	26,480,619	29,380,619
Total liabilities	26,886,533	31,720,866	36,080,619	38,230,619	41,130,619
Shareholder's equity					
Common shares	12,380,617	12,380,617	12,380,619	12,380,619	12,380,619
Contributed Surplus	2,477,763	2,477,763	2,477,763	2,477,763	2,477,763
Retained earnings	2,837,855	3,470,934	3,525,139	3,678,821	4,741,662
less Dividends paid	(250,000)	(250,000)	0	0	0
	17,446,235	18,079,314	18,383,521	18,537,203	19,600,044
Total Liabilities and Shareholder's Equity	44,332,768	49,800,180	54,464,140	56,767,822	60,730,663

000029

# Kingston Hydro Corporation

## Statement of Earnings

12,527,756

25%

Year ended	Audited 2008	Forecast 2009	Budget 2010	Forecast 2011	Forecast 2012
Sale of power	49,040,997	60,000,000	55,000,000	\$ 55,000,000	\$ 55,000,000
Cost of power	49,040,997	60,000,000	55,000,000	55,000,000	55,000,000
Local distribution revenue	9,555,593	9,622,482	9,718,707	10,886,947	12,615,450
Other revenue:	712,587	795,087	795,087	0	0
	10,268,180	10,417,569	10,513,794	10,886,947	12,615,450
Operating expenses:					
Contracted services	5,333,185	5,860,000	6,354,000	6,663,000	6,796,000
Earnings before interest, depreciation and taxes	4,934,995	4,557,569	4,159,794	4,223,947	5,819,450
Interest on bank loans	97,624	288,400	577,025	802,400	961,775
Interest on long term debt - City of Kingston	788,800	788,800	788,800	788,845	788,845
Depreciation and amortization	1,941,666	2,117,186	2,301,272	2,326,954	2,388,915
Ontario Capital Tax	35,245	35,245	35,245	74,647	71,659
	2,863,335	3,229,631	3,702,342	3,992,846	4,221,194
Net earnings before Incomes taxes	2,071,660	1,327,938	457,452	231,101	1,598,256
Income taxes	942,927	444,859	153,246	77,419	535,416
Net earnings	1,128,733	883,079	304,205	\$ 153,682	\$ 1,062,840

000030

# Kingston Hydro Corporation Statement of Cash Flows

## Year Ended December 31

	Audited	Forecast	Forecast	Forecast	Forecast
	2008	2009	2010	2011	2012
<b>Operations</b>					
Net earnings	1,128,733	\$883,079	\$304,205	\$153,682	\$1,062,840
Items not involving cash	1,941,666	2,117,186	2,301,272	2,326,954	2,398,915
Depreciation and amortization	3,070,399	3,000,265	2,605,478	2,480,636	3,461,756
<b>Change in non-cash operating working capital</b>					
Due from City of Kingston	2,401,660	(517,278)	484,767	(131,904)	644,938
Accounts receivables	(935,817)	0	0	0	0
Income taxes receivable	(240,480)	240,480	0	0	0
Unbilled revenue	97,216	(498,073)	(200,000)	0	(1,032,000)
Inventory	120,360	0	0	0	281,106
Prepaid expenses	27,440	(50,760)	0	0	75,000
Regulatory assets	0	(3,000,000)	(3,000,000)	0	0
Accounts payable & accruals	233,939	(1,327)	0	0	0
Post-market opening energy variance	(777,915)	(114,340)	(1,000,000)	(500,000)	0
Employee future benefits	45,289	0	59,753	0	0
<b>Net change in cash from operations</b>	<b>4,042,091</b>	<b>(941,033)</b>	<b>(1,050,002)</b>	<b>1,848,732</b>	<b>3,430,800</b>
<b>Financing</b>					
Note receivable from Utilities Kingston	0	250,000	250,000	0	0
Contributed capital					
Bank loan, operating	275,000	0	0	0	0
Capital Loan - Approved 2009 Capex		2,250,000	750,000		
Bank loan, term	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Smart Meter Loan		3,000,000	3,000,000		
Capital Loan - TD Bank - 2011 Rate filing	0	0	1,850,000	2,950,000	3,200,000
Dividends paid	(250,000)	(250,000)	0	0	0
<b>Net change in cash from financing</b>	<b>(275,000)</b>	<b>4,950,000</b>	<b>5,550,000</b>	<b>2,650,000</b>	<b>2,900,000</b>
<b>Investments</b>					
Purchase of capital assets	(3,757,161)	(4,029,000)	(4,499,998)	(4,498,732)	(6,330,800)
<b>Net change in cash from investments</b>	<b>(3,757,161)</b>	<b>(4,029,000)</b>	<b>(4,499,998)</b>	<b>(4,498,732)</b>	<b>(6,330,800)</b>
<b>Change in cash and cash equivalents</b>	<b>9,930</b>	<b>(20,033)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash &amp; cash equivalents, beginning of year</b>	<b>10,104</b>	<b>20,034</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Cash &amp; cash equivalents, end of year</b>	<b>20,034</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

