# Horizon Utilities Corporation
# 2011 EDR
# EB-2010-0131

## *Board staff Interrogatories*

### *General*

### 1. Responses to Letters of Comment

Following publication of the Notice of Application, did Horizon receive any letters of comment? If so, please confirm whether a reply was sent from the applicant to the author of the letter. If confirmed, please file that reply with the Board. If not confirmed, please explain why a response was not sent and confirm if Horizon intends to respond.

### *Administration*

### 2. Ref: E1/T1/13 – Corporate Structure

Horizon Holdings Inc., the parent to Horizon Utilities Corp., wholly owns both Horizon Utilities Corporation and Horizon Solar Corporation. Horizon Solar Corporation is a holding company with 0.1% interest in Solar Sunbelt General Partnership ("SSGP"), with Horizon Utilities owning about 99.9% interest in SSGP.

a) When was Horizon Solar Corporation and SSGP established?
b) Please provide further explanation on why this corporate structure was established? What are the benefits of this arrangement for Horizon Utilities Corporation, particularly with respect to its financial viability and providing distribution services to its ratepayers?

### 3. Ref: E1/T3/S1/Appendix 1-10 – Audited Financial Statements

Please provide a copy of Horizon Utilities Audited Financial Statements for the year ending December 31, 2008.

### 4. Ref: E1/T4/S1/Appendiux 1-15 – Conditions of Service

Horizon has included a copy of its current Conditions of Service in the referenced schedule.

a) Please identify any rates and charges that are included in Horizon's Conditions of Service, and provide an explanation for the nature of the costs being recovered.

b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.
c) Please explain whether, in Horizon's view, these rates and charges should be included on Horizon's Board-approved Tariff of Rates and Charges.
d) Are any changes to Horizon's Conditions of Service contemplated to align with this application for 2011 distribution rates for Horizon, if the application is approved as proposed? If so, please identify the possible changes and the reasons for them.

## ***Rate Base***

### 5. Ref: E1/T2/S1/pp. 6-10, E2/T1/S1 and E2/T1/S2

Horizon notes in E1/T2/S1 that it deferred some operating and capital programmes and projects, starting in 2009, in light of reduced revenues resulting from reduced load, primarily from larger commercial and industrial customers. It quotes from the record in its Z-factor application considered under Board File No. EB-2009-0332.

The Rate Base variance table 2-1 in E2/T1/S1 and the rate base variance analysis discussed in E2/T1/S2 shows that Horizon has increased its net fixed assets in every year since 2007. The following table, prepared by Board staff, shows the annual growth rates, and the geometric mean annual growth rate from 2007 to 2011. The annual growth rate ranges from 2.8% to 4.2%, averaging 3.8% over the period. Growth in net fixed assets is highest from 2009 to 2011.

| | 2007 Actual | 2008 OEB Approved | 2008 Actual | 2009 Actual | 2010 Bridge Year | 2011 Test Year |
|---|---|---|---|---|---|---|
| Average Fixed Assets | $271,377,722 | $280,832,772 | $279,033,671 | $290,779,112 | $302,301,149 | $315,023,558 |
| Working Capital Allowance | $ 64,730,069 | $ 65,587,452 | $ 62,278,977 | $ 60,393,662 | $ 66,863,422 | $ 61,866,468 |
| Total Rate Base | $336,107,791 | $346,420,224 | $341,312,648 | $351,172,774 | $369,164,571 | $376,890,026 |

| Annual % Change | 2008 vs. 2007 | 2009 vs. 2008 | 2010 vs. 2009 | 2011 vs. 2010 | 2011 vs. 2007 |
|---|---|---|---|---|---|
| Average Fixed Assets | 2.82% | 4.21% | 3.96% | 4.21% | 3.80% |
| Working Capital Allowance | -3.79% | -3.03% | 10.71% | -7.47% | -1.12% |
| Total Rate Base | 1.55% | 2.89% | 5.12% | 2.09% | 2.90% |

a) Please explain the strong growth in net fixed assets from 2009 to 2011 in light of Horizon's evidence that it began deferring projects.
b) Please quantify, in terms of dollars and % of capex, what capital projects deferred in 2008 or 2009, have been included in 2010 and 2011 capital projects and capital additions.

**6. Ref: E2/T3/S1 – Capital Expenditures 2007 to 2013 Forecast**

Board staff has prepared the table on the following page that summarizes Horizon's capital expenditures from 2007 Actual to 2013 Forecast as documented in Tables 2-16, 2-17, 2-20, 2-21, 2-22, 2-23, 2-27, 2-32 and 2-33.

a) Please confirm or correct the numbers documented in the table.
b) Please provide, for 2010:
   i. Year-to-Date actuals, and indicate the end-date used
   ii. Expected Y-E results to December 31, 2010, based on YTD Actuals.
   iii. Please explain the drivers for the significant variances between 2010 Budget and 2010 Y-E Expected Capex.

**7. Ref: E2/T3/S1, Board staff IR # 6**

With reference to the summary table of capital expenditures referenced in Board staff IR # 6 above, capital projects exceeding the $500,000 threshold account for 38.6% of 2007 actual capex, 60.5% of 2008 actual capex, and 41.9% of 2009 actual capex. This leaves a large portion of annual capital expenditures unexplained.

For each of 2007, 2008 and 2009, please provide further documentation on capital expenditures incurred for projects under the $500,000 materiality threshold. Such documentation should identify the nature and drivers and benefits for projects, albeit at a higher level than the explanations for significant projects already provided in Horizon's application and that exceed the materiality threshold.

**8. Ref: E2/T2/S1 Tables 2-32 and 2-33, Board staff IR # 6**

In E2/T3/S1/Table 2-32, Horizon documents 2011 forecasted Distribution Plant capital expenditures of $32,960,133. In Table 2-33, Horizon documents 2011 capital projects exceeding $100,000 as being $37,383,695.

a) Please provide a reconciliation between Tables 2-32 and 2-33.
b) If the tables shown in E2/T3/S1 and summarized in the table provided in Board staff IR #6 do not correspond to all of Horizon's capital expenditures from 2007 to 2013 forecast, please provide a table using the format shown in Board staff IR # 6 for all capital expenditures (budget and actual, as applicable).

