Kenora Hydro
Electric Corporation Ltd.

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

February 10, 2011

Attention: Board Secretary

Re: Kenora Hydro Electric Corporation Ltd. – EB-2010-0135 – Interrogatory Responses

Enclosed please find Kenora Hydro Electric Corporation Ltd's responses to the interrogatories filed by the Board and by VECC in the above noted proceeding.

The interrogatory responses have been filed through the Board's web portal (PDF) and 2 paper copies sent by courier.

Should there be any questions, please don't hesitate to contact me.

Yours truly,

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cc: Michael Buonaguro, VECC
Bill Harper, VECC

KENORA HYDRO ELECTRIC CORPORATION LTD.
OEB BOARD STAFF INTERROGATORIES
2011 COS Rate Application
EB-2010-0135

QUESTION 1

1. Ref: Exhibit 1/Tab1/Schedule 2 p.4

   Kenora Hydro is requesting that the proposed rates be effective May 1, 2011 or as soon as possible thereafter.

   a) Is Kenora Power intending to file a request that the Board declare its current rates interim, effective May 1, 2011, in the event that the rate order from this proceeding is issued after that date?

   b) If so, when will it file the request?

RESPONSE

1. a) Yes.

   b) In a letter dated January 5, 2011, Kenora Hydro has requested that the Board declare our current rates interim, as above.

QUESTION 2

2. Ref: Exhibit 1/Tab 2/Schedule 1 p.9 and Exhibit 2/Tab 3/Schedule 2 p.1

   Kenora Hydro states that it is nearing the end of its extensive five year plan to refurbish its aging substation infrastructure, as well as upgrades to meet IESO and OEB regulations, including upgrades to the ground grid and SCADA monitoring system. This appears to be reflected in the 5 year Capital budget which shows planned capital spending of about $1.060 M in 2010 and $1.284 M in 2011 dropping to $.848M, $.429 and $.329 in 2012, 2013 and 2014 respectively. During the 2012, 2013 and 2014 period, it is anticipated that Kenora Power's rates will be set under an IRM regime.

   a) In an IRM regime, a cost of service application that is filed once every few years establishes rates to recover costs of a "typical" year. All else being equal, please provide an estimate of any over-earnings, i.e revenue requirement sufficiency, that results in 2012, 2013 and 2014 due to this projected drop in capital spending.

RESPONSE

2. a) Kenora Hydro does not expect any over-earning in 2012, 2013 and 2014 during the IRM years. It is Kenora Hydro's understanding that earnings are defined to be revenues, minus expenses, minus PILs payable. In a cost of service year the approved revenue requirement is the revenue expected in that year which reflects the total cost of providing the distribution service plus an estimate of earnings. The estimated earnings are the approved return on equity on the approved equity component of the rate base. The costs include approved OM&A expenses, depreciation, interest and PILs.

   The annual capital spending is reflected in the depreciation, interest and PILs components of the revenue requirement but the annual capital spending itself is not included in the revenue requirement.

   For 2012, 2013 and 2014, Kenora Hydro expects its distribution revenue to be essentially the same as the approved 2011 revenue since there should be limited movement in the rates from the IRM adjustments and the load growth expectations in Kenora are minimal. However, with additional capital spending in 2012, 2013 and 2014, the depreciation expense and possibly PILs will increase above the approved 2011 level. Kenora Hydro does not expect any cost item in the approved 2011 revenue requirement to be lower in 2012, 2013 and 2014. Since revenues are expected to essentially remain the same over the three year period and costs are increasing, Kenora Hydro would expect to under earn below its approved level of 2011 earnings expenses in 2012, 2013 and 2014.

QUESTION 3

3. Ref: Exhibit 1 /Tab 2/ Schedule 2 p.1

   Kenora Hydro states that its capital budget forecast for 2010 and 2011 is influenced, among other factors, by Kenora Hydro's capacity to finance capital projects and that Working Capital has been depleted over the past several years, as the extensive substation rebuild project progressed. All proposed capital projects are assessed within the framework of its capital budget priority and are outlined in Exhibit 2/ Tab 2/ Schedule 2.

   Please describe the impact that Kenora Hydro's capacity to finance capital projects and depleted Working Capital has had on its capital spending in 2008, 2009 and 2010.

RESPONSE

3. The following projects/items were delayed:
   - 2008
     - Kenora Hydro delayed $41,000 in buildings and fixtures, postponing the purchase and installation of a backup generating system for the work centre.
   - 2009
     - Backup generation of $40,000 from the 2008 budget was again delayed in 2009, and the roof/ceiling repairs of $50,000 was delayed from the 2009 budget.
     - Harbourfront reconstruction did not proceed, resulting in the delay of $65,000 from the underground budget in 2009.
     - Measurement testing and misc equipment budget of $8,000 was not needed, postponing purchases into the future.
   - 2010
     - $247,200 spending on installing a substation transformer (T3) was delayed in 2010. This is now seen as a priority to ensure the continued reliable operation of the substation.
     - Underground budget dollars were not spent again, as this spending will wait until the City digs up the streets exposing our equipment. When this happens, the dollars will be spent.
     - $4,000 of measurement and testing and misc equipment was not seen as a critical need in 2010 and was postponed. Our equipment is repaired if the unit becomes unsafe, or until the repairs are too costly or frequent that the unit requires replacement.

Kenora Hydro management and staff are aware of the need to spend only when required. With the new Asset Management Plan being developed, it is anticipated that the budgeting process will become much more effective at identifying the critical needs over the discretionary items. That being said, operation in an LDC are constantly changing and often unforeseen capital and expense items arise that are not in the current year budget. Kenora Hydro has experienced staff, who regularly must use professional judgment in a purchase decision, whether in the current year budget or not.

QUESTION 4

4. Ref: Exhibit 1/Tab1
   a) Please identify any rates and charges that are included in Kenora Hydro's conditions of service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered.

b) If the associated revenues are not otherwise included in the "Other Operating Income" found at Exhibit 3 Tab 3 Schedule1, please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.

c) Please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.

RESPONSE

4. a) Our Conditions of Service identifies the following additional charges:

   - Service Disconnection fee if requested by customer. Set at the standard disconnect/reconnect rates for non-payment in our schedule of rates and tariffs, depending if at meter or at pole, and during or after work hours.

   b) The revenues referred to in 4a) have been included in the revenues of Exhibit 3 Table 21 from 2006 through budget 2011.

   c) The disconnection fees should be included in the standard Schedule of Rates and Tariffs. It is our opinion that including this item on the Schedule will reduce customer confusion and reduce the customer questions relating to charges levied beyond the Schedule. Customers are not likely to request or review our Conditions of Service documents, they would be better served to have all potential rates and charges on one standardized Schedule.

QUESTION 5

5. Ref. Exhibit /1 Tab 1 / Schedule 2
Following publication of the Notice of Application, did the applicant receive any letters of comment? If so, please confirm whether a reply was sent from the applicant to the author of the letter. If confirmed, please file that reply with the Board. If not confirmed, please explain why a response was not sent and confirm if the applicant intends to respond.

