

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

**AND IN THE MATTER OF an Application by Horizon  
Utilities Corporation for an Order or Orders approving or  
fixing just and reasonable rates and other charges for  
the distribution of electricity commencing May 1, 2008.**

**INTERROGATORIES  
OF THE  
SCHOOL ENERGY COALITION**

1. [Ref: A/1] With respect to inter-affiliate transactions,
  - a. Sched. 13, p.2. Please explain why the Master Services Agreement is a draft.
  - b. P. 3. Please describe in more detail the meter services that HESI will be providing, a provide a pro forma balance sheet and income statement for that company. If some or all of those services are to be provided to the utility, please describe how those functions are currently being carried out, including the costs, then how it is proposed they will be carried out in the future, including the costs, and reference any changes in cost structure that arise in the Application. Please file all agreements in place or in draft relating to the supply of meter services by HESI to Horizon.
2. [Ref: A/2/1, page 4-5] Please explain in detail why the 2008 targets for service quality indicators and reliability indicators are lower in almost every case than the last year actual performance.
3. [Ref: A/2/5] Please update Table 1 to include 2006 Board approved and 2006 Actual.
4. [Ref: H/1/1] With respect to Horizon's cost allocation and rate design proposals:
  - a. Please advise the number of schools that are customers of the Applicant, divided between those in Rate Class GS<50 and those in Rate Class GS>50, as well as those in other classes, if any.
  - b. P.7. Please confirm that Horizon's street lighting customers are, directly or indirectly, either shareholders of the utility or affiliates of shareholders.
  - c. P.8. Please advise what evidence, other than the Cost Allocation Study, Horizon has in its possession with respect to the cost of providing service to street lighting customers.

- d. P.8-9. Please confirm that Horizon has not applied for Board approval of the proposed definition of “deemed profile”. Please advise when that application will be made. If it has been made, please provide the date and the EB #.
- e. Please confirm that the following chart is a correct summary of the impacts on base distribution rates (excluding rate riders and regulatory assets) of Horizon’s application, cost allocation changes, and rate design proposals. If any of these numbers are incorrect, please provide the correct numbers. Attached is a spreadsheet called “Base Distribution Impacts As Filed” which shows the backup for the calculations.

| Summary of Changes to Base Distribution Bills - As Filed |         |             |             |              |             |         |
|----------------------------------------------------------|---------|-------------|-------------|--------------|-------------|---------|
| Rate Class                                               | Profile |             | 2007        | 2008         | Change      | %       |
| <b>Residential</b>                                       | 100     | kWh         | \$16.19     | \$15.39      | (\$0.80)    | -4.94%  |
|                                                          | 250     | kWh         | \$18.26     | \$17.51      | (\$0.76)    | -4.13%  |
|                                                          | 500     | kWh         | \$21.71     | \$21.03      | (\$0.68)    | -3.13%  |
|                                                          | 750     | kWh         | \$25.16     | \$24.56      | (\$0.61)    | -2.40%  |
|                                                          | 1,000   | kWh         | \$28.61     | \$28.08      | (\$0.53)    | -1.85%  |
|                                                          | 1,500   | kWh         | \$35.51     | \$35.13      | (\$0.38)    | -1.07%  |
|                                                          | 2,000   | kWh         | \$42.41     | \$42.18      | (\$0.23)    | -0.54%  |
| <b>GS&lt;50 KW</b>                                       | 1,000   | kWh         | \$32.83     | \$37.64      | \$4.81      | 14.65%  |
|                                                          | 2,000   | kWh         | \$39.53     | \$45.54      | \$6.01      | 15.20%  |
|                                                          | 5,000   | kWh         | \$59.63     | \$69.24      | \$9.61      | 16.12%  |
|                                                          | 10,000  | kWh         | \$93.13     | \$108.74     | \$15.61     | 16.76%  |
|                                                          | 15,000  | kWh         | \$126.63    | \$148.24     | \$21.61     | 17.07%  |
| <b>GS&gt;50 KW</b>                                       | 60      | kW          | \$317.39    | \$385.02     | \$67.63     | 21.31%  |
|                                                          | 100     | kW          | \$371.74    | \$462.18     | \$90.44     | 24.33%  |
|                                                          | 350     | kW          | \$711.42    | \$944.43     | \$233.02    | 32.75%  |
|                                                          | 1,400   | kW          | \$2,138.05  | \$2,969.88   | \$831.83    | 38.91%  |
|                                                          | 2,800   | kW          | \$4,040.23  | \$5,670.48   | \$1,630.25  | 40.35%  |
| <b>Large User</b>                                        | 6,500   | kW          | \$11,535.07 | \$19,192.27  | \$7,657.20  | 66.38%  |
|                                                          | 20,000  | kW          | \$15,903.67 | \$34,186.72  | \$18,283.05 | 114.96% |
|                                                          | 40,000  | kW          | \$22,375.67 | \$56,400.72  | \$34,025.05 | 152.06% |
|                                                          | 105,000 | kW          | \$43,409.67 | \$128,596.22 | \$85,186.55 | 196.24% |
| <b>Street Lighting</b>                                   | 36,000  | Connections | \$23,256.56 | \$40,905.08  | \$17,648.52 | 75.89%  |
|                                                          | 15,000  | Connections | \$9,034.08  | \$16,155.84  | \$7,121.76  | 78.83%  |
| <b>Sentinel Lighting</b>                                 | 2       | Connections | \$5.15      | \$13.74      | \$8.59      | 166.62% |
|                                                          | 3       | Connections | \$7.73      | \$20.62      | \$12.88     | 166.62% |
| <b>Backup/Standby</b>                                    | 2000    | kW          | 3,924.77    | 6,333.33     | 2,408.57    | 61.37%  |
|                                                          | 7000    | kW          | 11,822.27   | 19,612.68    | 7,790.41    | 65.90%  |