# Summary Table of Capital Expenditures – Ref: Board staff IR # 6

| **Capex** | **2007** | | | **2008** | | | **2009** | | | **2010** | | | **2011 Test** | **2012 Forecast** | **2013 Forecast** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual YTD** | **YE Expected** | **Budget** | **Budget** | **Budget** |
| Customer Demand | $8,770,000 | $10,424,877 | $1,654,877 | $8,239,423 | $7,642,977 | -$596,446 | $13,950,000 | $8,852,427 | -$5,097,573 | $12,962,596 | | | $7,406,467 | $7,637,022 | $8,195,066 |
| Renewal | $8,353,000 | $8,137,381 | -$215,619 | $8,795,000 | $8,452,500 | -$342,500 | $12,010,000 | $22,298,894 | $10,288,894 | $12,353,791 | | | $19,734,731 | $20,163,983 | $22,342,007 |
| Capacity | $1,142,000 | $522,162 | -$619,838 | $2,270,000 | $364,928 | -$1,905,072 | $3,150,000 | $3,099,874 | -$50,126 | $4,289,198 | | | $613,628 | $2,049,627 | $2,315,338 |
| Security | $3,887,000 | $1,830,779 | -$2,056,221 | $4,912,000 | $4,436,447 | -$475,553 | $1,460,000 | $1,419,969 | -$40,031 | $2,300,449 | | | $2,005,237 | $4,333,937 | $2,253,783 |
| Reliability | $966,000 | $1,489,771 | $523,771 | $385,000 | $178,356 | -$206,644 | $890,000 | $44,601 | -$845,399 | $58,494 | | | $437,235 | $823,583 | $536,082 |
| Substation | $277,000 | $277,000 | $0 | $202,000 | $191,213 | -$10,787 | $750,000 | $1,357,816 | $607,816 | $198,098 | | | $3,019,177 | $521,000 | $600,000 |
| Safety | $0 | $0 | $0 | $0 | $0 | $0 | | | $0 | $504,417 | | | $537,830 | $547,480 | $566,617 |
| Regulatory | $0 | $0 | $0 | $278,000 | $483,590 | $205,590 | | | $0 | $0 | | | $250,000 | $0 | $0 |
| Distribution System Technology Enablers | | | | | | | | | | $0 | | | $1,000,000 | $1,135,000 | $1,100,000 |
| Gross Expenditure | $23,395,000 | $22,681,970 | -$713,030 | $25,081,423 | $21,750,009 | -$3,331,414 | $32,210,000 | $37,073,581 | $4,863,581 | $32,667,043 | | | $35,004,305 | $37,211,632 | $37,908,893 |
| Capital Contribution | -$2,855,000 | -$3,401,684 | -$546,684 | -$3,329,423 | -$3,908,587 | -$579,164 | -$5,080,000 | -$5,931,170 | -$851,170 | -$262,647 | | | -$2,044,172 | -$2,092,706 | -$2,242,513 |
| Net Expenditure | $20,540,000 | $19,280,286 | -$1,259,714 | $21,752,000 | $17,841,422 | -$3,910,578 | $27,130,000 | $31,142,411 | $4,012,411 | $32,404,396 | | | $32,960,133 | $35,118,926 | $35,666,380 |
| | | | | | | | | | | | | | | | |
| Capex over $500,000 | | $7,441,351 | | | $10,794,243 | | | $13,062,706 | | $23,349,954 | | | $37,383,595 | | |
| Significant capex/capex | | 38.6% | | | 60.5% | | | 41.9% | | 72.1% | | | 113.4% | | |

## 9. Ref: E2/3/S1/page 79

Horizon documents a 2011 capital project titled: Meter Upgrade & Replacement Program, with a forecasted budget of $1,712,784. Horizon documents that:

> "[t]he work includes: the installation of complex and commercial meters at new service locations; the upgrade of metering installations for expanded service requirements; inspection and replacement of defective meters; and the replacement of commercial meters with smart meters as their Measurement Canada seal expires (meter costs included in smart meter adder)."

a) Are the commercial meters for GS<50 kW customers, or for other General Service customers' interval meters?
b) What does Horizon mean in stating that "meter costs [are] included in [the] smart meter adder"?
c) Please explain how this project relates to Horizon's smart meter deployment to residential and small commercial customers as authorized under *O.Reg. 427/06*.

## 10. Ref: E2/T3/S3 – Capitalization Policy

a) With the exception of compensation that is discussed below, please confirm that Horizon's capitalization policy has not changed since its last cost of service application for 2008 distribution rates, and that Horizon is not proposing any changes related to this current application.
b) In the alternative, please provide a detailed explanation of any changes made or proposed, and the reasons for the actual or proposed changes to Horizon's capitalization policy.

## 11. Ref: E2/T4/S1 – Lead/Lag Study

On page 12 of the Lead/Lag Study commissioned by Horizon and conducted by Navigant Consulting Inc. ("Navigant"), it is stated:

> The Ontario government has harmonized the Ontario Provincial Sales Tax with the Federal GST into a harmonized single sales tax effective July 1, 2010. Based on current information, there appears to be no change to the current schedule of both remittances and receipts of the HST compared with what existed under the GST regime. Thus, no changes to the schedule of either remittances or receipts of the HST relative to the schedule that governed the GST have been considered in this study.

Tables 6, 7 and 8 on pages 13 and 14 show Navigant's estimates of cash working capital requirements for 2009, 2010 and 2011, and the GST/HST component for these tables is shown in Table 9 on page 14.

a) Please confirm that, for controllable expenses in 2010, PST, as applicable, is only factored into expenses for the period January 1 to June 30, 2010.
b) Please confirm that PST (or what would have formerly applied as PST) is not included in controllable expenses in 2011.
c) If either a) or b) is in the negative, please explain how the lead/lag methodology avoids a double recovery of the PST and its successor component of the new HST as of July 1, 2010.
d) Board staff observes the following with respect to HST collected by a utility from its rate payers. Effective July 1, 2010, HST is applicable to the ratepayer's total bill, including distribution charges. Because of "value-added" distribution services provided by the utility itself, the HST paid for by the ratepayer and collected by a utility is larger than the HST paid by the utility to its suppliers, including the IESO. There is thus an "incremental HST" collected by the utility for the "value added" by the utility in providing distribution services to its ratepayers. This HST is collected by the utility and is then remitted to Canada Revenue Agency (the "CRA") on a periodic basis. There is a "lead" between when Horizon collects this incremental HST amount from customers and subsequently remits it to the CRA periodically.
    i. How frequently does Horizon remit HST payments to the CRA?
    ii. Has Horizon and/or Navigant factored the lead time associated with the incremental HST into the lead/lag study? If "yes", please explain. If not, please explain why this has not been considered. Can Horizon provide an estimate of the incremental impact on cash working capital due to the lead on the incremental HST?