## **Kingston Hydro Corporation – Infrastructure Projects**

The following provides an overview of the work contemplated in 2010 and 2011:

### **Work in Conjunction with City Road Reconstruction**

Wherever possible, Kingston Hydro coordinates Electric reconstruction work with City Road reconstruction work. This allows for better coordination of surface restoration activities.

- 2010 - Princess St. Reconstruction - Holiday Inn to King St.
- 2010 - Barrie St. - William to Princess
- An additional 2 blocks of underground electrical duct structures and cable reconstruction is anticipated in 2011, but the location has yet to be determined.

### **System Capacity Upgrades**

Hydro One recently upgraded the Gardiner Transformation Station to ensure that future system capacity exists. Hydro One has informed Kingston Hydro that additional contributed capital is required due to cost overruns on the Gardiner TS Expansion project. Kingston Hydro expects to be invoiced by Hydro One for these additional costs in 2010.

### **System Modeling – CYME**

In 2009, Kingston Hydro initiated the process of establishing an Enterprise Database and mapping this data for use in both the ESRI GIS system and the CYME Electric modeling software. Additional funding is required in 2010 to further advance this initiative. It is envisioned that updates to the ESRI GIS system will eventually be used to directly update the Electric System model as a result of this work.

### **Substations**

Kingston Hydro is initiating studies in 2010 to determine the best location and configuration for reconstructing Substation MS1, our oldest substation located in the downtown area of the City of Kingston. Various concepts will be considered including reconstructing on the existing site or reconstructing on a vacant parcel adjacent to the substation MS1. In 2011, Kingston Hydro will undertake the detailed design work for reconstructing Substation MS1 with tendering and construction scheduled to start in 2012.

Kingston Hydro will replace a power transformer at Substation MS8 in 2010 that has reached its End-of-Life.

Security systems will be installed at various substation locations in 2011 to address vandalism and theft of copper grounding conductor.

Annual programs have been initiated to reclaim the mineral oil in six (6) power transformers and replace one (1) substation battery system. There are 37 Power Transformers located at 17 substation sites. Each substation has a DC battery

### **Vault Reconstruction**

In 2010, the 5kV network switch in underground electrical vault TV12 located at Brock and Wellington. This switch has reached its End-of-Life. The new switch will provide more switching flexibility and reduce the need for planned outages when undertaking work in the downtown. The underground electrical duct and cabling for Circuit 103 (5kV) will be replaced on Wellington from Brock to Johnson in conjunction with the planned work in electrical vault TV12.

- Various upgrades and replacements to civil structures and electrical equipment in electrical underground vaults are planned for 2011. This work includes: TV74 at LaSalle Mews, TV5 located on Bagot South of Princess, TV7 located on Montreal at Princess, TV41 located at 116 Notchill

### **Distribution Lines**

- Annual Underground Services Repairs/Rebuilds Various
- Annual Underground Cable Fault Repairs/Rebuilds Various
- Annual Overhead Services Repairs/Rebuilds Various
- Annual Pole Repairs/Rebuilds Various
- 2010 - Underground duct and cabling will be replaced in the vicinity of Westdale and Princess Street in conjunction with the rebuilding of a customer transformer vault.
- 2011 - Reconstruct Underground Electric Distribution - Alfred Street from Earl to Princess
- 2011 - Frontenac St. - Upgrade 1phase to 3-phase pole line - 501 Frontenac
- 2011 - King St. - Relocation of infrastructure for Queen's QPAC (Tett Centre) - Beverley to George

### **Recoverable Work**

Although the majority of the capital budget deals with the management of our assets, work that is attributed to our customers also forms a significant component of our system activity. This activity area encompasses customer connection work and distribution improvements required to connect customers. This work is financially recoverable from customers and includes institutions such as Queens, the Hospitals, commercial developments such as the Dalton Power centre and medium to high density residential activity within our distribution territory.

