December 7, 2010

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

Dear Ms. Walli,

RE: Kingston Hydro Corporation
EB-2010-0136 Cost of Service Rate Application
Responses to Board Staff 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 Board Staff 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)
Energy Probe Research Foundation, Randy Aiken (by email)
School Energy Coalition, Jay Shepherd (by email)
Vulnerable Energy Consumers Coalition, Michael Buonaguro (by email)

P.O. Box 790 Kingston, Ontario Canada K7L 4X7 **p.** 613.546.1181 www.kingstonhydro.com

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 ONTARIO ENERGY BOARD

GENERAL

Responses to Letters of Comment

Ref: Response to Board staff IR#1

Second Round Interrogatory #1

In response to Board staff Interrogatory #1, Kingston Hydro indicated that it did not receive any letters of comment in response to the Notice of Application. Board staff is aware that a number of these letters were submitted to the Board Secretary and that the Board Secretary has now forwarded these letters to Kingston Hydro.

As a result, please respond to the original interrogatory, and confirm whether a reply was sent from Kingston Hydro to the author of any letters. If confirmed, please file these replies with the Board. If not confirmed, please explain why a response was not sent and confirm if Kingston Hydro intends to respond.

Kingston Hydro has received the letters that were submitted to the Board Secretary. Kingston Hydro has reviewed these letters and believes that all but the letter from T-V are from customers of Hydro One Networks Inc. ("HONI"). Kingston Hydro does not intend to correspond with HONI's customers. In regard to T-V, Kingston Hydro is reviewing the letter and will decide whether and how to respond to them.

LOAD FORECAST

Ref: Response to Board staff IR#7

Second Round Interrogatory #2

In this response, Kingston Hydro explained that the negative time variable obtained from the multiple regression analysis for the Residential and GS>50kW classes may be related to CDM-type effects. While conceptually plausible, a measure of the reasonableness of this explanation would be helpful.

In order to provide clarity to the record, we provide our full response to Board staff IR#7:

> The time variable in the trend equations for the residential class and the GS>50kW is negative because, all else being equal, the historical consumption for both these classes is tending to trend downwards over time. This could be attributed to many factors including conservation, new energy efficient appliances and lighting, commodity price, fewer occupants, etc.

Therefore, CDM-effects are only one of many factors that may lead to a negative time trend.

a. ***Please define separately for each of the two classes, the unit of measurement for the "Time" variable (for example, might it be the month number in the 2003-2009 data series (and therefore likely have a value in the 1 – 84 range), the year number in the 2003-2009 data series (and therefore likely have a value in the 1-7 range), etc?), or explain.***

   As shown in response to Energy Probe IR #12 (a), the time trend started at a value of 1 and increased by 1 period thereafter (1-84). The periods referred to are months.

b. ***Please calculate for each of the two classes, the average annual percent decrease over the multi-year data period used in the multiple regression analysis (or, alternatively, the annual percent decrease for a typical year in the data series – please specify what period is being reported on) suggested by the respective magnitudes of the negative "Time" variables."***

   In total, the time trend reduces residential consumption over the 2003-2009 period by approximately 5.0% and the GS>50 kW by approximately 8.3%. That is, the total value of reduction in consumption attributable to the time trend divided by the total value of kWh in each class, respectively, over the 2003-2009 period.

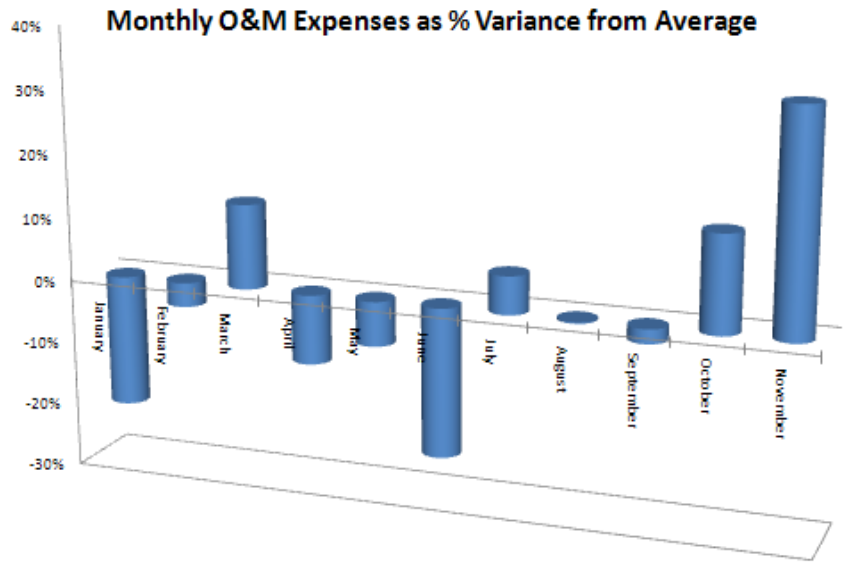
OPERATIONS, MAINTENANCE & ADMINISTRATION EXPENSES

Ref: Response to Board staff IR#10

Second Round Interrogatory #3

In this response, Kingston Hydro provided Year-to-date (September 30) OM&A expenses. In comparison to the test year evidence in the application, total OM&A expenses are tracking at 69% of forecast levels. Particular areas that are significantly lower than forecast are Maintenance at 62%, Community Relations at 65% and Operations at 68%. Please provide a summary of the major reasons that actual expenses are tracking lower than forecast and if Kingston Hydro still expects bridge year forecast levels to be achieved.

Operations and Maintenance expenses don't necessarily track on a straight-line basis, and can vary for any number of reasons. As the graph below illustrates, for Kingston Hydro, O&M activity is more heavily weighted towards the end of the year.



Reasons for the variances are attributable to:

- the type of work that was being performed (more capital labour intensive), in particular, the Princess Street Reconstruction capital project consumed considerable amount of key planning staff time in the 2nd quarter, delaying operations and maintenance work
- the amount of time that has spent on preparation of this Rate Application
- staff vacations

The Community Relations expenses were lower in the first 9 months because the position responsible for the energy conservation programs was vacant for 3 months in that period.

Kingston Hydro still expects its bridge year forecast levels to be achieved.

COMPENSATION AND STAFFING

Ref: Response to Board staff IR#13

Second Round Interrogatory #4

In this response, Kingston Hydro indicated that $38,900 (or 46%) of the $85,000 compensatory increase for the test year 2011 is attributable to Union wage increases with the remainder being non- union compensation increases. Please provide both the Union and Non-Union annual wage increase percentages from 2008 to 2011.

The information is provided below:

Year	Non-Union Staff	Unionized Staff
2008	5.3%	3.0%
2009	4.1%	2.5%
2010	4.0%	2.75%
2011	4.0%	2.5%

Ref: Response to Board staff IR#18

Second Round Interrogatory #5

In this response, Kingston Hydro indicated that the current staffing for Community Relations under the 2010 $240,000 budget is $44,000 made up of $14,000 for a 0.23 FTE Conservation and demand management position and a 0.45 of an FTE for a Service Advisor approximately $30,000>. Board staff understands that the Conservation and Demand Management position is funded by the OPA or through the global adjustment mechanism for Board-approved programs (Board staff IR #11). Why does this funding also appear under the Community Relations budget as well?