***Load Forecast***

**12. Ref: E3/T2/T2 and E3/T2/S2/Appendix 3-1 – Load Forecast**

On pages 2-3 of E3/T2/S2, Horizon states that "The actual results of the CDM programs provided to Horizon Utilities' customers since 2005 have been determined and included as a dependent variable in the regression analysis." In Appendix 3-1, Horizon provides the data used in the regression analysis and load forecast.

a) Please provide details on the definition and derivation of the "CDM Savings" exogenous variable.

b) What is the unit of measurement of the CDM Savings exogenous variable?

c) What is the interpretation or implication of the estimated CDM Savings coefficient of -0.37?

d) Please provide a detailed explanation of how Horizon has forecasted the CDM Savings variable for the 2010 Bridge and 2011 Test Years.

**13. Ref: E3/T2/S2 – CDM Targets**

On page 6 of E3/T2/S2, Horizon states:

> With regard to the forecast of the CDM savings variable, Horizon Utilities has assumed in 2010 that CDM savings will be consistent with the expected results for 2009 (i.e. 10 GWh). Horizon Utilities acknowledges that it is in receipt of the proposed CDM Targets for 2011 as set out in EB-2010-0215, released by the OEB on June 22, 2010. Such targets reflect a four year requirement of approximately 1.1% annual savings in total kWh.

a) Has Horizon reflected the four year CDM target set out in EB-2010-0215 in its forecast for 2011?
   i. If yes, please explain in detail how it has incorporated the CDM target into the 2011 load forecast.
   ii. If no, please explain.

b) Given that, in 2012 to 2014, Horizon will be expected to adjust rates through the IRM mechanism, has Horizon taken into account further CDM target reductions expected in the 2012 to 2014 period in accordance with EB-2010-0215? Please explain your response in detail.

**14. Ref: E3/T2/S2 – Customer/Connection Growth**

In Table 3-11, Horizon provides annual growth rates and the geometric mean annual growth rate in customers/connections by class. Horizon states that it has applied the geometric mean annual growth rate to 2009 numbers to estimate customers/connections by class, with the exception of the Large Use and Standby customer classes, to estimate 2010 Bridge and 2011 Test year forecasts.

a) In Table 3-11, the annual growth rate in customers for the GS 50-4999 kW class declines annually from 5.7% in 2004 to (0.3%) in 2009. Horizon has used the geometric mean of 2.4% to increase the number of customers in this class for 2010 and 2011.

i. Given that the growth rate in this class has been declining and shows effectively no growth in 2009, why did Horizon not use a lower growth rate based on the declining growth in recent years?
ii. Please provide the actual number of GS 50-4999 kW customers serviced by Horizon as of June 30, 2010.
iii. If Horizon were to take into account the growth patterns in more recent years, what would be Horizon's estimate of GS 50-4999 kW customers for the 2010 Bridge and 2011 Test Years? Please provide details of the derivation.

b) In Table 3-11, the annual growth rate in Sentinel Lighting connections increases from (2.1%) and (2.6%) in 2004 and 2005 to over 2.0% in each of 2008 and 2009. However, Horizon has used the geometric mean annual growth rate of (0.1%) to forecast 2010 and 2011 Sentinel Lighting connections from 2009 actuals.
i. Given that the growth rate in this class has been increasing over time, and shows growth over 2% per annum in 2008 and 2009, why did Horizon not use a higher growth rate based on actual growth in recent years?
ii. Please provide the actual number of Sentinel Lighting connections serviced by Horizon as of June 30, 2010.
iii. If Horizon were to take into account the growth patterns in more recent years, what would be Horizon's estimate of Sentinel Lighting connections for the 2010 Bridge and 2011 Test Years? Please provide details of the derivation.

**15. Ref: E3/T2/T2/Table 3-23– Large Use Forecast**

a) Please provide actual Large Use consumption in GWh for the following periods:
i. January 1 to June 30, 2010; and
ii. January 1 to November 30, 2010.

b) What is Horizon's basis for assuming that Large Use Demand (kW) and Consumption (GWh) is the same for both the 2010 Bridge and 2011 Test Years?

***Standby Power***

**16. Ref: E3/T2/T2/page 14 – Standby Power**

On lines 7-16, Horizon states:

> Horizon Utilities is proposing a change in the way the standby charge is applied to load displacement generators. Standby does not apply to Feed in Tariff ("FIT") generators as they are parallel

connected or gross load billed. Historically, the standby charge was applied to the customer's account as a flat rate based on the generator name plate rating. The proposed change is to apply the standby charge based on the amount of load displaced with the result that the customer is only billed on the reserved capacity to supply its gross load. Such change is proposed as a number of customers have reduced the amount of load displacement generation below the name plate ratings. Consequently, such customers are paying for reserved capacity beyond both their gross load and beyond that which is necessary for the system to supply in the event of a generation shut down.

a) Please provide further explanation of how the charge for a Standby Customer is currently applied and how it would be applied under Horizon's proposal. Please provide an example showing the bill determination under both scenarios.
b) For one or more "typical" Standby customers, please show the bill impacts under current and proposed Standby Charges, using the Bill Impact table format shown in Appendix 8-1.
c) Please provide examples of other utilities in Ontario or elsewhere that Horizon is aware of, where the charge for Standby Power is applied in the manner which Horizon is proposing.
d) Has Horizon discussed this proposal with affected Standby customers? If so, please identify their position on Horizon's proposal.
e) Please explain whether or not Horizon proposes any changes to the interim status of their 2011 stand by charges.

***Specific Service Charges***

**17. Ref: E3/T3/S1/Table 3-25 – Specific Service Charges**

a) Please provide the derivation of Horizon's forecast of $1,545,462 for Account 4235 – Miscellaneous Service Revenues for each of the 2010 Bridge and 2011 Test Years.
b) Please provide a table showing the quantities of specific service charge requests delivered or forecasted to be delivered, by type (e.g. special meter reads, account set-up, temporary disconnection/reconnection, temporary service) and for each of the 2008 actual, 2009 actual, 2010 Bridge and 2011 Test years, corresponding to the Other Operating Revenues shown in Table 3-25.