RESPONSE

5. No letters of comments were received by Kenora Hydro following the publication of the Notice of Application.

QUESTION 6

6. Ref: Exhibit 1 /Tab 2 /Schedule 2
The PST and GST were harmonized effective July 1, 2010. Historically, unlike the GST, the PST was included as an OM&A expense and was also included in capital expenditures.

Due to the harmonization of the PST and GST, regulated utilities may benefit from a reduction in OM&A expenses and capital expenditures on an actual basis.

b) Please state whether or not the applicant has adjusted its Test Year revenue requirement to account for reductions to OM&A expense and capital expenditures that the applicant realized due to the implementation of the HST effective July 1, 2010. If yes, please identify separately the amounts of commodity tax savings for OM&A and capital and provide an explanation of how each of those amounts was derived. If no, please identify the amounts in OM&A expense and capital expenditures for the Test Year that were previously subject to PST and are now subject to HST.

c) The Board's EB-2009-0200 decision, dated April 16, 2010, on the applicant's 2010 IRM application established a deferral account and directed the applicant to record the incremental input tax credits it receives on distribution revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts would continue in the deferral account until the effective date of the applicant's next cost of service rate order. On December 23, 2010, the Board issued FAQ's that provided options for tracking amounts in the HST sub-account. Has the Applicant recorded any HST Input Tax Credits or other HST related items in PILs account 1592? If yes, please describe what has been recorded and provide supporting evidence showing how the tracking was done. If not, please explain why not.

RESPONSE

6. a) When Kenora Hydro set the 2011 capital budget, no HST was included. As a result, no adjustment would be necessary to the capital budget for HST. The operating items would, however, be estimated on the prior year results which did include the impact of the PST. The following is estimated as the impact on the operating budget:

• Distribution operations	$ 1,851
• Distribution maintenance	$ 6,573
• Billing & Collecting	$ 1,209
• Admin & General	$ 3,463
TOTAL impact of HST in operating	**$13,096**

b) Although Kenora Hydro was directed in the April 16, 2010 decision to record any incremental ITC's, there was no direction available to record such entries. Kenora Hydro contacted the OEB independently to seek guidance on the correct recording of the savings. There was no information available at that time, and until the release of the FAQ's in December 23, 2010, at which time the Finance department was on vacation. On returning to work in January, 2011, Finance has been preparing the billing system for the OCEB credits, updating systems for new arrears regulations, and responding to interrogatories on the COS filing. On the completion of this round of interrogatories, and prior to the year end file completion, the incremental ITC's will be recorded as instructed in the FAQ's.

QUESTION 7

7. Exhibit 1 Tab 1 Schedule 9

Kenora Hydro states it has not filed its financial information under the proposed International Financial reporting Standards (IFRS) and continues to follow the OEB prescribed principles.

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

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

RESPONSE

7. a) The revenue requirement numbers for 2011 are based on Canadian GAAP, not IFRS standards. Kenora Hydro will not be presenting financial statements under IFRS rules until the financial statements are prepared for the fiscal year ended December 31, 2012.

b) No amounts have been included in this application for IFRS transition costs in the test year revenue requirement calculation. Kenora Hydro is recording all IFRS transition costs in a sub account of 1508 – Other Regulatory Assets - IFRS Transition Costs.

QUESTION 8

8. Ref: Exhibit 2 /Tab 1 /Schedule 1 p.6 and Exhibit 2/Tab3/Schedule 3 p.1

Kenora Hydro states that (i) to date it has not had a formal asset management plan, relying instead on the extensive cumulative staff knowledge of the existing assets, their condition and the future required repairs or replacements and that (ii) an Asset Management Plan has been developed in-house which will be used as the base for future capital decisions. This plan is a work in progress, and will be developed over the next few years, providing support for future rate filings.

Please confirm whether or not the (in-house developed) formal Asset Management Plan will be ready in time for the preparation of Kenora Hydro's next Cost of Service rates application.

RESPONSE

8. The Asset Management Plan (included in Exhibit 2, Tab 3, Sch 3) was completed and included in the rate filing. We will continue to work on improving the collection of data concerning system performance with our SCADA system and electronic reclosures, and it is anticipated that a more comprehensive plan indicating performance details will be available for our next COS application.

QUESTION 9

9. Ref: Exhibit 2/ Tab 2/ Schedule 1 p.1 table 4

The evidence indicates that Kenora Hydro disposed $1.252 M in assets in 2006 (out of a plant opening balance of $10.828 M).

a) Please confirm whether or not the realized value of the disposed plant was less than the net book value.

b) If there is a differential, please indentify those specific disposals where there was a loss of $.05 M or more.

RESPONSE

9. a) The "disposal" of balances in 2006 consisted only of accounting entries to remove fully amortized assets from the records. There was an equal entry to accumulated amortization to remove that balance as well.

   b) See part a).

QUESTION 10

10. Ref: Exhibit 2 /Tab 2 /Schedule 2 p.8

Please provide a copy of the calculation that was used to generate the Capital Contribution in the amount of $34,504 for the Coney Island customer connection project.

RESPONSE

10. As attached in Appendix A.

QUESTION 11

11. Ref: Exhibit 2 /Tab 2/ Schedule 2 p.16
Please explain why the substation oil leak containment design costs of $25,933, completed by Hatch in 2009, were capitalized and not expensed.

RESPONSE

11. The design costs of $25,933 were a required expenditure in order to proceed with the rest of the capital costs to build the oil leak containment system. As the original design costs were an integral part of the development of this asset, the design costs were capitalized.

QUESTION 12

12. Ref: Exhibit 2 /Tab 2/ Schedule 2 p.20-21
The evidence shows that Kenora Hydro is planning to spend $52,000 for underground conduit and $60,000 for underground conductor due to the City of Kenora downtown revitalization project.

f) Is the City of Kenora making any Capital Contributions toward Kenora Hydro's expenditures?

g) If so, what is the amount?

h) If not, please explain why the Kenora Hydro did not consider that a contribution was warranted.

RESPONSE

12. a) No, the City is not making a capital contribution.

b) N.A.

c) Our proposed project is not due to the downtown reconstruction. Rather we are taking advantage of the reconstruction to rebuild our underground infrastructure in that area that is in excess of 30 years old and whose conditions is deteriorating. It is a good opportunity for us to install new conduit while the paved areas and sidewalks are removed and the city infrastructure is being replaced. If this work is deferred, replacements costs in the future will involve pavement and sidewalk removal and replacement.

QUESTION 13

13. Ref: Exhibit 2 and Exhibit 8/Tab/ 1/Schedule 5/Appendix C p.2
Kenora Hydro's proposed rates for 2011 will increase the delivery costs for a typical residential customer consuming 800kWh monthly by about 33% or $9.45/mo.

i) Please identify any capital expenditures in 2011 that could be deferred/delayed/ postponed to 2012 or 2013 in order to mitigate the projected increase in rates in 2011 which could be viewed by customers as excessive?