The $14,000 in the Community Relations budget for Conservation and Demand Management is not a direct cost of delivering OPA Contracted CDM Programs, and is therefore not double counted. This allocation of funding was devoted to such efforts as developing and completing Kingston Hydro's Conservation and Demand Management Strategy for 2011-2014, keeping up with the numerous changes to the CDM landscape in Ontario, and early stage development of programs that may in the future become OEB Approved. This work is not funded by the OPA as their funding is to be used solely for the delivery of contracted CDM programs and is returned to the OPA if not spent in any given year. The prescribed account structure dictates that rate base funded CDM appear in the community relations section. The CDM resources are not double counted, they are included in the Community Relations budget because there is no other place to put them for the 2010 year.

Ref: Response to Board staff IR#20

Second Round Interrogatory #6

In this response, Kingston Hydro refers to an explanation in the evidence at Exhibit 4/Tab2/Sch 3/page 20. In this exhibit, Kingston refers to the addition of a communications/customer liaison professional for the corporation to work in the areas of CDM, smart metering FIT and microFIT and changes in customer bills. Despite some explanation provided in response to Board staff IR #18, why does Kingston Hydro feel that a full FTE is needed for these duties when Kingston is also increasing its CDM resources from .23 to a full FTE in the test year?

We believe this is Ref response IR #19 (not 20 as noted).

Kingston Hydro strongly feels that a separate communications/customer liaison professional is required in addition to the resources for CDM as we do not currently provide the level of services in this area our customers are demanding, and see this demand continuing to grow. For example we get complaints that we do not provide timely detailed information through use of our website or other electronics means to update customers in regards to power outages, construction activities, tree trimming activities and traffic disruptions. Although we do make such information available by other means customers are requesting (demanding) that such information be provided daily and updated throughout the day should circumstances change (i.e. outages are longer or shorter than anticipated, traffic disruptions occur as a result of unplanned work.

In addition to the items in the evidence at the Exhibit noted, and in the board Staff IR #18, there will be an increase in demand for immediate information provision and exchange, and with the advancement of social networking and the ever increasing provincial focus on the provision of electricity this position will have a very full workload.

As our customer base becomes more accustom to using social networking, especially those who are part of our large student base (Queens University, Royal Military College and St. Lawrence College) the demand for real time information such as that noted above is increasing. We currently do not have the resources or expertise to meet this demand.

SHARED SERVICE AND CORPORATE COST ALLOCATION

Ref: Response to Board staff IR#28

Second Round Interrogatory #7

In this response Kingston Hydro provided the "Study of Affiliate Service Costs and Cost Allocation" prepared by BDR on November 22, 2010.

a. Please provide a summary of the credentials, qualifications and history of BDR.

BDR is a Toronto-based management consulting firm specializing in energy and utilities. Its client base includes governments, regulators, consumers, generators, transmission and distribution companies and their affiliates.

BDR's key areas of practice are:

Business and Strategic Planning: BDR staff has completed strategic business plans and options analyses for well over 100 clients in the electricity and related sectors. These plans include consideration of the strengths and weaknesses of the client in a range of business options.

Mergers and Acquisitions: BDR has managed the process of merger, divestment and acquisition of both generation and "wires" facilities in the electricity industry and related affiliates. Key in these assignments is the development of a valuation the enterprise(s).

Regulatory: BDR advises clients who are regulated entities or intervenors in a variety of proceedings before regulators and industry stakeholder processes. This includes studies of rates and revenue requirements, such as cost of capital, cost allocation and working capital analysis. Services include analysis and expert testimony where required.

BDR was formed nearly a decade ago by consultants who had worked together successfully in another firm. These consultants brought decades of experience in the energy utility and financial sectors, with academic backgrounds in law, engineering and accounting. In 2005 the company was acquired by Gestalt LLC, a U. S. technology services consulting practice. In 2007, by agreement with Gestalt LLC, BDR was re-established as an independent Toronto-based firm.

Today, BDR is owned by its President, John McNeil, JD, MBA, and its Vice Presidents, Paula Zarnett, MBA, CMA, and Trent Winstone, MBA, P.Eng.

Paula Zarnett, who was primarily responsible for this study of Kingston Hydro, has extensive experience in customer cost allocation studies and has provided written evidence to the Ontario Energy Board on issues of the allocation of costs among affiliates on behalf of FortisOntario and EnWin. Her *curriculum vitae* is attached. A representative client list and information about the other consultants of BDR can be found at the website www.bdrenergy.com.

PAULA ZARNETT

Paula Zarnett has more than 25 years broadly based experience specializing in regulatory compliance, regulated tariffs and pricing issues for electricity and gas utilities. She has been responsible for design and implementation of a wide variety of innovative rates including time of use, both for large industrial and for residential customers, curtailment incentives, and special rates for retention of water heating loads. She has performed cost allocation studies for utilities serving customers with electricity, natural gas and steam, including a one-year, cross-functional study for a major electric distribution utility.

Following a series of rate specialist positions in both the electricity and natural gas sectors, she was promoted to the position of Manager of Marketing and Energy Management at Toronto Hydro. There, her responsibilities included all rate and regulatory issues, customer research including load research and forecasting, and customer program design with a focus on conservation and demand management.

In her consulting practice, Paula provides a variety of advisory and analytical services to clients facing the challenges of restructured energy markets, with a focus on issues impacted by regulatory policy and process. Her work includes business case and project feasibility analysis, cost allocations and pricing designs, energy sector mergers and acquisitions, and expert testimony before regulators. She is a skilled hands-on analyst and facilitator of cross-functional project teams. She was an instructor in Cost Allocation and Rate Design at CAMPUT's Energy Regulation Course, 2006, 2007 and 2008.

She has performed assignments for clients in North America, China, Ghana, and Barbados.

SELECTED EXPERIENCE BY SUBJECT AREA

(INCLUDES PROJECTS UNDERTAKEN AS A CONSULTANT, AND IN THE COURSE OF RESPONSIBILITIES WITHIN ORGANIZATIONS)

Rate Designs and Pricing Studies

Rogers Cable and Communications Inc. – representation at Ontario Energy Board staff consultation process with regard to rate designs for Ontario's electric distribution utilities; development of policy and position documents, attendance at stakeholder meetings, analysis in support of positions on rate design for General Service classification and unmetered scattered loads; distribution cost allocation stakeholder process and 2006 distribution rate handbook.

Oklahoma Gas and Electric – review of results of residential time of use rate pilot including estimation of impact of the rate design on total customer consumption and peak hour consumption (load shifting).

Summerside Electric/City of Summerside – advisory and analysis service with regard to proposals of Maritime Electric for an Open Access Transmission Tariff.