000033

9/8/2009 5:50 PM

Kingston Hydro		2010		2011		2012	
		AM Value	AM Actuals	AM Value	AM Actuals	AM Value	AM Actuals
Conductors	44kv - OH	\$ 147,462	\$ 100,000	\$ 147,462	\$ 113,600	\$ 147,462	\$ -
	3 Phase Primary - OH	\$ 310,000	\$ 310,000	\$ 310,000	\$ 310,000	\$ 310,000	\$ -
	1 Phase Primary - OH	\$ 116,914	\$ 85,000	\$ 116,914	\$ 92,000	\$ 116,914	\$ -
	<b>Conductors Total</b>	\$ 699,564	\$ 495,000	\$ 699,564	\$ 541,000	\$ 699,564	\$ -
Poles	44kv - OH	\$ 100,450	\$ 70,000	\$ 100,450	\$ 78,000	\$ 100,450	\$ -
	3 Phase Primary - OH	\$ 92,252	\$ 65,000	\$ 92,252	\$ 71,000	\$ 92,252	\$ -
	1 Phase Primary - OH	\$ 47,749	\$ 30,000	\$ 47,749	\$ 35,000	\$ 47,749	\$ -
	<b>Poles Total</b>	\$ 290,106	\$ 200,000	\$ 290,106	\$ 221,000	\$ 290,106	\$ -
Overhead Switches	44kv - OH	\$ 59,830	\$ 26,000	\$ 59,830	\$ 46,000	\$ 59,830	\$ -
	3 Phase Primary - OH	\$ 30,928	\$ 35,000	\$ 30,928	\$ 24,100	\$ 30,928	\$ -
	1 Phase Primary - OH	\$ 4,019	\$ 10,000	\$ 4,019	\$ 2,900	\$ 4,019	\$ -
	<b>OH Switches Total</b>	\$ 94,777	\$ 71,000	\$ 94,777	\$ 73,000	\$ 94,777	\$ -
Secondary Services	Underground	\$ 34,416	\$ 42,000	\$ 34,416	\$ 52,850	\$ 34,416	\$ -
	Overhead	\$ 64,295	\$ 80,000	\$ 64,295	\$ 98,150	\$ 64,295	\$ -
	<b>Secondary Services Total</b>	\$ 98,711	\$ 122,000	\$ 98,711	\$ 151,000	\$ 98,711	\$ -
Insulators	44kv - OH	\$ 26,184	\$ 18,000	\$ 26,184	\$ 20,300	\$ 26,184	\$ -
	3 Phase Primary - OH	\$ 66,778	\$ 45,000	\$ 66,778	\$ 51,500	\$ 66,778	\$ -
	1 Phase Primary - OH	\$ 8,101	\$ 6,000	\$ 8,101	\$ 6,200	\$ 8,101	\$ -
	<b>Insulators Total</b>	\$ 101,063	\$ 69,000	\$ 101,063	\$ 78,000	\$ 101,063	\$ -
Transformers	Padmount Tx	\$ 71,112	\$ 62,000	\$ 71,112	\$ 15,000	\$ 71,112	\$ -
	Polemount Tx	\$ 19,000	\$ 100,000	\$ 19,000	\$ 109,000	\$ 19,000	\$ -
	Switching Kiosk & Tx	\$ 51,577	\$ 7,000	\$ 51,577	\$ -	\$ 51,577	\$ -
	<b>Transformers Total</b>	\$ 141,689	\$ 169,000	\$ 141,689	\$ 124,000	\$ 141,689	\$ -
Arresters	44kv - UG	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	3 Phase Primary - UG	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	<b>Arresters Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Underground Cable	44kv - UG	\$ 33,170	\$ -	\$ 33,170	\$ -	\$ 33,170	\$ -
	3 Phase Primary - UG	\$ 315,605	\$ 782,000	\$ 315,605	\$ 684,000	\$ 315,605	\$ -
	1 Phase Primary - UG	\$ 24,836	\$ 50,000	\$ 24,836	\$ -	\$ 24,836	\$ -
	<b>UG Cable Total</b>	\$ 373,611	\$ 832,000	\$ 373,611	\$ 684,000	\$ 373,611	\$ -
Underground Civil Structures	44Kv Duct Structures	\$ 11,184	\$ -	\$ 11,184	\$ -	\$ 11,184	\$ -
	5Kv Duct Structures	\$ 124,619	\$ 731,000	\$ 124,619	\$ 250,000	\$ 124,619	\$ -
	Kiosk/TX base	\$ 13,661	\$ 10,000	\$ 13,661	\$ 40,000	\$ 13,661	\$ -
	Precast manhole	\$ 133,147	\$ 150,000	\$ 133,147	\$ 150,000	\$ 133,147	\$ -
UG Civil Structures Total	Handholes	\$ 20,584	\$ 30,000	\$ 20,584	\$ 100,000	\$ 20,584	\$ -
	<b>UG Civil Structures Total</b>	\$ 303,195	\$ 921,000	\$ 303,195	\$ 540,000	\$ 303,195	\$ -
Vaults	Vaults	\$ 150,008	\$ 44,000	\$ 150,008	\$ 25,000	\$ 150,008	\$ -
	<b>Vaults Total</b>	\$ 150,008	\$ 44,000	\$ 150,008	\$ 25,000	\$ 150,008	\$ -