- f. Please confirm that the following chart is a correct summary of the impacts on base distribution rates (excluding rate riders and regulatory assets) of Horizon’s application, cost allocation changes, and rate design proposals, if the following changes are made:

- i. The Service Revenue Requirement is reduced to \$95 million.
- ii. The revenue to cost ratio of each class that is less than 100% is set at 90%, and the revenue to cost ratio of the only class – residential – that is over 100% is set at 108%.

If any of these numbers are incorrect, please provide the correct numbers. Attached is a spreadsheet called “Base Distribution Impacts Alternative Model” which shows the backup for the calculations.

| Summary of Changes to Base Distribution Bills - Alternative Model |         |             |             |              |              |         |
|-------------------------------------------------------------------|---------|-------------|-------------|--------------|--------------|---------|
| Rate Class                                                        | Profile |             | 2007        | 2008         | Change       | %       |
| <b>Residential</b>                                                | 100     | kWh         | \$16.19     | \$15.05      | (\$1.14)     | -7.04%  |
|                                                                   | 250     | kWh         | \$18.26     | \$16.66      | (\$1.61)     | -8.79%  |
|                                                                   | 500     | kWh         | \$21.71     | \$19.33      | (\$2.38)     | -10.96% |
|                                                                   | 750     | kWh         | \$25.16     | \$22.01      | (\$3.16)     | -12.54% |
|                                                                   | 1,000   | kWh         | \$28.61     | \$24.68      | (\$3.93)     | -13.74% |
|                                                                   | 1,500   | kWh         | \$35.51     | \$30.03      | (\$5.48)     | -15.43% |
|                                                                   | 2,000   | kWh         | \$42.41     | \$35.38      | (\$7.03)     | -16.58% |
|                                                                   |         |             |             |              |              |         |
| <b>GS&lt;50 KW</b>                                                | 1,000   | kWh         | \$32.83     | \$34.50      | \$1.67       | 5.09%   |
|                                                                   | 2,000   | kWh         | \$39.53     | \$41.00      | \$1.47       | 3.72%   |
|                                                                   | 5,000   | kWh         | \$59.63     | \$60.50      | \$0.87       | 1.46%   |
|                                                                   | 10,000  | kWh         | \$93.13     | \$93.00      | (\$0.13)     | -0.14%  |
|                                                                   | 15,000  | kWh         | \$126.63    | \$125.50     | (\$1.13)     | -0.89%  |
| <b>GS&gt;50 KW</b>                                                | 60      | kW          | \$317.39    | \$360.53     | \$43.14      | 13.59%  |
|                                                                   | 100     | kW          | \$371.74    | \$437.55     | \$65.81      | 17.70%  |
|                                                                   | 350     | kW          | \$711.42    | \$918.93     | \$207.51     | 29.17%  |
|                                                                   | 1,400   | kW          | \$2,138.05  | \$2,940.70   | \$802.65     | 37.54%  |
|                                                                   | 2,800   | kW          | \$4,040.23  | \$5,636.40   | \$1,596.17   | 39.51%  |
| <b>Large User</b>                                                 | 6,500   | kW          | \$11,535.07 | \$17,440.20  | \$5,905.13   | 51.19%  |
|                                                                   | 20,000  | kW          | \$15,903.67 | \$30,816.00  | \$14,912.33  | 93.77%  |
|                                                                   | 40,000  | kW          | \$22,375.67 | \$50,632.00  | \$28,256.33  | 126.28% |
|                                                                   | 105,000 | kW          | \$43,409.67 | \$115,034.00 | \$71,624.33  | 165.00% |
| <b>Street Lighting</b>                                            | 36,000  | Connections | \$23,256.56 | \$144,676.84 | \$121,420.28 | 522.09% |
|                                                                   | 15,000  | Connections | \$9,034.08  | \$55,077.12  | \$46,043.04  | 509.66% |
| <b>Sentinel Lighting</b>                                          | 2       | Connections | \$5.15      | \$12.57      | \$7.42       | 143.89% |
|                                                                   | 3       | Connections | \$7.73      | \$18.86      | \$11.13      | 143.89% |
| <b>Backup/Standby</b>                                             | 2000    | kW          | 3,924.77    | 7,451.28     | 3,526.51     | 89.85%  |
|                                                                   | 7000    | kW          | 11,822.27   | 23,589.60    | 11,767.33    | 99.54%  |