Nova Scotia Department of Energy – advisory and analysis services to support intervention in Nova Scotia Power's request to the regulator for approval of a fuel adjustment mechanism.

BC Hydro – assisted a staff team in development of a Phase I report on long-term rate strategy; research on rate designs in several North American jurisdictions.

Energy East (RGE and NYSEG) – analysis as to the potential value of load shifting which might take place as result of rate-driven (time of use or critical peak pricing) programs supported by universal interval metering in the State of New York; regulatory precedents as to cost recovery for advanced metering and meter reading technology

East China Grid Company – advice in developing and simulating an unbundled electricity distribution tariff for Shanghai Municipal and four provincial electric power companies

British Columbia Ministry of Energy and Mines – advisory and due diligence services with regard to recommendations by the British Columbia Utilities Commission for implementation of proposed Heritage Contract and stepped rates to wholesale and industrial customers.

Perth-Andover Electric Light Commission – long-term rate strategy and detailed bundled retail rate designs for all electricity consumer classifications.

Coral Energy – analysis, preparation of evidence and expert testimony to Ontario Energy Board supporting by-pass competitive basis for gas distribution pricing to an electricity generation plant

Toronto Hydro-Electric System – development of market-based transfer pricing proposal for services to the regulated distribution utility, from a proposed competitive business affiliate.

Volta River Authority (Ghana) – development of tariff structure and preliminary rates for open access use of the national electric transmission system in Ghana.

Enwave District Energy Limited – determination of appropriate customer classification and pricing design alternatives for a district steam system in a context of competitive electricity and gas markets and wider service choices for existing and potential customers.

Participated in committees and task forces of the Municipal Electric Association (of Ontario), an association representing 300 member utilities, with respect to wholesale and retail rates and regulatory policy issues; and made presentations at meetings and conferences on these subjects.

Toronto Hydro – development and initial implementation of time of use rates for residential and large industrial customers; development of pricing strategies and policies for all customer classes.

Toronto Hydro – development of all customer rate designs, implementation strategy, and preparation of annual submissions for approval of the rates. Managed a team of specialists in the preparation of

associated detailed studies, load forecasts and load research.

ICG Utilities Ltd. – analysis in support of rate designs for natural gas distribution utilities in Manitoba and Alberta, and for propane distribution through pipes in British Columbia. Testimony in public hearings in British Columbia for regulatory approval of natural gas rates.

Testimony before Regulators

ORAL:

Saint John Energy – Testified before the New Brunswick Public Utilities Board in support of intervention in the Cost Allocation and Rate Design application of New Brunswick Power Distribution and Customer Service Corp.

ICG Utilities – coordinated preparation of applications, supporting materials, and other aspects of regulatory process for regional gas utility managements, as member of a head office specialist team; provided expert technical services in rate design, cost allocation, and working capital allowance determination; testified in three hearings before British Columbia regulator

Toronto Hydro – Testified before Ontario Energy Board on bulk power rate issues

Rogers Cable and Communication Inc. – Testified before Ontario Energy Board in support of consensus for treatment of certain unmetered electricity loads in the development of guidelines for electricity distribution rates.

WRITTEN ONLY:

FortisOntario – Two Study to allocate corporate and shared costs among regulated and non-regulated affiliates (2006 and 2009 test years).

EnWin Utilities – study to allocate corporate and shared costs among corporate affiliates

Ontario Power Authority – model development and analysis in support of evaluation of a potential generation, transmission and demand response alternatives in York Region; report in support of generation alternative to the Ontario Energy Board.

City of Summerside – expert testimony in support of intervention in the application of Maritime Electric to the Island Regulatory and Appeals Commission for approval of an Open Access Transmission Tariff (public oral hearing to follow).

Cost Allocation and Load Research

Rogers Cable and Communications Inc. – represented a consumer stakeholder in a regulator-sponsored stakeholder process to determine a cost allocation methodology and analysis approach for information filings by all electric distribution utilities in Ontario.

FortisOntario – methodology review of allocation of shared costs to regulated and non-regulated business units and preparation of evidence for application to Ontario Energy Board for approval of 2006 electricity distribution rates

Perth-Andover Electric Light Commission – study to allocate the bundled costs of electricity service to customer classes and assess the impacts on cost allocation of changes to the wholesale rate structure.

Saint John Energy – two studies to allocate the bundled costs of electricity service to customer classes; one of these studies included analysis of metered system load profiles and publicly available typical customer profiles to develop demand allocation factors (third study including load research data now in progress).

Enwave District Energy Limited – study to allocate costs of service for a district steam system as a basis for pricing redesign; study included analysis of detailed time-related customer consumption data as a basis for allocation of costs, as well as operating and financial data.

Toronto Hydro – planning and execution of customer load research projects, including deployment of research metering, load data analysis and related customer research and surveys.

Toronto Hydro – coordination of first comprehensive cost of service study, a one-year cross-functional project, including in-depth data collection, selection of allocation methodologies and development of computer-based analytical tools. Led subsequent updates and refinements to the study.

ICG Utilities Ltd. – fully allocated cost of service studies for natural gas distribution systems in Manitoba and Alberta, including data analysis and development of computer-based analytical framework.

Ontario Electricity Projects

Enbridge Gas Distribution Inc. – review of role of natural gas in the Ontario electricity mix.

Ontario Power Authority – model development and analysis in support of evaluation of a potential generation, transmission and demand response alternatives in York Region; report in support of generation alternative to the Ontario Energy Board; development of draft RFP and contract documents to procure demand response in York Region.

Hydro Ottawa Holdings Inc. – as part of a larger project to provide strategic advice on four business units, provided financial modeling for valuation of Energy Ottawa Generation.

FortisOntario – assistance in development of response to CHP Phase I procurement initiative by OPA

Ontario Power Authority – advisory services with respect to negotiation of Early Movers contracts

Toronto Hydro – manager responsible for design and implementation of conservation and demand management programs; portfolio included microwave cooking workshops, home and business energy audits; time of use rates; water heating load curtailment incentives; curtailment incentives for commercial buildings; net metering; light bulb and showerhead distribution; information programs for customers. Also cooperated in implementation of initiatives of others, including Better Buildings Partnership (City of Toronto); Green$avers; various programs of Ontario Hydro.

Regulatory and Industry Policy

Ontario Energy Board – comparison of heritage contracts and similar arrangements in leading jurisdictions

Ontario Energy Board – identification of appropriate roles and responsibilities for the OEB under alternative industry and market structure scenarios, including default supply arrangements

Barbados Public Utilities Board – study to recommend procedures, rules and systems for oversight of the natural gas sector by a new regulatory agency.

Toronto Hydro – testimony in public hearings before the Ontario Energy Board on subjects of wholesale and retail rate policy and electricity market development; advised management in strategy related to regulatory compliance and industry regulatory issues.

Electricity Distributors Association -- analysis of cash flow patterns of electricity distribution utilities in Ontario reflecting customer payment patterns and market settlement requirements

Electricity Distributors Association – study to determine the financial benefit to municipalities of ownership of local distribution companies (LDCs).