Kingston Hydro	AM		2010		AM		2011		AM		2012	
	Value	Actuals	Value	Budget	Value	Actuals	Value	Budget	Value	Actuals	Value	Budget
<b>Underground Switches</b>												
44kv - UG Switchgear - 4 pos oil	\$ 5,665		\$ -		\$ 5,665		\$ -		\$ 5,665		\$ -	
Switchgear - 4 pos LBC	\$ 21,497	\$ 57,000	\$ 57,000	\$ 57,000	\$ 21,497	\$ 230,000	\$ 230,000	\$ 230,000	\$ 21,497	\$ 200,000	\$ 200,000	\$ 200,000
<b>UG Switches Total</b>	\$ 6,503	\$ 5,000	\$ 5,000	\$ 5,000	\$ 6,503	\$ 18,000	\$ 18,000	\$ 18,000	\$ 6,503	\$ -	\$ -	\$ -
<b>SCADA</b>	\$ 33,665	\$ 62,000	\$ 62,000	\$ 62,000	\$ 33,665	\$ 248,000	\$ 248,000	\$ 248,000	\$ 33,665	\$ -	\$ -	\$ -
Municipal Substation Server	\$ 132,476	\$ 23,000	\$ 23,000	\$ 23,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 25,000	\$ 25,000	\$ 25,000
UPS	\$ -	\$ 18,000	\$ 18,000	\$ 18,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 225,000	\$ 200,000	\$ 200,000	\$ 200,000
Motorized Disconnect Network	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Development lab	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
<b>SCADA Total</b>	\$ 132,476	\$ 151,000	\$ 151,000	\$ 151,000	\$ 136,000	\$ 134,000	\$ 134,000	\$ 134,000	\$ 321,000	\$ 291,000	\$ 291,000	\$ 291,000
<b>Substations</b>												
Building Switches	\$ -	\$ 60,000	\$ 60,000	\$ 60,000	\$ 1,800,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Transformers	\$ -	\$ 54,000	\$ 54,000	\$ 54,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Circuit Breakers	\$ -	\$ 60,000	\$ 60,000	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Protection	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grounding Equipment	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Substations Total</b>	\$ 2,835,000	\$ 303,000	\$ 303,000	\$ 303,000	\$ 1,800,000	\$ 1,365,000	\$ 1,365,000	\$ 1,365,000	\$ 10,500,000	\$ 10,500,000	\$ 10,500,000	\$ 10,500,000
<b>Meters</b>	\$ 2,835,000	\$ 537,000	\$ 537,000	\$ 537,000	\$ 2,800,000	\$ 1,365,000	\$ 1,365,000	\$ 1,365,000	\$ 13,500,000	\$ 13,500,000	\$ 13,500,000	\$ 13,500,000
Meters	\$ 109,733	\$ 50,000	\$ 50,000	\$ 50,000	\$ 109,733	\$ 140,000	\$ 140,000	\$ 140,000	\$ 109,733	\$ -	\$ -	\$ -
<b>Meters Total</b>	\$ 109,733	\$ 50,000	\$ 50,000	\$ 50,000	\$ 109,733	\$ 140,000	\$ 140,000	\$ 140,000	\$ 109,733	\$ -	\$ -	\$ -
<b>Property &amp; Equipment</b>												
Building-Property	\$ -	\$ 35,000	\$ 35,000	\$ 35,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Equipment	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Systems Hardware	\$ -	\$ 10,000	\$ 10,000	\$ 10,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Business Systems	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
Tools & Equipment	\$ -	\$ 35,000	\$ 35,000	\$ 35,000	\$ 30,500	\$ 30,500	\$ 30,500	\$ 30,500	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
<b>P &amp; E Total</b>	\$ -	\$ 90,000	\$ 90,000	\$ 90,000	\$ 66,500	\$ 66,500	\$ 66,500	\$ 66,500	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000
<b>Vehicles</b>												
Vehicles	\$ -	\$ 130,000	\$ 130,000	\$ 130,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Vehicles Total</b>	\$ -	\$ 130,000	\$ 130,000	\$ 130,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>System Planning</b>												
System Analysis	\$ -	\$ 552,000	\$ 552,000	\$ 552,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
System Modelling	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>System Planning Total</b>	\$ -	\$ 557,000	\$ 557,000	\$ 557,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Contingency Projects</b>												
Projects	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
<b>C-P Total</b>	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
<b>ELECTRIC CAPITAL TOTAL</b>	\$ 5,363,598	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000	\$ 5,498,622	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000	\$ 16,371,122	\$ 13,955,000	\$ 13,955,000	\$ 13,955,000

