

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

AND IN THE MATTER OF an Application by Horizon Utilities
Corporation to the Ontario Energy Board for an Order or
Orders approving of fixing just and reasonable rates and
other service charges for the distribution of Electricity as of
January 1, 2011.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 1

Reference: Exhibit 1, Tab 1, Schedule 13

Are there any Board of Director costs included in the test year revenue requirement associated with Horizon Holdings Inc. or any of the affiliates or related companies discussed on pages 1 and 2 and/or shown on page 3? If yes, please quantify the amounts and the company to which they relate.

Response:

Please refer to response to VECC Interrogatory 15.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 2

Reference: Exhibit 1, Tab 1, Schedule 15

a) At lines 14-15 of the evidence it is stated that the incremental ITC has been included in Operating, Maintenance and Administration expenses. Please confirm that this means the OM&A costs have been reduced as a result of the ITC. If this cannot be confirmed, please explain why the OM&A costs have been increased by the amount of the ITC.

b) Please provide the amount of provincial sales tax paid on OM&A expenses in each of 2006, 2007, 2008, 2009 and the first half of 2010.

c) Please provide an estimate of the reduction included in the test year OM&A expenses as a result of the elimination of the provincial sales tax.

d) The evidence does not mention the impact of the ITC on capital expenditures. Please confirm that Horizon has reduced the capital expenditures for the second half of 2010 and the all of the 2011 test year to reflect the elimination of the provincial sales tax.

e) Please provide the provincial sales tax paid on capital expenditures for each of 2006, 2007, 2008, 2009 and the first half of 2010.

f) Please provide an estimate of the reduction included in the bridge and test years capital expenditure forecast as a result of the elimination of the provincial sales tax.

Response:

a) Please see response to Board staff Interrogatory 57(a).

b) Horizon Utilities is unable to provide such historical information on Provincial Sales Tax ("PST") paid for OM&A expenses incurred for 2006, 2007, 2008, 2009, and for 2010 up to June 30, 2010.

In historical years, the amount of PST paid on OM&A, capital expenditures, and inventory purchases was included in the total cost of the goods or services recorded in the related general ledger accounts. The amount of PST paid on goods and services was not tracked separately nor recorded in a separate general ledger account, other than PST that was collected and remitted by Horizon Utilities.

c) Please see response to Board staff Interrogatory 57 a)

d) Please see response to Board staff Interrogatory 57 b)

e) Please see response to part (b) above

f) Please see response to Board staff Interrogatory (b)

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 3

Reference: Exhibit 1, Tab 2, Schedule 1, pages 4 and 12

The evidence indicates that the average residential customer consumes approximately 7,750 kWh/year and that the application will result in a 3.25% total bill increase for a typical residential customer that consumes 1,000 kWh in a month.

Please provide the total bill increase for an average residential customer that consumes 650 kWh in a month.

Response:

The total bill increase for an average residential customer that consumes 650 kWh in a month is 4.02%.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2010

Question 4

Reference: Exhibit 2, Tab 2, Schedule 2, page 4

Please update the fixed asset continuity schedule for the 2010 bridge year to reflect actual data for 2010. If actual data for all of 2010 is not yet available, please update based on the most recent year-to-date information available, along with a projection for the remainder of the year.

Response:

Please find below the fixed asset continuity schedule for the 2010 bridge year based on the 2010 forecast prepared as at September 30, 2010.

Horizon Utilities Corporation
Fixed Asset Continuity Schedule
December 31, 2010
(Forecast 2010)

OEB	Asset Description	Cost				Accumulated Depreciation				
		Opening Balance	Forecast Additions	Disposals	Closing Balance	Opening Balance	Forecast Additions	Disposals	Closing Balance	Net Book Value
1675	Standby Generators	-	-	-	-	-	-	-	-	-
1805	Land - Substations	414,741.45	-	-	414,741.45	-	-	-	-	414,741.45
1808	Buildings - Substations	2,138,307.23	-	-	2,138,307.23	1,534,816.36	75,840.45	-	1,610,656.81	527,650.42
1810	Leasehold Improvements	20,885.65	-	-	20,885.65	20,885.65	-	-	20,885.65	-
1820	Substation Equipment	11,774,640.47	-	-	11,774,640.47	9,116,218.72	277,009.12	-	9,393,227.84	2,381,412.63
1830	Poles, Towers & Fixtures	69,899,086.43	8,588,589.47	-	78,487,675.90	26,066,828.00	2,947,229.99	-	29,014,057.99	49,473,617.91
1835	OH Conductors & Devices	71,233,394.76	5,276,926.91	-	76,510,321.67	31,392,269.25	2,923,336.22	-	34,315,605.47	42,194,716.20
1840	UG Conduit	115,114,231.17	5,198,527.93	-	120,312,759.10	62,741,200.83	4,656,667.63	-	67,397,868.46	52,914,890.64
1845	UG Conductors & Devices	117,085,475.74	7,789,118.44	-	124,874,594.18	56,742,929.44	4,794,672.07	-	61,537,601.51	63,336,992.67
1850	Line Transformers	96,118,395.81	5,010,545.47	-	101,128,941.28	46,038,177.24	3,859,405.53	-	49,897,582.77	51,231,358.51
1855	Services (OH & UG)	24,184,344.55	466,859.11	-	24,651,203.66	8,685,690.83	1,015,004.50	-	9,700,695.33	14,950,508.33
1860	Meters	37,819,862.01	1,736,318.76	-	39,556,180.77	16,605,869.60	1,479,415.48	-	18,085,285.08	21,470,895.69
1860	Smart Meters	-	-	-	-	0.00	-	-	0.00	(0.00)
1905	Land	1,067,629.41	-	-	1,067,629.41	-	-	-	-	1,067,629.41
1906	Land Rights	162,636.38	-	-	162,636.38	68,811.22	3,337.96	-	72,149.18	90,487.20
1908	Buildings & Fixtures	27,974,291.61	408,500.00	-	28,382,791.61	17,025,093.37	1,268,100.13	-	18,293,193.50	10,089,598.11
1910	Leasehold Improvements	-	-	-	-	-	-	-	-	-
1915	Office Furniture & Equipment	4,912,728.77	411,370.00	-	5,324,098.77	3,569,507.98	218,379.97	-	3,787,887.94	1,536,210.83
1920	Computer - Hardware	5,613,068.40	-	-	5,613,068.40	5,586,452.41	810,389.71	-	6,396,842.12	(783,773.72)
1920	Computer - Hardware post Mar 22/04	3,146,170.79	945,831.00	-	4,092,001.79	1,389,433.14	(19,577.62)	-	1,369,855.52	2,722,146.27
1925	Computer - Software	10,838,623.58	1,594,261.00	-	12,432,884.58	6,275,340.06	1,924,938.32	-	8,200,278.38	4,232,606.20
1930	Transportation Equipment	17,306,131.00	1,304,999.96	-	18,611,130.96	11,223,609.71	1,374,529.61	-	12,598,139.32	6,012,991.64
1935	Stores Equipment	892,540.18	-	-	892,540.18	508,718.12	46,576.58	-	555,294.70	337,245.48
1940	Tools, Shop & Garage Equipment	7,332,746.94	488,399.00	-	7,821,145.94	5,749,616.33	310,713.27	-	6,060,329.60	1,760,816.34
1945	Measurement & Testing Equipment	1,458,621.39	91,550.00	-	1,550,171.39	947,240.12	96,146.76	-	1,043,386.88	506,784.51
1950	Power operated Equipment	144,034.63	-	-	144,034.63	97,238.19	11,436.37	-	108,674.56	35,360.07
1955	Communications Equipment	1,350,163.26	271,650.00	-	1,621,813.26	511,344.49	137,657.60	-	649,002.09	972,811.17
1960	Load Management controls	515,329.99	-	-	515,329.99	151,458.99	51,533.00	-	202,991.99	312,338.00
1980	System Supervisory Equipment	3,777,542.26	-	-	3,777,542.26	3,026,481.78	80,148.91	-	3,106,630.69	670,911.57
1995	Hydro One S/S Contribution	7,973,483.12	-	-	7,973,483.12	899,179.47	318,939.32	-	1,218,118.80	6,755,364.32
1995	Contributions & Grants	(31,486,410.68)	(2,262,647.05)	-	(33,749,057.73)	(3,509,459.21)	(1,308,749.12)	-	(4,818,208.33)	(28,930,849.40)
Total	Sub-Total	608,782,696.30	37,320,800.00	-	646,103,496.30	312,464,952.09	27,353,081.75	-	339,818,033.85	306,285,462.45
2055	Work in Process	6,315,953.40	-	-	6,315,953.40	-	-	-	-	6,315,953.40
	Total	615,098,649.70	37,320,800.00	-	652,419,449.70	312,464,952.09	27,353,081.75	-	339,818,033.85	312,601,415.85
	Reclassification to Smart Meter Variance	869,191.36	-	-	-	Less Fleet	1,374,529.61	-	-	-
	Total - As previously reported	615,967,841.06	-	-	-	Less Stores	46,576.58	-	-	-
						Net Depreciation	25,931,975.56	-	-	-

Notes:

2010 Opening Balance has been restated to reflect reclassification of Smart Meter expenditures to the Smart Meter variance account [Reference to SM Adder]

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED January 24th, 2010

Question 5

Reference: Exhibit 2, Tab 3, Schedule1, pages 31-44

- a) For each project listed, please indicate whether the project was completed and closed to rate base by the end of December 2010. For any project not closed to rate base, please indicate the amount in CWIP and the projected date for closure to rate base.
- b) Please confirm that the Vansickle TS station has been completed and closed to rate base in 2010. Please further confirm that the total contribution to this project by Horizon is \$7.3 million. If this cannot be confirmed, please provide the actual total contribution.
- c) Are the first two payments made in 2008 and 2009 of \$4.8 million in total associated with the Vansickle TS included in CWIP at the beginning of 2010? If not, please indicate where these amounts have been included.
- d) Please explain the different figures shown for the Niagara Regional Hospital of \$2,703,217 shown on page 33 with the figure of \$2,581,607 shown in the table on page 31.
- e) Please explain the different contribution figures shown for the St. Joseph's Hospital of \$571,878 shown on page 36 with the figure of \$1,194,155 shown in the table on page 31.

f) For each project shown on pages 32 through 44 that has a start date prior to 2010, please provide a table that shows the amount spent or forecast to be spent in each year through to the project completion. For all projects that were not completed in 2010, please show the amount included in rate base at the end of 2010 and the amount included in CWIP at the end of 2010. Please provide the rationale for including any amounts in rate base at the end of 2010 for each project that has not been completed by the end of 2010.

Response:

a) Listed below are 2010 distribution capital projects that were either closed by the end of December 2010 or are CWIP that are yet to completed.

Project Name	Year	Completed by December 2010	Projected In-Service date	Amount of CWIP
Vansickle TS Capacity Allocation	2010	Yes	December 2010	\$0
Niagara Regional Hospital (VSM91 and VSM92 NRH and Load Relief)	2010	No. (CCRA In-Service date is April 2011)	April 2011	\$ 1,016,774
Caroline Phase 3 of 6 Substation Conversion	2010	Yes	October 2010	\$0
Hughson Phase 3 of 6 Substation Conversion	2010	Yes	October 2010	\$0

St. Joseph Hospital	2010	No (CCRA In-Service date is Feb. 2011)	February 2011	\$ 85,725
Taylor Phase 2 of 3 Substation Conversion	2010	Yes	December 2010	\$0
Vansickle VSM51 Feeder to tie CTM17	2010	No	March 1, 2011	\$ 103,528
Brock University 2 nd Feed	2010	No. (CCRA In-service date is January 2011)	January 2011	\$ 970,867.11
St. Catharines Downtown Network Conversion	2010	Yes	December 2010	\$0
Henderson Hospital Load Increase	2010	Yes	June 2010	\$0

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2 **b)** The Vansickle TS station project was completed and closed to rate base in 2010,
3 with a total Horizon Utilities' contributions of \$7.3 million (includes GST).

4 **c)** The first two payments in 2008 and 2009 for the Vansickle TS project, in the
5 amount of \$4.8 million (includes GST), were not included in CWIP at the beginning of
6 2010. Such payments were included in Capital Contributions.

7 **d)** The Niagara Regional Hospital project estimated value of \$2,581,607 shown on
8 page 31 is correct. The value shown on page 33 for the Niagara Regional Hospital

- 1 project of \$2,703,217 was the result of a manual input error.
- 2 **e)** The estimated capital contribution value of \$ 571,878 shown for the St. Joseph's
- 3 Hospital project on page 36 is the correct amount. The capital contribution figure of
- 4 \$1,194,155 shown in the table on page 31 is inaccurate and is the result of manual input
- 5 error.

- 1 f) The table below lists projects with start dates prior to 2010, with actual or forecasted expenditures for each year through
 2 project completion. For all projects not completed in 2010, the forecasted expenditures are included in rate base at the
 3 end of 2010.

4

Project Name	Year							Amount Included in Rate Base at the end of 2010 for Projects not Completed in 2010.	Amount in CWIP at the end of 2010
	2007	2008	2009	2010	2011	2012	2013		
Vansickle TS Capacity Allocation		\$2,400,000	\$2,400,000	\$2,500,00					\$0
Caroline Substation Conversion		\$374,176	\$462,097	\$541,616	\$1,838,033	\$2,150,159	\$2,220,728	\$1,377,889	\$0
Hughson Substation Conversion		\$15,438	\$344,050	\$325,971	\$2,002,244	\$2,081,197	\$2,475,744	\$685,459	\$0
St.Joseph Hospital		\$5,464	\$61,544	\$2,091,335	\$162,122				\$0
Taylor Substation Conversion			\$498,362	\$1,049,410	\$2,545,120			\$1,547,772	\$0
St.Catharines Downtown Network Conversion	\$1,044,460	\$440,659	\$556,467	\$716,412	\$523,211			\$2,757,998	\$0
Henderson Hospital Load Increase		\$12,328	\$4,567	\$433,335					\$0

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- 1 The four conversion projects on the list are multi-year projects broken out in phases.
- 2 The amounts of the individual phases are included in the rate base because these
- 3 phases are completed and energized. The St. Joseph Hospital project is considered
- 4 substantially completed as of the end of 2010, as 2 of the 4 required connections are
- 5 completed and energized with minimal work left to be completed.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 6

Reference: Exhibit 2, Tab 4, Schedule 1, Appendix 2-2

a) Please confirm that the 2011 cost of power is based on RPP and non-RPP rates from the April 15, 2010 Regulated Price Plan Price Report.

b) Please update the 2011 cost of power to reflect the October 18, 2010 Regulated Price Plan Price Report.

c) How has Horizon estimated the split between RPP and non-RPP volumes for each of the rate classes shown?

d) Please provide the actual 2010 (or most recent year-to-date 2010, if complete 2010 data is not available) split between RPP and non-RPP volumes for each rate class shown.

e) Please confirm that based on the October 18, 2010 Regulated Price Plan Price Report, the weighted average Ontario Electricity Market Price Forecast for the January, 2011 through December, 2011 period is \$64.66 per MWh calculated as follows based on the figures provided in Table 1 of the Price Report, along with the Global Adjustment shown in Table ES-1:

	Months	Price
Jan	1	43.59
Feb-Apr	3	40.59
May-Jul	3	35.2
Aug-Oct	3	37.57
Nov-Dec	2	37.87
Weighted Average		38.28
Global Adjustment		<u>26.38</u>
Non-RPP Price		64.66

1 **f)** Please confirm that based on the October 18, 2010 Regulated Price Plan Price
2 Report, the Average Supply Cost for RPP Customers for the January, 2011 through
3 December, 2011 period is \$67.36 per MWh calculated as follows based on the figures
4 provided in Table ES-1 of the Price Report, along with the weighted average Ontario
5 Electricity Market Price Forecast calculated in (e) above:

Load Weighted Price for RPP Consumers	42.16
Forecast Wholesale Electricity Price	39.23
Ratio	1.074688
Jan-Dec Weighted Average	38.28
Jan-Dec Load Weighted Price for RPP Consumers	41.14
Global Adjustment	26.38
Adjustment to Address Bias	1.00
Adjustment to Clear Existing Variance	<u>-1.16</u>
RPP Price	67.36

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8 **g)** Please update the 2011 cost of power to reflect a Non-RPP price of \$64.66 and
9 an RPP price of \$67.36 (as calculated in (e) and (f) above).

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1 **Response:**

2 **a)** Horizon Utilities confirms that the 2011 cost of power is based on RPP and non-
3 RPP rates from the April 15, 2010 Regulated Price Plan Price Report.

4 **b)** Horizon Utilities has updated the 2011 cost of power to reflect the October 18,
5 2010 Regulated Price Plan Price Report.

Electricity - Commodity		2011 Loss Factor	2011		
Class per Load Forecast	2011 Forecasted Metered kWhs		Uplifted	Cost Of Energy	Total Cost
Residential	1,580,203,371	1.0410			
- Rpp			1,603,373,419	0.06838	\$109,638,674
- Non Rpp			41,618,290	0.06561	\$2,730,576
GS<50kW	552,044,772	1.0410			
- Rpp			574,448,736	0.06838	\$39,280,805
- Non Rpp			229,871	0.06561	\$15,082
GS>50kW	1,781,012,386	1.0421			
- Rpp			313,848,418	0.06838	\$21,460,955
- Non Rpp			1,542,144,590	0.06561	\$101,180,107
Large User	693,689,836	1.0067			
- Rpp			0	0.06838	\$0
- Non Rpp			698,337,558	0.06561	\$45,817,927
Unmetered Scattered Load	12,541,586	1.0410			
- Rpp			13,055,791	0.06838	\$892,755
- Non Rpp			0	0.06561	\$0
Sentinel Lighting	502,459	1.0410			
- Rpp			523,060	0.06838	\$35,767
- Non Rpp			0	0.06561	\$0
Street Lighting	40,006,298	1.0410			
- Rpp			258,209	0.06838	\$17,656
- Non Rpp			41,388,348	0.06561	\$2,715,489
TOTAL	4,660,000,708		4,829,226,289		\$323,785,793

Transmission - Network		Volume Metric	2011		
Class per Load Forecast					
Residential		kWh	1,644,991,709	\$0.0059	\$9,705,451
GS<50kW		kWh	574,678,608	\$0.0052	\$2,988,329
GS>50kW		kW	4,856,870	\$2.0572	\$9,991,553
Large User		KW	3,044,901	\$2.3501	\$7,155,822
Unmetered Scattered Load		kWh	13,055,791	\$0.0053	\$69,196
Sentinel Lighting		kW	1,421	\$1.7095	\$2,429
Street Lighting		kW	111,295	\$1.6195	\$180,242
TOTAL					\$30,093,022

Transmission - Connection		Volume Metric	2011		
Class per Load Forecast					
Residential		kWh	1,644,991,709	\$0.0049	\$8,060,459
GS<50kW		kWh	574,678,608	\$0.0045	\$2,586,054
GS>50kW		kW	4,856,870	\$1.7739	\$8,615,602
Large User		KW	3,044,901	\$2.0385	\$6,207,031
Unmetered Scattered Load		kWh	13,055,791	\$0.0046	\$60,057
Sentinel Lighting		kW	1,421	\$1.4275	\$2,028
Street Lighting		kW	111,295	\$1.3918	\$154,900
TOTAL					\$25,686,131

Wholesale Market Service		Volume Metric	2011		
Class per Load Forecast					
Residential		kWh	1,644,991,709	\$0.0052	\$8,553,957
GS<50kW		kWh	574,678,608	\$0.0052	\$2,988,329
GS>50kW		kW	4,856,870	\$0.0052	\$25,256
Large User		KW	3,044,901	\$0.0052	\$15,833
Unmetered Scattered Load		kWh	13,055,791	\$0.0052	\$67,890
Sentinel Lighting		kW	1,421	\$0.0052	\$7
Street Lighting		kW	111,295	\$0.0052	\$579
TOTAL					\$11,651,851

Rural Rate Assistance		Volume Metric	2011		
Class per Load Forecast					
Residential		kWh	1,644,991,709	\$0.0013	\$2,138,489
GS<50kW		kWh	574,678,608	\$0.0013	\$747,082
GS>50kW		kW	4,856,870	\$0.0013	\$6,314
Large User		KW	3,044,901	\$0.0013	\$3,958
Unmetered Scattered Load		kWh	13,055,791	\$0.0013	\$16,973
Sentinel Lighting		kW	1,421	\$0.0013	\$2
Street Lighting		kW	111,295	\$0.0013	\$145
TOTAL					\$2,912,963

2011	
4705-Power Purchased	\$323,785,793
4708-Charges-WMS	\$11,651,851
4714-Charges-NW	\$30,093,022
4716-Charges-CN	\$25,686,131
4730-Rural Rate Assistance	\$2,912,963
4750-Low Voltage	\$251,010
TOTAL	394,380,770

c) Horizon Utilities has estimated the split between RPP and non-RPP volumes for each of the rate classes based on January to March 2010 actual billings.

d) Horizon Utilities has provided the table below to show the actual 2010 split between RPP and non-RPP volumes for each rate class.