RESPONSE

13. a) Management has reviewed the proposed capital budget for 2011 and conclude the following by budget line:

- Substation Budget $605,000
  - Unit T3 (substation transformer) has been rebuilt and stands on site ready to be installed, replacing the last remaining active transformer (T1) due to be refurbished in the rebuild project. T1 (substation transformer) has been identified for replacement due to age and gas levels. From a system reliability standpoint, this work should be done in 2011 to have a spare on site in the event of failure of one of the existing transformers. Sending T1 away for refurbishment could be postponed until 2012, however, if any other unit fails, we will have no spare, and emergency replacement costs would be considerably higher. The 2011 installation costs are estimated at $300,000.
- Poles Towers Fixtures Budget $60,000
  - The 5 year average spending in this category is $88,160. The poles slated for replacement in 2011 should not be delayed, as the annual replacement of poles identified forms a critical part of maintaining a safe and reliable system.
- Overhead Conductors & Devices Budget $100,000
  - The year average spending in this category has been $81,828. This spending follows the replacement of the poles, towers and fixtures, as these items are replaced as required when the poles are replaced. This line item could be reduced by $20,000, as the historical relationship to the cost of the poles has been comparable.
- Under Ground Conductors and Devices Budget $40,000

    - $10,000 of spending in this category will depend entirely on the actions of the City. If they are on schedule to dig up the sidewalks and road on the Harbourfront in 2011, it makes sense to replace our underground equipment at this location, saving the costs of an independent dig on the failure of one or more underground components in the future. Should the City be forced to defer this project, our costs will be deferred as well.
    - The Headwaters project, if it proceeds in 2011, will have no impact on the overall capital as an offsetting capital contribution of $30,000 has been budgeted for in 2011.
- Underground Conduit Budget $18,000
    - This capital spending is again reliant on the City's work on the Harbourfront. This spending has been identified as the requirements to replace the aging conduit once the City opens up the road and sidewalks. Again, if the City defers this project, this spending will also be deferred, but the potential savings of performing this work with the ground open is advantageous.
- Line Transformers Budget $119,000
    - Of this spending $34,000 will be dependent on the progress of Qualico. It should be noted that this line item should have had an offsetting capital contribution of $34,000. This was an oversight and will be corrected.
    - Transclosure replacements of $50,000 are scheduled for the Harbourfront area. These replacements have been noted as a safety concern by staff and are a priority to replace in 2011 and will be replaced. This item cannot be deferred.
    - $35,000 has been budgeted for replacements as identified in the GIS/Asset management plan. Average spending in line transformers is $42,763/year, these replacements should not be postponed as they are a requirement to maintain the safe reliable system.
- Services Budget $35,000
    - The 5 year average services spending has been $60,521. With an estimate of $35,000 in 2011 for on-going replacements due to condition/age, safety or customer growth, there is no room in this line item to defer any amounts to later years.
- Building & Fixtures Budget $155,000
    - Roof replacement $100,000 – this project will be essential in 2011. The water leaking from the rood in 2009/10 was extensive. We are in the process of gathering a more accurate cost figure on the roof, and will have more accurate quotes to fix this issue. This budget was for $100,000 and may prove to be low, as the damage to the structure may be more extensive than originally anticipated.
    - Back-up generation $55,000 – this capital item is now viewed as a priority. If power is down to the feeder that the substation is on, there is no emergency power supply, and therefore no telephone access. Backup

generation is required for station service and office power to contact and dispatch crews in case of emergency. This should not be deferred.

- Office Furniture & Equipment Budget $16,000
  - $1,000 has been budgeted for misc furniture, as the CEO's chair is broken and is in dire need of replacement. A new desk has been ordered for the Manger of CDM & Engineering, $2,295. This item has not been budgeted for in 2011.
  - $15,000 has been estimated for a new main copier machine. The existing machine is off lease and no longer has a maintenance agreement. When it came off lease, the decision was made to hold off replacement until it started costing us money to repair.

- Fleet Budget $150,000
  - This budget item relates to truck #54, a 1998 F800 single bucket truck. This vehicle is entering its 13th year of operating. In 2010, the mechanics had identified this truck as having rust on the frame, and a recent inspection in 2011 reinforces the need for its replacement in 2011. Attached as appendix B is the report from the Lead Mechanic and pictures of the areas of concern on this truck. This item cannot be delayed, and cannot be considered excessive as #54 will become a safety concern.
- Tools, Shop & Garage Equipment Budget $5,000
  - The 5 year average on this account was $2,488. Further discussions with the superintendent confirm that there is a need to purchase one chain saw and two brush whackers, at an estimated total cost of $2,500.
- Miscellaneous Equipment Budget $2,000
  - Discussions with the superintendent indicate that this is a discretionary line item, we can eliminate it from the budget request for 2011.

A total of $39,500 can be postponed until 2012, plus the additional $34,000 expected capital contribution result in revised capital budget of $1,211,000.

REVISED CAPITAL ADDITIONS BY OEB ACCOUNTS - 2011

		1815	1830	1835	1840	1845	1850	1855	1860	1908	1915	1920	1925	1930	1940	1945	1960	1995
PROJECT	TOTAL	Transf > 50 kV	Poles, Towers Fixtures	O/H Cond's	U/G Conduit	U/G Cond	Line Tranf	Services	Meters	Building & fixtures	Office Furniture	Computer Hardware	Computer Software	Fleet	Tools, Shop	Msmnt & Testing	Misc Equip	Capital Contrib.
Substation Rebuild	605,000	605,000																
Routine Pole replace	60,000		60,000															
Routine OH	100,000			100,000														
Reduce budget	(20,000)		(20,000)															
Routine UG	10,000				10,000													
Harbourfront (Phase 1)	18,000				8,000	10,000												
Headwaters	64,000					30,000	34,000											
Transclosure replacements	50,000						50,000											
Routine replacements	35,000						35,000											
Services	35,000							35,000										
Routine replacements	3,500								3,500									
Builidng Renovations	155,000									155,000								
Routine replacements	1,000										1,000							
Main photo copier replace	15,000										15,000							
Copier delayed	(15,000)										(15,000)							
Routine replacements	2,000											2,000						
Routine replacements	2,000												2,000					
Refurbish #54	150,000													150,000				
Routine replacements	5,000														5,000			
Reduce budget	(2,500)														(2,500)			
Routine replacements	2,000															2,000		
Routine replacements	2,000																2,000	
Remove budget for equip	(2,000)																(2,000)	
Headwaters Contribution	(30,000)																	(30,000)
Headwaters Contribution	(34,000)																	(34,000)
Balance As Detailed	1,211,000	605,000	40,000	100,000	18,000	40,000	119,000	35,000	3,500	155,000	1,000	2,000	2,000	150,000	2,500	2,000	0	(64,000)

QUESTION 14

14. Ref. Exhibit 3 /Tab 2 /Schedule 1 p. 6

Please explain why Kenora Hydro's system load is unavailable for the years prior to 2002?