5. [Ref: I/1] With respect to design of specific service charges:

- a. Sched. 1, p.17. Please describe what current facilities the utility currently has in place to allow all customers to pay their Horizon bills by credit card. Please include any over-the-counter facility, any recurring payment arrangement, or any other circumstances in which a customer can pay a utility bill by credit card.

- b. If there are such arrangements, for each such arrangement:
    - i. Please provide whatever information Horizon has available on reductions in bad debt, collection costs, payment cycles, or other costs reasonably attributable to the availability of payment by credit card.
    - ii. Please describe all charges Horizon imposes on customers for the use of the arrangement.
    - iii. Please describe all costs Horizon incurs to provide the availability of that payment method to customers.
  - c. If there are no such arrangements:
    - i. Please provide all information in Horizon's possession on the costs and benefits of such arrangements, and describe why Horizon has elected not to implement those arrangements.
    - ii. Please provide your assessment of the extent to which the lack of availability of a credit card payment facility prevents or limits Horizon's ability to initiate or expand on-line bill presentment and payment processes.
  - d. Sched. 3, p. 2. Please confirm that none of the listed service charges have changed since 2006, and none are proposed to change for 2008. If that is not the case, please describe all such changes.
6. [Ref: B/1/1, App. A] With respect to the 2007 Distribution System Capital & Maintenance Programs Report:
- a. Please confirm that this report is done annually. If it is not done annually, please advise when the last version was prepared, and when the next is scheduled.
  - b. P.12 Please advise how many wood poles were tested in each of years 2004 through 2007.
  - c. P.13. When was the Thermography Scanning program introduced? What benefits, including cost reductions, reliability improvements, or other benefits, have been documented since its introduction?
  - d. P.18-21. For each of the substation testing, inspection, and preventative maintenance programs, please advise the schedule/cycle being proposed for the Test Year, together with the immediately prior schedule/cycle, and the reasons for any change in frequency. For each such change of frequency, please estimate the annual dollar cost of the change.

- e. P.27. Please describe the system in place, prior to the introduction of the “transformer health index”, for determining the timing, frequency, and scheduling of transformer replacement and/or repair.
7. [Ref: B/1, Unnumbered Exhibits] With respect to the individual department budgets:
  - a. Design and Construction. With respect to this budget:
    - i. Please explain the figure of \$1.275 million of “Distributed Costs Allocated Out”. This term appears in several budgets.
    - ii. Please provide the same data as on the “2008 Budget Summary” table, but for 2006 actuals and 2007 forecast.
  - b. Human Resources. Please detail the costs and benefits of outsourcing transactional services.
  - c. Network/PC Support. Please advise whether all or part of this department’s functions are outsourced and, if so, describe the arrangements in place for the Test Year.
  - d. Network Planning and Operating. Please provide the same data as on the “2008 Budget Summary” table, but for 2006 actuals and 2007 forecast.
  - e. Supply Chain Management. Please provide the same data as on the “2008 Budget Summary” table, but for 2006 actuals and 2007 forecast.
8. [Ref: B/2/1] With respect to depreciation:
  - a. Please confirm that Horizon has not done a depreciation study. Please advise the date of the utility’s last depreciation study, if any.
  - b. Please provide the current amortization schedule showing the rates used for each class of assets. Please advise the date and details of all changes to the utility’s amortization rates in the last five years.
  - c. D/2/8. Please calculate the depreciation expense for the Test Year if amortization is based on an average of monthly averages rather than the average of the opening and closing balances.
9. [B/3/1] With respect to the proposed capital budget:
  - a. Please confirm that the figures on the table below are correct. If any are not correct, please provide corrected figures. Where a cell is marked “\*”, please insert the correct information. Attached is a spreadsheet entitled “Horizon Capex” which is a live Excel version of this table.