RateClass	Total Billed	Billed RPP	RPP%	Billed Non RPP	Non RPP%
Residential	1,745,123,242	1,469,134,723	84.19%	275,988,519	15.81%
General Svc < 50kW	605,562,981	511,157,294	84.41%	94,405,687	15.59%
General Svc > 50kW	1,921,645,911	217,109,798	11.30%	1,704,536,113	88.70%
Large Use	721,055,676	0	0.00%	721,055,676	100.00%
Unmetered	13,031,322	12,178,139	93.45%	853,183	6.55%
Sentinel	559,412	543,876	97.22%	15,536	2.78%
Street Lighting	42,016,168	224,760	0.53%	41,791,408	99.47%
Total	5,048,994,712	2,210,348,590		2,838,646,122	

e) Horizon Utilities confirms that based on the October 18, 2010 Regulated Price Plan Price Report, the weighted average Ontario Electricity Market Price Forecast for the January, 2011 through December, 2011 period is \$64.66 per MWh as calculated based on the figures provided in Table 1 of the Price Report, along with the Global Adjustment shown in Table ES-1.

f) Horizon Utilities confirms that based on the October 18, 2010 Regulated Price Plan Price Report, the average Supply Cost for RPP customers for the January, 2011 through December, 2011 period is \$67.36 per per MWh.

g) Horizon Utilities has updated the 2011 cost of power to reflect a Non-RPP price of \$64.66 and RPP price of \$67.36.

Electricity - Commodity		2011 Forecasted Metered kWhs	2011 Loss Factor	2011	
Class per Load Forecast				Uplifted	Cost Of Energy
Residential		1,580,203,371	1.0410		
- Rpp				1,603,373,419	0.06736
- Non Rpp				41,618,290	0.06466
GS<50kW		552,044,772	1.0410		
- Rpp				574,448,736	0.06736
- Non Rpp				229,871	0.06466
GS>50kW		1,781,012,386	1.0421		
- Rpp				313,848,418	0.06736
- Non Rpp				1,542,144,590	0.06466
Large User		693,689,836	1.0067		
- Rpp				0	0.06736
- Non Rpp				698,337,558	0.06466
Unmetered Scattered Load		12,541,586	1.0410		
- Rpp				13,055,791	0.06736
- Non Rpp				0	0.06466
Sentinel Lighting		502,459	1.0410		
- Rpp				523,060	0.06736
- Non Rpp				0	0.06466
Street Lighting		40,006,298	1.0410		
- Rpp				258,209	0.06736
- Non Rpp				41,388,348	0.06466
TOTAL		4,660,000,708		4,829,226,289	\$319,022,642

Transmission - Network		Volume Metric	2011	
Class per Load Forecast				
Residential		kWh	1,644,991,709	\$0.0059
GS<50kW		kWh	574,678,608	\$0.0052
GS>50kW		kW	4,856,870	\$2.0572
Large User		KW	3,044,901	\$2.3501
Unmetered Scattered Load		kWh	13,055,791	\$0.0053
Sentinel Lighting		kW	1,421	\$1.7095
Street Lighting		kW	111,295	\$1.6195
TOTAL				\$30,093,022

Transmission - Connection		Volume Metric	2011	
Class per Load Forecast				
Residential		kWh	1,644,991,709	\$0.0049
GS<50kW		kWh	574,678,608	\$0.0045
GS>50kW		kW	4,856,870	\$1.7739
Large User		KW	3,044,901	\$2.0385
Unmetered Scattered Load		kWh	13,055,791	\$0.0046
Sentinel Lighting		kW	1,421	\$1.4275
Street Lighting		kW	111,295	\$1.3918
TOTAL				\$25,686,131

Wholesale Market Service		Volume Metric	2011	
Class per Load Forecast				
Residential		kWh	1,644,991,709	\$0.0052
GS<50kW		kWh	574,678,608	\$0.0052
GS>50kW		kW	4,856,870	\$0.0052
Large User		KW	3,044,901	\$0.0052
Unmetered Scattered Load		kWh	13,055,791	\$0.0052
Sentinel Lighting		kW	1,421	\$0.0052
Street Lighting		kW	111,295	\$0.0052
TOTAL				\$11,651,851

Rural Rate Assistance		Volume Metric	2011	
Class per Load Forecast				
Residential		kWh	1,644,991,709	\$0.0013
GS<50kW		kWh	574,678,608	\$0.0013
GS>50kW		kW	4,856,870	\$0.0013
Large User		KW	3,044,901	\$0.0013
Unmetered Scattered Load		kWh	13,055,791	\$0.0013
Sentinel Lighting		kW	1,421	\$0.0013
Street Lighting		kW	111,295	\$0.0013
TOTAL				\$2,912,963

2011	
4705-Power Purchased	\$319,022,642
4708-Charges-WMS	\$11,651,851
4714-Charges-NW	\$30,093,022
4716-Charges-CN	\$25,686,131
4730-Rural Rate Assistance	\$2,912,963
4750-Low Voltage	\$251,010
TOTAL	389,617,619

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 7

Reference: Exhibit 2, Tab 4, Schedule 1, Appendix 2-3

a) Please provide all the data, calculations and assumptions used by rate class to arrive at a service lag of 30.27 days.

b) Does Horizon have any plans to move residential and small commercial customers to monthly billing? If yes, please elaborate on the timing of any such move.

c) Did the service lags used include 30.42 days for customers billed on a bimonthly basis (i.e. $365 / 6 / 2$) and a service lag of 15.21 days for customers billed on a monthly basis (i.e. $365 / 12 / 2$)? If not, please show the calculation of the monthly and bimonthly service lags.

d) Please indicate which rate classes are billed on a bimonthly basis and which rate classes are billed on a monthly basis.

e) Please provide an example of the pricing data from the IESO that results in the delay in processing the bill to a customer by up to 11 or 12 business days.

f) With respect to the collection lag, is this accounts receivable analysis done on a rate class by rate class basis? If so, please provide the collection lag for each rate class based on the specific accounts receivable analysis for the rate class. If it is not done on a rate class specific basis, please explain why not.

g) Please provide the dates and amounts of property tax payments made that result in the average payment lag time of (194.8) days as shown on page 10.

h) Please show the derivation of the GST/HST lag of (17.41) days shown in Table 5 and reconcile it with the total revenue lag shown in Table 1.

i) Please recalculate the percentages of 13.6%, 13.8% and 14.2% shown in Tables 6 through 8, respectively under the assumption that all rate classes are billed on a monthly basis.

j) With reference to the interest costs shown in Exhibit 5, Tab, Schedule 2, Table 5-1, please explain \$10.1 million interest expense shown in Table 8 for 2011.

Response:

a) The data, calculations and assumptions used in the derivation of the 30.27 days are shown in the Table below. The Table includes data on the number of monthly and bi-monthly customers. The assumptions regarding the mid-points of the service period for both monthly and bi-monthly customers are shown. Items that are calculated in the Table below are a) the weighting factors and b) the resulting service lag in days.

Rate Classification	Number of Customers/Accounts			Weighting Factors		Mid Points		Service Lag Days
	Monthly	Bi Monthly	Total	Monthly	Bi Monthly	Monthly	Bi Monthly	
Residential		212,580	212,580	0.00%	90.49%	15.21	30.42	27.52
General Service < 50		17,979	17,979	0.00%	7.65%	15.21	30.42	2.33
General Service > 50	2,216		2,216	0.94%	0.00%	15.21	30.42	0.14
Large Users	12		12	0.01%	0.00%	15.21	30.42	0.00
Unmetered and Scattered		1,879	1,879	0.00%	0.80%	15.21	30.42	0.24
Sentinel		250	250	0.00%	0.11%	15.21	30.42	0.03
Streetlights	4		4	0.00%	0.00%	15.21	30.42	0.00
Total	2,232	232,688	234,920					30.27 days

b) No, Horizon Utilities does not currently have any plans to move residential and small commercial customers to monthly billing.

c) Yes.

d) As used in Horizon's lead/lag study, the information requested is provided in the Table below.

1

Class	Frequency of Billing
Residential	Bi-Monthly
General Service < 50 kW	Bi-Monthly
General Service > 50 kW	Monthly
Large Users	Monthly
Unmetered and Scattered	Bi-Monthly
Sentinel	Bi-Monthly
Streetlights	Monthly

2

3 **e)** Horizon's meters measure volumes of kilowatthours consumed by customers. These
4 volumes need to be applied to prices (cents/KWh) in order to generate a bill.

5 **f)** No. The analysis has not been performed on a rate class by rate class basis (see
6 response to d) for a list of rate classes). Horizon Utilities prepares its aged accounts
7 receivable and credit analysis using two categories of customers; a) residential, and b)
8 commercial, which closely aligns to its credit policies. **g)** As explained on page 2 of
9 Exhibit 2, Tab 4, Schedule 1, Appendix 2-3, the expense lead time consists of two
10 components: a service component, and a payment component. Adding the two
11 together and dollar weighting them produces a weighted average expense lead time for
12 a particular of expense. In the instance of property taxes (page 10 of Exhibit 2, Tab 4,
13 Schedule 1, Appendix 2-3), the weighted average expense lead time was determined to
14 be (12.30) days and the service lead time was 182.50 days. The average payment lag
15 time of (194.8) days is the "delta" between the service lead time and the weighted
16 average expense lead time.

17 **h)** The derivation of the (17.41) days of the GST/HST lag is shown on Cols (A) through
18 (F) of the Table below. The discussion following the Table explains how the values in
19 the Table were calculated and, in doing so, reconciles with the total revenue lag
20 calculation shown on Table 1 of Exhibit 2, Tab 4, Schedule 1, Appendix 2-3.

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Line	Start Date	Average End Date assuming Mid Point of Service Period	Customer Invoice Date	GST Remittance Date	GST Collection Date	GST Lead Revenues
	(A)	(B)	(C)	(D)	(E)	(F)
1	1/1/2009	1/31/2009	2/17/2009	3/31/2009	3/14/2009	(16.16)
2	2/1/2009	3/3/2009	3/20/2009	4/30/2009	4/14/2009	(15.16)
3	3/1/2009	3/31/2009	4/17/2009	5/31/2009	5/12/2009	(18.16)
4	4/1/2009	5/1/2009	5/18/2009	6/30/2009	6/12/2009	(17.16)
5	5/1/2009	5/31/2009	6/17/2009	7/31/2009	7/12/2009	(18.16)
6	6/1/2009	7/1/2009	7/18/2009	8/31/2009	8/12/2009	(18.16)
7	7/1/2009	7/31/2009	8/17/2009	9/30/2009	9/11/2009	(18.16)
8	8/1/2009	8/31/2009	9/17/2009	10/31/2009	10/12/2009	(18.16)
9	9/1/2009	10/1/2009	10/18/2009	11/30/2009	11/12/2009	(17.16)
10	10/1/2009	10/31/2009	11/17/2009	12/31/2009	12/12/2009	(18.16)
11	11/1/2009	12/1/2009	12/18/2009	1/31/2010	1/12/2010	(18.16)
12	12/1/2009	12/31/2009	1/17/2010	2/28/2010	2/11/2010	(16.16)
13	Average					<u>(17.41)</u>

- i. The dates shown on Col (A) are assumed starting dates for a 12 month period in 2009.
 - ii. The values shown on Col (B) are calculated as the Service Start Date in Col (A) plus an average service lag of 30.27 days as indicated on Table 1 of Exhibit 2, Tab 4, Schedule 1, Appendix 2-3.
 - iii. The values shown on Col (C) are calculated as the values shown on Col (B) plus a billing lag of 17.35 days that is shown on Table 1 of Exhibit 2, Tab 4, Schedule 1, Appendix 2-3.
 - iv. For each period, in this example, month, the GST remittance date shown on Col (D) is the last day of the month following the Customer Invoice Date shown on Col (C).
 - v. The values shown on Col (E) are calculated as the values shown on Col (C) plus 24.00 days of collections lag plus 1.21 days of payment processing lag. Both the collections lag and payment processing lag values are shown on Exhibit 2, Tab 4, Schedule 1, Appendix 2-3.
- i) Horizon believes that performing such a calculation in isolation is misleading, inappropriate, and its results would be irrelevant in the present context for two reasons. First, one would have to factor in the on-going operating costs of implementing such a change in the estimation of Horizon's working capital requirements.. Also, in generic

1 terms, such costs may include (and might not be limited to) incremental capital
2 investments in metering and information technology, incremental payroll and benefit
3 expenses, incremental OM&A expenses, increased taxes, and depending on how the
4 shift is accomplished, incremental interest expenses. Second, as explained in response
5 to part b) of this interrogatory, Horizon has no plans to move customers from bi-monthly
6 to monthly billing. With these as caveats and assuming that all customers are billed on
7 a monthly basis, Horizon's working capital requirements would reduce to a theoretical
8 8.8%, 8.8%, and 9.0% respectively for the period 2009-2011.

9 j) The interest expense of \$10.1MM is based on the interest payments in the year
10 of \$8.1MM with respect to the \$116MM Promissory Note and interest payments of
11 \$2.0MM with respect to the \$40MM Promissory Note.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 8

Reference: Exhibit 3, Tab 1, Schedule 2

a) Please update Table 3-1 to include 2010 actual data. If 2010 actual data is not yet complete, please update to include 11 months of actual data and the forecast for December.

b) Please provide a version of Table 3-1 that has 2011 revenues calculated using existing 2010 rates applied to the forecasted 2011 billing determinants.

Response:

a) Table 3-1 has been updated to include 2010 actual data.

	2007 Actual	2008 Approved	2008 Actual	2009 Actual	2010 Forecast	2011 Forecast
Operating Revenue per						
Financial Statements	\$ 84,796,818		\$ 88,334,732	\$ 88,583,104	\$ 90,585,000	
SSS Admin charges	\$ (569,713)		\$ (589,238)	\$ (591,117)	\$ (583,000)	
<i>included in Other Operating Revenue</i>						
Adjustments			\$ (5,254,223)	\$ (4,680,503)	\$ (4,933,808)	
Net Operating Revenue	\$ 84,227,105	\$ 86,661,249	\$ 82,491,271	\$ 83,311,484	\$ 85,068,192	\$ 103,225,970
Residential	\$ 60,077,158	\$ 54,384,267	\$ 57,818,079	\$ 51,907,610	\$ 56,647,730	\$ 60,820,364
GS<50 kW	\$ 9,645,384	\$ 10,399,350	\$ 9,395,291	\$ 10,241,439	\$ 9,754,352	\$ 12,191,419
GS>50 kW	\$ 11,842,292	\$ 14,602,420	\$ 11,785,659	\$ 13,685,913	\$ 12,516,944	\$ 18,409,499
Large User	\$ 1,763,243	\$ 5,459,659	\$ 2,094,026	\$ 4,511,799	\$ 3,272,669	\$ 7,782,749
USL	\$ 173,578	\$ 736,621	\$ 244,996	\$ 773,100	\$ 588,933	\$ 636,137
Sentinel	\$ 21,561	\$ 38,996	\$ 22,997	\$ 28,313	\$ 25,952	\$ 52,965
Streetlights	\$ 340,508	\$ 649,960	\$ 828,312	\$ 1,552,640	\$ 1,788,259	\$ 2,754,541
Standby	\$ 363,379	\$ 389,976	\$ 301,910	\$ 610,669	\$ 473,353	\$ 578,297
Net Operating Revenue	\$ 84,227,103	\$ 86,661,249	\$ 82,491,270	\$ 83,311,484	\$ 85,068,192	\$ 103,225,971
Other Operating Revenue	\$ 7,163,115	\$ 6,774,481	\$ 7,344,652	\$ 6,083,647	\$ 5,861,659	\$ 5,481,969
Total Operating Revenue	\$ 91,390,218	\$ 93,435,730	\$ 89,835,922	\$ 89,395,131	\$ 90,929,851	\$ 108,707,940

- 1 **b)** Below is the version of Table 3-1 that has 2011 revenues calculated using
2 existing 2010 rates applied to the forecasted 2011 billing determinants.

	2007 Actual	2008 Approved	2008 Actual	2009 Actual	2010 Forecast	2011 Revenues using 2010 rates
Operating Revenue per Financial Statements	\$ 84,796,818		\$ 88,334,732	\$ 88,583,104		
SSS Admin charges	\$ (569,713)		\$ (589,238)	\$ (591,117)		
<i>included in Other Operating Revenue</i>						
Adjustments			\$ (5,254,223)	\$ (4,680,503)		
Net Operating Revenue	\$ 84,227,105	\$ 86,661,249	\$ 82,491,271	\$ 83,311,484	\$ 83,813,764	\$ 85,329,428
Residential	\$ 60,077,158	\$ 54,384,267	\$ 57,818,079	\$ 51,907,610	\$ 52,176,489	\$ 52,414,903
GS<50 kW	\$ 9,645,384	\$ 10,399,350	\$ 9,395,291	\$ 10,241,439	\$ 10,012,876	\$ 9,881,194
GS>50 kW	\$ 11,842,292	\$ 14,602,420	\$ 11,785,659	\$ 13,685,913	\$ 14,087,130	\$ 15,527,680
Large User	\$ 1,763,243	\$ 5,459,659	\$ 2,094,026	\$ 4,511,799	\$ 4,678,721	\$ 4,688,143
USL	\$ 173,578	\$ 736,621	\$ 244,996	\$ 773,100	\$ 562,706	\$ 557,094
Sentinel	\$ 21,561	\$ 38,996	\$ 22,997	\$ 28,313	\$ 27,567	\$ 28,643
Streetlights	\$ 340,508	\$ 649,960	\$ 828,312	\$ 1,552,640	\$ 1,770,327	\$ 1,823,697
Standby	\$ 363,379	\$ 389,976	\$ 301,910	\$ 610,669	\$ 497,948	\$ 408,074
Net Operating Revenue	\$ 84,227,103	\$ 86,661,249	\$ 82,491,270	\$ 83,311,484	\$ 83,813,764	\$ 85,329,428
Other Operating Revenue	\$ 7,163,115	\$ 6,774,481	\$ 7,344,652	\$ 6,083,647	\$ 5,601,659	\$ 5,481,969
Total Operating Revenue	\$ 91,390,218	\$ 93,435,730	\$ 89,835,922	\$ 89,395,131	\$ 89,415,423	\$ 90,811,397

2011 BILLING DETERMINANTS BY CLASS		2010 RATES	
Residential		Residential	
Customers	214,658	Fixed	\$ 12.68
kWh	1,580,203,371	Variable	\$ 0.0125
General Service < 50 kW		General Service < 50 kW	
Customers	17,931	Fixed	\$ 27.45
kWh	552,044,772	Variable	\$ 0.0072
General Service 50 to 4,999 kW		General Service 50 to 4,999 kW	
Customers	2,279	Fixed	\$ 250.33
kWh	1,781,012,386	Variable	\$ 1.7875
kW	4,856,870		
Street Lighting		Street Lighting	
Customers	52,388	Fixed	\$ 1.97
kWh	40,006,298	Variable	\$ 5.2585
kW	111,295		
Sentinel Lighting		Sentinel Lighting	
Customers	501	Fixed	\$ 2.89
kWh	502,459	Variable	\$ 7.9297
kW	1,421		
Unmetered Scattered Load		Unmetered Scattered Load	
Customers	3,228	Fixed	\$ 9.59
kWh	12,541,586	Variable	\$ 0.0148
Standby Power		Standby Power	
kW	199,012	Variable	\$ 2.0505
Large Use		Large Use	
Customers	12	Fixed	\$ 11,151.32
kWh - without WMP	693,689,836	Variable	\$ 1.0123
kW - with WMP	3,044,901		
Total			
Customer/Connections	290,997		
kWh	4,660,000,708		
kW from applicable classes	8,213,499		

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2010

Question 9

Reference: Exhibit 3, Tab 2, Schedule 1

a) Do the figures shown as 2010 Normalized Bridge include actual consumption up to and including June 2010?

b) Please update Tables 3-5 through 3-7 to reflect actual 2010 data. If actual 2010 data is not yet available, please update these tables to reflect 11 months of actual data and one month of forecast data.

Response:

a) The figures shown as 2010 Normalized Bridge include actual consumption for the Large Use customers only, up to and including June 2010.

b) Horizon Utilities Updated Tables 3-5 through 3-7 to reflect actual 2010 data.