RESPONSE

14. As a result of the system requirements to be ready for market deregulation, in 2002 Kenora Hydro converted from Harris to H.T.E. billing platform. Data prior to the conversion can no longer be accessed as the software is no longer supported. The monthly detailed customer load data from prior to conversion in 2002 was not produced and can no longer be reproduced.

QUESTION 15

15. Ref. Exhibit 3 /Tab 2 /Schedule 1 p. 7 and 17

Exhibit 3 /Tab 2 /Schedule 17 Table 16 shows a CDM adjustment (reduction) totalling 1.23 GWh for the 2011 load forecast. The 2011-14 Net Cumulative Energy Savings Target set for Kenora Power in the EB-2010-0215/0216 decision and order, dated November 12, 2010, is 5.220 GWhs. The 2014 Annual Peak Demand Saving Target is 0.860 MW.

j) Please provide the rationale and calculation which relates the 1.23GWh reduction with the 5.220 GWhs 2011-2014 target.

k) What assurance can Kenora Hydro provide that it has the underlying programs in place which will result in the actual realization of this forecasted reduction in 2011?

l) What is the impact on Kenora Hydro's Revenue Deficiency, shown at Exhibit 6/Tab1/Schdule1 p.2, for 2011 of $909,070 if the load forecast reflects only a 10% reduction (of the cumulative target) in 2011 i.e. 0.5220 GWHs?

RESPONSE

15. a) The KW savings for Kenora Hydro is 0.86 MW which must be achieved in 2014. With these kW savings the load factor associated with the kWh savings of 5.22 (GWh) is around 69%. This is consistent with the system load factor of around 68% to 70% outlined in the most recent 18-month lookout from the IESO. Some have suggested the 5.22 (GWh) reflects the accumulated savings over the four years and a percentage breakdown of 10% for 2011, 20% for 2012, 30% for 2013 and 40% for 2014 should be used. If this is the case then for 2014, 40% of the 5.22 (GWh) or 2.08 (GWh) would be achieve in 2014. This represents a load factor 28% which in Kenora Hydro's view is

unreasonable. Since 0.86 MW must be saved in 2014 it is Kenora Hydro's view that 5.22 (GWh) must also be saved in the 2014 under a reasonable load factor assumption. The means that in order to achieve the 5.22 (GWh) in 2014 one quarter of this amount must be new savings in each of the four years and added to the following year for an accumulated amount of 5.22 (GWh) in 2014.

b) Kenora Hydro is finalizing the hiring details of the Manager of CDM & Engineering. This position is expected to be filled mid-February 2011, and this staff member will ensure the CDM targets are met for Kenora Hydro.

c) The expected increased consumption as a result of changing the conservation target to 522,000 kWh in 2011 resulted in a new Revenue Deficiency of $905,467, a reduction in the deficiency of $3,603.

QUESTION 16

16. Ref. Exhibit 3 /Tab 2 /Schedule 1 p. 11-12

Kenora Hydro is forecasting that the number of residential customers in 2011 will drop by 2.2% as compared to 2009 actual. i.e. from 4783 to 4674.

a) Please provide the underlying calculation for the geometric mean that Kenora Hydro applied to generate the forecast of 4674 residential customers.

b) What level of confidence does Kenora Hydro have in this forecast given that during the 2005-2009 period, residential customer numbers declined materially (for example more than 0.5%), only once (in 2008). Is there any support, other than the "geometric mean" calculation, for the 2011 forecast?

RESPONSE

16. a) Provided below is the calculation within the load forecast model to calculate the number of customers.

	Residential	GS<50	GS>50	SLR	USL	Total
2002	5,186	749	56	550	0	6,541
2003	5,051	803	63	550	23	6,490
2004	5,011	794	61	550	23	6,439
2005	4,989	797	60	550	25	6,421
2006	5,029	782	61	550	28	6,450
2007	5,012	794	66	550	28	6,450
2008	4,781	732	66	550	28	6,157
2009	4,783	713	70	550	28	6,144
2010	4,728	708	72	550	29	6,087
2011	4,674	703	75	550	30	6,031

Growth Rate in Customer Numbers %

2002					
2003	0.9740	1.0721	1.1250	1.0000	
2004	0.9921	0.9888	0.9683	1.0000	1.0000
2005	0.9956	1.0038	0.9836	1.0000	1.0870
2006	1.0080	0.9812	1.0167	1.0000	1.1200
2007	0.9966	1.0153	1.0820	1.0000	1.0000
2008	0.9539	0.9219	1.0000	1.0000	1.0000
2009	1.0004	0.9740	1.0606	1.0000	1.0000
Used	0.9885	0.9930	1.0324	1.0000	1.0333
Geomean	0.9885	0.9930	1.0324	1.0000	1.0333

b) Other than the geometric mean, Kenora Hydro would have no evidence to support the drop in customer numbers for the 2011 forecast. The loss of the Abitibi Consolidated mill has historically lead to customer decreases, and with no replacement industry, families are still being forced to leave the community for better paying jobs, or others are leaving to join family members working out west.

QUESTION 17

17. Ref: Exhibit 3/ Tab 3/ Schedule 1 p.2

The evidence shows first time revenues of $43,000 and $44,250 for 2010 and 2011 in account 4220 (other electric revenues).

Please describe the nature of these revenues.

RESPONSE

17. First time revenues in account 4220 Other Electric Revenues, is generated by the billing services provided by Kenora Hydro's billing department to the City of Kenora, for sewer and water billing services. This revenue did not occur prior to 2010, as the billing clerk

was not hired by Kenora Hydro until December, 2009. It is anticipated that this revenue from billing services will continue into 2011.

QUESTION 18

18. Ref: Exhibit 3/ Tab 3/ Schedule 1 p.2 and p.3 ln 11

The evidence states that Kenora Hydro has considered the net revenue from streetlight maintenance as forming part of the revenue offsets to its Revenue Requirement. Revenues of $75,000 and streetlight maintenance expenses $(69,000) are included as offsets in accounts 4325 and 4330 in the revenue requirement model.

Please confirm whether the revenue/expenses yearly amounts presented in Table 22, found at Exhibit 3 \Tab3\Schedule 1 p.2, reflect the aforementioned treatment.

RESPONSE

18. Exhibit 3/ Tab 3/Schedule 1 does include the revenue expected from streetlight repairs in Account 4325 of $75,000, and expenses in Account 4330 of $73,750 in 2011. The narrative indicating that expenses were projected at $69,000 was incorrect and should have read $73,750 as is in the budget and revenue requirement calculations.

QUESTION 19

19. Ref: Exhibit 3/ Tab 3/ Schedule 1 p.2 and Exhibit 1/Tab2/Schedule 4 p.3

Please explain why "other income and deductions" in the revenue requirement workform, found at Exhibit 1/Tab2/Schedule 4 p.3, shows $116,206 while Table 22 shows $112,166 for "other income and expenses".

RESPONSE

19. Exhibit 3, Tab 3, Sch 1, Pg 2 indicates an "Other Income" of $112,166. Consistent with the 2006 handbook one half of the $20,000 budgeted gain on the disposal of the truck was included as "Other Income". There is also $14,040 of anticipated revenue from the $.25 per customer per month Administration fee that is included in distribution revenue, as it posts to Account 4080.