National Grid Co. -- Assessment and overview report on regulatory framework and issues in Ontario.

Bruce Power – Assessment and overview on industry structure, generation and transmission capacity, pricing and issues in New Brunswick

CMS Energy – report on Ontario electricity industry structure, market, and regulatory environment, in support of decision to respond to RFP for new generation in the province

New Brunswick Municipal Electric Utilities Association – cross jurisdictional survey with respect to policy as to regulation of municipal utilities and rural cooperatives.

CAREER HISTORY

2001 – Present	**BDR** – consultant specializing in rate designs, cost and financial analysis, business planning and energy market restructuring issues.
1998 – 2001	**In association with Acres Management Consulting** – consultant specializing in rate designs, cost and financial analysis, business planning and energy market restructuring issues.
1995 – 1998	**Toronto Hydro** – Manager, Marketing and Energy Management
1993 – 1995	**Toronto Hydro** – Special Assistant to the General Manager (responsible for organizational performance improvement initiatives)
1986 – 1992	**Toronto Hydro** – Supervisor of Rates and Cost Analysis
1984 – 1986	**Toronto Hydro** – Senior Rate Analyst
1981 – 1984	**ICG Utilities Ltd**. – Coordinator, Rate Administration
1979 – 1981	**H. Zinder & Associates Canada Ltd**., Senior Analyst

EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS

Degrees and Designations	Society of Management Accountants of Manitoba, CMA University of Calgary, Masters of Business Administration (Finance) University of Toronto, Bachelor of Arts (Hon), Anthropology
Professional Association	Society of Management Accountants of Manitoba
Continuing Professional Development	Queens University School of Business, Marketing Program Queens University School of Business, Sales Management Program Society of Management Accountants of Canada—Customer Profitability Analysis Society of Management Accountants of Canada—Strategic Cost Management

PROFESSIONAL INVOLVEMENT

Teaching, Training, Committees and Stakeholder Groups	Member, Electricity Distributors Association Commercial Members Steering Committee, 2008 to Present Instructor in Cost Allocation and Rate Design for Annual Energy Regulation Course, CAMPUT (Canadian Association of Members of Public Utility Tribunals) 2006, 2007, 2008. Member – Ontario Energy Board Cost Allocation Working Group (2003 and 2005-6) Member – Municipal Electric Association Cost of Service Sub-Committee (1986-1988)

July, 2010

b. What is Kingston Hydro's response to the recommendations that were made by BDR as summarized on pages 4 – 6 of this document? Please provide specific response to each major area listed.

Nature of Service	Allocation by City to UK	Allocation by UK to Kingston Hydro	BDR Comment or Recommendation	Kingston Hydro Response	Effect on 2011 Operating Expense
System design and construction, operation and maintenance provided through third party contracts	N/A	Amounts directly assigned to each utility and passed through without markup	Accurately tracks cost causation. Since these costs are from arms length suppliers, the price is market-based.	Agreed – no action	None
System design and construction, operation and maintenance provided through UK labour force	N/A	Amounts tracked to specific utility projects through the job order system.	Accurately tracks cost causation. Since there is no third party provider in the Kingston area for the work done by the employees, there is considered to be no market.	See reply to part e of the question	None
Billing and collection	N/A	Adjusted number of customers	Reasonable method. A refinement reflecting the relative complexity of each utility bill should be considered. Market price data should be collected if available.	Market pricing to be reviewed in preparation for Services Agreement renewal September 2012	None
Regulatory and financial functions provided by UK	N/A	Number of customers	Recommend time records as basis of allocation.	Under investigation - preliminary investigation indicates will result in an increase to charges to Kingston Hydro from ~23% to ~%50%; tracking to start in IRM period	None
Procurement and warehouse overheads	N/A	Equally to four utilities (25% each)	Reasonable method given the type of cost and use of the resources.	Agreed – no action	None

Nature of Service	Allocation by City to UK	Allocation by UK to Kingston Hydro	BDR Comment or Recommendation	Kingston Hydro Response	Effect on 2011 Operating Expense
Training, recruitment, labour relations and safety	N/A	Number of customers	Recommend direct assignment where available, otherwise number of employees.	Direct assignment is used where applicable (ie training expenses). Preliminary analysis of FTE ratio indicates an increase form a 23% allocation to 26.3%	↑$27,190
Vehicles	By hourly use records	By hourly use records	Consistent with acceptable cost allocation.	Agreed – no action	None
Information Systems other than GIS	Number of desktop computers	Number of customers.	Recommend allocation from UK to Kingston Hydro based on the allocation of employees who use computers.	Agreed – preliminary analysis suggests that allocation will increase from 23% to 25.0%	↑$15,484
GIS Services	Management judgment	Management judgment	Reasonable method in view of the nature of the cost.	Agreed – no action	None
Client Services	Time, based on a call monitoring system	Non-weighted number of customers.	Reasonable method in the absence of data supporting a weighting factor.	Agreed – no action. If a weighting factor was to be applied the likely outcome would be an increase to Kingston Hydro as the calls regarding electricity issues are more complex than other utility services	None
Human Resources	Number of employees	Number of customers.	Recommend an FTE approach.	Agreed being investigated Preliminary analysis of FTE ratio indicates an	

Nature of Service	Allocation by City to UK	Allocation by UK to Kingston Hydro	BDR Comment or Recommendation	Kingston Hydro Response	Effect on 2011 Operating Expense
				increase form a 23% allocation to 26.3%	↑$5,733
Communications	Staff time records	Number of customers	Reasonable method for communications activities that address all utility customers. Direct assignment of time and other costs is recommended where a communication program is dedicated to a specific utility.	Direct assignment being investigated.	None
Financial services other than payment processing	Supervisor's estimate of time spent	Number of customers	Given that the services cannot be separately identified with each utility, BDR accepts the existing methodology as reasonable.	Agreed – no action	None
Back office payment processing	Number of payments	Number of customers	Reasonable and consistent with accepted cost allocation approaches.	Agreed – no action	None
Legal	Management analysis of activities and time spent	Number of customers.	Recommend management analysis of time spent.	Being investigated	None
Insurance	Proportion of time spent	Number of customers	Recommend estimate of proportion of time spent.	Being investigated	None
CAO Office	Estimate of time spent	No charge to Kingston Hydro	N/A	Agreed – no action	None
Mail room	Pieces of mail	Number of customers	In view of the small cost involved and the complexity of any in-depth analysis, BDR accepts the methodology as reasonable.	Agreed – no action	None

Nature of Service	Allocation by City to UK	Allocation by UK to Kingston Hydro	BDR Comment or Recommendation	Kingston Hydro Response	Effect on 2011 Operating Expense
Occupancy costs	Square footage	Management judgment	Recommend office-based FTEs for office space, management judgment for warehouse space.	Agreed being investigated – preliminary analysis indicates an increased allocation form 23% to 35.4%	↑$83,026
					$131,433

c. When does Kingston Hydro anticipate that the recommended changes could be implemented?