Table 3-5: Summary of Load and Customer/Connection Forecast

Year	Billed (GWh)	Growth (GWh)	Percent Change	Customer/Connection Count	Growth	Percent Change (%)
Billed Energy (GWh) and Customer Count / Connections						
2008 Board Approved	5,600.3			289,425		
2003 Actual	5,531.4			280,203		
2004 Actual	5,512.5	(18.9)	(0.3%)	281,634	1431.0	0.5%
2005 Actual	5,654.0	141.5	2.6%	283,505	1870.9	0.7%
2006 Actual	5,349.7	(304.3)	(5.4%)	284,980	1475.0	0.5%
2007 Actual	5,260.1	(89.5)	(1.7%)	286,154	1174.6	0.4%
2008 Actual	5,121.1	(139.1)	(2.6%)	287,292	1138.0	0.4%
2009 Actual	4,597.3	(523.8)	(10.2%)	288,245	952.5	0.3%
2010 Actual	4,874.1	276.8	6.0%	289,677	1432.0	0.5%
2011 Normalized Test	4,660.0	(214.1)	(4.4%)	290,997	1320.3	0.5%

1

Table 3-6: Billed Energy and Number of Customers / Connections by Rate Class

Year	Residential	General Service < 50 kW	General Service 50 to 4,999 kW	Street Lighting	Sentinel Lighting	Unmetered Scattered Load	Large Use	Total
Billed Energy (GWh)								
2008 Board Approved	1,698.7	633.2	2,118.6	42.1	0.6	18.2	1,088.8	5,600.3
2003 Actual	1,661.3	666.3	1,934.1	37.9	0.6	13.5	1,217.7	5,531.4
2004 Actual	1,627.7	636.8	1,968.5	39.7	0.6	15.4	1,223.8	5,512.5
2005 Actual	1,767.7	630.4	2,031.1	39.4	0.6	18.0	1,166.7	5,654.0
2006 Actual	1,654.7	616.3	1,933.0	39.9	0.6	16.3	1,088.8	5,349.7
2007 Actual	1,666.8	617.8	1,997.3	39.4	0.6	16.0	922.3	5,260.1
2008 Actual	1,641.7	598.6	1,958.1	39.5	0.6	13.0	869.6	5,121.1
2009 Actual	1,597.2	577.6	1,815.5	39.5	0.5	12.8	554.3	4,597.3
2010 Actual	1,685.7	582.1	1,848.8	40.3	0.5	12.5	704.1	4,874.1
2011 Normalized Test	1,580.2	552.0	1,781.0	40.0	0.5	12.5	693.7	4,660.0
Number of Customers/Connections								
2008 Board Approved	211,942	17,927	2,213	53,514	479	3,338	12	289,425
2003 Actual	204,831	18,342	1,880	51,482	505	3,150	14	280,203
2004 Actual	206,013	18,260	1,986	51,707	495	3,160	14	281,634
2005 Actual	207,486	18,170	2,080	52,099	482	3,176	13	283,505
2006 Actual	208,782	18,099	2,105	52,297	479	3,207	12	284,980
2007 Actual	209,864	18,071	2,141	52,352	479	3,236	12	286,154
2008 Actual	211,092	18,037	2,179	52,277	491	3,205	12	287,292
2009 Actual	212,158	18,033	2,172	52,160	502	3,208	12	288,245
2010 Actual	213,476	18,032	2,234	52,247	502	3,174	12	289,677
2011 Normalized Test	214,658	17,931	2,279	52,388	501	3,228	12	290,997

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Table 3-7: Annual Usage per Customer/Connection by Rate Class

Year	Residential	General Service < 50 kW	General Service 50 to 4,999 kW	Street Lighting	Sentinel Lighting	Unmetered Scattered Load	Large Use
Energy Usage per Customer/Connection (kWh per customer/connection)							
2008 Board Approved	8,015	35,323	957,362	786	1,266	5,464	90,736,102
2003 Actual	8,111	36,326	1,029,056	736	1,270	4,280	86,976,927
2004 Actual	7,901	34,875	991,203	767	1,144	4,881	87,412,135
2005 Actual	8,520	34,697	976,477	757	1,321	5,667	89,747,692
2006 Actual	7,925	34,053	918,308	763	1,214	5,094	90,736,102
2007 Actual	7,942	34,186	933,088	753	1,209	4,947	76,857,554
2008 Actual	7,777	33,185	898,822	756	1,188	4,044	72,470,009
2009 Actual	7,528	32,028	835,853	757	1,064	3,981	46,194,682
2010 Normalized Bridge	7,897	32,279	827,589	772	1,066	3,930	58,677,837
2011 Normalized Test	7,361	30,787	781,390	764	1,003	3,886	57,807,486
Annual Growth Rate in Usage per Customer/Connection							
2008 Board Approved v 2008 Actual	3.1%	6.4%	6.5%	3.9%	6.6%	35.1%	25.2%
2003 Actual							
2004 Actual	-2.6%	-4.0%	-3.7%	4.3%	-10.0%	14.1%	0.5%
2005 Actual	7.8%	-0.5%	-1.5%	-1.3%	15.5%	16.1%	2.7%
2006 Actual	-7.0%	-1.9%	-6.0%	0.8%	-8.1%	-10.1%	1.1%
2007 Actual	0.2%	0.4%	1.6%	-1.3%	-0.5%	-2.9%	-15.3%
2008 Actual	-2.1%	-2.9%	-3.7%	0.5%	-1.8%	-18.2%	-5.7%
2009 Actual	-3.2%	-3.5%	-7.0%	0.0%	-10.4%	-1.6%	-36.3%
2010 Normalized Bridge	4.9%	0.8%	-1.0%	2.0%	0.2%	-1.3%	27.0%
2011 Normalized Test	-6.8%	-4.6%	-5.6%	-1.1%	-5.9%	-1.1%	-1.5%

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 10

Reference: Exhibit 3, Tab 2, Schedule 2

a) Please confirm that the loss factor noted on page 7 is the average loss factor over the 2005 through 2009 period.

b) What is the average loss factor over the 2003 through 2009 period?

c) Please reconcile the 2011 forecast figure of 4,007.3 GWh shown on line 15 of page 10 with the figure of 3,966.3 GWh shown on line 7 of page 7. Please also reconcile these figures with those provided in Tale 3-18.

Response:

a) Yes, the loss factor noted on page 7 is the average loss factor over the 2005 through 2009 period.

b) The average loss factor over the 2003 through 2009 period is 4.10%.

c) The 2011 forecast figure of 4007.3 GWh show on line 15 of page 10 is in error and should be consistent with 3,996.3 GWh show on line 7 of page 7 that also matches the number provided in Table 3-18.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 11

Reference: Exhibit 3, Tab 2, Schedule 2

a) Please provide a regression analysis on the ratio of kW to kWh figures shown in Table 3-20 for each of the three rate classes shown that uses the ratios as the dependent variable and the year as the independent variable.

b) For any of the three regressions estimated in response to part (a) above in which the independent variable is found to be statistically significant, please provide the forecast for 2011 using the regression equation.

c) What is the impact on the revenue deficiency of using the result from part (b)?

d) Please update Table 3-20 to reflect 2010 actual data. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

e) Please update Table 3-22 to reflect 2010 actual data. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

f) Please explain the decrease forecast for 2011 in Table 3-22.

g) Please update Table 3-23 to reflect 2010 actual data. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

h) Please indicate how the degree day information from the Hamilton Airport and a weather station in the St. Catharine's vicinity were combined to arrive at the degree day data found in Appendix 3-1. Please also provide the monthly data from these two sources and show the calculation used to combine the figures.

i) Is the data from the weather station in the St. Catharine's area maintained by Environment Canada?

j) Please update Table 3-24 to reflect 2010 actual data. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

Response:

a) The following outlines the results, by class, of the regression analysis on the ratio of kW to kWh figures shown in Table 3-20 for each of the three rate classes shown that uses the ratios as the dependent variable and the year as the independent variable.

General Service 50 to 4,999 kW	
Statistic	Value
R Square	91.3%
Adjusted R Square	89.6%
F Test	52.8
T-stats by Coefficient	
Intercept	(7.0)
Year	7.3

Street Lighting	
Statistic	Value
R Square	1.8%
Adjusted R Square	-17.8%
F Test	0.1
T-stats by Coefficient	
Intercept	0.2
Year	0.3

Sentinel Lighting	
Statistic	Value
R Square	39.8%
Adjusted R Square	27.7%
F Test	3.3
T-stats by Coefficient	
Intercept	(1.8)
Year	1.8

1

2 **b)** The General Service 50kW to 4,999 kW class is the only class of the three
3 regressions estimated in response to part a) above in which the independent variable is
4 found to be statistically significant. The kW forecast for 2011 using the regression
5 equation for the General Service 50kW to 4,999 kW class is 5,214,803 kW.

6 **c)** The impact on the revenue deficiency of using the result from part b) is a
7 reduction of \$622,840.

8 **d)** Horizon Utilities has updated Table 3-20 to reflect 2010 actual data.

Table 3-20: Historical kW/KWh Ratio per Applicable Rate Class

Year	General Service 50 to 4,999 kW	Street Lighting	Sentinel Lighting
Ratio of kW to kWh			
2003	0.2617%	0.2794%	0.2678%
2004	0.2661%	0.2769%	0.2783%
2005	0.2677%	0.2786%	0.2621%
2006	0.2730%	0.2760%	0.2959%
2007	0.2715%	0.2791%	0.3010%
2008	0.2807%	0.2783%	0.2858%
2009	0.2882%	0.2791%	0.2887%
2010	0.2872%	0.2730%	0.2496%
Average 2003 to 2010	0.2745%	0.2775%	0.2786%

9

10 **e)** Horizon Utilities has updated Table 3-22 to reflect 2010 actual data.

Table 3-22: Standby Power Forecast

Year	Standby Power
Nameplate Rating of Generation (kW)	
2007	275,901
2008	242,220
2009	242,220
2010	242,220
2011	199,012

1

2 **f)** Please refer to Horizon Utilities Response to Board staff Interrogatory 16.

3 **g)** Horizon Utilities has updated Table 3-23 to reflect 2010 actual data.

Table 3-23: Large Use Forecast

Year	Customers	GWh	kW
2003	14	1,217.7	4,414,965
2004	14	1,223.8	4,485,487
2005	13	1,166.7	4,049,286
2006	12	1,088.8	3,876,319
2007	12	922.3	3,534,857
2008	12	869.6	3,299,915
2009	12	554.3	2,433,218
2010	12	704.1	2,884,523
2011	12	693.7	3,044,901

4

5 **h)** Horizon Utilities degree day information is comprised of two thirds or 6.67% from the
6 Hamilton Airport data and one third or 33.33% of the weather station data from St.
7 Catharines. Monthly data and calculations from 2003 to 2009 are listed below:

Year	Month	St. Catharines		Hamilton		Horizon	
		Heat Deg Days	Cool Deg Days	Heat Deg Days	Cool Deg Days	Heat Deg Days	Cool Deg Days
2003	Jan	703	-	830	-	787	-
	Feb	661	-	699	-	686	-
	Mar	549	-	593	-	578	-
	Apr	390	0	387	-	388	0
	May	226	-	216	-	219	-
	Jun	63	48	56	41	58	44
	Jul	1	103	3	86	2	92
	Aug	2	119	6	100	5	106
	Sep	48	16	74	15	66	15
	Oct	269	-	294	-	285	-
	Nov	358	-	392	-	380	-
	Dec	520	-	571	-	554	-
2004	Jan	775	-	859	-	831	-
	Feb	589	-	648	-	628	-
	Mar	473	-	514	-	501	-
	Apr	319	1	329	-	326	0
	May	147	7	171	13	163	11
	Jun	47	42	60	29	56	33
	Jul	2	83	8	72	6	76
	Aug	7	71	29	40	22	50
	Sep	24	47	44	31	37	36
	Oct	200	2	254	-	236	1
	Nov	348	-	396	-	380	-
	Dec	578	-	638	-	618	-
2005	Jan	703	-	763	-	743	-
	Feb	589	-	642	-	624	-
	Mar	590	-	647	-	628	-
	Apr	335	-	337	-	336	-
	May	213	-	213	-	213	-
	Jun	14	132	13	119	13	124
	Jul	0	171	1	145	1	153
	Aug	1	140	4	103	3	115
	Sep	19	63	33	26	28	38
	Oct	202	11	234	8	223	9
	Nov	351	-	396	-	381	-
	Dec	631	-	689	-	670	-
2006	Jan	510	-	555		540	-
	Feb	548	-	603		584	-
	Mar	486	-	530		516	-

Year	Month	St. Catharines		Hamilton		Horizon	
		Heat Deg Days	Cool Deg Days	Heat Deg Days	Cool Deg Days	Heat Deg Days	Cool Deg Days
2007	Apr	315	-	315	-	315	-
	May	155	28	156	22	155	24
	Jun	16	57	27	43	23	48
	Jul	-	161	2	136	1	144
	Aug	4	98	8	70	7	79
	Sep	69	13	105	4	93	7
	Oct	224	1	308	-	280	0
	Nov	354	-	393	-	380	-
	Dec	457	-	508	-	491	-
	Jan	606	-	666	-	646	-
	Feb	698	-	759	-	739	-
	Mar	526	-	565	-	552	-
2008	Apr	359	-	340	-	347	-
	May	166	19	139	23	148	21
	Jun	15	88	19	74	18	79
	Jul	0	92	9	83	6	86
	Aug	8	106	8	106	8	106
	Sep	36	50	55	37	49	41
	Oct	114	21	155	13	142	16
	Nov	419	-	468	-	451	-
	Dec	589	-	645	-	626	-
	Jan	578	-	634	-	615	-
	Feb	624	-	677	-	659	-
	Mar	621	-	621	-	621	-
2009	Apr	297	-	287	-	290	-
	May	182	3	213	0	203	1
	Jun	26	79	34	56	31	63
	Jul	3	115	4	88	3	97
	Aug	13	71	20	45	18	54
	Sep	57	32	71	20	66	24
	Oct	254	-	298	-	283	-
	Nov	419	-	468	-	451	-
	Dec	589	-	645	-	626	-
	Jan	771	-	852	-	825	-
	Feb	558	-	617	-	597	-
	Mar	514	-	542	-	532	-
	Apr	316	4	334	1	328	2
	May	117	-	174	12	155	8
	Jun	62	37	60	46	61	43
	Jul	5	46	19	94	14	78
	Aug	6	103	17	73	13	83
	Sep	49	15	68	23	62	20
	Oct	267	-	312	1	297	1
	Nov	353	-	372	-	366	-
	Dec	546	-	644	-	611	-

1

- 2 i) The data from the weather station in the St. Catharines area is maintained by
3 Environment Canada.

1 j) Table 3-24 has been updated to reflect 2010 actual data.

Table 3-24: Summary of Forecast

	2008 Board Approved	2008	2009	2010 Weather Normalized Bridge	2011 Weather Normalized Test
ACTUAL AND PREDICTED KWH PURCHASES					
Actual kWh Purchases		4,398,381,705	4,207,530,143	4,296,083,360	
Predicted kWh Purchases before CDM adjustment		4,371,431,551	4,265,037,777	4,261,376,265	4,127,619,866
% Difference of actual and predicted purchases		(0.6%)	1.4%		
BILLING DETERMINANTS BY CLASS					
Residential					
Customers	211,942	211,092	212,158	213,476	214,658
kWh	1,698,681,251	1,641,702,487	1,597,158,130	1,685,744,531	1,580,203,371
General Service < 50 kW					
Customers	17,927	18,037	18,033	18,032	17,931
kWh	633,227,782	598,551,375	577,556,075	582,050,636	552,044,772
General Service 50 to 4,999 kW					
Customers	2,213	2,179	2,172	2,234	2,279
kWh	2,118,642,390	1,958,084,266	1,815,472,173	1,848,833,746	1,781,012,386
kW	5,535,480	5,496,894	5,231,608	5,309,024	4,856,870
Street Lighting					
Customers	53,514	52,277	52,160	52,247	52,388
kWh	42,054,739	39,533,397	39,460,323	40,324,005	40,006,298
kW	112,919	110,018	110,133	110,097	111,295
Sentinel Lighting					
Customers	479	491	502	502	501
kWh	606,521	582,481	534,109	535,270	502,459
kW	1,721	1,664	1,542	1,336	1,421
Unmetered Scattered Load					
Customers	3,338	3,205	3,208	3,174	3,228
kWh	18,237,718	12,963,585	12,770,029	12,474,726	12,541,586
Standby Power					
kW	192,960	242,220	242,220	242,220	199,012
Large Use					
Customers	12	12	12	12	12
kWh - without WMP	1,088,833,225	869,640,109	554,336,189	704,134,041	693,689,836
kW - with WMP	3,876,319	3,299,915	2,433,218	2,884,523	3,044,901
Total					
Customer/Connections	289,425	287,292	288,245	289,677	290,997
kWh	5,600,283,626	5,121,057,699	4,597,287,028	4,874,096,955	4,660,000,708
kW from applicable classes	9,719,399	9,150,711	8,018,721	8,547,200	8,213,499

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 12

Reference: Exhibit 3, Tab 2, Schedule 2, Appendix 3-1

a) Please provide the data shown in a live Excel spreadsheet.

b) Please explain how the CDM Savings forecast for each of 2010 and 2011 was calculated.

c) Did Horizon attempt to use any other explanatory variables, other than those shown in the appendix, to explain the wholesale purchases? If yes, please provide the estimated equations and explain why they were rejected for use. Please also provide the variables used in these equations in the live Excel spreadsheet requested in part (a) above.

d) How has Horizon forecast the change in the Ontario Real GDP Index? In particular, what forecasts did Horizon rely on? Please provide a copy of any forecasts used by Horizon to forecast the change in the Ontario Real GDP Index and indicate the date of each of these forecasts.

e) How did Horizon determine the amount of kWh's associated with Large Users to remove from the actual wholesale kWh purchases?

Response:

a) The data shown in the referenced Appendix 3-1 is provided in a live Excel spreadsheet in the Board's web drawer under Board file EB-2010-0131 under the file named "Horizon_Appendix 3-2 Copy of Horizon 2011 Load Forecast Model May 17,

2010". The information that supports Appendix 3-1 is under the tab named "Purchased Power Model"

b) Please refer to Horizon Utilities' response to Board staff Interrogatory 12.

c) Yes, Horizon Utilities attempted to use other explanatory variables, other than those shown in the Appendix, to explain the wholesale purchases. These variables included Number of Customers ("Customer") and Number of Peak Hours. The following table provides the information to determine the estimating equation and the statistic associated with the equation which includes these variables. The variables were rejected because the T-stat was less than two for both variables and the coefficient on Customer was non-intuitive.

R Square	92.4%
Adjusted R Square	91.6%
F Test	114.2
Coefficient	
Intercept	525,182,538
Heating Degree Days	94,902
Cooling Degree Days	910,607
Number of Days in Month	8,372,902
Spring Fall Flag	(10,028,371)
CDM Activity	(0)
Ontario Real GDP Monthly %	1,856,685
Customer	(3,169)
Number of Peak Hours	74,201
T-stats by Coefficient	

Intercept	1.5
Heating Degree Days	12.7
Cooling Degree Days	16.1
Number of Days in Month	6.0
Spring Fall Flag	(3.3)
CDM Activity	(1.6)
Ontario Real GDP Monthly %	3.6
Customer	(1.8)
Number of Peak Hours	1.1

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2 **d)** The forecast change in the Ontario Real GDP Index was based on the forecast of
3 Ontario Real GDP from the 2010 Ontario Budget dated March 25, 2010. For 2010 and
4 2011, the forecast of Ontario Real GDP was 2.7% and 3.2%, respectively.

5 **e)** Horizon Utilities used the historical information available on the kWh's purchased
6 from the IESO for the Large Use customers. This amount was removed from the total
7 actual wholesale kWh purchases.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2010

Question 13

Reference: Exhibit 3, Tab 3, Schedule 1

Please update Table 3-25 to reflect 2010 actual data. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

Response:

Horizon Utilities’ 2010 results will not be complete until the completion of its year-end process.

Please see the revised Table 3-25 below, that provides the 2010 updated data based on the September 30, 2010 forecast.

**Table 3-25 SUMMARY OF
OTHER OPERATING REVENUE**

Revenue Description	2010 Bridge
Other Distribution Revenue	
4082-Retail Services Revenues	0
4084-Service Transaction Requests (STR) Revenues	0
4210-Rent from Electric Property	1,361,532
4220-Other Electric Revenues	0
4225-Late Payment Charges	890,000
4235-Miscellaneous Service Revenues	1,715,462
4325-Revenue from Merchandise, Jobbing	150,000
4355-Gain on Disposition of Utility and Other Property	0
4360-Loss on Disposition of Utility and Other Property	0
4375- Revenues from Non-Utility Operations	0
4390-Miscellaneous Non-Operating Income	1,161,665
4405-Interest and Dividend Income	0
Sub-Total	5,278,659
4080-Distribution Services Revenue-SSS Admin Fee	583,000
Total	5,861,659

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 14

Reference: Exhibit 3, Tab 3, Schedule 3

a) Are the costs associated with providing the services for which the management fee shown in Table 3-28 are collected included in the OM&A expenses?

b) Are there any depreciation and/or return on capital costs included in the management fee recovery?

c) Please provide a table showing the costs associated with the management fee revenue for the 2011 test year.