Exhibit 3, Tab 3, Sch 1	$112,166
Less ½ Gain on Disposal	$(10,000)
Add back .25 Admin fee	$ 14,040
Exhibit 1, Tab 2, Sch 4	$116,206

QUESTION 20

20. Ref: Exhibit 1/Tab2/Schedule 2 and Exhibit 4 Tab 1 Schedule 1 p3.
Please identify the inflation rate used for the 2011 OM&A forecast and the source document for the inflation assumptions.

RESPONSE

20. Inflation for 2011 was estimated at 2% in this model, and is supported by the November 2010 release of Ontario's Economic Outlook:

Table 1
Ontario Economic Outlook

	2007	2008	2009	2010p	2011p	2012p	2013p
Real GDP Growth	2.0	(0.9)	(3.6)	3.2	2.2	2.5	2.7
Nominal GDP Growth	4.2	0.1	(1.1)	5.6	4.1	4.5	4.6
Employment Growth	1.6	1.4	(2.4)	1.7	1.7	1.8	1.9
CPI Inflation	1.8	2.3	0.4	2.3	2.1	2.0	2.0

- p = Ministry of Finance planning projection.
- *Sources*: Statistics Canada and Ontario Ministry of Finance.

Taken from Ontario Ministry of Finance "Ontario's Economic Outlook", fin.gov.on.ca, Nov 2010

QUESTION 21

21. Ref: Exhibit 4/Tab2/Schedule 4 p.10
The evidence indicates that that the application does not include any costs associated with Low Income energy Assistance Programs.

m) Please provide the following calculation: 0.12% of the total distribution revenue proposed by the applicant for the 2011 Test Year.

n) Please state whether or not the applicant has included an amount in its 2011 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

RESPONSE

21. a) With proposed total service revenue requirement of $3,208,191 in 2011, the expected LEAP payment for 2011 will be $3,849.83 ($3,208,191 * 0.12%).

b) Kenora Hydro has not included any amounts in the 2011 revenue requirement for any legacy programs.

QUESTION 22

22. Ref: Exhibit 4/Tab2/Schedule 7 p.6

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013.

o) Please state whether or not the applicant's proposed pension costs include this increase.

p) If so, please provide the forecasted increase by years and the documentation to support the increases.

q) If not, please state how the applicant proposes to deal with this increase.

RESPONSE

22. a) Kenora Hydro did not include an increase in OMERS costs for 2011.

b) N/A

c) The total calculated impact of the OMERS increase on Kenora Hydro's OMERS costs would be $1,167.00 for 2011. Kenora Hydro requests that this amount be included in the approved revenue requirement used to determine final rates.

QUESTION 23

23. Ref: Exhibit 4/Tab2/Schedule 4 p.3 table 5, p. 8 and p.10 table 7

Table 5, account 5655 (Regulatory Expenses) shows $15,737 for 2009 actual and $91,830 for 2011 test year. Table 7 breaks out the "Regulatory Costs" for 2010 and 2011. Kenora Hydro explains that $75,000 of the $76,093 increase between 2009 and 2011 in account 5655 is "... due to the 2011 cost of service filing and the completion of an asset management plan, the costs of which have been smoothed over a four year period..."

r) Please confirm whether or not the amounts shown in table 7 (shaded cells) are the total forecasted amounts for the 2011 proceeding and not the amount which would be amortized each year.

s) Does the $150,000 test year forecast shown in table 7 include any costs related to the "asset management plan"? If included, please specify the amount included.

t) Table 7 row 2 provides $38,000 for OEB Hearing Assessments (application initiated). What portion of this amount is for intervenor costs?

RESPONSE

23. a) The total of $150,00 in Table 7 represents the entire expected expenses related to this rate filing. The $150,000 would be amortized over a four year period, $37,500 each year. The increase of $75,000 noted relates to this $37,500 plus the ¼ of the costs of the Asset Management plan, $37,500.

b) The amounts in Table 7 do not include any costs associated with the Asset Management Plan.

c) As Kenora Hydro has not experienced a COS application this in-depth, the budget for OEB costs associated with the hearings was estimated to include all costs of the process. The $38,000 is intended to cover costs relating to the application, including intervenors. If the OEB can provide a more accurate estimate of the total OEB and intevenor costs, Kenora Hydro would be agreeable to alter this estimate.

QUESTION 24

24. Ref: Exhibit 4/Tab 2/Schedule 5 p.2 table 8 and Exhibit 4/Tab 2/Schedule 4 p.4

Why do the billing costs for 2011allocated from the City of Kenora increase, as compared to 2010, even though the billing clerk function has been transferred from the City of Kenora to Kenora Hydro?

RESPONSE

24. The gross billing costs of $239,800, combined with gross finance cost of $24,744 for 2011 totaling $264,544 was presented in this table. There was an error, the gross billing costs of $239,800 should have been $199,366, a $40,434 overstatement. The 2011 OM&A expenses are overstated by $40,434, and final rates will reflect this reduction in expenses.

It should be noted that the offsetting revenue to Kenora Hydro of $44,250 is presented in the line above the Charged to Kenora Hydro line. Actual gross costs charges expected to Kenora Hydro for billing will be $199,366 with an offset revenue of $30,400 for billing services. Total net charges from the City are expected to be $168,966 for billing. Actual 2010 net was $164,047. A 3% wage increase was included to reach the 2011 estimate.

2010 Actuals	Gross Charge	Offset in Revenue	Net Charge
Allocated Accounting	24,024	(13,462)	10,562
Allocated Billing	193,560	(29,513)	164,047
TOTAL	217,584	(42,975)	174,609
2011 Budget as Presented			
Allocated Accounting	24,744	(13,850)	10,894
Allocated Billing	239,800	(30,400)	209,400
TOTAL	264,544	(44,250)	220,294
2011 Proposed Revised Budget			
Allocated Accounting	24,744	(13,850)	10,894
Allocated Billing	199,366	(30,400)	168,966
TOTAL	224,110	(44,250)	179,860

QUESTION 25

25. Ref: Exhibit 4 /Tab 2/ Schedule 5 p2 table 8
Are there any service agreements between Kenora Hydro and the City of Kenora regarding the services listed in Table 8? If so please provide one copy of each.

RESPONSE

25. There in one service agreement covering all services provided between Kenora Hydro and the City of Kenora, dated January 1, 2010. This agreement is presented in Appendix C of this document.

QUESTION 26

26. Ref: Exhibit 4 /Tab 2/ Schedule 5 p.1
Kenora Hydro indicates that it performs streetlight maintenance for the City of Kenora. For streetlight maintenance, actual cost including labour, labour burden, stores material, along with vehicle costs are charged and include a 20% profit mark up. As a result of recent changes to the Affiliate Relationships Code, Kenora Hydro is reviewing its provision of services in respect of Street Light Maintenance.

u) Please indicate the change in the Affiliate Relationships Code that is causing its review of the Street Lighting Maintenance services it provides to the City of Kenora.

v) When will the review be completed?