## REPORT TO BOARD OF DIRECTORS KINGSTON HYDRO CORPORATION



**MEETING NO. 2010-02**

**Report KH10-10**

Subject: Approval of the 2010 – 2014 Financial Plan  
Date of Meeting: July 12, 2010  
From: J. A. Keech, President & C.E.O, Kingston Hydro Corporation  
Prepared By: R. Murphy, Treasurer, Kingston Hydro Corporation

### **Recommendation**

It is recommended that the Board approve expenditures of \$55,000,000 to purchase electricity, \$7,200,000 for Operating Expenditures, and \$4,500,000 for Net Capital Expenditures for 2011

*~And Further~*

The Board approves in principal the 2010 to 2014 Financial Plan which will entail applying for maximum distribution rate increases and incurring total debt up to \$31,000,000.

### **Purpose**

Following is an analysis of the Financial Plan for the Company.

### **Financial Plan 2010 through 2014**

Kingston Hydro's Financial Plan Summary for 2010 through 2014 is included in this report as Appendix A. The 2009 dollar figures are audited numbers while 2010-2014 are forecasted numbers.

The plan outlines an increased capital expenditure requirement that has resulted from the asset management analysis that was performed over the past 12 months. The analysis has resulted in significant capital replacement work that needs to be done over the next 6-8 years. In order to achieve this, the Company will be required to obtain additional financing. Consequently, distribution rates must increase in order for the Company to have the capability to service the debt that is required. Therefore we will be applying for a distribution rate increase effective May 1, 2011 which will result in an increase in a typical residential customer's monthly total bill of up to 10%.

This increase is not unexpected as the latest report from the OEB has Kingston Hydro's distribution rates rank 76<sup>th</sup> out of 82 reported distributors. Furthermore, we rank 15<sup>th</sup>

lowest of our 15 cohorts in distribution rates. See Appendix B for a list of our Cohorts' Delivery rates.

In addition, based on the OEB reports, our operating costs per customer were \$182 per customer and ranked 13<sup>th</sup> out of 15 for 2007, 15% below the average of \$214 per customer. In 2008, our operating costs per customer were \$193 per customer and ranked 11<sup>th</sup> out of 15, 11% below the average of \$218 per customer. For 2009, our operating costs increased to \$197 per customer. Comparative data has not yet been released for 2009. For 2010 and 2011, operating costs per customer are projected to increase to \$226 and \$259 per customer.

The financial plan does not include any dividend payments to the City of Kingston as all after tax profits are projected to be reinvested into capital infrastructure.

The Company's affiliate, 1425445 Ontario Limited (o/a Utilities Kingston) will repay its loan to Kingston Hydro in the amount of \$250,000 in 2010.

### Distribution Revenue

The 2010 distribution revenue is based on our approved 2006 rate application and rates in effect as of May 1, 2006 plus 2<sup>nd</sup> generation Incentive Regulation Mechanism adjustments for May 1, 2007, May 1, 2008 and May 1, 2009 and May 1, 2010. These revenues have also been adjusted for customer classification changes that have occurred since May 1, 2006.

The 2011 and 2012 distribution revenue is a preliminary estimate of our rebased revenues that we are hopeful of receiving effective May 1, 2011. These rebased revenues are based on the expected Rate Base of the Company, a regulated rate of return on the approved operating expenditures by the OEB.

### Operating Expenditures

The following chart summarizes the actual audited operating expenses for 2003 through 2009 and the forecasted operating expenses for 2010 and 2011.

	Amount	Change
Audited 2003	\$5,399,000	
Audited 2004	\$5,451,000	1.0%
Audited 2005	\$5,348,000	-1.9%
Audited 2006	\$4,743,000	-11.3%
Audited 2007	\$4,928,000	5.2%
Audited 2008	\$5,333,000	8.2%
Audited 2009	\$5,435,000	1.9%
Forecast 2010	\$6,221,000	14.5%
Forecast 2011	\$7,150,000	14.9%

Kingston Hydro is projecting its 2010 and 2011 operating and maintenance expenses to increase from 2010. The main reasons for this increase are a 2 stage increase in our maintenance activities. In particular, maintenance activities on our substations need to increase in order to ensure continued reliability of our system and that our assets will remain in service for as long as we expect them to. In addition, we have a need to hire staff for succession planning purposes as outlined in the presentation to the Board at the meeting of July 12, 2010.