| <b>2008 Capex (B/3/1)</b>                        | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2006-2007</b> | <b>2007-2008</b> | <b>2006-2008</b> |
|--------------------------------------------------|---------------|---------------|---------------|------------------|------------------|------------------|
| <b>Distribution Plant</b>                        |               |               |               |                  |                  |                  |
| Service Installations                            | *             | *             | 1,240         | *                | *                | *                |
| Roadway Relocations                              | *             | *             | 948           | *                | *                | *                |
| Underground Upstream Projects                    | *             | *             | 931           | *                | *                | *                |
| Subdivision Developments                         | *             | *             | 686           | *                | *                | *                |
| Overhead Upstream Projects                       | *             | *             | 500           | *                | *                | *                |
| Commercial Servcies Under 50KW                   | *             | *             | 477           | *                | *                | *                |
| Enhancements for Customer Projects               | *             | *             | 128           | *                | *                | *                |
| Subtotal: Customer Demand Projects               | 6,617         | 5,915         | 4,910         | -10.61%          | -16.99%          | -25.80%          |
| Wood Pole Replacement                            | *             | *             | 2,094         | *                | *                | *                |
| Proactive overhead transformer repla cement      | *             | *             | 1,980         | *                | *                | *                |
| Proactive Underground transformer replacement    | *             | *             | 459           | *                | *                | *                |
| Overhead Renewal                                 | *             | *             | 412           | *                | *                | *                |
| Underground Renewal                              | *             | *             | 580           | *                | *                | *                |
| Spadina Feeder 7 Conversion                      | *             | *             | 393           | *                | *                | *                |
| Reactive Overhead System Replacements            | *             | *             | 1,567         | *                | *                | *                |
| Reactive Underground System Replacements         | *             | *             | 1,310         | *                | *                | *                |
| Subtotal: Renewal Projects                       | 8,875         | 8,353         | 8,795         | -5.88%           | 5.29%            | -0.90%           |
| Security Projects (multiple)                     | 4,900         | 3,887         | 4,912         | -20.67%          | 26.37%           | 0.24%            |
| Capacity Projects                                | 1,350         | 1,142         | 2,270         | -15.41%          | 98.77%           | 68.15%           |
| Reliability                                      | 30            | 966           | 385           | 3120.00%         | -60.14%          | 1183.33%         |
| Regulatory Requirements                          | 0             | 0             | 278           | 0.00%            | 0.00%            | 0.00%            |
| Stations                                         | 215           | 277           | 202           | 28.84%           | -27.08%          | -6.05%           |
| <b>Total Distribution Plant</b>                  | <b>21,987</b> | <b>20,540</b> | <b>21,752</b> | <b>-6.58%</b>    | <b>5.90%</b>     | <b>-1.07%</b>    |
|                                                  |               |               |               |                  |                  |                  |
| <b>Customer Connections and Metering</b>         |               |               |               |                  |                  |                  |
| Meter Verification, QMS, Asset Mgmt              | 491           | 427           | 284           | -13.14%          | -33.54%          | -42.28%          |
| Wholesale Meter Verification for IESO compliance | 454           | 643           | 1,437         | 41.51%           | 123.40%          | 216.14%          |
| Annual capital meter upgrade & Replacement       | 880           | 765           | 768           | -13.06%          | 0.39%            | -12.73%          |
| Smart Metering                                   | 1,225         | 8,445         | 10,962        | 589.56%          | 29.81%           | 795.16%          |
| Other Small Projects under \$100K                | 46            | 45            | 89            | -0.65%           | 96.14%           | 94.86%           |
| <b>Total Cutomer Connections &amp; Metering</b>  | <b>3,095</b>  | <b>10,324</b> | <b>13,539</b> | <b>233.54%</b>   | <b>31.14%</b>    | <b>337.39%</b>   |
|                                                  |               |               |               |                  |                  |                  |
| <b>General Plant</b>                             |               |               |               |                  |                  |                  |
| Buildng and Fixtures                             | 0             | 0             | 360           | 0.00%            | 0.00%            | 0.00%            |
| Renovations                                      | 1,014         | 1,300         | 0             | 28.26%           | -100.00%         | -100.00%         |
| ERP                                              | 0             | 0             | 4,676         | 0.00%            | 0.00%            | 0.00%            |
| Other Computer Hardware                          | 569           | 1,209         | 758           | 112.45%          | -37.32%          | 33.17%           |
| Other Computer Software                          | 219           | 560           | 237           | 155.42%          | -57.69%          | 8.07%            |
| Vehicles                                         | 1,836         | 1,712         | 1,898         | -6.74%           | 10.88%           | 3.40%            |
| Communication Equipment                          | 691           | 469           | 243           | -32.16%          | -48.29%          | -64.92%          |
| Tools and Equipment                              | 609           | 641           | 407           | 5.23%            | -36.50%          | -33.18%          |
| <b>Total General Plant</b>                       | <b>4,938</b>  | <b>5,891</b>  | <b>8,579</b>  | <b>19.30%</b>    | <b>45.62%</b>    | <b>73.72%</b>    |
|                                                  |               |               |               |                  |                  |                  |
| <b>Total Capital</b>                             | <b>30,021</b> | <b>36,756</b> | <b>43,870</b> | <b>22.43%</b>    | <b>19.36%</b>    | <b>46.13%</b>    |