RESPONSE

26. a) There has been no change to the ARC with respect to streetlight maintenance. There has been a clarification of the code as it pertains to street light maintenance and the sharing of resources to improve efficiencies and provide value to our customers.

b) There will be no review as in Kenora Hydro's view it is not necessary.

QUESTION 27

27. Ref: Exhibit 5/ Tab 1/ Schedule 1

Pursuant to The *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* [EB-2009-0084] dated December 11, 2009, does Kenora Power confirm that it will update its test year revenue requirement, when practical, to reflect the ROE and deemed debt rates, as applicable, for rates effective May, 1, 2011?

RESPONSE

27. Kenora Hydro agrees to update the test year revenue requirement where practical, to reflect the ROE and deemed debt rates as applicable for rates effective May 1, 2011.

QUESTION 28

28. Ref: Exhibit 6/ Tab 1/ Schedule 1 p.2 and Exhibit 1/Tab2/Schedule 4 p.7

The Revenue Deficiency Determination on p.2 shows a return on equity rate of 8.01% under the header "2011 Test-Required Revenue". Please clarify how the 8.01% relates to the rate of return on equity of 9.85% shown in Exhibit 1/Tab2/Schedule 4 p.7

RESPONSE

28. The Revenue Deficiency Determination table at Exhibit 6, had a referencing error on the rate used in the model for 2011 return on equity percent. The reference was picking up the 2010 rate of 8.01 from the tab that calculated the Return on Capital. This referencing in the Revenue Deficiency Determination table has been corrected. This did

not impact any of the calculations in the filing. The correct rate used for the Return on Equity for 2011 is 9.85%.

QUESTION 29

29. Ref: Exhibit 7/Tab 1/Schedule 2 p.4

Kenora Hydro states that in an effort to move the GS>50 kW class Revenue to Cost ratio closer to 100%, it is proposing a rate which moves the ratio from 128.44% to 124.52%.

a) Please explain the rationale for using 124.52%, other than it is closer to 100% than is 128.44%.

RESPONSE

29. a) This movement was made to allow for the movements in the other classes, while allowing for the complete revenue allocation amongst all classes. The GS Under 50kW class moved to the lower target, the USL down to the upper target, and others towards 100%. There was no other rational to this movement.

QUESTION 30

30. Ref: Exhibit 9/ Tab 1/ Schedule Table 1

Table 1 presents the Regulatory Balances as at December 31, 2009 and shows a credit of $362,189 for "Balance in Future Income Tax Accrual".

a) Please provide the account name/number that records this amount.

b) What is the basis for recording entries in this account?

c) What are the entries in this account?
d) Is this an account which can only be disposed of through an order of the Board?

RESPONSE

30. a) A sub-account of the 1508 – Other Regulatory Assets, account 2915086, "Future Income Taxes" was created to track this balance in future income tax accruals.

b) New accounting regulations for 2009 financial statement reporting required the creation of an account to track the accounting liability resulting from timing differences as reported on the income tax return, vs accounting records as it relates to future income tax expenses. As this difference is a timing difference, and would eventually be recovered or returned in future rates, and following the presentation and logic presented by Toronto Hydro in their 2009 audited financial statements, this account was created to enable the recording of this liability. The balance will be adjusted annually depending on on-going timing differences. This account is not requested for disposition

c) The only entry in this account at this time is the original posting of $(362,189) at year end 2009. It is expected that this amount will be adjusted at the year end 2010 based on re-calculated future income tax liabilities.

d) It is not intended that this account will be disposed of, unless ordered by the Board.

QUESTION 31

31. Ref: Exhibit 9/Tab 1/Schedule 1 Table 1

Table 1 shows, as at December 31, 2009, Regulatory Assets for which clearance is requested totalling ($518,855) and Accounts for which clearance is not requested totalling $153,032.

Does the sum of these two amounts matches the amounts reported to the Board under RRR2.1.7? If not, please explain why.

RESPONSE

31. Regulatory Assets requested for clearance as at December 31, 2009 matches balances in the RRR 2.1.7 filing submitted April 29, 2010, with two amounts in 1508 not being claimed at this time, the Future Income Taxes Accrual and the IFRS deferrals.

	WMS	NW	CN	Power	1508 + 1525
Per COS	(331,676)	(6,836)	(507,032)	246,112	80,577
Per 2.1.7	(331,676)	(6,836)	(507,032)	246,113	(277,876)
Difference	-	-	-	1	(358,453)
Balances in 1508 not claimed in COS					
Future Income Tax Accrual					(362,189)
IFRS Deferral					3,736
TOTAL					**(358,453)**
Un-reconciled				**1**	**0**

The subtotal in Exhibit 9 Table 1 indicates $153,032 which is the claimed $(518,855) less the amounts not claimed which total $671,887, net per F/S = $153,032. The total not claimed as deferral and variance accounts is $671,887, as detailed below.

Amount not Claimed per Ex 9 Table 1	671,887
Consists of	
Future Income Tax Deferral	(362,189)
IFRS Deferral	3,736
Renewable Connect	12,438
Smart Grid	1,847
Smart Meters, capital	869,938
Smart Meters, expense	138,217
RA Recovery	1,367
PILs	6,535
TOTAL	**671,889**
Difference	**2**

QUESTION 32

32. Ref: Exhibit 9/Tab 1/Schedule 3

Kenora Hydro is seeking the disposition of a net credit in the amount of $521,517 as set out in Exhibit 9 Tab 1 Schedule 3. The included accounts are 1580, 1584, 1586, 1588, and1508.

a) Please confirm that Kenora Hydro has complied with and correctly applied the Board's accounting policy and procedures for the calculation of the final disposition balances.

b) If Kenora Hydro used other practices in the calculation, please describe them, including an explanation of why they were used.

c) Has Kenora Hydro reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?

RESPONSE

32. a) Kenora Hydro has complied with and correctly applied the Board's accounting policy and procedures for the calculation of the final disposition balances.

b) N/A.

c) Kenora Hydro did review the Bulletin 200901 of October 15,2009, and did ensure that the accounting for 1588 and GA for Kenora Hydro was done correctly.

QUESTION 33

33. Ref: Exhibit 9/ Tab 1/ Schedule 2 p. 3 and Exhibit 8/Tab1/Schedule 5/ Appendix C p. 2

Kenora Hydro is proposing to dispose of the deferral and variance account balance, a credit of $521,517, over 4 years since a one year disposition period would create a significant rate impact the following year when the credit is no longer applied to the bill. Kenora Hydro explains that a four year period would help reduce rate shock and still help with rate mitigation if applied over a four year period.

a) The residential bill impact (delivery @ 800kWh) of Kenora Hydro's proposed rates for 2011 is an increase of 31.76%. Please recalculate the residential bill impact, assuming a one year rate rider.

b) Holding all other variables constant, please calculate the residential bill impact that would occur on May 1, 2012 when a "one year" rate rider credit would terminate.

c) Please repeat a) and b) assuming a two year rate rider.

d) Please repeat a) and b) assuming a three year rate rider.