***Other Revenues***

**18. Ref: E3/T3/S5/Tables 3-27 and 3-28 – Management Fees**

In table 3-27, Horizon provides a disaggregation of Account 4390 – Miscellaneous Non-operating Revenue for 2008 Board Approved, 2008 Actual, 2009 Actual, 2010 Bridge and 2011 Test Years. For Management fees, the 2010 Bridge year forecast is $761,365 and the 2011 Test year forecast is $784,515.

In Table 3-28 – Summary of Management Fee Revenue in Miscellaneous Revenue, Horizon shows a total of $751,976 for the 2010 Bridge year and $772,376 for the 2011 Test year.

Please reconcile, with an explanation, the Management Fee revenues documented in Tables 3-27 and 3-28.

***Operating Costs***

**19. Ref: E4/T2/S1/Table 4-1 – OM&A Costs**

On the second page of Table 4-1, the top sub-list of accounts 5305, 5310, 5315, 5320, 5325, 5330, 5335 and 5340 is not labelled. Please confirm whether this is "Billing and Collections". If not, please provide the descriptor for the sub-category that includes these accounts.

**20. Ref: E4/T2/S10/page 11 – Appendix 2-K**

Horizon is proposing to capitalize approximately 30.6% of its compensation costs for 2011. This is about 5% higher than its 2008 approach.

a) Please explain the change in capitalization from 2008 to 2011.
b) Please confirm that Horizon has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

**21. Ref: E4/T2/S6/page 20 – Tree Trimming Expenses**

Line 14 states that Horizon's tree trimming budget for 2011 is $1,210,000. Table 4-7 indicates that Horizon's tree trimming budget for 2011 is $1,328,186. Please confirm what is Horizon's tree trimming budget for the 2011 Test Year incorporated in its proposed revenue requirement.

## 22. Ref: E4/T2/S1/page 2 – Bad Debt Expense

Please provide the actual bad debt expense (unaudited) for 2010 (i.e. from January 1 to December 31, 2010).

## 23. Ref: E4/T2/S7/page 1 – One Time Costs

Please identify all one-time costs included in the OM&A forecast for the 2011 Test Year.

## 24. Ref: Low Income Energy Assistance Program (LEAP)

Please state whether or not Horizon has included an amount in its 2011 Test year revenue requirement for the emergency financial assistance component of the Low Income Energy Assistance Program.

a) If yes, please identify the amount included for LEAP emergency financial assistance, and identify the percentage of total distribution rates.
b) If no, please provide the following calculation: 0.12% of the total distribution revenue proposed by the applicant for the 2011 Test Year.
c) Please state whether or not Horizon has included an amount in its 2011 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

## 25. Ref: Assumptions for Increases to OM&A

Please identify the inflation rate used for the 2011 OM&A forecast and the source document for the inflation assumptions.

## 26. Ref: E4/T2/S1/page 2 – Donations

Horizon has identified $60,000 for 2011 in account 6205 – charitable donations. Please comment on whether the amounts are compliant with Section 2.5.2 of the Filing Requirements.

## 27. Ref: E4/T2/S12/page 1-3 – Purchases from Non-Affiliates

Horizon has provided tables of purchases from non-affiliates for 2007, 2008 and 2009. No information is provided for the 2010 Bridge and 2011 Test Years.

a) Please provide similar tables for each of the 2010 Bridge and 2011 Test Years.

b) Please provide a qualitative explanation for each year-to-year total variance (2007 – 2011).

## 28. Ref: E4/T2/S10/page 12 – Incentive Plan

Please provide further documentation regarding Horizon's incentive plan (i.e., what metrics are applied, which class(es) of employees are subject to the incentive plan, etc.)

## 29. Ref: E4/T2/S9/Tables 4-13, 4-15, 4-17 and 4-18 – Meter Expenses

Horizon documents its meter expenses by year in the referenced tables. Horizon also documents that Account 5695 – OM&A Contra Account is used to reflect Residential and GS < 50 kW Smart Meter costs.

Board staff has prepared the following summary from the referenced tables:

| Account | 2008 Actual | 2009 Actual | 2010 Bridge | 2011 Test |
|---|---|---|---|---|
| **5065 Meter Expense** | $ 2,782,355 | $ 3,487,991 | $ 4,059,631 | $ 4,698,805 |
| **5695 OM&A Contra Account** | -$ 950,929 | -$ 1,240,883 | -$ 932,627 | -$ 1,680,292 |
| Meter Expense net of Contra | $ 1,831,426 | $ 2,247,108 | $ 3,127,004 | $ 3,018,513 |

Horizon has increased its meter expense by $1.9M from 2008. Horizon has noted that the increase reflects expenditures related to the roll-out of both the residential and small commercial smart meter program, costs associated with the deployment of Time-of-Use rates and meter staff costs that were previously allocated to general and administration.

Even adjusting for smart meter-related costs reflected in the contra account, there is an increase in meter expenses of about $1.2 million, more than a 50% increase from 2008 actuals.

a) Please confirm or correct the above table.
b) Please explain the increase in meter expense increases net of Smart Meter-related operating expenses.
c) Are these cost increases on-going or one time? Please explain your response.

***Employee Compensation and Costs***

### 30. Ref: E4/T2/S10/Table 4-26 – Additional Full Time Employees

Please update Table 4-26 to reflect new hires and vacancies for additional FTEs as of December 31, 2010.

***Green Energy Plan***

### 31. Ref: E4/T2/S6/Appendix 4-3 – Basic Green Energy Act Plan

a) Did Horizon incur capital expenditures in 2010 as part of its Green Energy Act ("GEA") Plan for which it seeks recovery?

b) Please clarify whether there are costs related to Expansion and Renewable Enabling Improvement that Horizon has included in the GEA. If so, please provide amounts for these two types of costs in the following table for 2010, 2011, and 2012.

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | (Additions in $000) | | |
| Expansions | | | |
| Enabling Improvements | | | |

c) Is Horizon seeking Board approval of all forecasted projects and capacity from 2011 through 2015 in this application?

### 32. Ref: E4/T2/S6/Appendix 4-3/page 5 and *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence*, issued March 25, 2010 [EB-2009-0397]

With respect to Horizon's filed GEA Plan:

a) Has Horizon consulted with its host distributor and/or upstream transmitter when preparing its GEA plan?

b) Has Horizon participated in planning meetings with the OPA?