Response:

a) The costs associated with providing the services, for which the management fees shown in Table 3-28 are collected, are included in the OM&A expenses.

b) Please refer to response to VECC Interrogatory #27.

c) The following tables include the costs associated with the management fee revenue for the 2011 test year.

Combined Hamilton Utilities Corporation and Hamilton Community Energy
Calculation of Management Fee For 2011 Test

	Applicable Costs \$ (note 1)	Allocation Factor % (note 2)	\$
Human Resources	933,799	1.716%	16,024
Procurement and Supply Chain Management	844,743	1.089%	9,199
Information Technology	2,422,515	1.559%	37,767
Back-Office (Finance) Department (note 3)			<u>9,010</u>
2010 Management Fee			<u>72,000</u>
2011 Management Fee (3% Inflation Factor)			<u>74,160</u>
Allocation:			
Hamilton Utilities Corporation			19,776
Hamilton Community Energy			<u>54,384</u>
Total			<u>74,160</u>

Notes:

- 1) Applicable costs reflect 2010 Departmental Budgets; Specific costs related only to the Electricity Distribution Operations only are excluded. Computation of Management Fee is subject to a true-up at year-end.
- 2) Allocation factors are based on cost drivers as per the Service Level Agreement and are based on 2009 Actuals.
- 3) Cost allocation is based on time spent on activities by Finance department (burdened payroll costs);
Hamilton Utilities Corporation and Hamilton Community Energy assumed majority of Finance functions in 2009.

Hamilton Hydro Services Inc. - Water Heater Rental - Calculation of Management Fee For 2011 Test

	Applicable Costs \$ (note 1)	Allocation Factor % (note 2)	\$
Human Resources	933,799	0.200%	1,868
Procurement and Supply Chain Management	844,743	0.110%	929
Inventory Management	1,266,480	0.600%	7,599
Information Technology	2,422,515	0.200%	4,845
Facilities - Nebo Rd. Warehouse	776,866	1.170%	9,089
			<u>24,330</u>
Price Adjustment (rounding)			<u>670</u>
2010 Management Fee			<u>25,000</u>
2011 Management Fee (3% Inflation Factor)			<u>25,750</u>

Notes:

- 1) Applicable costs reflect 2010 Departmental Budgets; Specific costs related only to the Electricity Distribution Operations only are excluded. Computation of Management Fee is subject to a true-up at year-end.
- 2) Allocation factors are based on cost drivers as per the Service Level Agreement and are based on 2009 Actuals.

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Horizon Utilities - Non-Regulated Billing Services - Calculation of Management Fee For 2011 Test

	Applicable Costs \$ (note 1)	Allocation Factor %	\$
Finance	2,374,197	3.0%	71,226
Executive	1,169,098	3.0%	35,073
Human Resources	933,779	16.6%	155,194
Corporate Services	445,338	16.6%	74,015
Corporate Communications	1,002,868	16.6%	166,677
Health & Wellness (Safety)	466,106	16.6%	<u>77,467</u>
			579,652
Price Adjustment (rounding)			<u>3,348</u>
2010 Management Fee			<u>583,000</u>
2011 Management Fee (3% Inflation Factor)			<u>600,490</u>

Notes:

- 1) Applicable costs reflect 2010 Departmental Budgets; Specific costs related only to the Electricity Distribution Operations only are excluded.

1

St. Catharines Hydro Inc. - Calculation of Management Fee For 2011 Test

	Applicable Costs \$ (note 1)	Allocation Factor %	\$
Network Operating (Control Room)	2,329,912	3.4%	78,052
Building Costs - Vansickle Rd.	647,208	0.6%	<u>3,614</u>
2010 Management Fee			<u>81,666</u>
2011 Management Fee (3% Inflation Factor)			<u>84,115</u>

Note:

- 1) Applicable costs reflect 2010 Departmental Budgets; Specific costs related only to the Electricity Distribution Operations only are excluded.

2

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 15

Reference: Exhibit 3, Tab 3, Schedule 1

a) Please provide the forecast revenues for accounts 4082 and 4084.

b) Please provide the forecast costs associated with the activities in accounts 4082 and 4084. Please indicate where these costs are included in the OM&A accounts, if included there.

Response:

a) Horizon Utilities does not forecast revenues for accounts 4082 and 4084.

b) Horizon Utilities does not forecast the costs associated with accounts 4082 and 4084. Horizon Utilities’ Application, Exhibit 3, Tab 3, Schedule 3, page 1, states as follows:

“The expenses related to the revenues are recorded primarily in account 5615 – General Administration Expenses.”

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 16

Reference: Exhibit 3, Tab 3, Schedule 3, page 5 &
Exhibit 2, Tab 3, Schedule 1, pages 76-77.

The evidence indicates that the decrease in account 4210 is due to the loss of a tenant at the John Street location.

a) Please confirm that this tenant has vacated the premises as of November 30, 2010.

b) Has Horizon rented this vacated space to anyone else or is it investigating the rental of the space?

c) If this space remains vacant, does this have any impact on the Building Facilities Renovations described on pages 76-77 of Exhibit 2, Tab 3, Schedule 1? If not, why not?

Response:

a) The tenant vacated the John Street Head Office 6th floor premises as of November 30, 2010.

b) Horizon Utilities has not rented this vacated space and is not currently investigating its rental.

c) Page 76-77 of Exhibit 2, Tab 3, Schedule 1 supports the rationale for continued investment in renovations. As such, and as described in the Application, the organization is currently experiencing over-crowding at its John Street Head Office location. It is Horizon Utilities' intent to maintain the space now vacant on the 6th floor

- 1 as it has been included as an opportunity and part of Horizon Utilities' Space and
- 2 Resource Utilization Study received in draft and currently under review.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 17

Reference: Exhibit 4, Tab 2, Schedule 1

Please update Table 4-1 to reflect actual data for 2010. If 2010 actual data is not available, please update the figures to reflect 11 months of actual data and one month of forecast data.

Response:

Horizon Utilities is not able to update Table 4-1 at this time with 2010 actual data or year-to-date data.

The data included in Table 4-1 reflects OM&A spending by account number in accordance with the Uniform System of Accounts (“USoA”). Horizon Utilities does not produce monthly financial results by USoA account number. Such results are prepared annually as part of the Board’s RRR filing requirements, which are due on April 30, 2011.

The following is a summary of the year-end processes and timelines that Horizon Utilities undertakes to produce the annual USoA trial balance:

- Preparation of year-end financial statements in accordance with Canadian GAAP, including regulatory accounting entries (January);
- Completion of year-end audit of financial statements (January/February);
- Review and approval of year-end financial results by the Board of Directors (February 24th);

1 • Completion of audit work and delivery of auditor opinion (first week of
2 March);

3 • Preparation of USoA trial balance for regulatory accounting purposes,
4 including the reconciliation of Canadian GAAP financial statements to regulatory
5 financial statements.

6 This process includes the mapping of general ledger accounts to the USoA (there
7 are multiple general ledger accounts that roll-up to one USoA account);
8 preparation of a trial balance by USoA; adjusting entries between the Canadian
9 GAAP accounts to the regulatory book of accounts for non-regulated activities
10 and/or regulatory entries not applicable for Canadian GAAP; and variance
11 analysis by USoA account.

12 At this time, Horizon Utilities is in the process of preparing its year-end financial
13 statements in accordance with Canadian GAAP, according to the timeline outlined
14 above.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 18

Reference: Exhibit 4, Tab 2, Schedule 6, page 12

Please provide the explanation of the \$385,000 increase in training costs in 2011 noted at lines 27-28, but not explained.

Response:

The breakdown of this cost increase is as follows:

\$200,000 - for apprentice training costs for line maintainer and substation apprentices that require formal education and training as part of the program.

\$50,000 - for Line Maintainer Proficiency Training that will impact 20% of staff in 2011.

\$60,000 - for the Information Systems and Technology staff. The introduction of Cyber Security and Engineering Applications departments will require training of new staff. Training will be required for new technology, organizational awareness programs and to ensure the maintenance of security certifications.

\$48,000 - for training of Finance and Regulatory staff. There are several new employees in these departments and training is required to maintain a proficiency level. Further, new staff will need to develop competencies with IFRS and a working knowledge of the planned introduction of a new business analytics tool.

\$36,000 - for the training and development of new engineering technologists that have joined the organization.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 19

Reference: Exhibit 4, Tab 2, Schedule 6, page 33 &

Exhibit 4, Tab 2, Schedule 1, page 2

a) Please provide the estimated amount for the LEAP expense for the 2011 test year.

b) Please confirm that this amount is separate from the \$60,000 shown for charitable donations in account 6205 shown in Exhibit 4, Tab 2, Schedule 1.

c) Please indicate what the \$60,000 in charitable donations is for and why it should be included in the revenue requirement.

Response:

a) Please refer to Horizon Utilities’ response to Board staff Interrogatory 24.

b) Please refer to Horizon Utilities’ response to Board staff Interrogatory 24.

c) Please refer to Horizon Utilities’ response to Board staff Interrogatory 26.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 20

Reference: Exhibit 4, Tab 2, Schedule 7

a) Please explain why Horizon believes it will be under IRM for only 2 years, 2012 and 2013, rather than the current three years as determined by the Board in the Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated July 14, 2008.

b) Please update Table 4-10 to reflect actual 2010 data

c) Please reconcile the \$960,000 in costs for the 2011 EDR application with the figures shown in Table 4-10.

d) Please provide a breakdown of the \$960,000 in 2011 EDR application costs into its major components (legal, consulting, intervenors, etc).

e) Please provide the actual amounts invoiced to date for each of the components identified in (d) above.

Response:

a) Please see Horizon Utilities response to Board staff Interrogatory 41 and School Energy Coalition Interrogatory 19 a) i).

b) Horizon Utilities will not have 2010 actual data finalized until the completion of its year-end process and audit. As of September 30, 2010, the forecast of related annual regulatory costs was \$1,074,479.

- 1 **c)** Please refer to Horizon Utilities' response to Board Staff Interrogatory #40 (a)
2 and (b).
- 3 **d)** Please refer to Horizon Utilities' response to Board Staff Interrogatory #40 (a)
4 and (b).
- 5 **e)** The actual amounts invoiced to date for each of the components identified in (d)
6 above are provided below.

Regulatory Cost Schedule	
Regulatory Cost Category	Total
Board Costs	-
Legal and Consulting Costs	416,431
Intervenor Costs	
Total	416,431

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2011

Question 21

Reference: Exhibit 4, Tab 2, Schedule 8, Table 4-11 &

Exhibit 3, Tab 2, Schedule 2, Table 3-24

a) Please reconcile the number of customers shown in Table 4-11 with the figures shown in Table 3-24.

b) Why is there no increase in customers shown in Table 4-11 between 2010 and 2011?

Response:

a) The number of customers shown in Table 3-24 represents either the number of customers or the number of connections depending on the rate class. The Street Lighting, Unmetered and Scattered Load, and Sentinel rate class categories indicate the number of connections and the remaining rate classes indicate the customer numbers. In Table 4-11 customer counts represents the number of customers and not connections.

b) The customer counts in Table 4-11 were held constant between 2010 and 2011 in order to illustrate the OM&A per customer calculation effectively.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2011

Question 22

Reference: Exhibit 4, Tab 2, Schedule 8, Table 4-11 &

Exhibit 3, Tab 2, Schedule 2, Table 3-24

a) Which three years has Horizon used to calculate the bad debt expense for 2011?

b) Please show the figures from Table 4-1 that were used to arrive at the average of \$1,350,000 for 2011.

Response:

a) Horizon Utilities used the average of 2007, 2008, and 2009 actual bad debt expense to compute the three year average, plus an additional increase in 2011 to reflect an expected increase in credit risk as a result of the introduction of the Arrears Management Program, due to the amendments to the Distribution System Code (“DSC”) (EB-2007-0722).

As noted in Exhibit 4, Tab 2, Schedule 9, Page 23, “Bad Debt expenses are expected to increase in 2011 as a result of planned changes to the DSC and resulting changes to customer service practices. In particular, the revised DSC will provide for specific changes to policies and procedures with respect to the suspension of disconnection action and arrears management, as well as the application of security deposits to accounts in arrears. Horizon Utilities believes that these changes will have a significant impact on credit risk, resulting in higher bad debts.”

b) The following is the computation used to arrive at the \$1,350,000.

2007 Actual - Account 5335	1,363,000
2008 Actual - Account 5335	1,028,000
2009 Actual - Account 5335	1,310,000
Sum	3,701,000
Three year average (rounded)	1,235,000
Increase for Arrears Management Program	115,000
2011 Bad Debt Expense	1,350,000

- 1
- 2 With respect to the 2010 Bridge Year, the bad debt expense was budgeted at \$970,000.
- 3 As at September 30, 2010, Horizon Utilities year-end forecast for bad debt expense for
- 4 2010 was \$1,400,000.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2011

Question 23

Reference: Exhibit 4, Tab 2, Schedule 9, page 22

a) Please provide a breakdown of the \$1.9MM increase noted on page 22 into each of its components: new personnel and annual increases.

b) What is the annual increase (percentage) forecast to be for 2011?

c) What was the annual increase used in each of 2007, 2008, 2009 and 2010?

Response:

a) Please see Horizon Utilities’ response to Consumers Council of Canada Interrogatory 39.

b) Please see Horizon Utilities’ response to Board staff Interrogatory 25. A portion of this response has been filed confidentially.

c) The annual salary band shifts for 2007 to 2010 were as follows:

	2007	2008	2009	2010
Union	3%	3.25%	3.25%	3%
Non union	3%	2.8%	2.5%	2.5%

*Note that union increases are effective June 1st of each year. Note that increases to salary bands are relative to market and individual employee increases are based on performance.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2011

Question 24

Reference: Exhibit 4, Tab 2, Schedule 9, page 24

a) Please provide a breakdown of the \$0.9MM salary and benefit increase into each of the components listed: merit increases, inflationary increases, and new full time staff.

b) What rate of inflation has been used to estimate the inflationary increase?

c) What was the inflationary increase used in each of 2007, 2008, 2009 and 2010?

Response:

a) The \$0.9MM salary and benefit increase for general and administration is broken down as follows:

New Full Time Staff	\$0.6MM
Inflationary Increases	0.2MM
Merit Increases	<u>0.1MM</u>
	<u>\$0.9MM</u>

b) Please refer to Horizon Utilities’ response to Board staff Interrogatory 25.

c) The actual inflationary increases for unionized employees for each year were as follows (effective June 1) :

2007 –	3.00%
2008 –	3.35%
2009 –	3.35%
2010 –	3.00%

1 The actual merit increases for management staff for each year were as follows:

2	2007 –	3.00%
3	2008 –	2.80%
4	2009 –	2.50%
5	2010 –	3.00% (Budget estimate)

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2011

Question 25

Reference: Exhibit 4, Tab 2, Schedule 9, Table 4-18

a) Please explain the increase in account 5665 Miscellaneous Expenses of more than \$180,000 or 31%.

b) Please explain the increase in account 5660 General Advertising Expenses of more than \$278,000 or 407%.

c) Please explain the increase in account 5640 Injuries and Damages of nearly \$220,000 or 81%.

d) Please provide a detailed explanation by component of the \$906,000 increase or 43% in account 5630 Outside Services Employed.

e) Please provide a detailed explanation by component of the \$1,046,000 increase or 64% in account 5620 Office Supplies and Expenses.

f) Please explain the increase in account 5085 Miscellaneous Distribution Expense of \$488,000 or 47%.

Response:

a) The increase in account 5665 Miscellaneous Expenses is attributable to a Management fee expense of \$344,000 to Horizon Holdings Inc. for strategic support as described in Exhibit 4, Tab 22, Schedule 11, Pages 1-5, partially offset by a reclassification of \$120,000 in bank charges to account 5620.

b) The increase in account 5660 principally reflects an increase in the Corporate Communications public relations operating expenses in accordance with the Business Plan included in Exhibit 1, Tab 2, Schedule 2, Appendix 1-9 b) and \$60,000 in incremental external advertising costs with respect to employee recruitment to support the hiring of new FTEs.

c) The increase in account 5640 of approximately \$220,000 is due to insurance premiums for Horizon Utilities' comprehensive general liability program. Included in 2010 was a one-time insurance premium reduction as a result of favourable program experience in prior years.

d) The following is a schedule of the increases in account 5630, including references to initiatives documented within the Application.

Account 5630

	<u>Reference</u>	<u>2011 Test Year</u>
Enterprise Risk Management	Ex. 4, T2, S6, Pg. 25	100,000
Budget and Forecast Software Solution	Ex. 4, T2, S6, Pg. 26	100,000
Redesign of Corporate Website	Ex. 4, T2, S6, Pg. 32	295,000
Environmental Consulting	Ex. 1, T2, S2, App 1-9(m)	100,000
External Recruitment Costs	Ex. 4, Tab 2, S5, Pg. 2	60,000
Labour Negotiations	Ex. 1, T2, S2, App 1-9(i)	58,000
Electronic Forms Integration	Ex. 1, T2, S2, App 1-9(c)	25,000
EFT Initiative (Suppliers and Customers)	Ex. 1, T2, S2, App 1-9(h)	46,000
Employee Engagement Survey	Ex. 1, T2, S2, App 1-9(i)	40,000
Various other increases		<u>82,000</u>
		<u>906,000</u>

e) As documented in Exhibit 4, Tab 2, Schedule 9, Page 24, account 5620 "...includes all of the information technology costs, including wages and benefits for information technology staff, net of amounts allocated to capital expenditures. Since 2008, Horizon Utilities has invested in internal systems and processes in order to build the foundation

to support replacement of technologies that have been stretched beyond their useful life, enabling processes arising under regulatory requirements, and managing business risks associated with data management, cyber security, and the protection of customer information. These activities are also central to improving operational efficiency and effectiveness. New system implementations in Information Technology have provided a strong foundation for information gathering, analysis and reporting; so that Horizon Utilities can expand its operating abilities while ensuring that its information databases are secure, reliable, flexible and expandable. Costs associated with supporting and maintaining technology investments are a significant driver in Horizon Utilities' OM&A expenses. Details of specific information technology projects to be completed in 2011 are provided in Table 4-9 of this exhibit."

The following is a schedule to support the increases in account 5620 of approximately \$1,046,000:

Account 5620

	Reference	2011 Test Year
Information Systems & Technology		
Engineering Applications (New department in 2011)	Ex. 1, T2, S2, App 1-9(j)	630,000
Cyber Security	Ex. 1, T2, S2, App 1-9(j)	254,000
ERP Application Specialist	Ex. 4, T2, S6, Pg. 5	130,000
Less: Allocation to Capital (Approximate)		(150,000)
		<u>864,000</u>
Reallocation of Bank Charges from Account 5665		120,000
License and maintenance fees - Budgeting and Forecast Software		46,000
Various other		<u>16,000</u>
		<u><u>1,046,000</u></u>

f) The increase in account 5085 of approximately \$488,000 principally reflects the reclassification of labour associated with the Trouble Department (reactive maintenance). In 2010, such costs were budgeted as part of Operations and Maintenance costs in various accounts.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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Question 26

Reference: Exhibit 4, Tab 2, Schedule 10

a) Please update Table 4-25 to reflect actual figures for 2010.

b) Do the FTE figures include positions that are vacant for some part of the year? If yes, please provide Table 4-25 in a format that only shows the FTE's associated with filled positions, along with the calculations for average yearly bas wages, etc. based on positions filled.

c) Please indicate the FTE equivalent for all the vacancies in the 2010 bridge year.

Response:

a) Table 4-25 has been updated to reflect Q3 Forecast figures for 2010. The version of Table 4-25 prepared for the purpose of responding to this interrogatory has been redacted, consistent with the Board's decision on confidentiality issued January 10th, 2011.

b) Yes, the FTE figures include positions that are vacant for some part of the year. The updated table below, as indicated in Energy Probe 26 a) contains the information related to FTE's associated with filled positions, along with calculations.

c) The updated table below, as indicated in Energy Probe 26a), shows the FTE equivalents for all of the vacancies in the 2010 bridge year.