RESPONSE

33. ONE YEAR DISPOSITION

a) The proposed rates for 2011 indicate a 32.92% impact on the Delivery sub-total. The 31.76% as noted in the OEB question 33a) is the % of total bill, not the % impact, which is 32.92%. If the accounts were disposed of over a one year period, the delivery sub-total impact would be 19.73%, with the percentage of delivery to total bill at 29.67%.

	2010 Bill			2011 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			13.53			19.86	6.33	46.78%	17.14%
Distribution (kWh)	800	0.0099	7.92	800	0.0145	11.60	3.68	46.46%	10.01%
Smart Meter Adder (per month)		1.0000	1.00		0.0899	0.09	(0.91)	(91.01%)	0.08%
Smart Meter Rider (per month)			0.00			2.09	2.09	100.00%	1.81%
Deferrral & Variance Acct (kWh)	800	0.0000	0.00	800	(0.0063)	(5.04)	(5.04)	(100.00%)	(4.35%)
Distribution Sub-Total			**22.45**			**28.60**	**6.15**	**27.41%**	**24.69%**
Retail Transmisssion (kWh)	834	0.0075	6.26	834	0.006918	5.77	(0.49)	(7.81%)	4.98%
Delivery Sub-Total			**28.71**			**34.37**	**5.67**	**19.73%**	**29.67%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	(0.00)	(0.05%)	4.68%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.83%
Late Payment Settlement (per month)	800	0.0000	0.00		0.2500	0.25	0.25	100.00%	0.22%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.26%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	33.66%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	15.17%
Total Bill Before Taxes			**96.61**			**102.52**	**5.91**	**6.12%**	**88.50%**
HST		13.00%	12.56		13.00%	13.33	0.77	6.12%	11.50%
Total Bill			**109.17**			**115.85**	**6.68**	**6.12%**	**100.00%**

b) Holding all other variables constant, the impact on the residential bill in 2012 on the removal of a one year rate rider would be a $5.69 increase in the bill, or 4.91%.

	2011 Bill			2012 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			19.86			19.86	0.00	0.00%	16.34%
Distribution (kWh)	800	0.0099	11.60	800	0.0145	11.60	0.00	0.00%	9.54%
Smart Meter Adder (per month)		0.0899	0.09		0.0899	0.09	0.00	0.00%	0.07%
Smart Meter Rider (per month)			2.09			2.09	0.00	100.00%	1.72%
Deferral & Variance Acct (kWh)	800	0.0000	(5.04)				5.04	(100.00%)	0.00%
Distribution Sub-Total			**28.60**			**33.64**	**5.04**	**17.62%**	**27.68%**
Retail Transmisssion (kWh)	834	0.0075	5.77	834	0.006918	5.77	(0.00)	(0.01%)	4.75%
Delivery Sub-Total			**34.37**			**39.41**	**5.04**	**14.66%**	**32.42%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	(0.00)	(0.05%)	4.46%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.61%
Late Payment Settlement (per month)	800	0.0000	0.25		0.2500	0.25	0.00	100.00%	0.21%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.25%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	32.09%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	14.46%
Total Bill Before Taxes			**102.52**			**107.56**	**5.04**	**4.91%**	**88.50%**
HST		13.00%	13.33		13.00%	13.98	0.65	4.91%	11.50%
Total Bill			**115.85**			**121.54**	**5.69**	**4.91%**	**100.00%**

TWO YEAR DISPOSITION

a) If the accounts were disposed of over a two year period, the delivery sub-total impact would be 28.65%, with the delivery percentage of total bill at 31.1%.

	2010 Bill			2011 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			13.53			19.86	6.33	46.78%	16.73%
Distribution (kWh)	800	0.0099	7.92	800	0.0145	11.60	3.68	46.46%	9.77%
Smart Meter Adder (per month)		1.0000	1.00		0.0899	0.09	(0.91)	(91.01%)	0.08%
Smart Meter Rider (per month)			0.00			2.09	2.09	100.00%	1.76%
Deferrral & Variance Acct (kWh)	800	0.0000	0.00	800	(0.0031)	(2.48)	(2.48)	(100.00%)	(2.09%)
Distribution Sub-Total			**22.45**			**31.16**	**8.71**	**38.82%**	**26.24%**
Retail Transmisssion (kWh)	834	0.0075	6.26	834	0.006918	5.77	(0.49)	(7.81%)	4.86%
Delivery Sub-Total			**28.71**			**36.93**	**8.23**	**28.65%**	**31.10%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	(0.00)	(0.05%)	4.57%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.72%
Late Payment Settlement (per month)	800	0.0000	0.00		0.2500	0.25	0.25	100.00%	0.21%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.25%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	32.84%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	14.81%
Total Bill Before Taxes			**96.61**			**105.08**	**8.47**	**8.77%**	**88.50%**
HST		13.00%	12.56		13.00%	13.66	1.10	8.77%	11.50%
Total Bill			**109.17**			**118.74**	**9.57**	**8.77%**	**100.00%**

b) Holding all other variables constant, the impact on the residential bill on the removal of a two year rate rider would be a $2.80 increase in the bill, or 2.36% increase on total bill.

	2011 Bill			2012 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			19.86			19.86	0.00	0.00%	16.34%
Distribution (kWh)	800	0.0099	11.60	800	0.0145	11.60	0.00	0.00%	9.54%
Smart Meter Adder (per month)		0.0899	0.09		0.0899	0.09	0.00	0.00%	0.07%
Smart Meter Rider (per month)			2.09			2.09	0.00	100.00%	1.72%
Deferrral & Variance Acct (kWh)	800	0.0000	(2.48)				2.48	(100.00%)	0.00%
Distribution Sub-Total			**31.16**			**33.64**	**2.48**	**7.96%**	**27.68%**
Retail Transmisssion (kWh)	834	0.0075	5.77	834	0.006918	5.77	(0.00)	(0.01%)	4.75%
Delivery Sub-Total			**36.93**			**39.41**	**2.48**	**6.71%**	**32.42%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	0.00	0.00%	4.46%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.61%
Late Payment Settlement (per month)	800	0.0000	0.25		0.2500	0.25	0.00	100.00%	0.21%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.25%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	32.09%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	14.46%
Total Bill Before Taxes			**105.08**			**107.56**	**2.48**	**2.36%**	**88.50%**
HST		13.00%	13.66		13.00%	13.98	0.32	2.36%	11.50%
Total Bill			**118.74**			**121.54**	**2.80**	**2.36%**	**100.00%**

THREE YEAR DISPOSITION

a) If the accounts were disposed of over a three year period, the delivery sub-total impact would be 31.44%, with the delivery percentage of total bill at 31.54%.