For those issues that require market pricing implementation would be on renewal of the Services agreement in September 2012. For other services, adjustments could be incorporated to operating expenses in for 2011. However, if the recommended changes are implemented at these times, the incremental costs during the IRM period would need to be recovered through rates. As illustrated in part b. above, Kingston Hydro has calculated the incremental ongoing OM&A cost in the Test Year to be $131,433. The following table details the calculations:

Service	Total Expense	Expense at previous percentage	Expense at recommended percentage	Increase in expense
Training, Recruitment and Labour relations	$ 627,352	$ 144,291	$ 164,994	$ 20,703
Safety	$ 196,561	$ 45,209	$ 51,696	$ 6,487
Information Systems other than GIS	$ 774,185	$ 178,063	$ 193,546	$ 15,484
Human Resources	$ 173,739	$ 39,960	$ 45,693	$ 5,733
Occupancy Costs	$ 669,565	$ 154,000	$ 237,026	$ 83,026
Total				$ 131,432

d. On page 3, the report indicates that, "For finance, call centre, communications and human resources/payroll, the City charges UK based on employee time. The charge includes a 25% increment to wages and salaries to allow for employee benefits." On what basis is the 25% determined and how often is this percentage adjusted? Please provide a record of how this percentage was adjusted from 2000 on.

Please see attached analysis for 2006 to 2010. Input data includes CPP, EI, Extended Health benefits, Life insurance, Long term disability and WSIB as applicable. (Note City of Kingston is self insuring for WSIB and those costs are not captured in the calculation.). The information is reviewed annually.

This information is not readily available for the years 2000 – 2005.

COST OF BENEFITS (APPROX.) 2010

	Cupe 109 Skilled Operator	Cupe 109 - P/T with OMERS & Health/Dental	Non Union Mgmt	IBEW ELECTRIC JOURNYMN	IBEW SERICE-PERSON	IBEW UGRD CONSTRTN	IBEW-CITY CUSTOMER SERV REP
ANNUAL SALARY	**53,831**	**46,610**	**75,000**	**68,786**	**54,704**	**52,354**	**49,213**
Employer paid costs							
CPP	2,193	2,134	2,193	2,193	2,193	2,193	2,193
EI	981	1,056	981	981	981	981	981
OMERS	3,687	2,983	5,758	5,131	3,746	3,520	3,214
EHT (1.95%)	1,058	909	1,475	1,349	1,070	1,025	963
Vacation % - 7		3,263					
Vacation % - 4							
% in lieu - 13							
EXTENDED HEALTH	3,187	3,187	2,857	3,097	3,097	3,097	2,951
DENTAL	1,139	1,139	1,279	1,108	1,108	1,108	1,127
Deluxe Travel - Employer Paid				58	58	58	58
LIFE INSURANCE	436		625	256	176	196	183
AD & D	42		58				
LTD	3,295		1,804	705	705	705	655
WSIB (1.01 per hundred)				699	554	531	n/a
TOTAL BENEFITS	**16,018**	**14,671**	**17,030**	**15,577**	**13,688**	**13,414**	**12,325**
Total benefit %	30%	31%	23%	23%	25%	26%	25%

COST OF BENEFITS (APPROX.) 2009				*Utilities*			
	Cupe 109 Skilled Operator	Cupe 109 Clerical P/Time	Non Union Mgmt	IBEW ELECTRIC JRNYMA	IBEW SERICE-PERSON	IBEW UGRD CONSTRTN	IBEW-CITY CUSTOMER SERV REP
ANNUAL SALARY	**53,046**	**45,238**	**75,000**	**66,795**	**53,108**	**50,870**	**47,570**
Employer paid costs							
CPP	2,124	2,066	2,124	2,124	2,124	2,124	2,124
EI	935	935	935	935	935	935	935
OMERS	3,590	2,813	5,690	4,884	3,577	3,365	3,051
EHT (1.95%)	1,034	882	1,463	1,303	1,036	992	928
Vacation % - 7		3,167					
% in lieu - 13		5,881					
EXTENDED HEALTH	3,435		3,203	3,543	3,543	3,543	3,368
DENTAL	1,133		1,285	1,113	1,113	1,113	1,133
Deluxe Travel - Employer Paid				39	39	39	39
LIFE INSURANCE	368		521	240	170	180	170
AD & D	51		72				
LTD	2,746		1,503	699	699	699	699
WSIB (1.01 per hundred)				675	536	514	n/a
TOTAL BENEFITS	**15,416**	**15,744**	**16,795**	**15,554**	**13,771**	**13,504**	**12,446**
Total benefit %	29%	35%	22%	23%	26%	27%	26%

COST OF BENEFITS (APPROX.) 2008				*Utilities*			
	Cupe 109 Skilled Operator	Cupe 109 Clerical P/Time	Non Union Mgmt	IBEW ELECTRIC JRNYMAN	IBEW SERICE-PERSON	IBEW UGRD CONSTRTN	IBEW-CITY CUSTOMER SERV REP
ANNUAL SALARY	**50,752**	**43,917**	**75,000**	**65,166**	**51,813**	**49,587**	**45,045**
Employer paid costs							
CPP	2,039	2,001	2,039	2,039	2,039	2,039	2,039
EI	959	1,033	959	959	959	959	959
OMERS	3,532	659	7,498	4,891	3,603	3,390	3,082
EHT (1.95%)	999	856	1,805	1,275	1,013	970	907
Vacation % - 7		3,074					
% in lieu - 13		5,709					
EXTENDED HEALTH	3,067		2,888	3,163	3,163	3,163	2,892
DENTAL	1,182		1,270	1,100	1,100	1,100	1,120
Deluxe Travel - Employer Paid				39	39	39	39
LIFE INSURANCE	478		868	218	152	163	127
AD & D	53		96				
LTD	3,290		2,040	804	804	804	804
WSIB (1.01 per hundred)				660	525	502	n/a
TOTAL BENEFITS	**15,599**	**13,333**	**19,463**	**15,148**	**13,397**	**13,129**	**11,969**
Total benefit %	31%	30%	26%	23%	26%	26%	27%

COST OF BENEFITS (APPROX.) 2007				*Utilities*			
3%	Cupe 109 Skilled Labourer	Cupe 109 Clerical P/Time	Non Union Mgmt	IBEW ELECTRIC JRNYMAN	IBEW SERICE-PERSON	IBEW UGRD CONSTRTN	IBEW CUSTOMER SERV REP
ANNUAL SALARY (04)	**49,275**	**40,791**	**84,375**	**60,157**	**50,304**	**48,140**	**45,047**
Employer paid costs							
CPP	1,911	1,846	1,911	1,911	1,911	1,911	1,911
EI	723	723	723	723	723	723	723
OMERS	3,426	opt after...	6,795	4,470	3,525	3,316	3,020
EHT	961	795	1,645	1,173	981	939	878
Vacation % - 4		1,632					
% in lieu - 13		5,303					
EXTENDED HEALTH	2,690		2,533	2,774	2,774	2,774	2,536
DENTAL	1,037		1,176	1,019	1,019	1,019	1,036
VISION	incl. EHC						
SEMI PRIVATE							
LIFE INSURANCE	415		734	194	136	152	143
AD & D	46		81	Nil	Nil	Nil	Nil
LTD	3,167		1,957	700	700	700	700
LTD (based on 18 days per yr)							
WSIB				704	446	359	
SICK LEAVE (Short term)							
TOTAL BENEFITS	**14,376**	**10,299**	**17,555**	**13,668**	**12,215**	**11,892**	**10,947**
Benefit %							
Benefits not included							
Self insured WSIB							
Self insured STD							
Total benefit %	29%	25%	21%	23%	24%	25%	24%