### 33. Ref: E4/T2/S6/Appendix 4-3/page 8 – Constraints on Renewable Connections

On page 8, Horizon states:

> "Constraints on renewable connections are therefore expected to result from limitations of reverse power flow and short circuit

capability and short circuit capability at Hydro One transformer stations and Horizon substations."

a) Please list all those substations which would be affected by the constraints at Allanburg 115kV TS, insofar as it may relate to connecting FIT and microFIT projects.
b) Please provide the short circuit level at Allanburg TS, and Horizon's substations.
c) Please provide further details on "reverse power flow" limitations at Allanburg TS.
d) With respect to the limitations at Allanburg TS, has Horizon sought confirmation from Hydro One as to when these limitations might be alleviated?
e) If upgrade work at Allanburg TS is delayed, how many of the FIT and microFIT projects in Horizon's service territory (based on estimates and actual FIT applications to date) can be connected?
f) Are there any other substations with significant capacity constraints? Please provide a table showing the short circuit capacity on all of Horizon's buses directly connected to major supply points. Please provide the margin between current operating condition and the short circuit capacity ratings provided.

**34. Ref: E4/T2/S6/Appendix 4-3/pages 32 and 36 – Planned Development of the System to Accommodate Renewable Generation Connections**

Horizon provided the number of renewable generation connections that are expected over the next five years in Hamilton and St. Catharines at page 32, Tables 5 and 6, respectively. Board staff notes that October 21, 2009 is the date associated with cost-responsibility rules as set out in the DSC and thus under the provincial recovery mechanism as set out in section 79.1 of the *OEB Act*.

a) Were <u>all</u> FIT and micro-FIT project applications filed on or after the October 21, 2009 date? If not, please indicate which projects were filed prior to October 21, 2009, and under what scheme. (e.g. RESOP)
b) Please provide a table with the following information in column form for <u>each</u> FIT and microFIT project at page 35-36, Tables 9, 10, and 11:
   i. Final approval from OPA? (Y/N);
   ii. Nameplate capacity of project;
   iii. Available capacity? (Y/N);
   iv. Station and Feeder connection (e.g. M22, etc.), MW, and voltage level;
   v. Time to completion; and
   vi. Expected completion or in-service date.

**35. Ref: Exhibit 4 / Tab 2/ Schedule 6/ Appendix 4-3/ Page 41 and *Filing Requirements*: *Distribution System Plans – Filing under Deemed Conditions of Licence*, issued March 25, 2010 [EB-2009-0397] – Green Energy Expenditures under GEA Plan – Smart Grid**

The *Filing Requirements* state:

> "At the present time, smart grid development activities and expenditures should be limited to smart grid demonstration projects, smart grid studies or planning exercises and smart grid education and training… …the Board does not expect distributors to be engaging in the research and development activities related to smart grid development at this time."

At page 40 of Appendix 4-3, Horizon indicates that, as part of its Smart Grid projects, that it will be performing feeder automation and substation automation.

a) Please provide Horizon's views as to whether the activity falls within the limits that the Filing requirements describe?
b) Please provide the main drivers to undertake feeder automation at this time.
c) Will the contemplated feeder automation program increase the system capacity available or otherwise widen safe operating limits to facilitate an increase in the connection of renewable generation through the FIT program?
d) Which feeders will be automated as a result of the feeder automation program?
e) What improvements in performance are to be expected from the feeder automation program?

**36. Ref: E4/T2/S6/Appendix 4-3/page 32 and *Report of the Board*: *Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09*, issued June 10, 2010 [EB-2009-0349], Executive Summary and Page 15, footnote 9 – Green Energy Expenditures under GEA Plan – Relief Sought and Contribution Factors**

Horizon states at page 32 of its GEA Plan that, "The tables [outlining costs] indicate a zero provincial recovery because at this point in time the calculation for direct benefits for Horizon is not defined." Staff concludes from the tables provided that Horizon is requesting that provincial ratepayers contribute 0% of the cost of renewable enabling investments, and 0% of the cost of expansion investments.

In the Report of the Board, under the Executive Summary section, the Board states that, "Distributors that file a Basic GEA Plan will be permitted to undertake a basic (i.e., standardized) direct benefit assessment, while essentially all distributors required to file a Detailed GEA Plan will be required to undertake a detailed direct benefit assessment based on the principles and criteria set out in this Report. Further at page 15, footnote 9 of the Report of the Board, it stated that, "For example, based on the provisionally approved methodology and allocation (i.e., dollar amounts) proposed by Hydro One as part of its 2010 and 2011 distribution rates application, those dollar amounts represent 6% for REI [Renewable Enabling Improvement] investments and 17% for Expansion investments."

Page 3 of the Report of the Board also clearly indicates that investments which enable generation from the FIT program are considered "eligible investment".

> "Not all investments made by a distributor to accommodate renewable generation will qualify as an "eligible investment". **Investments to connect such generation that is contracted under the feed-in tariff ("FIT") program will be treated as an "eligible investment".** [Emphasis added]

Page 15 and 16 of the Report of the Board also commented on the suitability of the percentages for Hydro One's Expansion and REI investments, and their applicability to other distributors:

> "Hydro One Distribution in relation to Expansion and REI investments should provide a reasonable estimate for other distributors until more distributors complete detailed benefit assessments…"

a) Why has Horizon chosen not to adopt Hydro One's provisional percentages for direct benefits given the Board's comment on appropriate percentages in the absence of a detailed benefit assessment?

b) In the event that Horizon is directed by the Board to implement the provisional direct benefits in this proceeding (as were applied in Hydro One), please identify the components and proportions of the plan that Horizon expects to be borne by Horizon's ratepayers and the components and proportions to be borne by the provincial ratepayers. Please exclude and make note of any costs expected to be recovered by generators. Please specifically indicate the approximate percentages that would apply with respect to REI investments and expansion investments from provincial ratepayers.

c) With respect to part b), please recreate tables 12 through 17 on pages 36 and 37 with the direct benefit percentages provisionally approved in Hydro One's decision (EB-2009-0096).

**37. Ref: E4/T2/S6/Appendix 4-3/page 34 – Generation Capacity limits at Transformer Stations**

Please provide the referenced e-mail correspondence between Hydro One and Horizon with respect to generation capacity limits at transformer stations.