We believe that it is imperative that the required maintenance and operating activities be identified and included in our financial planning in order to have the best chance at getting the required revenue increase in 2011, which will be based on 2011 expected expenses.

### **Capital Budgets**

The chart below summarizes the actual capital expenditures for 2005 through 2009 as well as the forecasted capital expenditures for 2010 and 2011. Please note that these expenditures are shown on a net basis. Any amount of customer funded work we do is in addition to this work but has minimal impact on the company's cash flow.

	<b>Capital</b>
2005 Audited (net)	\$2,967,000
2006 Audited (net)	\$2,502,000
2007 Audited (net)	\$3,083,000
2008 Audited (net)	\$3,757,000
2009 Audited (net)	\$3,641,000
2010 Forecast (net)	\$4,500,000
2011 Forecast (net)	\$4,500,000

### **2010 and 2011 Infrastructure Investment**

A detailed presentation will be presented to the Board regarding the work required for 2010 and 2011.

The asset management program also identifies theoretical spending levels associated with maintaining the optimum life of our assets in the distribution system. The following is a total of the spending levels by year required from our asset management analysis.

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
\$5,363,598	\$5,498,622	\$16,372,122	\$5,954,297	\$7,879,315	\$6,055,172
<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>		
\$4,216,941	2,703,622	2,703,622	2,703,622		

As can be seen, the spending levels in the first 5-6 years are more developed and refined than those in the last 4-5 year period. Of note the major increase in projected spending for 2012 reflects the reconstruction of Municipal Substation No. 1. This has not been included in the rate application planning as it will require special consideration for rate making purposes.

## **Appendices**

---

Appendix A: Kingston Hydro Corporation Financial Summary  
Appendix B: Kingston Hydro Corporation Cohorts Delivery Rates

  
\_\_\_\_\_  
J. A. Keech President & C.E.O.  
Kingston Hydro Corporation

# Kingston Hydro Corporation

## Balance sheet

Assets	Audited 2009	Bridge Year 2010	Test Year 2011	Forecast 2012	Forecast 2013	Forecast 2014
Current assets:						
Cash	2,340,508	1	1	1	1	1
Due from City of Kingston	1,857,450	4,347,565	3,471,416	3,071,527	3,229,406	3,194,199
Accounts and billed receivables	5,634,426	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000
Unbilled revenue	6,585,137	6,600,000	7,000,000	7,049,000	7,098,343	7,148,031
Future Tax Asset	2,192,400	2,192,400	2,192,400	2,192,400	2,192,400	2,192,400
Inventory	1,125,725	1,125,725	1,125,725	1,200,000	1,200,000	1,200,000
Prepaid expense	102,278	102,278	102,278	75,000	75,000	75,000
	19,837,924	20,867,969	20,391,820	20,087,928	20,295,150	20,309,631
Deferred charges						
Incorporation costs	17,820	634	0	0	0	0
Regulatory assets - Smart Meters	1,182,504	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
	1,200,324	6,000,634	6,000,000	6,000,000	6,000,000	6,000,000
Capital assets:						
Cost	43,408,590	47,852,590	52,298,590	56,998,590	61,698,590	66,698,590
Accumulated depreciation	(15,712,977)	(17,633,588)	(19,711,016)	(22,116,320)	(24,640,862)	(27,311,812)
	27,695,613	30,219,002	32,587,574	34,882,270	37,057,728	39,386,778
Note receivable from Utilities Kingston	250,000	0	0	0	0	0
Total assets	48,983,861	57,087,605	58,979,394	60,970,198	63,352,878	65,696,410
Liabilities and Shareholder's Equity						
Current liabilities						
Bank loan, TD	2,512,334	418,461	502,078	577,437	659,323	750,447
Accounts payable & accruals	10,781,968	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Regulatory liabilities	2,353,950	1,000,000	500,000	0	0	0
Long --term debt						
Note payable to City of Kingston	10,880,619	10,880,619	10,880,619	10,880,619	10,880,619	10,880,619
Capital Loan - TD Bank Existing 10 year	2,588,121	2,338,669	1,813,609	1,457,565	1,085,736	720,434
Capital Loan - Smart Meters		6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Capital Loan - TD Bank - 2009 Capex		2,181,585	2,109,785	2,034,431	1,955,349	1,872,352
Capital Loan - TD Bank - 2010 Capex		2,520,943	2,437,974	2,350,898	2,259,514	2,163,606
Capital Loan - TD Bank - 2011 Capex			2,100,168	2,029,340	1,954,888	1,876,626
Capital Loan - TD Bank - 2012 Capex				1,918,683	1,860,272	1,798,258
Capital Loan - TD Bank - 2013 Capex					2,115,426	2,054,297
Capital Loan - TD Bank - 2014 Capex						2,409,196
Employee future benefits	1,174,887	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Total liabilities	30,291,879	37,540,277	38,544,233	39,448,974	40,971,125	42,725,836
Shareholder's equity						
Common shares	12,380,617	12,380,619	12,380,619	12,380,619	12,380,620	12,380,620
Contributed Surplus	2,477,763	2,477,763	2,477,763	2,477,763	2,477,763	2,477,763
Retained earnings	4,083,602	4,688,946	5,576,779	6,662,842	7,523,370	8,112,190
less Dividends paid	(250,000)	0	0	0	0	0
Total equity	18,691,982	19,547,328	20,435,161	21,521,224	22,381,753	22,970,573
Total Liabilities and Shareholder's Equity	48,983,861	57,087,605	58,979,394	60,970,198	63,352,878	65,696,410