City of Kingston
Budget 2006
Schedule of employer benefit costs
(based on specific employee types)

COST OF BENEFITS (APPROX.) 2006				*Utilities*			
3%	Cupe 109 Skilled Labourer	Cupe 109 Clerical P/Time	Non Union Mgmt	IBEW ELECTRIC JRNYMAN	IBEW SERICE-PERSON	IBEW UGRD CONSTRTN	IBEW CUSTOMER SERV REP
ANNUAL SALARY	**47,840**	**37,844**	**81,384**	**61,894**	**47,647**	**49,682**	**43,790**
Employer paid costs							
CPP	1,832	1,832	1,832	1,832	1,832	1,832	1,832
EI	772	738	772	772	772	772	772
OMERS	3,319	opt after...	6,539	4,313	3,059	3,238	2,720
EHT	933	738	1,587	1,207	929	969	854
Vacation % - 4		1,514					
% in lieu - 13		4,920					
EXTENDED HEALTH	2,711		2,534	2,448	2,448	2,448	2,448
DENTAL	1,088		1,203	1,063	1,063	1,063	1,063
VISION	incl. EHC						
SEMI PRIVATE							
LIFE INSURANCE	380		599	373	383	383	25
AD & D	40		62	Nil	Nil	Nil	Nil
LTD	4,878		2,847	818	818	818	545
LTD (based on 18 days per yr)							
WSIB				724	422	370	
SICK LEAVE (Short term)							
TOTAL BENEFITS	**15,951**	**9,741**	**17,975**	**13,550**	**11,726**	**11,893**	**10,259**
Benefit %							
Benefits not included							
Self insured WSIB							
Self insured STD							
Total benefit %	33%	26%	22%	22%	25%	24%	23%

e. On page 10, with regard to system design and construction, operations and maintenance services, it is reported that "UK management advised that there is no local third party provider of the services." On what basis is this statement made? Please provide further evidence to underpin this statement.

The statement is made on the basis of UK staff knowledge of the local market, and challenges experienced in obtaining contractors to perform work in the past.

This includes a necessity to go to the metro Toronto area in the past for engineering services, to Western Ontario for services to construct a substation, and even a difficulty in obtaining more than two bids on a number of jobs for civil construction.

CAPITAL EXPENDITURES

Ref: Response to Board staff IR#33

Second Round Interrogatory #8

In this response Kingston Hydro provided Year-to-date (September 30) capital expenditures. In comparison to the test year evidence in the application, total capital expenditures are tracking at slightly half of forecast levels. Please provide a summary of the major reasons that actual expenditures are tracking lower than forecast and if Kingston Hydro still expects bridge year forecast levels to be achieved.

The primary causes for the capital expenditures tracking lower than anticipated by the end of September 2010 are the following:

- The $609,000 for the Gardiner T.S. Expansion, was recorded in October, 2010.
- The Princess St. Reconstruction project came in approximately $400,000 lower than originally projected due to:

    - the City of Kingston waiving soft costs of approximately $200,000;
    - a $50,000 environmental contingency amount for dealing with contaminated soils was not required;
    - $55,000 of duct work was determined to be a cost borne by the City of Kingston for Traffic Signals and Streetlights;
    - $45,000 in special excavation work around direct buried cables was not required
    - Cost of 100mm duct was less than estimated.

Those 2 items alone, account for $1 million, and if added to the third quarter capital expenditures, would be 74% of budget. Additionally, the Princess St. Reconstruction project, completed at the end of June, consumed a majority of the key staff that are required for some of the other major projects such as all of the transformer vault projects and the substation battery replacement program. Those staff then concentrated on the Barrie St. Reconstruction project and the Substation Maintenance program. This explains why so many of the transformer vault projects, as well as the battery replacements, are being completed in the last quarter.

In October, the Applicant received a customer payment as capital contribution due to an insufficient load associated with a previous connection. This $333,000 credit to the capital expenditures equates to 7.4% of the 2010 budget, however even with that, Kingston Hydro is expecting that actual net expenditures will be just less than 3% below the bridge year forecast level.

PAYMENTS IN LIEU OF TAXES (PILS)

Ref: Response to Board staff IR #44*, PILs or Income Taxes Work Form, Exhibit 4/ Tab 8/Schedule 1/Attachment 3, Exhibit 4/Tab 5/Schedule 1/Page 1*

Second Round Interrogatory #9

As per the PILs or Income Taxes Work Form and Exhibit 4/ Tab 8/Schedule 1/Attachment 3, Kingston Hydro provided the historic and bridge Schedule 13 Tax Reserves. Kingston Hydro updated the bridge year and provided the test year Schedule 13 Tax Reserves in the response to Board staff Interrogatory #44.

For the calculation of the 2011 test year PILs provision, $1,544,435 of post-employment benefit reserves (end of year reserves)was included as an addition to book to tax adjustments and $1,254,336 (beginning of year reserves) of post-employment benefit reserves was included as a deduction to book to tax adjustments.

As per Exhibit 4/Tab 5/Schedule 1/Page 1, Kingston Hydro does not have any employees. Kingston Hydro, the regulated utility, has an agreement with Utilities Kingston to manage the electricity distribution business.

a. ***Please confirm that for the historic, bridge, and test years 2009 through 2011 the number of full time employees actually directly employed or forecasted to be directly employed by Kingston Hydro, the regulated utility, is zero. If this is not the case, please provide the relevant numbers.***

   Confirmed.

b. ***Please confirm that for 2009, the number of full time employees for which Kingston Hydro issued the federal government Statement of Remuneration Paid (T4s) is zero. If this is not the case, please provide the relevant number.***

   Confirmed.

c. ***Please explain why the dollar value of the additions and deductions of other post-employment benefit reserves are correct in relation to the actual number of employees directly employed by Kingston Hydro, the regulated utility.***

   The dollar value of the additions and deductions of other future benefit liability reserves are correct in relation to the actual number of employees who service Kingston Hydro. An actuarial report is used to arrive at the numbers based on an identified number of employees that are employed by Utilities Kingston but perform work for Kingston Hydro. Kingston Hydro is responsible for these charges in accordance with the UK/KH agreement included in the application at Exhibit 1 Tab 2 Schedule 3 Attachment 3. For tax purposes, the accrued future benefit liabilities are considered a contingent liability and are not deductible as accrued, but rather deductible when the expense is

actually paid. The PILs adjustment made through Schedule 1 to the tax return effectively converts the expense from being deducted on an accrual basis to a deduction on a cash paid basis.

d. Please provide a schedule with an updated 2011 test year PILs provision and the relevant tables and schedules excluding the addition and deduction of book to tax adjustments of end of year ($1,544,435) and beginning of year ($1,254,336) post-employment benefit reserves.