**38. Ref: E4/T2/S6/Appendix 4-3/ page 39 – OM&A: Dedicated full time equivalent engineer for connections process**

Horizon indicates that a labour expense of $50,000 is expected in 2011 for the FTE engineer to manage the connections process. In 2012, $100,000 is allocated for the same FTE engineer.

a) For clarification purposes, is the $50,000 a reflection that Horizon intends to hire this employee by mid-year 2011? If not, please provide an explanation.
b) Does Horizon intend to hire the individual on a permanent or contract basis?

**39. Ref: E4/T2/S6/Appendix 4-3/pages 41-42 – OM&A: Dedicated Full-Time Equivalents for Smart Grid Investigations**

Horizon indicates that the costs of two dedicated full time equivalents and consultant support are included for Smart Grid Investigations.

a) Please indicate why the expected outlay in 2011 is $200,000, compared to $300,000 in 2012-2015. Is this the result of partial work years from these positions based on expected start date? If not, please provide an explanation.
b) Does Horizon intend to hire for these positions on a permanent or contract basis? If it is a contract will there be a competition held?

***Regulatory Costs***

**40. Ref: E4/T2/S7 – Regulatory Costs**

Horizon states on page 1 that it "expects to incur $960,000 in costs in respect of the completion of the 2011 EDR COS application [i.e. this application] including its preparation and the proceeding that will follow." It states that it has included

1/3 of these costs in the 2010 bridge year and 2011 test year. The costs associated with this current application are identified as “one-time” costs.

In Table 4-10 of this exhibit, Horizon shows one-time costs in the 2011 test year of $10,000 for OEB Hearing Assessments, $135,000 for Legal Costs for Regulatory Matters, and $62,000 for intervenor costs. These costs would total $207,000, different than $320,000 (1/3 of $960,000).

a) Please provide a detailed breakdown of Horizon’s expected regulatory costs associated with this proceeding, identifying separately: a) Board costs; b) Legal and Consulting fees; and c) intervenor costs.
b) Please reconcile Table 4-10 with the test on page 1 of E4/T2/S7, and clearly show how Horizon has proposed to allocate the costs between the 2010 bridge, 2011 test and 2012 years.

**41. Ref: E4/T2/S7 – 2014 Rebasing**

On page 1 of this exhibit, Horizon states that it “is anticipating that it may be three years before its next cost of service distribution rate service application filing in 2013 for 2014 implementation.”

The normal period between cost of service rebasing under the 3rd Generation IRM plan for electricity distributors is 4 years. Why does Horizon anticipate that it will be necessary for it to rebase within 3 years following this application?

***Depreciation***

**42. Ref: E4/T2/S13 – Depreciation Expense**

Section 2.1.2 of Chapter 2 of the *Board’s Filing Requirements for Transmission and Distribution Applications*, updated and issued on June 28, 2010, states that data must be provided for:

- Test Year = Prospective Rate Year;
- Bridge Year = Current Year;
- Three Most Recent Historical Years (or number of years necessary to provide actuals back to and including the most recent Board Approved Test Year, but not less than three years);
- Most recent Board Approved Test Year.

Please provide tables showing depreciation expense, similar to tables 4-33, 4-34 and 4-35 for 2007 and 2008 actuals and for 2008 Board-Approved.

### *Taxes and PILs*

## 43. Ref: E4/T3/S2 – Taxes and PILs

Please provide tables similar to Table 4-37 showing the detailed tax calculations for actual Property, Capital and Income Taxes paid for: 2008 Board-approved and for each of 2007, 2008 and 2009 Actuals.

### *Cost of Capital*

## 44. Ref: E5/T1/S2 – Deemed Capital Structure and Cost of Capital

In Table 5-2 of 5/T1/S2, Horizon shows a deemed capital structure of 60% long-term debt and 40% equity, with a long-term debt rate of 6.10% and a return on equity (ROE) of 9.00%.

a) Please confirm that the Board-approved deemed capital structure for Horizon for the 2008 test year was 56% long-term debt, 4% short-term debt and 40% equity, with approved rates of 6.10% for long-term, 1.33% short-term and 8.57% for ROE in Horizon's 2008 Cost of Service rebasing application, considered under Board File No. EB-2007-0697.
b) Please explain the deemed capital structure and rates shown for 2008 and 2009 in Table 5-2.
c) As necessary please update Table 5-2 to show the deemed capital structure and rates consistent with the Board's Decision and Order in EB-2007-0697.

### *Cost Allocation*

## 45. Ref: E7/T1/S1/Table 7-1 – Cost Allocation

Board staff has replicated Table 7-1 below:

**Revenue-to-Cost Ratios**

| Customer Class | OEB Range | | 2008 Board | 2009 and | 2011 Cost | 2011 |
|---|---|---|---|---|---|---|
| | Low | High | Approved | 2010 Actual | Allocation | Proposed |
| **Residential** | 85.00% | 115.00% | 111.60% | 106.40% | 110.20% | 104.00% |
| **General Service < 50** | 80.00% | 120.00% | 92.50% | 88.10% | 102.70% | 102.70% |
| **General Service >50** | 80.00% | 180.00% | 86.30% | 98.00% | 85.10% | 91.30% |
| **Large Use** | 85.00% | 115.00% | 92.10% | 95.20% | 68.60% | 91.30% |
| **Street Lighting** | 70.00% | 120.00% | 43.00% | 70.00% | 61.90% | 91.30% |
| **Sentinel** | 70.00% | 120.00% | 70.00% | 72.30% | 75.10% | 91.30% |
| **Unmetered Scattered Load** | 80.00% | 120.00% | 80.00% | 62.00% | 129.00% | 120.00% |
| **Standby Power** | n/a | n/a | 65.80% | 65.80% | 79.80% | 91.30% |

Source: E7/T1/S1/Table 7-1

a) Please provide a detailed description of why the revenue-to-cost (R/C) ratio for Unmetered Scattered Load has changed from being significantly below 100% to significantly above 100% between the 2008 and 2011 Cost Allocation studies.

b) What is the basis for the proposed R/C ratio of 91.30% for GS > 50 kW, Large Use, Streetlighting, Sentinel lighting and Standby Power?

## 46. Ref: E7/T1/S1 – Cost Allocation

On page 3 of E7/T1/S1, Horizon states:

> “Horizon Utilities submits that a managed transition towards 100% revenue to cost ratios for rate classifications continues to be fair and reasonable for the following reasons:
> - Customer class revenues will more closely reflect the actual costs of providing distribution service to that class;
> - Rate impacts on total bill will be mitigated for certain classes; and
> - Partial reallocation provides time for further refinement of the cost allocation model and movement between classes.”