Appendix 2-K

Employee Costs Total Company

	Last Rebasings Year -1	Last Rebasings Year	Historical Year (Bridge Year -1)	Bridge Year	Bridge Year	FTE Equivalents for all vacancies	Test Year
Number of employees (FTE including part time)	2007	2008	2009	2010 Budget	2010 Q3 Forecast	2010 Q3 Forecast	2011
Executive	15	15	17	17	15	0.92	18
Management	42	43	51	55	50	3.75	59
Non-Union	26	26	34	38	34	3.67	47
Union	284	284	284	291	285	3.67	304
Total	367	368	386	401	384	12.00	428
Number of Part-Time Employees							
Executive							
Management							
Non-Union							
Union	2	2	2	2	2		2
Total	2	2	2	2	2		2
Total Salary & Wages							
Executive	2,180,832	2,290,282	2,567,421	3,118,631	3,030,665		
Management	3,535,078	3,662,728	4,006,011	4,834,527	4,594,910		
Non-Union	1,653,080	1,785,475	2,134,022	3,091,177	2,913,955		
Union	17,203,192	17,469,514	17,671,972	19,522,502	19,276,174		
Total	24,572,182	25,207,999	26,379,426	30,566,837	29,815,705		34,009,569
Total Benefits							
Executive	329,217	408,205	471,199	522,868	510,027		
Management	668,283	749,082	830,175	1,027,828	989,516		
Non-Union	330,170	372,382	496,889	714,601	652,567		
Union	3,720,036	4,119,389	4,120,245	4,680,192	4,594,511		
Total	5,047,706	5,649,058	5,918,509	6,945,488	6,746,620		7,632,925
Total Compensation (Salary, Wages, & Benefits)							
Executive	2,510,048	2,698,487	3,038,620	3,641,499	3,540,692		
Management	4,203,361	4,411,810	4,836,187	5,862,355	5,584,426		
Non-Union	1,983,250	2,157,857	2,630,911	3,805,777	3,566,522		
Union	20,923,229	21,588,903	21,792,217	24,202,694	23,870,685		
Total	29,619,888	30,857,057	32,297,935	37,512,325	36,562,325		41,642,494
Compensation - Average Yearly Base Wages							
Executive	167,337	179,899	178,742	214,206	236,046		
Management	100,080	102,600	94,827	106,588	111,689		
Non-Union	76,279	82,995	77,380	100,152	104,898		
Union	73,673	76,017	76,733	83,171	83,757		
Total	80,708	83,851	83,673	93,547	95,214		97,296
Compensation - Average Yearly Overtime							
Executive		5,451	-	-	-		-
Management	435	5,849	1,009	991	991		1,202
Non-Union	659	4,392	507	679	679		837
Union	3,575	5,111	5,809	3,757	3,757		3,834
Total	1,167	5,201	1,831	1,357	1,357		1,468
Compensation - Average Yearly Incentive Pay							
Executive	26,007	25,922	22,880	30,620	33,975		29,794
Management	9,170	7,870	6,132	6,895	7,152		7,913
Non-Union	5,654	5,374	4,422	6,007	6,240		6,065
Union			-	-	-		-
Total	10,208	9,791	8,359	10,881	11,842		10,943
Compensation - Average Yearly Benefits							
Executive	21,948	27,214	27,718	30,757	34,002		30,801
Management	15,911	17,421	16,278	18,688	19,790		20,426
Non-Union	12,699	14,322	14,614	18,805	19,193		18,821
Union	13,099	14,505	14,508	16,083	16,121		16,410
Total	13,754	15,351	15,333	17,320	17,569		17,834
Total Compensation	29,619,888	30,857,057	32,297,935	37,512,325	36,562,325		41,642,494
Total Compensation Charged to OM&A	21,934,873	23,641,363	24,670,977	25,453,376	24,503,376		28,395,948
Total Compensation Capitalized	7,685,015	7,215,694	7,626,958	12,058,949	12,058,949		13,246,546

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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DELIVERED: January 24th, 2010

Question 27

Reference: Exhibit 4, Tab 2, Schedule 13

Tables 4-33 through 4-35 appear to have opening balances that are accumulated depreciation figures rather than asset values at cost.

a) How was the depreciation expense calculated in the 2008 COS application approved by the Board? Was depreciation based on a full year of depreciation being calculated on the test year additions, a half year of depreciation on the test year additions, or some other methodology?

b) Has Horizon calculated the actual depreciation for 2008, 2009 and 2010 using the same methodology as used and approved by the Board in the 2008 COS noted above?

c) Has Horizon used the half-year rule for calculating depreciation for additions in the 2011 test year? If not, please explain how the depreciation expense has been calculated for the test year capital additions.

d) Please explain why there is no reduction for fully depreciated assets in 2010 and 2011, similar to that shown for 2009.

e) Please provide replacement Tables 4-33 through 4-35 that reflect opening balances that are for gross assets rather than accumulated depreciation.

f) Please provide a table in the format shown in Appendix 2-M of the June 25, 2010 Chapter 2 of the Filing Requirements for Transmission and Distribution Applications for the 2011 test year if the results are different than the requested replacement for Table 4-35 noted above.

Response:

a) As noted in Exhibit 4, Tab 2, Schedule 12, Page 5, Horizon Utilities computes amortization as follows:

- Amortization is calculated on a straight line basis over the estimated remaining useful life of the assets at the end of the previous year; plus:

- Amortization on capital additions during the current year – amortization commences in the month that the asset is capitalized *[Emphasis added]*.

There has been no change in the methodology used by Horizon Utilities for computing amortization. This method was used in the 2008 EDR Application.

b) Yes.

c) No, Horizon Utilities has not applied the half-year rule for calculating depreciation for additions in the 2011 Test Year. As noted and described in response to a), Horizon Utilities continues to use the same methodology for amortization as was used in the 2008 EDR Application.

d) Horizon Utilities did not project the gross amount of assets which would become fully depreciated in 2010 or 2011 for purposes of providing the Fixed Asset Continuity Schedules in the Application. The removal of gross assets, once they become fully depreciated, has been factored into the depreciation computation utilized by Horizon Utilities as amortization is only computed up until such time as the asset is fully depreciated.

e) The following are revised Depreciation and Amortization Expense tables for 2009, 2010 and 2011 (Appendix 2-M) reflecting opening balances for gross assets rather than accumulated depreciation.

1

Appendix 2-M									
Depreciation and Amortization Expense									
Year:	2009								
Account	Description	Opening Balance	Less: Fully Depreciated	Net for Depreciation	Additions	Total for Depreciation	Years	Depreciation Rate	Depreciation Expense
1805	Land - Substations	414,741.45	-	414,741.45	-	414,741.45	0		-
1808	Buildings - Substations	2,134,567.23	-	2,134,567.23	3,740.00	2,138,307.23	30	3.33%	85,200.07
1810	Leasehold Improvements	20,885.65	-	20,885.65	-	20,885.65	5	20.00%	-
1820	Substation Equipment	11,467,932.62	-	11,467,932.62	306,707.85	11,774,640.47	25	4.00%	268,950.05
1830	Poles, Towers & Fixtures	63,112,003.90	596,672.31	62,515,331.59	7,383,754.84	69,899,086.43	25	4.00%	2,560,035.14
1835	OH Conductors & Devices	68,013,627.06	-	68,013,627.06	3,219,767.70	71,233,394.76	25	4.00%	2,736,877.23
1840	UG Conduit	110,741,757.43	1,250,241.76	109,491,515.67	5,622,715.50	115,114,231.17	25	4.00%	4,357,603.61
1845	UG Conductors & Devices	111,676,205.68	3,347,475.84	108,328,729.84	8,756,745.90	117,085,475.74	25	4.00%	4,362,958.81
1850	Line Transformers	88,428,293.99	1,692,563.48	86,735,730.51	9,382,665.30	96,118,395.81	25	4.00%	3,508,875.61
1855	Services (OH & UG)	22,420,495.07	-	22,420,495.07	1,763,849.48	24,184,344.55	25	4.00%	974,074.39
1860	Meters	37,307,964.19	764,657.87	36,543,306.32	1,276,555.69	37,819,862.01	25	4.00%	1,429,183.68
1860	Smart Meters	-	-	-	-	-	25	4.00%	-
1905	Land	1,067,629.41	-	1,067,629.41	-	1,067,629.41	0		-
1906	Land Rights	162,636.38	-	162,636.38	-	162,636.38	50	2.00%	3,458.00
1908	Buildings & Fixtures	27,354,034.86	-	27,354,034.86	620,256.75	27,974,291.61	30	3.33%	1,238,330.71
1910	Leasehold Improvements	-	-	-	-	-	5	20.00%	-
1915	Office Furniture & Equipment	4,392,548.09	-	4,392,548.09	566,148.99	4,958,697.08	10	10.00%	178,168.37
1920	Computer - Hardware	5,613,068.40	-	5,613,068.40	-	5,613,068.40	5	20.00%	17,095.08
1920	Computer - Hardware post Mar 22/04	2,618,654.83	-	2,618,654.83	877,837.49	3,496,492.32	5	20.00%	489,192.36
1925	Computer - Software	10,257,632.37	-	10,257,632.37	1,040,201.32	11,297,833.69	3	33.33%	1,352,045.66
1930	Transportation Equipment	17,716,234.82	1,741,888.45	15,974,346.37	1,331,784.63	17,306,131.00	8	12.50%	1,291,623.52
1935	Stores Equipment	781,069.31	-	781,069.31	111,470.87	892,540.18	10	10.00%	38,412.39
1940	Tools, Shop & Garage Equipment	7,020,745.68	-	7,020,745.68	325,692.67	7,346,438.35	10	10.00%	288,079.79
1945	Measurement & Testing Equipment	1,389,954.51	-	1,389,954.51	68,666.88	1,458,621.39	10	10.00%	84,721.82
1950	Power operated Equipment	144,034.63	-	144,034.63	-	144,034.63	10	10.00%	11,436.36
1955	Communications Equipment	1,310,596.26	-	1,310,596.26	39,567.00	1,350,163.26	10	10.00%	118,704.67
1960	Load Management controls	515,329.99	-	515,329.99	-	515,329.99	10	10.00%	51,532.92
1980	System Supervisory Equipment	3,315,938.70	-	3,315,938.70	461,603.56	3,777,542.26	25	4.00%	79,666.20
1995	Hydro One S/S Contribution	5,686,054.55	-	5,686,054.55	2,287,428.57	7,973,483.12	25	4.00%	121,179.24
1995	Contributions & Grants	(23,523,673.06)	-	(23,523,673.06)	(7,962,737.62)	(31,486,410.68)	25	4.00%	(1,021,900.20)
Totals		581,560,964.00	9,393,499.71	572,167,464.29	37,484,423.37	609,651,887.66			24,625,505.48
								Less: Fleet	1,291,623.52
								Less: Stores	38,412.39
								Total	23,295,469.57

2

Year:	2010								
Account	Description	Opening Balance	Less: Fully Depreciated	Net for Depreciation	Additions	Total for Depreciation	Years	Depreciation Rate	Depreciation Expense
1805	Land - Substations	414,741.45	-	414,741.45	-	414,741.45	0		-
1808	Buildings - Substations	2,138,307.23	-	2,138,307.23	-	2,138,307.23	30	3.33%	75,840.45
1810	Leasehold Improvements	20,885.65	-	20,885.65	-	20,885.65	5	20.00%	-
1820	Substation Equipment	11,774,640.47	-	11,774,640.47	-	11,774,640.47	25	4.00%	277,009.12
1830	Poles, Towers & Fixtures	69,899,086.43	-	69,899,086.43	8,588,589.47	78,487,675.90	25	4.00%	2,947,229.99
1835	OH Conductors & Devices	71,233,394.76	-	71,233,394.76	5,276,926.91	76,510,321.67	25	4.00%	2,923,336.22
1840	UG Conduit	115,114,231.17	-	115,114,231.17	5,198,527.93	120,312,759.10	25	4.00%	4,656,667.63
1845	UG Conductors & Devices	117,085,475.74	-	117,085,475.74	7,789,118.44	124,874,594.18	25	4.00%	4,794,672.07
1850	Line Transformers	96,118,395.81	-	96,118,395.81	5,010,545.47	101,128,941.28	25	4.00%	3,859,405.53
1855	Services (OH & UG)	24,184,344.55	-	24,184,344.55	466,859.11	24,651,203.66	25	4.00%	1,015,004.50
1860	Meters	37,819,862.01	-	37,819,862.01	1,736,318.76	39,556,180.77	25	4.00%	1,479,415.48
1860	Smart Meters	-	-	-	-	-	25	4.00%	-
1905	Land	1,067,629.41	-	1,067,629.41	-	1,067,629.41	0		-
1906	Land Rights	162,636.38	-	162,636.38	-	162,636.38	50	2.00%	3,337.96
1908	Buildings & Fixtures	27,974,291.61	-	27,974,291.61	451,288.00	28,425,579.61	30	3.33%	1,268,100.13
1910	Leasehold Improvements	-	-	-	-	-	5	20.00%	-
1915	Office Furniture & Equipment	4,912,728.77	-	4,912,728.77	392,270.00	5,304,998.77	10	10.00%	218,379.97
1920	Computer - Hardware	5,613,068.40	-	5,613,068.40	-	5,613,068.40	5	20.00%	810,389.71
1920	Computer - Hardware post Mar 22/04	3,146,170.79	-	3,146,170.79	1,034,831.00	4,181,001.79	5	20.00%	(19,577.62)
1925	Computer - Software	10,838,623.58	-	10,838,623.58	1,251,793.00	12,090,416.58	3	33.33%	1,924,938.32
1930	Transportation Equipment	17,306,131.00	-	17,306,131.00	1,304,999.96	18,611,130.96	8	12.50%	1,374,529.61
1935	Stores Equipment	892,540.18	-	892,540.18	-	892,540.18	10	10.00%	46,576.58
1940	Tools, Shop & Garage Equipment	7,332,746.94	-	7,332,746.94	488,399.00	7,821,145.94	10	10.00%	310,713.27
1945	Measurement & Testing Equipment	1,458,621.39	-	1,458,621.39	91,550.00	1,550,171.39	10	10.00%	96,146.76
1950	Power operated Equipment	144,034.63	-	144,034.63	-	144,034.63	10	10.00%	11,436.37
1955	Communications Equipment	1,350,163.26	-	1,350,163.26	271,650.00	1,621,813.26	10	10.00%	137,657.60
1960	Load Management controls	515,329.99	-	515,329.99	-	515,329.99	10	10.00%	51,533.00
1980	System Supervisory Equipment	3,777,542.26	-	3,777,542.26	-	3,777,542.26	25	4.00%	80,148.91
1995	Hydro One S/S Contribution	7,973,483.12	-	7,973,483.12	-	7,973,483.12	25	4.00%	318,939.32
1995	Contributions & Grants	(31,486,410.68)	-	(31,486,410.68)	(2,262,647.05)	(33,749,057.73)	25	4.00%	(1,308,749.12)
Totals		608,782,696.30	-	608,782,696.30	37,091,020.00	645,873,716.30			27,353,081.75
								Less: Fleet	1,374,529.61
								Less: Stores	46,576.58
								Total	25,931,975.56

Year:	2011								
Account	Description	Opening Balance	Less: Fully Depreciated	Net for Depreciation	Additions	Total for Depreciation	Years	Depreciation Rate	Depreciation Expense
1805	Land - Substations	414,741.45	-	414,741.45		414,741.45	0		-
1808	Buildings - Substations	2,138,307.23	-	2,138,307.23	-	2,138,307.23	30	3.33%	75,750.00
1810	Leasehold Improvements	20,885.65	-	20,885.65		20,885.65	5	20.00%	-
1820	Substation Equipment	11,774,640.47	-	11,774,640.47	-	11,774,640.47	25	4.00%	277,009.12
1830	Poles, Towers & Fixtures	78,487,675.90	-	78,487,675.90	9,821,066.72	88,308,742.62	25	4.00%	3,254,891.00
1835	OH Conductors & Devices	76,510,321.67	-	76,510,321.67	5,295,002.57	81,805,324.24	25	4.00%	3,077,998.00
1840	UG Conduit	120,312,759.10	-	120,312,759.10	5,751,824.95	126,064,584.05	25	4.00%	4,681,325.00
1845	UG Conductors & Devices	124,874,594.18	-	124,874,594.18	7,087,847.64	131,962,441.82	25	4.00%	4,969,510.00
1850	Line Transformers	101,128,941.28	-	101,128,941.28	7,044,712.90	108,173,654.18	25	4.00%	3,959,275.00
1855	Services (OH & UG)	24,651,203.66	-	24,651,203.66	701,503.88	25,352,707.54	25	4.00%	1,013,028.00
1860	Meters	39,556,180.77	-	39,556,180.77	1,125,434.38	40,681,615.15	25	4.00%	1,513,694.00
1860	Smart Meters	-	-	-	-	-	25	4.00%	-
1905	Land	1,067,629.41	-	1,067,629.41		1,067,629.41	0		-
1906	Land Rights	162,636.38	-	162,636.38	-	162,636.38	50	2.00%	3,337.96
1908	Buildings & Fixtures	28,425,579.61	-	28,425,579.61	1,540,500.00	29,966,079.61	30	3.33%	1,297,289.12
1910	Leasehold Improvements	-	-	-		-	5	20.00%	-
1915	Office Furniture & Equipment	5,304,998.77	-	5,304,998.77	384,500.00	5,689,498.77	10	10.00%	244,099.00
1920	Computer - Hardware	5,613,068.40	-	5,613,068.40		5,613,068.40	5	20.00%	1,028,374.00
1920	Computer - Hardware post Mar 22/04	4,181,001.79	-	4,181,001.79	1,612,172.18	5,793,173.97	5	20.00%	(27,151.89)
1925	Computer - Software	12,090,416.58	-	12,090,416.58	1,933,577.82	14,023,994.40	3	33.33%	2,275,457.51
1930	Transportation Equipment	18,611,130.96	-	18,611,130.96	1,445,500.00	20,056,630.96	8	12.50%	1,365,431.00
1935	Stores Equipment	892,540.18	-	892,540.18	-	892,540.18	10	10.00%	46,034.00
1940	Tools, Shop & Garage Equipment	7,821,145.94	-	7,821,145.94	549,350.00	8,370,495.94	10	10.00%	337,440.03
1945	Measurement & Testing Equipment	1,550,171.39	-	1,550,171.39	208,500.00	1,758,671.39	10	10.00%	106,076.00
1950	Power operated Equipment	144,034.63	-	144,034.63		144,034.63	10	10.00%	11,436.37
1955	Communications Equipment	1,621,813.26	-	1,621,813.26	1,099,500.00	2,721,313.26	10	10.00%	206,665.00
1960	Load Management controls	515,329.99	-	515,329.99	-	515,329.99	10	10.00%	51,533.00
1980	System Supervisory Equipment	3,777,542.26	-	3,777,542.26	435,277.66	4,212,819.92	25	4.00%	77,459.00
1995	Hydro One S/S Contribution	7,973,483.12	-	7,973,483.12		7,973,483.12	25	4.00%	327,613.00
1995	Contributions & Grants	(33,749,057.73)	-	(33,749,057.73)	(2,044,172.00)	(35,793,229.73)	25	4.00%	(1,390,971.00)
Totals		645,873,716.30	-	645,873,716.30	43,992,098.71	689,865,815.01			28,782,602.21
								Less: Fleet	1,365,431.00
								Less: Stores	46,034.00
								Total	27,371,137.21

f) The depreciation and amortization summarized in Table 4-35 in the Application reflects the methodology used by Horizon Utilities in the 2008 EDR Application, which underpins the existing rates. The following table in the format shown in Appendix 2-M of the June 25, 2010 Chapter 2 of the Filing Requirements for Transmission and Distribution Applications. It provides for the computation of Depreciation and Amortization for the 2011 test year in the prescribed format. .

The principle difference in depreciation expense between Horizon Utilities' and the format shown in Appendix 2-M of the June 25, 2010 Chapter 2 of the Filing Requirements is Horizon Utilities depreciates is:

- Appendix 2-M assumes that the balance of the gross assets, prior to the current year additions, attracts a full year of depreciation expense.
- Appendix 2-M uses the half year rule in calculating depreciation expense on new additions.