Please find schedule attached.

e. Please provide the most recent actuarial valuations of other post-employment benefits for Kingston Hydro, the regulated utility, for the period 2009.

The following table is included in Actuarial Update of the City of Kingston's December 31, 2007 Retirement Benefit and Accumulated Sick Leave PSAB Valuation Results to December 31, 2009.

Utilities

	2009	2008	2007
Accrued Benefit Obligation January 1st	$ 4,305,007	$ 4,239,741	$ 3,769,248
Add: Benefit/Service Cost	$ 159,245	$ 148,688	$ 73,231
Increase due to plan amendment	$ -	$ -	$ -
Interest	$ 210,255	$ 208,408	$ 218,983
Less: Expected Benefit Payments	$ 359,044	$ 291,831	$ 312,306
Expected Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 3,749,155
Actual Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 4,239,741
Unamortized actuarial gain / (loss) from 2007 Valuation	$ (518,727)	$ (452,848)	$ (490,585)
Unamortized actuarial gain / (loss) from 2004 Valuation	$ (415,111)	$ (605,182)	$ (691,636)
Liability at December 31st (to be reported on Balance Sheet)	$ 3,381,625	$ 3,246,977	$ 3,057,519

Please see attachment for excerpt from the City's 2009 report.

Note 5 (a) of the December 31, 2009 audited financial statements of 1425445 Ontario Limited (Operating as Utilities Kingston) reflect the 2009 liability at December 31st of $3,381,625 per the above table.

The calculations in the next two tables provide the calculation to determine Kingston Hydro's portion of the liability of $3,381,625, calculated to be $1,006,338. The methodology utilized is taking a payroll query of all staff time for the year by utility charged and then expensing the difference in year-end liability amongst the utilities.

Dec 31 2008	Total Utilities Liability at Dec 31 2009	Diff
3,246,977	3,381,625	134,648

Cost Allocation %:	2008 Active %	2009 Active %
Electric	27.29%	28.64%
Gas	13.17%	13.16%
Water	31.62%	32.70%
Sewer	27.92%	25.51%
	100.0%	100.0%

Applying all current year expense based on active % only

	Beginning Balance Liability 2008	2009 Expense	End Balance Liability 2009
Electric (UKEDL.290901.001)	967,775	38,563	1,006,338
Gas	796,830	17,716	814,545
Water	956,839	44,027	1,000,866
Sewer	525,533	34,343	559,876
(CITYK.290901.001)	2,279,202	96,085	2,375,287
	3,246,977	134,648	3,381,625

Note 12 (b) of Kingston Hydro Corporation's audited financial statements for the year ended December 31, 2009 shows the $1,006,343 of accrued benefit liability at December 31, 2009.

PILs or Income Taxes Work Form
Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Taxable Income Test Year

	T2 S1 line #	Test Year Taxable Income
Net Income Before Taxes		1,699,816
Additions:		
Interest and penalties on taxes	103	
Amortization of tangible assets *2-4 ADJUSTED ACCOUNTING DATA P489*	104	2,018,410
Amortization of intangible assets *2-4 ADJUSTED ACCOUNTING DATA P490*	106	24,465
Recapture of capital cost allowance from Schedule 8	107	
Gain on sale of eligible capital property from Schedule 10	108	
Income or loss for tax purposes- joint ventures or partnerships	109	
Loss in equity of subsidiaries and affiliates	110	
Loss on disposal of assets	111	
Charitable donations	112	
Taxable Capital Gains	113	
Political Donations	114	
Deferred and prepaid expenses	116	
Scientific research expenditures deducted on financial statements	118	
Capitalized interest	119	
Non-deductible club dues and fees	120	
Non-deductible meals and entertainment expense	121	1,013
Non-deductible automobile expenses	122	
Non-deductible life insurance premiums	123	
Non-deductible company pension plans	124	
Tax reserves beginning of year	125	
Reserves from financial statements- balance at end of year	126	0
Soft costs on construction and renovation of buildings	127	
Book loss on joint ventures or partnerships	205	
Capital items expensed	206	
Debt issue expense	208	
Development expenses claimed in current year	212	
Financing fees deducted in books	216	
Gain on settlement of debt	220	
Non-deductible advertising	226	
Non-deductible interest	227	
Non-deductible legal and accounting fees	228	
Recapture of SR&ED expenditures	231	
Share issue expense	235	
Write down of capital property	236	
Amounts received in respect of qualifying environment trust per paragraphs 12(1)(z.1) and 12(1)(z.2)	237	
Other Additions: (please explain in detail the nature of the item)		
Interest Expensed on Capital Leases	290	
Realized Income from Deferred Credit Accounts	291	
Pensions	292	
Non-deductible penalties	293	
	294	
	295	
	296	
	297	
Total Additions		**2,043,888**
Deductions:		
Gain on disposal of assets per financial statements	401	
Dividends not taxable under section 83	402	
Capital cost allowance from Schedule 8	403	2,097,776
Terminal loss from Schedule 8	404	
Cumulative eligible capital deduction from Schedule 10 CEC	405	46,968
Allowable business investment loss	406	
Deferred and prepaid expenses	409	
Scientific research expenses claimed in year	411	
Tax reserves end of year	413	
Reserves from financial statements - balance at beginning of year	414	0
Contributions to deferred income plans	416	
Book income of joint venture or partnership	305	
Equity in income from subsidiary or affiliates	306	
Other deductions: (Please explain in detail the nature of the item)		
Interest capitalized for accounting deducted for tax	390	
Capital Lease Payments	391	
Non-taxable imputed interest income on deferral and variance accounts	392	
Kingston Hydro financing fees 2009-2013 20% deduction	393	1,243
	394	
	395	
	396	
	397	
Total Deductions		**2,145,987**
NET INCOME FOR TAX PURPOSES		**1,597,717**
Charitable donations	311	
Taxable dividends received under section 112 or 113	320	
Non-capital losses of preceding taxation years from Schedule 7-1	331	
Net-capital losses of preceding taxation years (Please show calculation)	332	
Limited partnership losses of preceding taxation years from Schedule 4	335	
REGULATORY TAXABLE INCOME		**1,597,717**

PILs or Income Taxes Work Form
Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136 .
Rate Year: 2011

PILs,Tax Provision

							Wires Only	
Regulatory Taxable Income							$ 1,597,717	A
Ontario Income Taxes								
Income tax payable	**Ontario income tax**	11.75%	B	$	187,732	C = A * B		
Small business credit	Ontario Small Business Threshold	$ 500,000	D					
	Rate reduction	-7.25%	E	-$	36,250	F = D * E		
Ontario Income tax							$ 151,482	J = C + F
Combined Tax Rate and PILs	Effective Ontario Tax Rate				9.48%	K = J / A		
	Federal tax rate				16.50%	L		
	Combined tax rate						25.98%	M = L + L
Total Income Taxes							$ 415,105	N = A * M
Investment Tax Credits								O
Miscellaneous Tax Credits								P
Total Tax Credits							$ -	Q = O + P
Corporate PILs/Income Tax Provision for Test Year							$ 415,105	R = N - Q
Corporate PILs/Income Tax Provision Gross Up					71.75%	S = 1 - M	$ 163,439	T = R / S - N
Income Tax (grossed-up)							$ 578,544	U = R + T
Ontario Capital Tax (not grossed-up)							$ -	V
Tax Provision for Test Year Rate Recovery							$ 578,544	W = U + V

OEB # 9

e. Please provide the most recent actuarial valuations of other post-employment benefits for Kingston Hydro, the regulated utility, for the period 2009.