- b. P.29. Please provide the IFS Agreement on a confidential basis. A copy of our Undertaking in the Board's form is attached.
  - c. P.36. Please estimate the reduction in the revenue requirement that would arise if the replacement cycle for computer hardware and software were changed to four years from three years.
  - d. Please confirm that, when smart meters and the ERP are excluded from the capital budget, spending has been relatively constant from 2006 through 2008 at \$28.8 million, \$28.3 million, and \$28.2 million respectively.
10. [Ref: B/3/1/App.E] Please provide the unredacted page 41 of 70 of this exhibit. Please explain why that page is numbered 41 of 70, when it is between 39 of 67 and 40 of 67. Please provide the full document that includes the page 41 of 70. All of this can be provided on a confidential basis, if necessary.
11. [Ref: B/4/1] With respect to the proposed Working Capital Allowance:
- a. Please confirm that the working capital allowance is based on 15% of Operating Expenses plus Cost of Power.
  - b. Please confirm that Horizon has not done a lead/lag study. If a lead/lag study is scheduled, please provide details.
  - c. Please confirm that, if working capital allowance were recalculated at 11.6% of Operating Expenses plus Cost of Power, as was determined in a recent Hydro One study, Horizon's revenue requirement for the Test Year would be reduced by approximately \$1.8 million.
12. [Ref: C/2/2/p.5] Please explain why the forecast 2008 normalized average consumption per customer for each of residential, GS<50kW, and GS>50kW are lower than the average of the last six years' actuals and estimates in each case (8,348 kWh, 35,828 kWh, and 2,577 kW respectively). Please estimate the revenue at existing rates and resulting deficiency, on an as-filed basis, if these average consumption per customer figures were used instead of the normalized forecast in Table 4 on page 6.
13. [Ref: D/1] With respect to the proposed OM&A budget:
- a. Please confirm that the figures on the table below are correct. If any are not correct, please provide corrected figures. Attached is a spreadsheet entitled "Horizon Opex" which is a live Excel version of this table.