1

Appendix 2-M									
Depreciation and Amortization Expense									
Year:	2011								
Account	Description	Opening Balance	Less: Fully Depreciated	Net for Depreciation	Additions	Total for Depreciation	Years	Depreciation Rate	Depreciation Expense
1805	Land - Substations	414,741.45	-	414,741.45	-	414,741.45	0		
1808	Buildings - Substations	2,138,307.23	-	2,138,307.23	-	2,138,307.23	30	3.33%	71,276.91
1810	Leasehold Improvements	20,885.65	-	20,885.65	-	20,885.65	5	20.00%	4,177.13
1820	Substation Equipment	11,774,640.47	-	11,774,640.47	-	11,774,640.47	25	4.00%	470,985.62
1830	Poles, Towers & Fixtures	78,487,675.90	-	78,487,675.90	9,821,066.72	83,398,209.26	25	4.00%	3,335,928.37
1835	OH Conductors & Devices	76,510,321.67	-	76,510,321.67	5,295,002.57	79,157,822.96	25	4.00%	3,166,312.92
1840	UG Conduit	120,312,759.10	-	120,312,759.10	5,751,824.95	123,188,671.58	25	4.00%	4,927,546.86
1845	UG Conductors & Devices	124,874,594.18	-	124,874,594.18	7,087,847.64	128,418,518.00	25	4.00%	5,136,740.72
1850	Line Transformers	101,128,941.28	-	101,128,941.28	7,044,712.90	104,651,297.73	25	4.00%	4,186,051.91
1855	Services (OH & UG)	24,651,203.66	-	24,651,203.66	701,503.88	25,001,955.60	25	4.00%	1,000,078.22
1860	Meters	39,556,180.77	-	39,556,180.77	1,125,434.38	40,118,897.96	25	4.00%	1,604,755.92
1860	Smart Meters	-	-	-	-	-	25	4.00%	-
1905	Land	1,067,629.41	-	1,067,629.41	-	1,067,629.41	0		
1906	Land Rights	162,636.38	-	162,636.38	-	162,636.38	50	2.00%	3,252.73
1908	Buildings & Fixtures	28,425,579.61	-	28,425,579.61	1,540,500.00	29,195,829.61	30	3.33%	973,194.32
1910	Leasehold Improvements	-	-	-	-	-	5	20.00%	-
1915	Office Furniture & Equipment	5,304,998.77	-	5,304,998.77	384,500.00	5,497,248.77	10	10.00%	549,724.88
1920	Computer - Hardware	5,613,068.40	-	5,613,068.40	-	5,613,068.40	5	20.00%	1,122,613.68
1920	Computer - Hardware post Mar 22/04	4,181,001.79	-	4,181,001.79	1,612,172.18	4,987,087.88	5	20.00%	997,417.58
1925	Computer - Software	12,090,416.58	-	12,090,416.58	1,933,577.82	13,057,205.49	3	33.33%	4,352,401.83
1930	Transportation Equipment	18,611,130.96	-	18,611,130.96	1,445,500.00	19,333,880.96	8	12.50%	2,416,735.12
1935	Stores Equipment	892,540.18	-	892,540.18	-	892,540.18	10	10.00%	89,254.02
1940	Tools, Shop & Garage Equipment	7,821,145.94	-	7,821,145.94	549,350.00	8,095,820.94	10	10.00%	809,582.09
1945	Measurement & Testing Equipment	1,550,171.39	-	1,550,171.39	208,500.00	1,654,421.39	10	10.00%	165,442.14
1950	Power operated Equipment	144,034.63	-	144,034.63	-	144,034.63	10	10.00%	14,403.46
1955	Communications Equipment	1,621,813.26	-	1,621,813.26	1,099,500.00	2,171,563.26	10	10.00%	217,156.33
1960	Load Management controls	515,329.99	-	515,329.99	-	515,329.99	10	10.00%	51,533.00
1980	System Supervisory Equipment	3,777,542.26	-	3,777,542.26	435,277.66	3,995,181.09	25	4.00%	159,807.24
1995	Hydro One S/S Contribution	7,973,483.12	-	7,973,483.12	-	7,973,483.12	25	4.00%	318,939.32
1995	Contributions & Grants	(33,749,057.73)	-	(33,749,057.73)	(2,044,172.00)	(34,771,143.73)	25	4.00%	(1,390,845.75)
Totals		645,873,716.30	-	645,873,716.30	43,992,098.71	667,869,765.65			34,754,466.57
								Less: Fleet	1,365,431.00
								Less: Stores	46,034.00
								Total	33,343,001.57

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**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED January 24th, 2011

Question 28

Reference: Exhibit 4, Tab 3, Schedule 1

a) Please confirm that the Ontario surtax claw-back on the first \$500,000 of taxable income was eliminated effective July 1, 2010 and that the provincial income tax rate on the first \$500,000 of taxable income was reduced to 4.50%.

b) Has HOBNI included a tax reduction of \$36,250 related to the Ontario small business tax rate on the first \$500,000 in taxable income (calculated as \$500,000 times the difference between 11.75% and 4.50%)? If not, why not?

Response:

a) Horizon Utilities confirms that the Ontario surtax claw-back on the first \$500,000 of taxable income was eliminated effective July 1, 2010 and that the provincial income tax rate on the first \$500,000 of taxable income was reduced to 4.50%.

b) Horizon Utilities presumes that this question applies to it and not “HOBNI”. Horizon Utilities apologizes for the oversight not to have adjusted the schedule noted to accommodate the tax change provided in the March 25, 2010 Ontario budget.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 29

Reference: Exhibit 4, Tab 3, Schedule 2

a) Has Horizon made any adjustments to the PILs calculation to reflect the Ontario apprenticeship training tax credit, cooperative education tax credit and/or the federal apprenticeship job creation tax credit? If not, why not?

b) Please explain what the Other Deductions of \$180,000 shown on page 3 are related to and how they have been calculated

Response:

a) Horizon has not made any adjustments for items noted in a).

Horizon has taken advantage of the Ontario apprenticeship training tax credit (“OATTC”) and cooperative education tax credit (“OCETC”) but not the federal apprenticeship job creation tax credit (“FAJCTC”) in 2009. The aggregate amount of OATTC and OCETC for 2009 was \$72,631. This amount has not yet been determined for 2010.

Horizon Utilities apprenticeship contracts are registered in the province of Ontario. Horizon Utilities does not require Red Seal trades and does not track which of its trades have such or not. As such, Horizon Utilities has not applied for the FAJCTC.

Horizon Utilities submits that it should have provided for an estimate of the OATTC and OCETC for 2010 and 2011 at Exhibit 4, Tab 3, Schedule 2. However, such schedule would include the full amount of tax credit without recognition that such represent

1 taxable income in the following year. As such, Horizon Utilities submits that any
2 provision for these tax credits in such exhibit should be on an after-tax basis.

3 **b)** Horizon Utilities is in the practice of recapitalizing an allocation of its accounting
4 depreciation on its fleet assets into its distribution infrastructure. Such recapitalization
5 would not be permitted as an addition to Undepreciated Capital Cost ("UCC") in the
6 year, since this would effectively result in the same asset being capitalized twice for tax
7 purposes.

8 As a result of this practice, Horizon Utilities is denied Capital Cost Allowance ("CCA") on
9 the amount of fleet depreciation recapitalized into distribution infrastructure.

10 Generally speaking, depreciation is not deductible for tax purposes. However, with
11 respect to recapitalized fleet depreciation, Horizon Utilities deducts the related
12 depreciation for tax purposes. This practice recognizes that the depreciation on fleet
13 assets has already been denied once as a deduction for tax purposes. In symmetry
14 with the above UCC/ CCA treatment for this practice, Horizon Utilities would effectively
15 be double-taxed on fleet depreciation if it did not deduct depreciation on recapitalized
16 fleet depreciation.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 30

Reference: Exhibit 4, Tab 3, Schedule 3, Table 4-39 &
Exhibit 4, Tab 3, Schedule 5, Appendix 4-6 &
Exhibit 2, Tab 2, Schedule 2, Figure 2-10

a) Please explain why the UCC Prior Year Ending Balance shown in Table 4-39 for 2010 for CCA classes 8, 10, 45, 47 and 52 are all less than the UCC at the end of 2009 based on Schedule 8 included in Appendix 4-6.

b) Please reconcile the additions for 2009 CCA purposes shown in Schedule 8 of Exhibit 4, Tab 3, Schedule 5, Appendix 4-6 with the additions for rate base purposes shown in Figure 2-10 of Exhibit 2, Tab 2, Schedule 2.

Response:

a) The UCC at the end of 2009 based on Schedule 8 included in Appendix 4-6 represents the UCC for the entire Horizon Utilities legal entity, including Smart Meter investments which are not the subject of this application. Substantially all of this difference relates to the investments in Smart Meters (Class 47). The UCC Prior Year Ending Balance for all classes shown in Table 4-39 provided in Exhibit 4, Tab 3, Table 4-39 corresponds to regulated electricity distribution operations that are the subject of this application and excluding smart meter investments.

Horizon Utilities is presently recovering its investments in smart meter assets through the rate adder mechanism of the Board.

b) The reconciliation is provided in the following schedule:

2009 Additions per Figure 2-10 of Exhibit 2, Tab 2, Schedule 2	44,674,968.36
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Deduct:

Work In Process (1)	944,081.64	
Hydro One S/S Contribution (2)	2,287,428.57	
Capitalized Fleet Depreciation (3)	536,160.32	3,767,670.53
		40,907,297.83

Add:

Unreconciled difference to tax filing (4)	38,444.93	38,444.93
		38,444.93

Additions for 2009 CCA Purposes

shown in Schedule 8 of Exhibit 4, Tab 3, Schedule 5, Appendix 4-6	40,945,742.76
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Notes:

- 1.) Work in process represents investments in assets not yet available for use. Such assets do not qualify as additions in the year for tax purposes.

- 2.) This addition is provided in OEB account 1995 in Figure 2-10 of Exhibit 2, Tab 2, Schedule 2. This amounts represents a capital contribution towards a transformer station that was not yet energized as of the end of 2009. As such, and for similar reasons noted in 1.), it has been excluded as an addition in the year for tax purposes.

- 3.) This amount represents capitalized fleet depreciation, which does not qualify as an addition in the year for tax purposes. Please refer to Energy Probe interrogatory 29 b) for an explanation of the tax treatment of capitalized fleet depreciation.

- 4.) This represents an unreconciled amount that may result in an adjustment to UCC before CCA in 2009. Further investigation is required to reconcile this immaterial difference.

**HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 31

Reference: Exhibit 4, Tab 3, Schedule 2 &

Exhibit 1, Tab 2, Schedule 2, Appendix 1-9

a) Please provide the number of students eligible for the cooperative education tax credit in 2011. Please reconcile this figure with the figures in the Departmental Business Plans shown in Appendix 1-9 of Exhibit 1, Tab 2, Schedule 2.

b) Please provide the number of apprentices eligible for the Ontario Apprenticeship Tax Training Tax Credit in 2011. Please show the composition of this figure based on the number of apprentices employed in 2009 that are still eligible for the credit in 2011, along with the additions and deletions for 2010 and 2011. Please reconcile these figures with the figures in the Departmental Business Plans shown in Appendix 1-9 of Exhibit 1, Tab 2, Schedule 2.

c) Please provide the number of apprentices eligible for the Federal Apprenticeship Job Creation Tax Credit in 2011. Please show the derivation of this number based on the number of positions eligible from 2009 and 2010 along with the additions of eligible positions in 2011. Please reconcile these figures with the figures in the Departmental Business Plans shown in Appendix 1-9 of Exhibit 1, Tab 2, Schedule 2.

Response:

a) The number of cooperative students eligible for the Education Tax Credit in 2011 will be 11. The cooperative students cannot be reconciled directly with the Departmental Business Plans shown in Appendix 1-9 Exhibit 1, Tab 2, Schedule 2

b) The number of apprentices eligible for the Ontario Apprenticeship Tax Training Credit in 2011 will be 11. The table below provides the response to the second part of question b).

2009 New Apprentices	2009 Eligible	2010 New Apprentices	2010 Eligible	2011 New Apprentices	2011 Eligible
8	14	13	27	11	34

The 11 apprentices are provided for within the Departmental Business Plans shown in Appendix 1-9 of Exhibit 1, Tab 2, Schedule 2 as follows: 8 apprentices within the Constructions & Maintenance Plan and 3 apprentices within the Operations, Engineering and Operational Improvement Plan.

c) Horizon Utilities apprenticeship contracts are registered in the province of Ontario. Horizon Utilities does not require Red Seal Trades and does not track which of its trades have such and which do not. As such, Horizon Utilities has not applied for the Federal Apprenticeship Job Creation Tax Credit.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 32

Reference: Exhibit 4, Tab 3, Schedule 3 &

Exhibit 2, Tab 2, Schedule 2

a) Please reconcile the additions for CCA purposes in 2010 of \$41,669,800 shown in Table 4-29 with the additions to rate base of \$38,294,000 shown in Figure 2-11.

b) Please reconcile the additions for CCA purposes in 2011 of \$43,492,099 shown in Table 4-40 with the additions to rate base of \$45,570,373 shown in Figure 2-12

Response:

a) Please refer to the table below:

2010 Additions per Figure 2-11 of Exhibit 2, Tab 2, Schedule 2	38,294,000.00
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Deduct:

Work In Process (1)	-	
Smart Meter Additions (2)	701,000.00	
Capitalized Fleet Depreciation (3)	500,000.00	1,201,000.00
		37,093,000.00

Add:

Hydro One S/S Contribution (4)	4,576,800.00	4,576,800.00
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Additions for 2010 CCA Purposes shown in Exhibit 4, Tab 3, Schedule 3, Table 4-39	41,669,800.00
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Notes:

- 1.) Work in process represents investments in assets not yet available for use. Such assets do not qualify as additions in the year for tax purposes.

- 2.) This amount represents investment in Smart Meter assets, which is not sought for recovery in this rate application and, as such, not part of 2011 rate base. Smart Meter investments are recovered within the Smart Meter Rate Adder mechanism.

- 3.) This amount represents capitalized fleet depreciation, which does not qualify as an addition in the year for tax purposes. Please refer to Energy Probe interrogatory 29 b) for an explanation of the tax treatment of capitalized fleet depreciation.

- 4.) This addition is incorrectly provided in the opening balance of OEB account 1995 in Figure 2-11 of Exhibit 2, Tab 2, Schedule 2. Such opening balance included capital contributions towards a yet to be energized transformer station, which had not been previously included as additions for CCA purposes. Such transformer station was energized in 2010 and, as such, the adjustment above is to recognize additions for CCA purposes on assets reflected as book additions in prior years. It is noteworthy that this adjustment was also made for depreciation purposes in prior years to ensure that no depreciation was taken in respect of capital contributions towards assets not yet energized. Please also refer to the schedule and Note 2. to the schedule provided in response to Energy Probe Interrogatory 30 part b).

1 **b)** Please refer to the table below:

2011 Additions per Figure 2-12 of Exhibit 2, Tab 2, Schedule 2	45,570,373.00
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Deduct:

Work In Process (1)	-	
Smart Meter Additions (2)	1,578,275.00	
Capitalized Fleet Depreciation (3)	500,000.00	2,078,275.00
<hr/>		

Additions for 2011 CCA Purposes shown in Exhibit 4, Tab 3, Schedule 3, Table 4-40	43,492,098.00
<hr/>	

Notes:

- 1.) Work in process represents investments in assets not yet available for use. Such assets do not qualify as additions in the year for tax purposes.

- 2.) This amount represents investment in Smart Meter assets, which is not sought for recovery in this rate application and, as such, not part of 2011 rate base. Smart Meter investments are recovered within the Smart Meter Rate Adder mechanism.

- 3.) This amount represents capitalized fleet depreciation, which does not qualify as an addition in the year for tax purposes. Please refer to Energy Probe interrogatory 29 b) for an explanation of the tax treatment of capitalized fleet depreciation.

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**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ENERGY PROBE INTERROGATORIES**

DELIVERED: January 24th, 2011

Question 33

Reference: Exhibit 5, Tab 1, Schedule 2 &

Exhibit 6, Tab 1, Schedule 2, Appendix 6-1

a) Please update the return on rate base for 2011 shown on page 4 to reflect the Board's November 15, 2010 cost of capital parameter updates for 2011 cost of service applications for rates effective January 1, 2011.

b) Please provide a revised Revenue Requirement Work Form that reflects the updated cost of capital parameters

Response:

a) Horizon Utilities has updated the return on rate base for 2011 as requested with the following changes:

- Short-term debt rate from 2.07% as filed to 2.43% as per the Board's letter of November 15, 2010; and
- Return on Equity (MARR- Market Adjusted Rate of Return) from 9.85% as filed to 9.66% as per the Board's letter of November 15, 2010

There are no changes to the Long-term debt rate submitted in the Application.

Deemed Capital Structure for 2011 (as filed)					
Description	\$	% of Rate Base	Rate of Return	Return	
Long Term Debt	211,058,415	56.00%	5.80%	12,241,388	
Short Term Debt	15,075,601	4.00%	2.07%	312,065	
Total Debt	226,134,016	60.00%		12,553,453	
Common Share Equity	150,756,010	40.00%	9.85%	14,849,467	
Total equity	150,756,010	40.00%		14,849,467	
Total Rate Base	376,890,026	100.00%	7.27%	27,402,920	

Deemed Capital Structure for 2011 (as updated)					
Description	\$	% of Rate Base	Rate of Return	Return	
Long Term Debt	211,058,415	56.00%	5.80%	12,241,388	
Short Term Debt	15,075,601	4.00%	2.43%	366,337	
Total Debt	226,134,016	60.00%		12,607,725	
Common Share Equity	150,756,010	40.00%	9.66%	14,563,031	
Total equity	150,756,010	40.00%		14,563,031	
Total Rate Base	376,890,026	100.00%	7.21%	27,170,756	

1

2

3 b) Please find the revised Revenue Requirement Work Form as found in Energy
4 Probe Interrogatory 33, which that reflects the updated cost of capital parameters as
5 discussed above.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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Question 34

Reference: Exhibit 5, Tab 1, Schedule 1, page 3

Please explain the process that would take place based on the explanation provided at lines 6 through 14 related to the refinancing of the \$116 million HUC note that matures on July 31, 2012. Please explain why this adjustment would be permitted during an incentive rate mechanism period.

Response:

Please refer to Horizon Utilities’ response to School Energy Coalition Interrogatory 33.

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DELIVERED: January 24th, 2011

Question 35

Reference: Exhibit 5, Tab 1, Schedule 1, page 2

a) Did Horizon or its parent company compare the 4.92% rate for the private placement with rates available from banks or Infrastructure Ontario in July 2010? If not, why not?

b) What was the rate available from Infrastructure Ontario in July 2010 for a 10 year term?

Response:

a) Horizon Utilities issued the 4.92% financial instrument referred to in a) to support its long-term fixed asset investments in distribution system infrastructure. This 4.92% \$40MM 10-year intercompany promissory note (“\$40MM Promissory Note”) refinanced a revolving intercompany credit facility provided by its 100% shareholder, Horizon Holdings Inc. (“HHI”) (which, in turn, is supported by a \$100MM revolving bank credit facility).

Horizon Utilities has considered the use of bank debt and Infrastructure Ontario (“IO”) loans for its borrowing purposes. Horizon Utilities effectively utilizes bank debt through a \$95MM “back-to-back” intercompany revolving unsecured credit facility from HHI (supported as noted above) to support its working capital requirements and bridge financing for its long-term investments in electricity distribution infrastructure. However, the most common and appropriate approach to financing long-term debt requirements for utility companies, including regulated Ontario gas and electric companies, is through the use of debt that is (or is effectively) fixed in terms of rate, principal, and term.

1 The use of long-term fixed rate and fixed principal debt provides a natural hedge against
2 interest rate and liquidity risk on investments, protecting both ratepayers and
3 shareholders from such. The duration of regulatory cash flows supporting the recovery
4 of regulated electricity distribution assets most closely aligns to that on a ten year fixed
5 rate and principal debt obligation. As such, Horizon Utilities uses such financial
6 instruments to manage its liquidity and interest rate risk with respect to long-term
7 electricity distribution investments. Additionally, Horizon Utilities seeks to issue and
8 access debt on an unsecured basis, which provides it with a very high level of financial
9 flexibility for continued borrowing relative to secured debt instruments.

10 The approach used by Horizon Utilities is based on well-accepted practice for regulated
11 Ontario gas and electricity distributors. The approach used by Horizon Utilities was as
12 follows:

- 13 i.) Creation of a trust indenture by its parent Horizon Holdings Inc. ("HHI") to issue
14 senior unsecured debentures from time to time;
- 15 ii.) Issuance of debentures by HHI from time to time as required to support the long-
16 term investments of Horizon Utilities, through "back-to-back" intercompany loans,
17 in distribution system infrastructure, including the debenture referenced in the
18 question.

19 Generally speaking, distributors of the size of Horizon Utilities would not use
20 bank debt to finance long-term assets. The use of short-term bank debt (i.e.,
21 prime based or banker's acceptance based pricing on revolving short-term bank
22 credit facilities) is generally used for short-term working capital requirements.
23 Such is also often used as "bridge financing" for long-term investments until the
24 amount of such financing, in aggregate, cost justifies a long-term debt "take-out"
25 such as the \$40MM 10-year fixed-rate debenture issued by Horizon Utilities.
26 This take-out is appropriate to manage the financial risks noted above.