The following table is included in Actuarial Update of the City of Kingston's December 31, 2007 Retirement Benefit and Accumulated Sick Leave PSAB Valuation Results to December 31, 2009.

Utilities

	2009	2008	2007
Accrued Benefit Obligation January 1st	$ 4,305,007	$ 4,239,741	$ 3,769,248
Add: Benefit/Service Cost	$ 159,245	$ 148,688	$ 73,231
Increase due to plan amendment	$ -	$ -	$ -
Interest	$ 210,255	$ 208,408	$ 218,983
Less: Expected Benefit Payments	$ 359,044	$ 291,831	$ 312,306
Expected Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 3,749,155
Actual Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 4,239,741
Unamortized actuarial gain / (loss) from 2007 Valuation	$ (518,727)	$ (452,848)	$ (490,585)
Unamortized actuarial gain / (loss) from 2004 Valuation	$ (415,111)	$ (605,182)	$ (691,636)
Liability at December 31st (to be reported on Balance Sheet)	$ 3,381,625	$ 3,246,977	$ 3,057,519

Note 5 (a) of the December 31, 2009 audited financial statements of 1425445 Ontario Limited (Operating as Utilities Kingston) reflect the 2009 liability at December 31st of $3,381,625 per the above table.

The calculations in the next two tables provide the calculation to determine Kingston Hydro's portion of the liability of $3,381,625, calculated to be $1,006,338. The methodology utilized is taking a payroll query of all staff time for the year by utility charged and then expensing the difference in year-end liability amongst the utilities.

Dec 31 2008	Total Utilities Liability at Dec 31 2009	Diff
3,246,977	3,381,625	134,648

Cost Allocation %:	2008 Active %	2009 Active %
Electric	27.29%	28.64%
Gas	13.17%	13.16%
Water	31.62%	32.70%
Sewer	27.92%	25.51%
	100.0%	100.0%

Applying all current year expense based on active % only

	Beginning Balance Liability 2008	2009 Expense	End Balance Liability 2009
Electric (UKEDL.290901.001)	967,775	38,563	1,006,338
Gas	796,830	17,716	814,545
Water	956,839	44,027	1,000,866
Sewer	525,533	34,343	559,876
(CITYK.290901.001)	2,279,202	96,085	2,375,287
	3,246,977	134,648	3,381,625

Note 12 (b) of Kingston Hydro Corporation's audited financial statements for the year ended December 31, 2009 shows the $1,006,343 of accrued benefit liability at December 31, 2009.

Utilities

	2009	2008	2007
Accrued Benefit Obligation January 1st	$ 4,305,007	$ 4,239,741	$ 3,769,248
Add: Benefit/Service Cost	$ 159,245	$ 148,688	$ 73,231
Increase due to plan amendment	$ -	$ -	$ -
Interest	$ 210,255	$ 208,408	$ 218,983
Less: Expected Benefit Payments	$ 359,044	$ 291,831	$ 312,306
Expected Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 3,749,155
Actual Accrued Benefit Obligation at December 31st	$ 4,315,463	$ 4,305,007	$ 4,239,741
Unamortized actuarial gain / (loss) from 2007 Valuation	$ (518,727)	$ (452,848)	$ (490,585)
Unamortized actuarial gain / (loss) from 2004 Valuation	$ (415,111)	$ (605,182)	$ (691,636)
Liability at December 31st (to be reported on Balance Sheet)	$ 3,381,625	$ 3,246,977	$ 3,057,519

f. Does the burden rate charged by Utilities Kingston to Kingston Hydro include a component for post employment benefits? Please explain if this is or is not the case.

The burden rate charged by Utilities Kingston to Kingston Hydro does not include a component for post employment benefits.

g. If a regulated distributor has a service company or parent company that provides services to the LDC, and the service company or parent charges the distribution utility for labour including all overhead burdens, does Kingston Hydro believe that the change in the post-employment benefit liability of the service company or parent company should be reflected in the distributor's PILs provision? Please explain.

Kingston Hydro believes that that the change in the post-employment benefit liability of the service company should not be reflected in the distributor's PILs provision. However, the change in the distributor's future benefit obligations should be reflected in the distributor's PILs provision for the reasons outlined in the answer to 9 (c) above.

h. Should the post employment benefit obligations be shown in the records of the company that directly employs the people and issues the federal government Statement of Remuneration Paid (T4s)? Please explain.

Yes. The post employment benefit obligations are shown in the records of Utilities Kingston, the Company that directly employs the people and issues the T4s. Utilities Kingston has accrued the post-employment benefit obligations for all of its employees. However, Utilities Kingston has also has accrued a receivable from Kingston Hydro equal to the post-employment benefits for those employees that provide services to Kingston Hydro and for which Kingston Hydro is responsible to reimburse UK in the future in accordance with the UK/KH agreement. Kingston Hydro records future benefit obligation liabilities in accordance with this agreement.

i. Should the movement in any post-employment benefit liability be used in the PILs provision methodology only if the people are directly employed by the regulated distributor and the distributor issues the T4s for these people? Please explain.

No. Under Canadian GAAP, Kingston Hydro is required to recognize this cost as the benefit is received and therefore an accrual must be made in Kingston Hydro to represent this cost which is directly attributable to its current operations. As required, this liability is deductible for tax purposes on a payable basis, rather than an accrual basis. The movement in Kingston Hydro's future benefit obligation should be used in the PILs provision methodology because these accruals are not deductible for tax purposes until paid.

j. Does Kingston Hydro agree that any post-employment benefit liabilities for staff employed by service companies, or other affiliated or associated non-regulated companies, should not be used in the distributor's PILs provision calculations? Please explain.

No. Kingston Hydro does not agree. Kingston Hydro is obligated to pay Utilities Kingston for these benefits under the terms of the UK/KH agreement. These costs are accrued in Kingston Hydro in accordance with GAAP which is the starting point for any calculation of taxable income. Kingston Hydro is responsible for these costs under the terms of the contract with UK in the same manner if Kingston Hydro had directly employed these individuals.