| <b>2008 Opex</b>                                | <b>2006</b>      | <b>2007</b>      | <b>2008</b>      | <b>2006-2007</b> | <b>2007-2008</b> | <b>2006-2008</b> |
|-------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                 |                  |                  |                  |                  |                  |                  |
| <b>Operations</b>                               |                  |                  |                  |                  |                  |                  |
| Supervision and Engineering                     | 1,930            | 16,380           | 768              | 748.70%          | -95.31%          | -60.21%          |
| Load Dispatching                                | 1,791,196        | 2,038,550        | 2,019,235        | 13.81%           | -0.95%           | 12.73%           |
| Station Buildings and Fixtures Expense          | 155,011          | 314,795          | 278,498          | 103.08%          | -11.53%          | 79.66%           |
| Transformer Station Equipment – Labour          | 677              | 804              | 828              | 18.76%           | 2.99%            | 22.30%           |
| Transformer Station Equipment - Supplies etc    | 58,918           | 2,834            | 2,196            | -95.19%          | -22.51%          | -96.27%          |
| Distribution Station Equipment – Labour         | 54,013           | 17,576           | 18,074           | -67.46%          | 2.83%            | -66.54%          |
| Distribution Station Equipment - Supplies, etc. | 208,579          | 282,117          | 269,576          | 35.26%           | -4.45%           | 29.24%           |
| Overhead Distribution – Labour                  | 224,251          | 210,332          | 181,689          | -6.21%           | -13.62%          | -18.98%          |
| Overhead Distribution - Supplies etc.           | 193,392          | 333,550          | 431,083          | 72.47%           | 29.24%           | 122.91%          |
| Overhead Subtransmission                        | 12,124           | 3,125            | 0                | -74.22%          | -100.00%         | -100.00%         |
| Overhead Dist. Transformers                     | 5,206            | 4,078            | 228              | -21.67%          | -94.41%          | -95.62%          |
| Underground Distribution – Labour               | 601,620          | 537,656          | 521,177          | -10.63%          | -3.06%           | -13.37%          |
| Underground Distribution - Supplies etc.        | 202,507          | 225,141          | 312,004          | 11.18%           | 38.58%           | 54.07%           |
| Underground Dist. Transformers                  | 7,685            | 8,906            | 824              | 15.89%           | -90.75%          | -89.28%          |
| Meter Expense                                   | 1,141,595        | 1,223,862        | 1,291,705        | 7.21%            | 5.54%            | 13.15%           |
| Customer Premises – Labour                      | 1,421,418        | 1,442,726        | 1,752,162        | 1.50%            | 21.45%           | 23.27%           |
| Customer Premises – Materials                   | 139,215          | 247,385          | 109,246          | 77.70%           | -55.84%          | -21.53%          |
| Miscellaneous Distribution                      | 451,370          | 699,781          | 588,445          | 55.03%           | -15.91%          | 30.37%           |
| Other Rent                                      | 261,685          | 216,264          | 216,612          | -17.36%          | 0.16%            | -17.22%          |
| Subtotal: Operations                            | <b>6,932,392</b> | <b>7,825,862</b> | <b>7,994,350</b> | <b>12.89%</b>    | <b>2.15%</b>     | <b>15.32%</b>    |
|                                                 |                  |                  |                  |                  |                  |                  |
| <b>Maintenance</b>                              |                  |                  |                  |                  |                  |                  |
| Supervision and Engineering                     | 106,332          | 108,824          | 132,759          | 2.34%            | 21.99%           | 24.85%           |
| Distribution Stations                           | 63,558           | 51,346           | 53,673           | -19.21%          | 4.53%            | -15.55%          |
| Distribution Station Equipment                  | 310,344          | 318,659          | 376,149          | 2.68%            | 18.04%           | 21.20%           |
| Poles, Towers and Fixtures                      | 419,000          | 300,980          | 333,825          | -28.17%          | 10.91%           | -20.33%          |
| Overhead Conductors and Devices                 | 920,813          | 983,895          | 961,025          | 6.85%            | -2.32%           | 4.37%            |
| Overhead Services                               | 176,571          | 214,013          | 146,490          | 21.21%           | -31.55%          | -17.04%          |
| Rights of Way                                   | 1,956,182        | 1,860,708        | 2,828,102        | -4.88%           | 51.99%           | 44.57%           |
| Underground Conduit                             | 107,995          | 217,337          | 235,661          | 101.25%          | 8.43%            | 118.21%          |
| Underground Conductors and Devices              | 352,677          | 458,605          | 579,301          | 30.04%           | 26.32%           | 64.26%           |
| Underground Services                            | 234,721          | 204,563          | 202,492          | -12.85%          | -1.01%           | -13.73%          |
| Line Transformers                               | 421,384          | 540,540          | 646,051          | 28.28%           | 19.52%           | 53.32%           |
| Meters                                          | 335,780          | 583,240          | 574,151          | 73.70%           | -1.56%           | 70.99%           |
| Subtotal: Maintenance                           | <b>5,405,357</b> | <b>5,842,710</b> | <b>7,069,679</b> | <b>8.09%</b>     | <b>21.00%</b>    | <b>30.79%</b>    |
|                                                 |                  |                  |                  |                  |                  |                  |
| <b>Billing and Collections</b>                  |                  |                  |                  |                  |                  |                  |
| Meter Reading Expense                           | 0                | 5,727            | 147,600          | NA               | 2477.27%         | NA               |
| Customer Billing                                | 383,457          | 438,517          | 397,162          | 14.36%           | -9.43%           | 3.57%            |
| Collecting                                      | 110,996          | 79,188           | 110,000          | -28.66%          | 38.91%           | -0.90%           |
| Bad Debt Expense                                | 716,148          | 759,004          | 1,050,000        | 5.98%            | 38.34%           | 46.62%           |
| Misc. Customer Accounts Expenses                | 6,322,980        | 6,315,050        | 6,081,862        | -0.13%           | -3.69%           | -3.81%           |
| Subtotal: Billing and Collections               | <b>7,533,581</b> | <b>7,597,486</b> | <b>7,786,624</b> | <b>0.85%</b>     | <b>2.49%</b>     | <b>3.36%</b>     |