**Kingston Hydro Corporation**  
**Statement of Earnings**

Year ended	Audited 2009	Bridge 2010	Test 2011	Forecast 2012	Forecast 2013	Forecast 2014
Sale of power	53,948,337	55,000,000	\$ 55,000,000	\$ 55,000,000	\$ 55,000,000	\$ 55,000,000
Cost of power	53,948,337	55,000,000	55,000,000	55,000,000	55,000,000	55,000,000
Local distribution revenue	9,606,109	9,606,109	11,268,703	12,100,000	12,184,700	12,269,993
Other revenue:	843,468	843,468	624,096	624,000	624,000	624,000
	10,449,577	10,449,577	11,892,799	12,724,000	12,808,700	12,893,993
Operating expenses:						
Contracted services	5,435,090	6,221,029	7,113,501	7,256,000	7,401,000	7,549,000
Earnings before interest, depreciation and taxes	5,014,487	4,228,548	4,779,298	5,468,000	5,407,700	5,344,993
Interest on bank loans	(8,347)	245,754	675,628	801,222	939,242	1,100,105
Interest on long term debt - City of Kingston	788,800	788,800	788,845	788,845	788,845	788,845
Depreciation and amortization	2,086,472	1,937,797	2,077,428	2,405,304	2,524,542	2,670,950
Ontario Capital Tax	33,135	16,568	0	0	0	0
	2,900,060	2,988,919	3,541,901	3,995,371	4,252,629	4,559,900
Net earnings before Incomes taxes	2,114,427	1,239,629	1,237,397	1,472,629	1,155,071	785,093
Income tax	949,352	384,285	349,565	386,565	294,543	196,273
Net earnings	1,165,075	\$ 855,344	\$ 887,833	\$ 1,086,064	\$ 860,528	\$ 588,820

**Kingston Hydro Corporation**  
**Statement of Cash Flows**

**Year Ended December 31**

	Audited	Bridge	Test	Forecast	Forecast	Forecast
	2009	2010	2011	2012	2013	2014
<b>Operations</b>						
Net earnings	\$1,165,075	\$855,344	\$887,833	\$1,086,064	\$860,528	\$588,820
Items not involving cash						
Future Income Taxes	36,950					
Depreciation and amortization	2,086,472	1,937,797	2,077,428	2,405,304	2,524,542	2,670,950
	3,288,497	2,793,141	2,965,261	3,491,368	3,385,070	3,259,770
	572,562	(9,298,853)	(23,851)	(196,109)	(207,222)	(14,481)
Change in non-cash operating working capital						
Net change in cash from operations	3,861,059	(6,505,712)	2,941,410	3,295,259	3,177,848	3,245,288
<b>Financing</b>						
Note receivable from Utilities Kingston	250,000	250,000	0	0	0	0
Bank loan, operating	(487,666)	(2,093,873)	83,617	75,359	81,886	91,125
Capital Loan - TD Bank - 2009 Capex	0	2,181,585	(71,800)	(75,354)	(79,083)	(82,996)
Capital Loan - TD Bank Existing 10 year	2,588,121	(249,452)	(525,060)	(356,044)	(371,830)	(365,302)
Smart Meter Loan	0	6,000,000				
Capital Loan - TD Bank - 2010 Capital		2,520,943	(82,969)	(87,075)	(91,385)	(95,907)
Capital Loan - TD Bank - 2011 Capital	0	0	2,100,168	(70,828)	(74,452)	(78,261)
Capital Loan - TD Bank - 2012 Capital				1,918,683	(58,411)	(62,014)
Capital Loan - TD Bank - 2013 Capital					2,115,426	(61,128)
Capital Loan - TD Bank - 2014 Capital						2,409,196
Dividends paid	(250,000)	0	0	0	0	0
Net change in cash from financing	2,100,455	8,609,203	1,503,956	1,404,741	1,522,151	1,754,712
<b>Investments</b>						
Purchase of capital assets	(3,641,040)	(4,443,998)	(4,445,366)	(4,700,000)	(4,699,999)	(5,000,000)
Incorporation costs						
Net change in cash from investments	(3,641,040)	(4,443,998)	(4,445,366)	(4,700,000)	(4,699,999)	(5,000,000)
Change in cash and cash equivalents	2,320,474	(2,340,507)	(0)	0	0	(0)
Cash & cash equivalents, beginning of year	20,034	2,340,508	1	1	1	1
Cash & cash equivalents, end of year	2,340,508	1	1	1	1	1