27 It would be very unusual for a distributor of the size of Horizon Utilities to seek
28 fixed-term bank debt. Banks would find this similarly unusual. Such debt would
29 be more expensive and come with far more restrictive terms than the relatively

1 light and unsecured terms underlying the \$40MM Promissory Note. Additionally,
2 bank terms requiring security would conflict with the other debt obligations of
3 Horizon Utilities including its \$116MM promissory note to Hamilton Utilities
4 Corporation and its \$95MM intercompany credit facility to HHI. Both of these
5 instruments are “back-to-back” with arm’s length financial instruments that have
6 been issued or entered into on an unsecured basis.

7 On this basis, it would be inappropriate to compare rates on short-term revolving
8 bank debt with the 4.92% rate on the \$40MM Promissory Note, since the use of a
9 particular debt instrument should be considered in the context of the nature of
10 assets being financed, in order to properly manage related financial risks. As
11 noted above, fixed-term bank debt will be more expensive and come with more
12 onerous terms than an unsecured financing in the nature of that undertaken by
13 Horizon Utilities.

14 Infrastructure Ontario (“IO”) loans are provided on a serial or amortizing basis.
15 This effectively means that the loans amortize over their term. On a strict
16 comparison of the duration (essentially the dollar average life of repayments on
17 the loan) of the \$40MM Promissory Note and an IO loan, the rate on the IO loan
18 will be less. This would generally be true with respect to any regulated gas or
19 electricity distributor in Ontario since the IO loans have an underlying credit rating
20 that is better than any Ontario gas or electricity distribution issuer.

21 However, as the IO loans effectively amortize, they would regularly expose a
22 distributor to liquidity (i.e., refinancing) risk and related interest rate risk on such
23 regular refinancing requirements. This would unduly expose ratepayers and
24 shareholders to interest rate volatility. Additionally, such regular refinancing
25 introduces a measure of treasury inefficiency given the additional management
26 required to regularly refinance principal payments on such loans.

27 Horizon Utilities submits that IO loans are more appropriately suited to project
28 based financing requirements (i.e., that more closely align with an amortizing
29 pool of assets such that the net fixed assets decline smoothly over the time of a

1 limited life project, such as a generation plant) rather than financing requirements
2 for companies such as Horizon with net fixed assets that continue to grow.

3 Additionally, Horizon Utilities understands that the terms of IO debt are more
4 restrictive and generally include security against the assets financed. Again,
5 such terms conflict with its existing financial instruments and would result in less
6 financial flexibility with respect to future requirements for debt capital.

7 **b)** The rates available from Infrastructure Ontario in July 2010 for a 10 year term
8 were 3.86% for serial debt and 3.96% for amortizer debt. It should be noted that it is not
9 appropriate to compare a 10 year serial or amortizer rate with a 10-year fixed principal
10 debenture. Rates are based on the “duration” of a financial instrument (see (a) above).
11 The duration of a 10-year serial or amortizer debt instrument would be approximately 5
12 years while the duration of a 25 year serial or amortizer debt would be closer to 10
13 years. The Horizon Utilities’ promissory note has a duration of 10 years, given its fixed
14 principal nature. Infrastructure Ontario’s 25 year rates as of July 2010 were 4.81% for
15 serial debt and 4.91% for the amortizer debt, almost exactly the Horizon Utilities’
16 \$40MM promissory note rate.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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Question 36

Reference: Exhibit 2, Tab 1, Schedule 3 Distribution and General Plant Capital Invest Figure 2-1 on page 3 of the exhibit shows “Percentage of End of Life Assets Based on Level of Capital Expenditure”. Please provide a similar figure showing historical end of life asset levels for the period 2000 – 2009.

Response:

Please refer to Horizon Utilities’ response to Vulnerable Energy Consumers Coalition Interrogatory 16.

“The comprehensive analysis process began in 2008 when Horizon Utilities began its Asset Management implementation plan. Most of the work completed in this year was around performing ‘Gap Analysis’ to identify where improvements were needed, design the approach that Horizon Utilities would take to asset investment, and begin to gather data for analysis.”

Horizon Utilities commenced such evaluation of “end of life” assets in 2008, and as such does not have historical information of ‘end of life’ assets prior to 2009.

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Question 37

Reference: Exhibit 2, Tab 1, Schedule 3 Distribution and General Plant Capital Invest.

Exhibit 2, Tab 3, Schedule 1 Distribution and General Plant Capital Expend.

Table 2-4 on page 4 of the first noted exhibit shows Asset Age by Type and includes data for overhead, submersible and padmounted transformers. In Exhibit 2-3-1 page 55 defective transformer replacement policy is noted as “run to failure”.

a) Does the data in Table 2-4 include run to failure transformers or just those noted in the second exhibit as requiring proactive replacement?

b) If the data in Table 2-4 includes run to failure transformers, please explain why including them in a plan for proactive replacement is reasonable when they are not replaced proactively.

c) If the data in Table 2-4 includes run to failure transformers, please recast the table to exclude those transformers that are part of the run to failure policy and calculate how this would affect the capital expenditure plan intended to reduce the end of life assets backlog as shown in Figure 2-1 on page 3 of the first exhibit.

Response:

a) Table 2-4 includes all in-service distribution transformers, inclusive of ‘run to failure’ transformers, as of January 1, 2009. Substation class power transformers are not included in this list as they are not classified as ‘run to failure’ transformer assets.

b) As stated in the response to part a) above, Table 2-4 includes all in-service distribution transformers. All distribution transformers are replaced based on the

1 following criteria, as listed in Horizon Utilities' Asset Management Plan ("AMP"), in
2 Exhibit 2, Tab3, Schedule 2, Appendix 2-1, Appendix G, Page 26:

- 3 i. Transformers that have failed
- 4 ii. Transformers that have visibly deteriorated and will fail imminently
- 5 iii. Transformers that are unique with no adequate backup available
- 6 iv. Transformers that will be difficult to restore with possibility of long outage in case
7 of failure

8 Horizon Utilities budgets for proactive replacements of 'run to failure' distribution
9 transformers only if they meet criteria (ii) to (iv) above. If the distribution transformer has
10 failed (criteria i), then such replacement would be treated as a reactive expenditure. On
11 this basis Horizon Utilities has included proactive replacement of 'run to failure'
12 distribution transformers in Table 2-4.

13 **c)** Figure 2-1 is an illustration of expenditures for 'beyond end of life assets', which
14 includes all of Horizon Utilities' distribution transformers ('run to failure'), which have
15 exceeded their life expectancy, and in addition have a high probability of failure. Horizon
16 Utilities historical distribution transformer failure statistics, as shown in the Application in
17 Figure 2-7, Exhibit 2, Tab 1, Schedule 3, page 10 of 22, show a sharp increase in the
18 number of distribution transformer failures since 2008.

19 Since Horizon Utilities classifies all distribution transformers as 'run to failure' and given
20 that such replacements can occur on either a proactive or reactive basis, it is not
21 reasonable for Horizon Utilities to recast Table 2-4 to exclude 'run to failure' distribution
22 transformers.

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Question 38

Reference: Exhibit 2, Tab 1, Schedule 3 Distribution and General Plant Capital Invest.

On page 5 of the exhibit reference is made to five substation transformer failures on the 4kV and 8kV system over the past three years in comparison to only one in 2007.

Please provide a table showing substation transformer failures by year for the period 2000 – 2010.

Response:

The table below shows the Substation Transformer failures from 2007 to 2010. Of particular note are the two failures at Webster and Hughson in 2010, which were both identified in the Substation Asset Condition Assessment as not only at beyond end of life, but both transformers were highlighted as part of a group of transformers that pose a high risk of imminent failure as determined by the Diagnostic Gas Analysis (“DGA”) tests performed. Substation transformer failures are increasing and provide further confirmation that the renewal of Horizon Utilities’ 4kV and 8kV systems are a priority for urgent investment, so the substations can be decommissioned.

1

Station Transformer	Year of Failure
Spadina T2	2007
Wentworth T2	2008
Eastmount T4	2009
Stroud's Lane T2	2009
Webster T1 (Blue Phase)	2010
Hughson T2	2010

2

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
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Question 39

Reference: Exhibit 2, Tab 3, Schedule 2, Appendix 2-1 Asset Management Plan

Figure 4 on page 15 of the plan shows major asset renewal expenditures. A footnote states that these expenditures do not include “Non Renewal Expenditure”. Please describe what is included in non renewal expenditures.

Response:

‘Non-Renewal’ expenditures are expenditures that are not primarily driven by the need to address end of life asset replacements but rather are expenditures that address other system requirements and include the following categories:

- I. Capacity: Such projects would include system upgrades to increase the capacity of feeders and equipment to deal with load growth and increased demand.
- II. Security: Such projects are developed to add switching devices or create a backup feeder supply to reduce the risk to typical restoration times for Horizon Utilities customers.
- III. Reliability: Such projects would include system upgrades to improve the reliability of specific areas of the distribution system that are experiencing poor reliability relative to the rest of the distribution system.
- IV. Regulatory: Such projects are driven by regulatory requirements and would include, for example, projects to eliminate Long Term Load Transfer customers.

1 V. Safety: Such projects are driven to correct public and worker safety
2 concerns.

3 VI. Distribution System Technology Enablers: New technology is the key enabler
4 for improving reliability, continuously improving operations, assisting with data
5 management and modernizing our distribution system.

6 Even though these categories are captured under non-renewal, portions of these
7 projects involve renewal to some extent.

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Question 40

Reference: Exhibit 2, Tab 3, Schedule 2, Appendix 2-1 Asset Management Plan

The Asset Management Implementation Plan prepared by Navigant Consulting Inc. and appearing as Appendix A to the exhibit shows, on page 7, the need for additional FTEs. These are listed in two categories as 5.5 FTEs on an ongoing basis and 1.75 FTEs on a one time basis.

a) Are the two FTE resources noted on page 11 as needed for approximately one year for system planning functions part of the 5.5 ongoing FTEs? If yes, please explain why they will be needed on an ongoing basis. If no, please explain where they are accounted for in the forecast of additional resources needed to implement the Asset Management Plan.

b) Is the Standards Engineer noted on page 11 as being needed for 2 years part of the 5.5 ongoing FTEs? If yes, please explain why he/she will be needed on an ongoing basis. If no, please explain where this position is accounted for in the forecast of additional resources needed to implement the asset management plan.

c) Prior to the Asset Management Plan development, how did Horizon develop construction and material standards? How many staff were devoted to this function?

d) Has Horizon engaged the 1.75 FTEs required on a one time basis? If yes, please provide details of how and from where the support was acquired. If no, please indicate when and how the support will be acquired.

Response:

a) Yes, the two FTE resources noted on Page 11 are part of the 5.5 ongoing FTE's. These two FTEs are required on an ongoing basis to update load forecasts, update the distribution system model and to identify system enhancements, which are all part of ongoing work in the Network Department.

b) Yes, the Standards Engineer noted on Page 11 is part of the recommended 5.5 FTE's. The Standards Engineer will provide investigation and approval of new material (as required by the Electrical Safety Authority ("ESA") Regulation 22/04), manage the Bill of Material ("BOM") update function, and manage design standards (which includes designing, reviewing, and issuing of standards to engineering and construction staff). All of these responsibilities are part of the ongoing work of the Network department.

c) Prior to the development of the Asset Management Plan in 2009, many utilities across Ontario used the design and construction standards from the former Ontario Hydro as an industry standard. Once ESA Regulation 22/04 came into effect in 2005, many utilities did not have existing design and construction standards that satisfied the requirements of the Regulation. Several utilities, including Horizon Utilities, purchased design standards from Enersource Hydro, to adopt as their own. The selection of Enersource was based on the extensive work already completed by Enersource in order to make their standards compliant with Regulation 22/04, and as such it was cost effective to purchase the standards from that particular utility.

Regulation 22/04 requires that changes to utility specific design and construction standards be reviewed and approved by a Professional Engineer, therefore as Horizon Utilities updates such standards and the associated materials for each standard the Standards Engineer will be required to fulfill this crucial role. Updates to design and construction standards occur on a very regular basis and as such this role is part of the ongoing work of the Network department.

Prior to the Asset Management Horizon Utilities devoted 1 FTE to this function to develop new, and update existing construction and material standards

1 **d)** The Asset Management Implementation Plan recommends that Horizon Utilities hire
2 on a temporary basis 1.75 FTE to conduct equipment condition assessments and staff
3 training. However, Horizon Utilities did not hire these FTE's and has contracted this
4 work externally as required and as such there is no need to acquire the temporary
5 resources at this time.

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Question 41

Reference: Exhibit 2, Tab 3, Schedule 2, Appendix 2-1 Asset Management Plan

The Asset Management Implementation Plan prepared by Navigant Consulting Inc. and appearing as Appendix A to the exhibit recommends on page 14 that \$700 k - \$750 k in external resources will be needed over 5 years to support the implementation of the Asset Management Plan.

a) Has Horizon contracted for this external support yet?

b) If yes, please provide details of how the support was acquired and what it consists of in terms of FTEs.

c) If no, please provide a forecast of how and when the support will be resourced and what it will consist of in terms of FTEs

Response:

a) Horizon Utilities has contracted with Navigant Consulting Inc. to supply services that support the Asset Management Plan (“AMP”). Horizon Utilities engages Navigant Consulting Inc. (“Navigant”) on an annual basis to support AMP development.

b) Horizon Utilities uses a formal Request for Proposal (“RFP”) when external services are required in order to complete projects. The services of Navigant Consulting Inc. were obtained through a competitive RFP process. The support provided from Navigant would equate to approximately 1 FTE per year.

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Question 42

Reference: Exhibit 2, Tab 3, Schedule 2, Appendix 2-1 Asset Management Plan –

Appendix C: Project Prioritization Rationale and Method

Page 3 of Appendix C discusses the Customer Impact Score associated with outages. Part of this score relies on Value of Service metrics developed by *“Roy Billington of the University of Saskatchewan”*.

a) Please provide the study by Mr. Billington in which the VOS metrics are developed.

b) Please provide background on how these metrics have been accepted in the electricity distribution industry particularly in the case of Ontario distributors.

c) Have these metrics been previously examined by the Board in other rate applications?

d) Please provide the *“Supplemental Applications Guidelines”* referred to in the VOS section.

Response:

a) Horizon Utilities apologizes, as the name of the person that developed the Value of Service metrics was misspelled. The authors name is Roy Billinton. The report is attached to this Interrogatory response.

- 1 **b)** Horizon Utilities is not aware of any other utilities that have incorporated the
2 principles of impact suffered by the customer from a Value of Service (“VOS”)
3 perspective in their budgeting process or otherwise.
- 4 **c)** To the best of Horizon Utilities’ knowledge, the VOS metric has not been examined
5 by the Board in another other rate proceedings. Horizon Utilities commenced use of the
6 VOS metric as part of the Project Prioritization method in 2009.
- 7 **d)** The “Supplemental Applications Guidelines” referred to in the VOS section are
8 attached to this Interrogatory response.

VOS Supplemental Applications Guidelines

The Value of Service (VOS) is an amount derived to quantify a monetary amount for lost production or lost sales due to an interruption of electrical service. VOS is one of the variables used to calculate the Customer Impact score, as part of the Project Prioritization rating.

$$\text{Customer Impact Score} = (\text{Unserviced Energy} * \text{VOS} + \text{Restoration Costs}) / \text{Project Cost (Normalized)}$$

The numbers listed in the table below were based on metrics developed by Roy Billinton of the University of Saskatchewan. The values below are quantified in \$/kWh.

Customer Type	1 Hour Outage	4 Hour Outage	8 Hour Outage	% Weighting
Industrial	12.88	35.68	79.13	100
Commercial	12.13	44.41	117.71	100
Residential	0.68	6.97	22.45	100
Mix(Comm/Res)	6.405	25.69	70.08	50/50
Mix(Comm/Ind)	12.505	40.045	98.42	50/50
Mix(Res/Ind)	10.44	29.938	67.794	20/80
Mix(Res/Comm/Ind)	10.14	33.43	83.226	20/40/40

Regardless of the nature of the cause of the interruption, Industrial and Commercial customers are weighted far greater than Residential due to the fact that VOS is directly linked with lost production and/or lost sales. As such, projects focused on Industrial or Commercial customers will score higher in the Customer Impact category, which constitutes 25% of the total Project Prioritization score.

When applying the VOS factor to project prioritization, an assessment is first performed to determine an approximate ratio of customers based on the categories of Industrial, Commercial and Residential.

Typically, Horizon Utilities' industrial customers are serviced from dedicated feeders or on shared feeders with other industrial customers and as such they will be categorized in the "Industrial" type. Likewise, when dealing with station related projects Industrial customers tend to be grouped on the same station thereby making the selection of customer type straightforward.

Residential customers also tend to be grouped together in subdivisions throughout the city. While there may be some commercial businesses affected by an outage in a residential neighbourhood, these subdivisions are given the "Residential" type in the majority of cases.

Business parks and plazas are good examples of what Horizon Utilities would consider "Commercial" type customers.

An example of a mix of Commercial/Residential would be downtown core areas which contain a mix of stores or office buildings alongside apartment buildings and condominiums. As well, any substation projects outside of the industrial areas in Hamilton would generally be considered Commercial/Residential type projects.

Projects featuring a mix of Residential/Industrial or a mix of "All" tend to be rare cases, and are essentially included for the sake of completeness.

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Question 43

Reference: Exhibit 2, Tab 3, Schedule 2, Appendix 2-1 Asset Management Plan –

Appendix C: Project Prioritization Rationale and Method

Page 1 of the exhibit identifies “must do” projects as including those required for Regulatory Compliance. These projects are noted as not requiring a project prioritization because the utility has no option but to do them. However, on page 4, reference is made to “Regulatory/Statutory” risk as a component of the risk score in the prioritization process.

Please explain why the Regulatory/Statutory risk component should be part of the prioritization methods if regulatory projects are “must do” projects and therefore not subject to the prioritization process.

Response:

Some projects result from a need to comply with regulatory and statutory obligations. However, there may not be a requirement for such compliance in the current budget year.

Other projects may require compliance and completion, or commencement, in the current budget year. For example, Long Term Load Transfer Arrangements must be eliminated by June 30, 2014, as directed by the Distribution System Code in section 6.5.4 which states that:

“During the period between May 1, 2002 and June 30, 2014, a geographic distributor that services a load transfer customer shall either:

1 a. negotiate with a physical distributor that provides load transfer
2 services so that the physical distributor will be responsible for
3 providing distribution services to the customer directly, including
4 application for changes to the licensed service areas of each
5 distributor; or

6 b. expand the geographic distributor's distribution system Horizon
7 Utilities treats such arrangements as being 'must do' projects,
8 however they are prioritized with other Horizon Utilities' projects, as
9 there is a timeframe of several years in which to resolve all of the
10 subject load transfer arrangements."

11
12 Horizon Utilities treats such projects as being 'must do'. However, these are prioritized
13 with other Horizon Utilities' projects with consideration for timing towards compliance.
14 The project listed in the 2011 budget under this driver is for compliance with the IESO
15 on power quality.

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Question 44

Reference: Exhibit 2, Tab 3, Schedule 4 Service Quality and Reliability Performance

Does Horizon benchmark its reliability indices of SAIDI, SAIFI and CAIDI against other Ontario distributors? If yes, please provide the comparison in performance for the most recent 5 year period. If no, please explain why benchmarking its performance on reliability metrics is not needed

Response:

Horizon Utilities does benchmark its reliability indices against other distributors as shown in the table below. Horizon Utilities compiles this data on a yearly basis and keeps the chart up to date on a 5 year rolling basis. The information comes from the Canadian Electric Association “Service Continuity Report” and from direct communication with utilities. The 2010 benchmarking data from all other utilities will not be available until the summer of 2011.