|                                            |                   |                   |                   |          |          |          |
|--------------------------------------------|-------------------|-------------------|-------------------|----------|----------|----------|
|                                            |                   |                   |                   |          |          |          |
| <b>Community Relations</b>                 |                   |                   |                   |          |          |          |
| Supervision                                | 1,202             | 0                 | 0                 | -100.00% | NA       | -100.00% |
| Community Relations – Sundry               | 170,216           | 275,476           | 457,418           | 61.84%   | 66.05%   | 168.73%  |
| Energy Conservation                        | 1,645,980         | 837,743           | 264,623           | -49.10%  | -68.41%  | -83.92%  |
| Community Safety Program                   | 16,068            | 20,000            | 20,000            | 24.47%   | 0.00%    | 24.47%   |
| Demonstrating and Selling Expense          | 2,780             | 12,968            | 0                 | 366.47%  | -100.00% | -100.00% |
| Advertising Expense                        | 39,595            | 74,000            | 0                 | 86.89%   | -100.00% | -100.00% |
| Misc. Sales Expense                        | 161,043           | 117,499           | 0                 | -27.04%  | -100.00% | -100.00% |
| Subtotal: Community Relations              | <b>2,036,884</b>  | <b>1,337,686</b>  | <b>742,041</b>    | -34.33%  | -44.53%  | -63.57%  |
|                                            |                   |                   |                   |          |          |          |
| <b>Administrative and General Expenses</b> |                   |                   |                   |          |          |          |
| Executive Salaries and Expenses            | 1,537,735         | 1,992,286         | 2,007,330         | 29.56%   | 0.76%    | 30.54%   |
| Management Salaries and Expenses           | 2,677,674         | 3,761,576         | 4,336,923         | 40.48%   | 15.30%   | 61.97%   |
| Gen. Admin. Salaries and Expenses          | 2,752,772         | 3,493,453         | 5,003,028         | 26.91%   | 43.21%   | 81.75%   |
| Office Supplies and Expenses               | 420,570           | 525,033           | 673,875           | 24.84%   | 28.35%   | 60.23%   |
| Outside Services Employed                  | 1,126,443         | 3,539,360         | 2,333,842         | 214.21%  | -34.06%  | 107.19%  |
| Property Insurance                         | 92,928            | 61,320            | 64,638            | -34.01%  | 5.41%    | -30.44%  |
| Injuries and Damages                       | 469,503           | 468,216           | 523,811           | -0.27%   | 11.87%   | 11.57%   |
| Employee Pensions and Benefits             | 1,285,715         | 1,323,768         | 1,488,276         | 2.96%    | 12.43%   | 15.75%   |
| Regulatory Expenses                        | 750,294           | 825,252           | 1,114,013         | 9.99%    | 34.99%   | 48.48%   |
| General Advertising Expenses               | (3,600)           | 10,500            | 10,000            | NA       | NA       | NA       |
| Misc. General Expenses                     | 310,049           | 720,870           | 701,168           | 132.50%  | -2.73%   | 126.15%  |
| Maintenance of General Plant               | 664,334           | 466,700           | 266,946           | -29.75%  | -42.80%  | -59.82%  |
| Subtotal: Administrative and General       | <b>12,084,417</b> | <b>17,188,334</b> | <b>18,523,850</b> | 42.24%   | 7.77%    | 53.29%   |
|                                            |                   |                   |                   |          |          |          |
| <b>Property Taxes</b>                      |                   |                   |                   |          |          |          |
| Property Taxes                             | 443,632           | 557,956           | 574,689           | 25.77%   | 3.00%    | 29.54%   |
| Subtotal: Property Taxes                   | <b>443,632</b>    | <b>557,956</b>    | <b>574,689</b>    | 25.77%   | 3.00%    | 29.54%   |
|                                            |                   |                   |                   |          |          |          |
| <b>Total Opex</b>                          | <b>34,436,263</b> | <b>40,350,034</b> | <b>42,691,233</b> | 17.17%   | 5.80%    | 23.97%   |

- b. Administrative and General expenses are projected to increase from 35.1% of OM&A to 43.4% of OM&A over a two year period. Please explain why this is an appropriate shift, and file whatever metrics, data, studies or other material Horizon has in its possession dealing with the appropriate levels of Administrative and General expenses in a utility like Horizon.
- c. Please identify the percentage of total OM&A, calculated in the same manner as above, that was represented by Administrative and General expenses in each of Hamilton Hydro and St. Catherines Hydro for each of the years 2002 through 2004.
- d. Please provide an explanation of the 20%+ increase in operating expenses relating to work done on customer premises.

- e. Please provide an explanation as to why total Operations and Maintenance expenses relating to underground equipment is proposed to increase by 22.8% from \$1,507,205 in 2006 to \$1,851,459 in 2008.
- f. Please explain by bad debt expense is expected to increase well above Horizon's historical experience.
- g. Please provide an explanation of the more than doubling of Misc. General Expenses.
- h. D/2/3, p.2. Please file the business case for the move to a three year tree trimming cycle. If a business case is not available, please provide a detailed calculation showing the increased costs proposed, and the decreased costs in other areas resulting from the decision. Please identify the USofA accounts in which the decreased costs will arise, and the \$ decreases assumed for the 2008 Test Year.
- i. D/2/3, p.5. Please recalculate the amounts of "Outside Services Employed" and "Regulatory Expenses" for each of 2006, 2007 and 2008 on the assumption that all outside service costs associated with regulatory processes are booked as Regulatory Expenses rather than Outside Services Employed.
- j. D/2/7, p.8. Please reconcile the Total Compensation figures in Table 3 with the Administrative and General expenses, by line, in the above table.
- k. D/2/7, p.8. Please provide the combined FTEs for Hamilton Hydro and St. Catherines Hydro, broken down in the same manner as Table 3, for each of 2002 through 2004.
- l. Please provide a copy of the Applicant's Incentive Compensation Plan, together with any documents setting forth the planned or actual performance metrics for the Bridge Year and the Test Year.
- m. D/2/1/App A. Please recalculate all charts in this exhibit on the following basis:
  - i. Ten year amortization of the capital asset.
  - ii. Debt cost at 5.5% and equity cost at 8.39%.
  - iii. PILs calculated on the basis of announced tax rates.
  - iv. Income for PILs purposes calculated using CCA as the deduction rather than depreciation expense.
- n. D/2/1/App A. Please confirm that one effect of Horizon's proposal for recovery of ERP revenue requirement is that \$322,423 of 2007 expenses would be recoverable in 2008 and beyond.