As noted in Board staff IR # 44, Table 7-1 shows some volatility in the R/C ratios for some customer classes between the 2008 and 2011 Cost Allocation studies. Cost allocation is not an exact methodology, and the data used in the study is not perfect in many respects. The Board’s guidelines state that R/C ratios within the range (i.e. between the high and low thresholds) may be equally valid. However, Horizon is proposing further movement towards unity (R/C ratio = 100%).

Please provide further explanation, with supporting evidence, for Horizon’s proposal that “further movement towards unity” is necessary given that there will be some volatility in the results of any cost allocation study based on a given set of historical data and that the Board in previous rate decisions has been satisfied when the R/C ratios are within their applicable ranges.

***Rate Design***

## 47. Ref: E8/T1/S1/Tables 8-6 and 8-7 – Fixed/Variable Charges

Board staff has prepared the following table comparing the current and proposed fixed charge split for all customer classes based on the information shown in Tables 8-6 and 8-7

| Customer Class | Current Fixed Charge Split | Proposed Fixed Charge Split |
|---|---|---|
| Residential | 62.3% | 62.32% |
| GS < 50 kW | 59.8% | 59.78% |
| GS > 50 kW | 49.4% | 49.40% |
| Large Use | 34.3% | 49.40% |
| Sentinel Lights | 60.7% | 60.66% |
| Streetlighting | 67.9% | 67.91% |
| Unmetered Scattered Load | 66.7% | 66.68% |
| Standby Power | 0.0% | 0.0% |

In E8/T1/S1/pp. 5-8, Horizon provides its reasons for proposing the increase of the fixed charge split from 34.3% to 49.4% for the Large Use class, to equate it with the GS > 50 kW class.

a) Did Horizon examine the fixed/variable split for the Large Use class for other large Ontario distributors (e.g. Toronto Hydro-Electric System Limited, Enersource Hydro Mississauga, PowerStream, etc.)
   i. If yes, please provide the results of such analysis.
   ii. If no, why not?

b) Please provide any empirical data or analysis that Horizon has done or is aware of to support its proposal that the fixed charge revenue split for the Large Use and GS > 50 kW classes should be equal.

c) Please provide the bill impacts, for the largest and smallest consumption Large Use customers, in the bill impact format shown in Appendix 8-1.

***Retail Transmission Service Rates***

### 48. Ref: E8/T1/S3/Table 8-18 – Retail Transmission Service Rates

a) In Table 8-18, Horizon documents that the unit of measurement (“UOM”) for the Network Service Rate and for the Line and Transformation Connection Rate for the Unmetered Scattered Load Class is indicated as [per] kW. Please confirm whether the unit of measurement for the retail transmission service rates for this class should be per kW or per kWh.

b) In Table 8-18, Horizon documents that the unit of measurement for the Network Service Rate and for the Line and Transformation Connection Rate for the Streetlighting Class is indicated as [per] kWh. Please confirm whether the unit of measurement for the retail transmission service rates for this class should be per kW or per kWh.

### 49. Ref: E8/T1/S3 – Retail Transmission Service Rates

On page 5, Horizon states:

> Horizon Utilities is aware that Retail Transmission rates will be subject to modifications for 2011, as a result of a Board Decision on Hydro One Networks' 2011/2012 Uniform Transmission Rate Adjustment Application as per the Board's Guideline G-2008-0001, Revision 2: July 8, 2010.

a) Is Horizon proposing that its evidence and proposed RTSRs for 2011 in this application should be updated on the record or possibly at the time of the Board's Decision and subsequent Rate Order process to reflect updated Uniform Transmission Rates for 2011?
b) If so, how does Horizon propose that the 2011 RTSRs should be updated?

***Bill Impacts***

### 50. Ref: Appendix 8-1

Horizon has separately filed an application for an increase to its Smart Meter Funding Adder and which is being dealt with separately under Board File No. EB-2010-0292. In that application, Horizon has proposed an increase in the Smart Meter Funding Adder from $1.56 to $2.45 per month per metered customer.

a) Please confirm whether the bill impacts documented in the Cost of Service Application, and specifically in the detailed bill impact tables provided in Appendix 8-1, reflect the impact of the proposed increase to the Smart Meter Funding Adder.
b) If the answer to a) is in the negative, please provide a version of Appendix 8-1 showing the combined impact of the proposed rate changes in this Cost of Service application and the Smart Meter Funding Adder application.
c) From the updated Appendix 8-1 in response to part b), please identify if there are rate classes or customer profiles for which the total bill impact would be greater than 10%.
d) If there are potential bill impacts exceeding 10% identified in part c), please provide Horizon's proposals, with explanation, for any appropriate rate mitigation to constrain bill impacts to no more than 10%.

## *Deferral and Variance Accounts*

### 51. Ref: E9/T1/S1/pages 4-5

Horizon is seeking Board's approval for a new variance account for the Provincial Meter Data Management and Repository (MDMR) Costs from the IESO for the Smart Meter Entity (SME). Since the IESO has not yet filed an application with the Board for the recovery of such costs, and this charge will affect all of the distributors in the province, why does Horizon consider it necessary to request such an account at this time?

### 52. Ref: E9/T1/S1/page 5

Horizon is seeking Board's approval for a new deferral account for OMERS contribution increase. The prefiled evidence (page 5, lines 12-13) indicates that these costs are included in Horizon's OM&A costs for 2011. Please state:

a) Whether or not the forecasted 2011 OM&A costs include the OMERS base costs as well as the contribution increase for 2011 announced by OMERS on July 5, 2010.
b) If the OM&A costs include both cost components referred to in a) (i.e., the base OMERS costs as well as the increase), why does Horizon consider it necessary to request a new deferral account?
c) What is the quantum of the OMERS contribution increase included in 2011 OM&A?
d) What are the forecasted increases in OMERS contribution forecasted in 2011 and beyond, by year. Please provide support for the forecasted increases.
e) An alternative to a deferral account could be to include an averaged or "normalized" level of OMERS contributions reflected the forecasted increases in 2011 to 2014. Please provide Horizon's views on the merits and appropriateness of such an approach. If possible, please provide an estimate of what the "normalized" level would be, showing its derivation.

### 53. Ref: E9/T1/S2/pages 4-6

Horizon is using forecasted 2011 data for allocation by rate class. According to the EDDVAR Report:

> "With respect to the volume that should be used to calculate the rate riders, the Board agrees that the most recent Board-approved volumetric forecast should be used."