LDC	5yr average SAIDI	5yr average SAIFI	2009		2008		2007		2006		2005	
			SAIDI	SAIFI	SAIDI	SAIFI	SAIDI	SAIFI	SAIDI	SAIFI	SAIDI	SAIFI
Enersource Hydro Mississauga Inc.	0.514	0.867	0.61	1.16	0.3300	0.7300	0.6500	0.7800	0.4526	0.7317	0.5294	0.9344
Guelph Hydro Electric Systems Inc.	0.596	1.266	0.68	1.56	0.5700	1.4200	0.5900	1.0200	0.3646	1.1773	0.7757	1.1538
Hydro Ottawa Limited	1.296	1.112	1.50	1.15	0.9800	1.0200	1.4000	1.2100	1.5107	1.1888	1.0901	0.9907
Burlington Hydro Inc.	1.179	1.119			1.3600	1.7000	1.0400	0.6900	1.0458	0.8789	1.2691	1.2056
Milton Hydro Distribution Inc.	1.214	1.298	1.15	1.23	1.0000	0.7500	1.5200	1.1300	1.3503	1.4900	1.0481	1.8912
PowerStream Inc.	1.422	1.314	1.97	1.23	1.0000	0.9200	2.1700	1.5400	0.8721	1.0836	1.0986	1.7961
Hydro One Brampton Networks Inc.	0.955	1.505	0.79	1.27	0.7700	1.1200	1.2600	1.8400	0.8573	1.4838	1.0970	1.8125
Horizon Utilities Corporation	1.080	1.651	1.18	1.81	1.220	1.82	1.015	1.59	0.9375	1.4431	1.0448	1.5879
Niagara Falls Hydro Inc.	1.564	1.574			1.6000	0.9900	2.3100	2.0000	1.2486	2.3836	1.0983	0.9211
Oakville Hydro Electricity Distribution Inc.	1.511	1.525	0.77	1.57	1.5400	1.6000	1.2600	1.7200	1.4916	1.0931	2.4921	1.6405
Oshawa PUC Networks Inc.	2.081	1.558	3.49	1.67	1.7300	1.8000	1.7600	1.8600	2.2661	1.2860	1.1613	1.1731
Toronto Hydro-Electric System Limited	1.883	2.015	2.91	1.86	1.2400	1.7600	1.9500	2.2800	1.5677	2.1692	1.7482	2.0073
London Hydro Inc.	1.574	2.032	0.89	1.59	2.2900	2.3900	2.2900	2.3900	1.2539	2.1387	1.1469	1.6492
Veridian Connections Inc.	2.622	2.367	3.70	2.45	2.3300	2.4300	1.9200	1.8300	2.5394	2.7591		

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Question 45

Reference: Exhibit 4, Tab 2, Schedule 6 Variance on OM&A Costs

Table 4-4 on page 4 of the exhibit shows FTE’s by department for 2011.

a) Does this include the 5.5 ongoing FTE’s and the 1.75 temporary FTE’s referred to in Navigant’s report on the Asset Management Plan?

b) If yes, please identify which of the FTE’s in Table 4-4 are for the Asset Management Plan implementation.

c) If no, please explain where the Navigant recommended FTE’s are reflected in the evidence.

Response:

a) Table 4-4 does not include the 5.5 ongoing FTE’s or the 1.75 temporary FTE’s. The Network department within the EOOI division had 3 FTEs responsible for Asset Management related duties when Navigant completed their study and subsequent report. Since that time, Horizon Utilities has hired two additional FTEs in order to support Asset Management planning. Horizon Utilities has chosen not to hire the additional recommended 3.5 FTEs or the 1.75 temporary FTEs at this time.

b) Not applicable.

c) The remaining 3.5 FTEs are not included in the evidence submitted as Horizon Utilities does not plan to hire these additional 3.5 FTEs.

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Question 46

Reference: Exhibit 4, Tab 2, Schedule 6 Variance on OM&A

Page 6 describes the need for various new positions.

a) Please explain how the proposed duties of the new Financial Analyst in the Capital Projects department have been handled in the past. Why is that method no longer adequate?

b) The Commodity Management Specialist position is expected to support \$45 M of anticipated purchasing volume. Please provide a table showing actual purchasing volume for the period 2006 – 2010. If that volume does not differ significantly from \$45 M please explain why existing staff cannot handle the role.

c) For the Manager Regulatory Applications and the Rates Analyst positions please describe how these functions have been handled in the past and elaborate on the specific new demands associated with the regulatory instruments referred to in the description that are driving the need for these new positions

Response:

a) Some of the responsibilities of this role are currently being performed by the Supervisors in the Engineering Design group. The effectiveness of this approach is limited as the necessary time cannot be dedicated to these activities due to core engineering design demands. A financial analyst is required to ensure that critical analysis of construction and maintenance activities for productivity improvement measurement, contractor costing analysis, project estimating, asset modeling and

variance reporting using activity based costing unit costs. Such analysis is required to ensure capital and operating expenditures are provided in a detailed manner that supports annual budgeting, monthly forecasts, asset management and cost of service filings.

b) Horizon Utilities purchasing volume has been on average during the last five years between \$35MM to \$48MM as noted on the table below. Within Horizon Utilities, the Commodity Management Specialist position is of a strategic nature focusing on building strategic partnerships, developing and negotiating mater agreements, manage the sourcing process for large purchase projects, ensure compliance of procurement processes and activities and carries out strategic purchasing activities, with the objective of optimising supply base and generating a contribution to operating requirements and business objectives. Typically, the Commodity Management Specialist purchasing volume portfolio is between \$15MM to \$20MM depending of the complexity and nature of the commodities accountable for. Based on the current procurement structure, Horizon Utilities cannot focus on strategic purchasing activities of it is annual purchasing volume. With the planned increase on Capital Projects and other strategic projects, Horizon Utilities is in need of an additional Commodity Management Specialist position.

Horizon Utilities Corporation - Purchasing Annual Volume				
2006	2007	2008	2009	2010
\$34,263,694	\$41,749,000	\$48,562,624	\$44,425,348	\$42,097,000

c) In 2011, Horizon Utilities is planning to hire a Manager of Regulatory Applications. This position will be responsible for the preparation of rate applications and monitoring of general regulatory and regulatory accounting requirements. The person in this role will also supervise rates analysts. Currently, rate applications and monitoring of general regulatory and accounting requirements are prepared and managed by a cross-section

1 of the regulatory staff. As indicated in the Application in Exhibit 4, Tab 2, Schedule 6,
2 Page 7, this position has been created in order to address regulatory capacity needs,
3 and is necessary in order to support increases in the volume of work related to new or
4 changes to the existing regulatory framework in Ontario. Such a position will support a
5 dedicated approach to regulatory applications in future, which is critical to Horizon
6 Utilities.

7 With regards to the rate analyst positions, these positions are necessary in order for
8 Horizon Utilities to be able to sustain and manage the increase in business and
9 regulatory analysis capacity. Currently other rates analysts support the required
10 analysis associated with Reporting, Recordkeeping and Retention ("RRR") filings,
11 analyze and reconcile regulatory variance accounts and distribution revenue, as well as
12 maintain the settlement systems software. However, based on an increase in the
13 amount of regulatory reporting and business analysis required, Horizon Utilities has
14 additional capacity demands going forward that will require additional analysts in
15 Regulatory Affairs.

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Question 47

Reference: Exhibit 4, Tab 2, Schedule 10 Employee Compensation

Table 4-25 on page 11 of the exhibit shows total company employee costs for the years 2007 – 2010.

a) Executive compensation increased from 2009 to 2010 by about \$550 k or 21% without any increase in executive staff numbers. Please provide a detailed explanation for the unusually high year over year increase.

b) Management compensation per employee increased from about \$78.5 k in 2009 to about \$88 k in 2010 (about 12%). Please provide an explanation for this unusually high year over year increase.

c) Non-union compensation per employee increased from \$62.7 k in 2009 to \$81.3 k in 2010 (about 30% increase). Please provide an explanation for this unusually high year over year increase.

d) Benefit costs per employee increased from \$ 15,330 in 2009 to \$17,320 in 2010 (about 13% on average). Increases in each employee group ranged from about 10% in the executive to 28% in the non-union group. Please provide an explanation of the main drivers in increased benefit costs for each group of employees shown in the table.

e) Does Horizon provide coverage for over the counter (i.e. Non-prescription) drugs or other health related products to any of its employee groups. If yes, please describe the products covered by the plan.

Response:

1 **a)** The increase in compensation can be attributed to a number of factors.

2 • The 2010 figure represents a budget assuming fully employed 17 FTE's

3 • To explain the difference in 2009 actuals versus 2010 budget the variances
4 below are calculated by taking 2009 actuals and assuming no vacancies to arrive at a
5 fully employed FTE count and compensation level

6 • Total compensation in 2009 for this employee category assuming full
7 employment would have been approximately \$3 million

8 • Employees in this category also received an average merit increase of 3% -
9 equivalent to approximately \$120,000

10 **b)** The change in the average management about 12% is due to a number of
11 factors. This shift represents an approximate increase of \$828,000 in this employee
12 category. This variance consists of:

13 • Higher wages associated with an increase of 4 management FTE's of
14 approximately \$380,000

15 • An average 3% merit increase for management employees which contributed
16 approximately \$130,000

17 • 2009 actuals are low due to a number of vacancies experienced throughout the
18 year accounting for approximately a \$320,000 variance

19 **c)** The change in the average non-union compensation of 30% is due to a number
20 of factors. This shift represents an approximate increase of \$957,000 in this employee
21 category. This variance consists of:

22 • Higher wages associated with an increase of 4 FTE's of approximately -
23 \$270,000

24 • An average 3% merit increase for non-union employees which contributed
25 approximately \$75,000

1 • 2009 actuals are low due to a number of vacancies experienced throughout the
2 year accounting for approximately a \$600,000 variance

3 **d)** The main driver of benefit cost increases were as follows:

4 • Executive/Directors

5 Costs were largely increased as a result of high premium rates and a slight
6 enhancement in general Healthcare and Dental benefits consistent with what unionized
7 employees were receiving as a result of a new collective agreement in signed in mid-
8 2008. 2009 reflects the full year impact of these enhancements.

9 A healthcare spending account was introduced for all management (non-union
10 employees)

11 • Management

12 Costs were largely increased as a result of high premium rates and a slight
13 enhancement in general Healthcare and Dental benefits consistent with what unionized
14 employees were receiving as a result of a new collective agreement in signed in mid-
15 2008. 2009 reflects the full year impact of these enhancements.

16 A healthcare spending account was introduced for all management (non-union
17 employees)

18 • Non Union

19 Costs were largely increased as a result of high premium rates and a slight
20 enhancement in general Healthcare and Dental benefits consistent with what unionized
21 employees were receiving as a result of a new collective agreement in signed in mid-
22 2008. 2009 reflects the full year impact of these enhancements.

23 A healthcare spending account was introduced for all management (non-union
24 employees)

25 • Union

26 Costs increased as a result of higher premium rates. A new collective agreement
27 became effective on June 1st, 2008 which include some small benefit enhancements in

- 1 general healthcare and dental costs. The largest impact to benefit costs in this group
- 2 was the introduction of long term disability benefits for all employees.
- 3 **e)** Horizon Utilities does not provide coverage for over the counter drugs or other
- 4 health related products to any of its employee groups.

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Question 48

Reference: Exhibit 4, Tab 2, Schedule 10 Employee Compensation

Page 24 shows post-employment retirement benefit costs.

a) Please explain the statement that post retirement benefit cost reductions “are related in part to experience”. What experience is being referred to in the statement?

b) Please contrast the benefits that apply to future employees with those that apply to the then “current employees” referred to in lines 15-18

c) Are surviving spouses of retirees entitled to continuing benefits in the event of the retiree’s death? If yes, please describe the main elements of the benefit plan provided to surviving spouses and the duration of the coverage.

Response:

a) Horizon Utilities’ premium costs are tied to the experience of a pool of similar organizations. The advantage of this “pooling” is that if an organization experiences an unusually high level of health care costs in a particular year, the organization is not impacted as heavily as it would be if the rest of the organizations have a lower or average level of expense in that same year. Premiums are based on the previous year’s “experience” and as such are impacted both by the inflation rate of benefits and the prior year’s results.

b) Employees retiring with a hire date prior to October 1, 2001 and with a minimum of 20 years of service receive benefits for life. Employees hired after October 1, 2001 and

1 with a minimum 20 years of service are provided benefits from retirement to the age of
2 65.

3 **c)** Surviving spouses of retirees continue to receive the same benefits extended to the
4 retiree for a period of 6 months. The retiree plan is a reduced plan relative to active
5 employees and the main elements are: major medical, dental and vision.

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Question 49

Reference: Exhibit 4, Tab 2, Schedule 10, Appendix 4-5 Mercer Compensation Study

The portion of the study included in the evidence does not provide any comparative information about Horizon compensation. Please provide a summary of Mercer’s findings relating Horizon compensation to its comparators along with the main actions taken by Horizon to adjust its compensation after the study was submitted.

Response:

The following table was provided by Mercer and outlines the average overall salary budget increases for 2007 and the projected overall salary budget increases for 2008.

		Management	Professional (Sales & Non-Sales)	Office/ Clerical/ Technician	Trades/ Production/ Service	All Employee Groups
Actual 2007	Private Sector	3.8%	3.7%	3.7%	3.6%	3.7%
	Public Sector	3.6%	3.6%	3.5%	3.4%	3.6%
Projected 2008	Private Sector	3.7%	3.6%	3.6%	3.6%	3.6%
	Public Sector	3.6%	3.6%	3.5%	3.4%	3.6%

Source: Mercer 2008 Compensation Planning Survey for Non-Union Employees.

The following table outlines the average projected salary structure adjustments for 2008.

Projected 2008	All Employee Groups	
	Private Sector	2.9%
	Not For Profit	2.6%
	Public Sector	3.1%
	Utilities ¹	4.0%

¹ National Data

Source: Mercer 2008 Compensation Planning Survey for Non-Union Employees

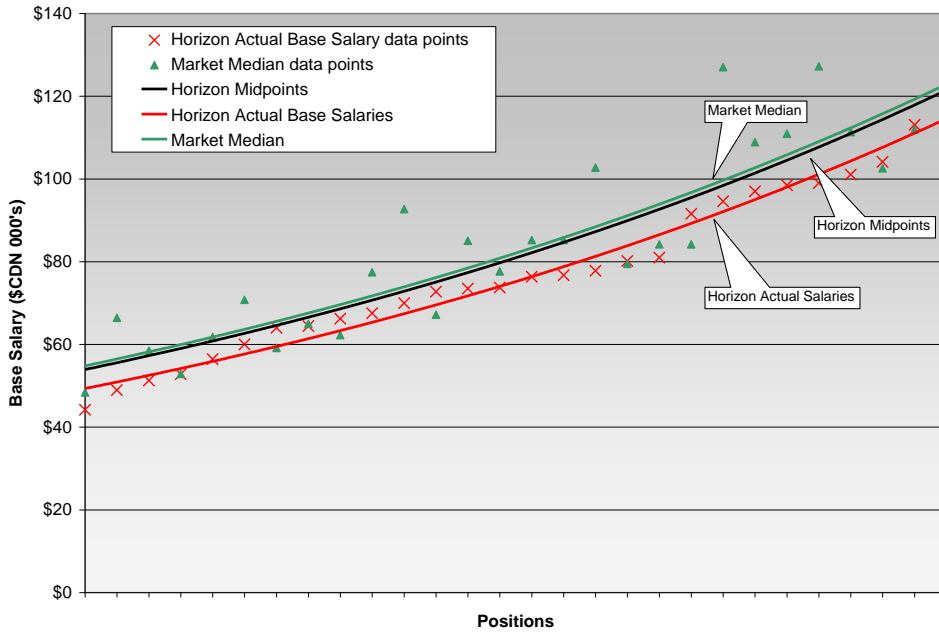
Given the above, the Mercer recommendation was to adjust base salary structure in accordance with market practice (public sector) of 2.5%-3%.

The Report also provided an analysis that compared the competitiveness of Horizon's base salaries to market using a payline analysis. 30 benchmark positions were selected by Mercer for the market review and deemed appropriate as they represented a cross section of Horizon Utilities' positions in a variety of job families and pay bands, common to the comparator market.

The payline compared the then current Horizon Utilities midpoints and actual base salaries to the market shown by graphically depicting the overall market positioning. To assess market competitiveness, the 50th percentile (median) market data was used to align to Horizon's pay plan. The following graphs highlight the results of the payline analysis.

1

2 Base Salary Comparison



3

4 As a result of the Report provided by Mercer, Horizon Utilities made changes to its
 5 compensation structure as outlined in Exhibit 4, Tab 2, Schedule 10, Page 12 lines 13
 6 to 17. Lines 18 to 26 on Page 12 and lines 1 to 5 on Page 13 detail the approach taken
 7 to implement the changes.

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Question 50

Reference: Exhibit 4, Tab 2, Schedule 6,

Appendix 4-2 Workforce Labour Strategy and Plan

Page 3 of the exhibit lists key assumptions used in the plan. One of these is that employees will retire when they can receive their pensions without penalty.

a) Please provide a table for the period 2000 – 2010 showing the number of employees eligible for retirement without penalty in each year, the number who actually took retirement and resulting percentage of those retiring compared to those eligible to retire without penalty.

b) Please recast the expected retirement forecast on page 7 using the average % over the ten year period as calculated in the first part of this interrogatory.

Response:

a) Figures for the number of employees eligible is based on reporting by Ontario Municipal Employers’ Retirement System (OMERS). Such OMERS reports provide retirement forecasting detail for those employees’ eligible for an unreduced pension. Table figures were extracted from forecast reports provided by OMERS on March 1, 2004, October 16, 2006, July 9, 2007 and June 30, 2009. These reports provide forecast retirements as of the date of request. From these reports Horizon was able to extract future retiree forecasts for the years 2005 and 2008 as of the date of the 2004 and 2007 reports provided. These reports were requested by Horizon at the time and are not regular reports provided by OMERS to employers. Horizon has confirmed with

1 OMERS that these reports are only retained on file for a period of 3 months. OMERS is
2 unable to provide backdated information for eligible retirements. As such, Horizon is
3 unable to provide figures and percentage calculations for the years 2000-2003. The
4 figures for the period 2004-2010 are provided in the table below.

	2004	2005	2006	2007	2008	2009	2010
# of employees eligible for undiscounted retirement	13	5	9	13	11	21	9
# of employees that actually retired	4	20	3	3	3	14	9
Percentage	31%	400%	33%	23%	27%	67%	100%

5
6 Over the 7 year period the average of those employees that actually retired versus
7 those eligible for an undiscounted retirement is 97 per cent.

8 **b)**

Chart from Exhibit 4, Tab 2, Schedule 6, Appendix 4-2, Page 7 WITH (97% FACTOR APPLIED)

Retirement Forecast						
Technical Position	2009 Total Employees in Positions (Actual)	Total Employees Expected to Retire from 2010 to 2014 Original Data	% of Employees Retiring in the next 5 years	Total Employees Expected to Retire from 2010 to 2019	Total Employees Expected to Retire from 2010 to 2019	% of Employees Retiring in the next 5 years
		Original Data times 97%	Original Data times 97%	Original Data	Original Data times 97%	Original Data times 97%
Overhead Line Maintainer	74	14	18	29	28	38
Overhead Management	8	3	40	6	6	73
Cable Splicer	14	1	7	8	8	55
Driver	9	2	21	4	4	43
Labourer	9	2	21	1	1	11
Underground Management	5	3	58	4	4	78
Contractor Management	1	0	0	0	0	0
Contractor Inspector	1	0	0	0	0	0
Substation Maintainer	4	0	0	2	2	49
Substation Management	1	0	0	0	0	0
Meter Person	19	6	30	12	12	61
Connections Technician	5	2	39	2	2	39
Connections Management	5	1	19	1	1	19
Operator	17	6	24	10	10	57
Design Technician	10	0	0	3	3	29
Distribution Engineer	4	0	0	0	0	0
Design/Eng./Operation Management	5	1	19	1	1	19
Fleet Mechanic	5	0	0	3	3	58
TOTAL	196	40	20	86	83	43

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Question 51

Reference: Exhibit 4, Tab 2, Schedule 6, Appendix 4-2 Workforce Labour Strategy and Plan

Page 7 of the exhibit presents Horizon’s Retirement Forecast for technical positions over the 2010-2014 time period while page 9 presents a similar table showing total attrition forecast for technical positions over the same time period.

a) Does the attrition rate on page 9 include retirements shown on page 7?

b) If yes, please explain the apparent discrepancies between the two tables by technical category. For example, 14 overhead line maintainers are forecast to retire in the 2010-2014 period but only 12 are expected to leave in the attrition table.

c) If no, please comment on the unusually high attrition rates of Connections Technicians, Design Technicians, Design Engineers and Design/Eng/Ops management employees.

Response:

a) The Attrition Forecast on page 9 of the Application does not include retirements. The Retirement Forecast shown on page 7 of the Application is separate and distinct from the Attrition Forecast.

b) Not applicable.

c) As indicated in the response to a) above, the Attrition Forecast on Page 9 of Exhibit 4, Tab 2, Schedule 6, Appendix 4-2 and the Anticipated Retirement information on Page 7 of that same Appendix, are separate and distinct. The attrition forecast is

1 calculated based on trending the actual attrition during the historical years of 2006,
2 2007 and 2008. During those historical years, Horizon Utilities lost a considerable
3 number of junior Technicians (in both the Connections and Design groups) and
4 Engineers to other large utilities. In addition, during the same timeframe a few
5 managers also left Horizon Utilities to pursue other job opportunities.