14. [Ref: D/2/9]. Please provide any information in the possession of Horizon explaining why the distribution loss factor increased from 2005 to 2006 and 2007.
15. [Ref: D/3/1]. With respect to the PILs calculations, please recalculate PILs and grossed-up PILs taking into account the recently announced reductions in a) the 2008 federal income tax rate to 19.5%, and b) the Ontario capital tax.
16. [Ref: F/1/3]. With respect to the cost of debt:
- a. Please advise the market interest rates for A Positive Rated senior debt of a utility such as Horizon on February 28, 2005, and at current market rates.
  - b. Please confirm that all debt of Horizon is payable to affiliates. If any debt is not payable to affiliates, please provide details including date debt incurred, interest rate, other financial terms, and related transactions.
  - c. Please confirm that the \$116 million Promissory Note of Horizon to its parent, Hamilton Utilities Corporation, is a “back-to-back” arrangement supporting the 6.25% Senior Unsecured Debentures issued by the parent and maturing on the same date, and that the backup is through negative covenants in the Promissory Note that prohibit secured borrowing by the utility unless the Promissory Note is secured.
  - d. Please confirm that the unregulated affiliates of Hamilton Utilities Corporation have lower credit ratings (or are unrated) relative to Horizon, and that as a result if HUC were to borrow without the backstopping of Horizon the interest rate on that borrowing would be higher than the rate available to Horizon. If Horizon or HUC has any information that would help to quantify this differential, please file it.
  - e. Please advise why the back to back borrowing of Horizon from HUC and HUC from the market has a 75 basis points differential in favour of HUC.
  - f. Horizon has a deemed long term debt amount for the Test Year of \$203.25 million, of which \$116 million is represented by a 7% promissory note in favour of its parent. Please provide a detailed summary of all other borrowing by Horizon planned for the Test Year to make up the difference, including lender (whether affiliate or not), interest rate, payment terms, and all other material terms.
  - g. Please provide details of any bank or other institutional line of credit, facility, or other such arrangements currently in place by or planned for Horizon. Please include all such arrangements in which Horizon is an authorized borrower, whether or not it is the primary borrower on the account. Please provide the same information for arrangements in place on behalf of HUC.
  - h. Please confirm that the reduction in the deficiency that would arise if the debt rate applied to Horizon’s deemed long term debt were 5.5% instead of 7.0% is

approximately \$3 million. If this figure is not correct, please provide the correct figure.

- i. Please file a copy of the 6.25% debentures.

17. [Ref: A/3/4/App B]. With respect to the Annual Report of HUC:

- a. Please provide the transcript and audio tape of all investor relations conference calls or other discussions with analysts by HUC or Horizon, including bond rating agencies, in 2007.
- b. P.3. Please disaggregate the 2.3% rate reduction in 2006 between the reduction in the ROE from 9.88% to 9.00 and the savings driven by the merger.
- c. P. 6. Please provide a summary of the cost savings expected in the Test Year as a result of the announced merger with Guelph Hydro.
- d. The Statement on Auditing Standards requires auditors to communicate reportable conditions to the audit committee. A reportable condition is a significant deficiency in the design or function of internal control that could adversely affect the organization's ability to record, process, summarize, and report financial data.
  - i. Please advise whether HUC's Audit Committee is aware of any reportable conditions.
  - ii. Please advise whether any reportable conditions have ever been noted by HUC's external auditor during the past 3 years.
  - iii. If yes, please provide a copy of each communication by HUC's auditors of "Internal Control related matters noted in an audit" issued to the Audit Committee.
  - iv. If the Applicant is separately audited, please provide the information in (i) to (iii) above with respect to the Applicant as well.
- e. Please provide the Summary Compensation Table on page 3 of the Statement of Executive Compensation, prepared on a pro forma basis, for each of 2007 and 2008.

18. Please file a copy of the most recent Strategic Plan for the applicant, and the most recent Strategic Plan for Hamilton Utilities Corporation.