Please recalculate the rate riders using the most recent Board-approved volumetric forecasts for Horizon's service area.

**54. Ref: E9/T1/S2/Table 9-5 (Deferral and Variance Accounts for Disposition) and Table 9-6 (Deferral and Variance Accounts Not Included for Disposition**

Account 1592 has not been listed in Table 9-5 or Table 9-6, although there is a balance in this account as per Horizon's RRR 2.1.7 filing with the Board for 2009. Please refile Table 9-5 or Table 9-6, as appropriate, to include the balance in account 1592.

**55. Account 1592, PILs and Tax Variances for 2006 and Subsequent Years**

Please identify whether Horizon has posted any amounts to account 1592 since April 2006. If yes, please respond to the following questions. If not, please explain why Horizon has not posted any amounts to account for the changes in tax legislation that have occurred since 2006 as required by the Board's methodology and prior decisions.

a) Please revise the deferral and variance account continuity schedule to include account 1592 as a group 2 account and enter all the required information for transaction, adjustments, interest carrying charges, etc. for all the relevant years.
b) Please describe each type of tax item that has been accounted for in account 1592.
c) Please provide the calculations that show how each item was determined and provide any pertinent supporting evidence.
d) Please confirm whether or not Horizon followed the guidance provided in the July 2007 FAQ. If not, please explain why not.
e) Please identify the account balance as of December 31, 2009 as per the 2009 audited financial statements. Please identify the account balance as of December 31, 2009 as per the April 2010 2.1.7 RRR filing to the Board. Please provide a reconciliation if the balances provided in the above documents are not identical to each other and to the total amount shown on the continuity schedule.
f) Should the Board wish to dispose of this account at this time, please identify the following:
    i. The allocator that, in Horizon's view, would be most appropriate to use in allocating the balance to the rate classes.
    ii. The disposition period that Horizon would prefer, if different from the period proposed for the remaining deferral and variance accounts, and an explanation for such difference.

iii. The billing determinant that, in Horizon's view, would be most appropriate to use.

g) Please complete the following table based on the previous answers. Add rows as required to complete the analysis in an informative manner. If the Applicant uses Excel to prepare the table, please submit the live Excel spreadsheet.

| **Tax Item** | **$ Principal As of** [December 31, 2009] |
|---|---|
| Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007 | |
| Large Corporation Tax from 2005 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4 /12ths of approved grossed-up proxy) if not recorded in PILs account 1562 | |
| Ontario Capital Tax rate decrease and increase in capital deduction for 2007 | |
| Ontario Capital Tax rate decrease and increase in capital deduction for 2008 | |
| Ontario Capital Tax rate decrease and increase in capital deduction for 2009 | |
| Ontario Capital Tax rate decrease and increase in capital deduction for 2010 | |
| Capital Cost Allowance class changes from 2006 EDR application for 2006 | |
| Capital Cost Allowance class changes from 2006 EDR application for 2007 | |
| Capital Cost Allowance class changes from 2006 EDR application for 2008 | |
| Capital Cost Allowance class changes from 2006 EDR application for 2009 | |
| Capital Cost Allowance class changes from 2006 EDR application for 2010 | |
| Capital Cost Allowance class changes from any prior application not recorded above. | |
| Insert description of next item(s) | |
| Insert description of next item(s) and new rows if needed. | |
| **Total** | |

***Smart Meters***

**56. Ref: E9/T1/S2 – Poly-phase Commercial Meters**

In Table 9-10, Horizon documents that its smart meter deployment includes an "Other" category, in addition to Residential and GS < 50 kW customer classes. Horizon states that the "Other" category deals with conversion of "poly phase commercial meters" as the seals expire.

In E1/T2/S2/Appendix 1-9(d), the Customer Connections Business Plan for 2011, at page 3 Horizon states that the conversion is to allow the poly phase commercial meters to use the AMI infrastructure.

a) Please define the "poly phase commercial meters" and the customers serviced by these meters. Are these interval meters of General Service customers served by 2-phase or 3-phase distribution service?
b) What customer class(es) are served by these "poly phase commercial meters"?
c) Please confirm whether the conversion of these poly phase commercial meters meets or is beyond "minimum functionality" as defined in O.Reg. 425/06 and "Functional Specification for an Advanced Metering Infrastructure, Version 2", issued July 5, 2007, both available from the Ministry of Energy's website at http://www.mei.gov.on.ca/en/energy/electricity/?page=regulations .

***Harmonized Sales Tax***

**57. Ref: E1/T1/S15 – Harmonized Sales Tax**

On page 1 of this exhibit, Horizon states:

> At page 5 of its April 16, 2010 Decision and Order on Horizon Utilities' 2009 3rd Generation IRM application (EB-2009-0228) (Harmonized Sales Tax) the Board directed that "beginning July 1, 2010, Horizon shall record in deferral account 1592 (PILs and Tax Variances, Sub-account HST / OVAT Input Tax Credits (ITCs), ITC it receives on distribution revenue requirement items that were previously subject to PST and become subject to HST." There was no balance in this sub-account as of December 31, 2009. Horizon Utilities will be tracking these incremental amounts from July 1, 2010 to December 31, 2010. **For the 2011 Test Year, the incremental ITC has been included in Operating, Maintenance and Administration expenses.** *[Emphasis added]*

a) Please explain how the incremental ITCs in 2011 have been included in the OM&A expenses. Please quantify the incremental ITCs, and explain what savings and incremental costs have factored into this.
b) Please confirm that Horizon's capital expenditures for the 2011 Test Year do not include what would have been the PST on capital expenditures prior to July 1, 2010. Please explain how this has been done. In the alternative, please explain Horizon's reasons for not doing so.

***International Financial Reporting Standards***

## 58. International Financial Reporting Standards (IFRS)

a) Please confirm that the revenue requirement numbers for 2011 are based on CGAAP, and not IFRS accounting principles. If confirmed, please identify the fiscal year which the applicant will begin reporting its (audited) actual results on an IFRS basis. If not confirmed, please provide a detailed revenue requirement impact statement comparing CGAAP with IFRS.

b) Please state whether or not Horizon has included an amount for IFRS transition costs in its Test Year revenue requirement.
   i. If yes, please identify the amount and provide a breakdown with a detailed explanation of each cost item.
   ii. If no, is Horizon recording IFRS transition costs in the deferral account established by the Board in October 2009?