## Comparison of Kingston Hydro Rates to our Cohorts

## APPENDIX B

Residential Customer using 800kWh per month

Prices include Smart Meter charge of \$1 plus transmission rates paid to Hydro One of \$6

Companies in bold are scheduled to re-base in 2011

Welland Hydro-Electric System Corp.	\$ 36.86
Festival Hydro Inc.	\$ 36.73
Bluewater Power Distribution Corporation	\$ 36.64
Erie Thames Powerlines Corporation	\$ 36.10
<b>Woodstock Hydro Services Inc.</b>	\$ 35.85
Essex Powerlines Corporation	\$ 35.75
Westario Power Inc.	\$ 34.02
Niagara Falls Hydro Inc.	\$ 33.95
Chatham-Kent Hydro Inc.	\$ 32.85
<b>St. Thomas Energy Inc.</b>	\$ 32.42
COLLUS Power Corp.	\$ 30.97
Peterborough Distribution Incorporated	\$ 30.78
<b>E.L.K. Energy Inc.</b>	\$ 30.22
<b>Wasaga Distribution Inc.</b>	\$ 29.59
<b>Kingston Hydro Corporation</b>	\$ 27.13
Average (excluding Kingston)	\$ 33.77
Median (excluding Kingston)	\$ 33.98
Current projection	\$ 32.76
Percent increase to obtain Average	24%
Percent increase to obtain Median	25%
Effect on overall bill	6%

Currently 76th out of 82 distributors

Kingston West and East customers pay \$47.54

**Second Round Interrogatory #45**

**Reference: VECC #24 b)**

***a) According to the referenced response, as of September 30, 2010, Kingston has spent just over half of its 2010 capital spending forecasted for the entire year. Does Kingston still expect to spend \$4.446M in 2010 on capital? If so, please explain fully. If not, please provide an updated forecast for 2010 capital expenditures.***

Please refer to the updated capital expenditures table below.

<b>Project</b>	<b>2010 End of Year Forecast</b>
Princess St. Reconstruction	\$767,438
Princess St. Condition Assessment	\$25,000
Hydro One Incremental Cost for Gardiner TS Expansion	\$609,000
Barrie St. Reconstruction	\$177,608
Transformer Vault 12 (TV12) & Circuit 103	\$207,815
Transformer Vault 10 (TV10)	\$161,744
Transformer Vault 13 (TV13)	\$15,096
Transformer Vault 5 (TV5)	\$0
Annual Substation Battery Replacement	\$60,684
Annual Overhead & Underground Services	\$64,123
Annual Underground Cable Rebuilds	\$0
Annual Overhead Line Rebuilds	\$1,271,429
Distribution System Modeling	\$72,000
Annual RFP for Structural Engineering Services	\$0
Enterprise Asset Management System Implementation	\$62,500
SCADA	\$98,605
Meters	\$236,007
Tools & Equipment	\$154,028
Fairway Hills – Poletrans Replacement (from 2011 Projects)	\$110,149
Transformer Vault 37 (TV37)	\$20,000
Transformer Vault 51 (TV51)	\$60,048
Benson St. Transformer and Cabling	\$40,000
Service Truck	\$242,652
Substation Equipment	\$17,300
Radio Equipment	\$55,581
Metering Equipment	\$79,370
Substation WorkVan	\$43,000
Grants & Contributions	(\$333,000)
<b>Total</b>	<b>\$4,318,177</b>

***b) Please provide the actual capital spending in 2009 as of September 30, 2009.***

Expenditures as of September 30, 2009 were \$2,337,450, (approximately 52% of budget).