	2010 Bill			2011 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			13.53			19.86	6.33	46.78%	16.60%
Distribution (kWh)	800	0.0099	7.92	800	0.0145	11.60	3.68	46.46%	9.70%
Smart Meter Adder (per month)		1.0000	1.00		0.0899	0.09	(0.91)	(91.01%)	0.08%
Smart Meter Rider (per month)			0.00			2.09	2.09	100.00%	1.75%
Deferrral & Variance Acct (kWh)	800	0.0000	0.00	800	(0.0021)	(1.68)	(1.68)	(100.00%)	(1.40%)
Distribution Sub-Total			**22.45**			**31.96**	**9.51**	**42.38%**	**26.72%**
Retail Transmisssion (kWh)	834	0.0075	6.26	834	0.006918	5.77	(0.49)	(7.81%)	4.82%
Delivery Sub-Total			**28.71**			**37.73**	**9.03**	**31.44%**	**31.54%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	(0.00)	(0.05%)	4.53%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.68%
Late Payment Settlement (per month)	800	0.0000	0.00		0.2500	0.25	0.25	100.00%	0.21%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.25%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	32.60%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	14.69%
Total Bill Before Taxes			**96.61**			**105.88**	**9.27**	**9.60%**	**88.50%**
HST		13.00%	12.56		13.00%	13.76	1.21	9.60%	11.50%
Total Bill			**109.17**			**119.65**	**10.48**	**9.60%**	**100.00%**

b) Holding all other variables constant, the impact on the residential bill on the removal of a three year rate rider would be a $1.90 increase in the bill, or 1.59% increase on total bill.

	2011 Bill			2012 Bill			IMPACT		
	Volume	RATE $	CHARGE $	Volume	RATE $	CHARGE $	$	%	% of Total Bill
Monthly Service Charge			19.86			19.86	0.00	0.00%	16.34%
Distribution (kWh)	800	0.0099	11.60	800	0.0145	11.60	0.00	0.00%	9.54%
Smart Meter Adder (per month)		0.0899	0.09		0.0899	0.09	0.00	0.00%	0.07%
Smart Meter Rider (per month)			2.09			2.09	0.00	100.00%	1.72%
Deferrral & Variance Acct (kWh)	800	0.0000	(1.68)				1.68	(100.00%)	0.00%
Distribution Sub-Total			**31.96**			**33.64**	**1.68**	**5.26%**	**27.68%**
Retail Transmisssion (kWh)	834	0.0075	5.77	834	0.006918	5.77	(0.00)	(0.01%)	4.75%
Delivery Sub-Total			**37.73**			**39.41**	**1.68**	**4.45%**	**32.42%**
WMS (kWh)	834	0.0065	5.42	834	0.0065	5.42	0.00	0.00%	4.46%
Debt Retirement (kWh)	800	0.0070	5.60	800	0.0070	5.60	0.00	0.00%	4.61%
Late Payment Settlement (per month)	800	0.0000	0.25		0.2500	0.25	0.00	100.00%	0.21%
Special Purpose Charge (kWh)	800	0.0004	0.30	800	0.0004	0.30	0.00	0.00%	0.25%
Cost of Power Commodity (kWh)	600	0.0650	39.00	600	0.0650	39.00	0.00	0.00%	32.09%
Cost of Power Commodity (kWh)	234	0.0750	17.58	234	0.0750	17.58	0.00	0.00%	14.46%
Total Bill Before Taxes			**105.88**			**107.56**	**1.68**	**1.59%**	**88.50%**
HST		13.00%	13.76		13.00%	13.98	0.22	1.59%	11.50%
Total Bill			**119.64**			**121.54**	**1.90**	**1.59%**	**100.00%**

QUESTION 34

34. Ref: Exhibit 8 /Tab 1/ Schedule 4

The evidence shows the 5 year average of the Distribution Loss Factor to be 1.0368. For 2009, the actual shown is 1.0192.

a) Is the 2009 reduction, wholly or materially in-part, due to the Kenora Hydro's station/substation, transformer and related capital investments and operating improvements over this period?

b) Although the Filing Requirements for Transmission and Distribution Applications, dated June 28, 2010, anticipates that the Distribution Loss Factor for the test year would be calculated using a 5 average, it is not necessarily appropriate in all cases. Given recent history, please explain why the 2009 experience should not be given a greater weighting in this application?

RESPONSE

34. a) The data for 2009 is correctly presented, as verified from the sources; the IESO invoices and the billing system summary report for the year. There was no change in the calculation in 2009 compared to prior years. The loss factor is influenced by the unbilled kWh at each year end. The numbers provided do not include the unbilled kWh at each year end. For Kenora, November and December consumption in any year is substantially billed out in January and part of February of the following year. This creates a timing difference, as the IESO invoices bill the actual kWh drawn by the LDC each calendar month.

This timing delay is contributing to the low loss factor in 2009. When the months of actual consumption are paired up to the month that the actual IESO consumption was billed to Kenora Hydro, the actual 2009 loss is 1.034 plus supply of .0045 to be 1.0385. This is a better estimation of the line loss and consumption and purchases are more accurately matched in the calendar year.

	2008 Billed Consumption	Billed Cons. matched to IESO billed month	2008 IESO Purchases	Loss	Supply	Total Loss
Jan '08		10,632,076	11,982,014	1.127	0.0045	1.131
Feb		12,313,567	11,209,123	0.910	0.0045	0.915
March	10,632,076	**7,528,977**	10,365,974	1.377	0.0045	1.381
April	12,313,567	*7,933,947*	8,690,908	1.095	0.0045	1.100
May	**7,528,977**	7,991,781	8,158,457	1.021	0.0045	1.025
June	*7,933,947*	8,569,237	8,052,762	0.940	0.0045	0.944
July	7,991,781	8,817,551	8,650,491	0.981	0.0045	0.986
Aug	8,569,237	8,157,161	8,984,649	1.101	0.0045	1.106
Sept	8,817,551	7,590,009	8,002,802	1.054	0.0045	1.059
Oct	8,157,161	8,968,846	8,579,446	0.957	0.0045	0.961
Nov	7,590,009	11,812,122	9,669,053	0.819	0.0045	0.823
Dec	8,968,846	10,901,443	12,419,958	1.139	0.0045	1.144
Jan '09	11,812,122					
Feb '09	10,901,443					
	111,216,718	**111,216,718**	**114,765,637**	**1.032**	**0.0045**	**1.036**

	2009 Billed Consumption	Billed Cons. matched to IESO billed month	2009 IESO Purchases	Loss	Supply	Total Loss
Jan '09		12,519,502	12,491,727	0.998	0.0045	1.002
Feb		8,908,646	10,126,905	1.137	0.0045	1.141
March	12,519,502	**7,379,568**	10,285,705	1.394	0.0045	1.398
April	8,908,646	*8,275,119*	8,515,191	1.029	0.0045	1.034
May	**7,379,568**	7,661,362	8,251,898	1.077	0.0045	1.082
June	*8,275,119*	6,634,984	8,122,084	1.224	0.0045	1.229
July	7,661,362	8,166,926	8,367,211	1.025	0.0045	1.029
Aug	6,634,984	10,012,734	8,439,879	0.843	0.0045	0.847
Sept	8,166,926	8,216,250	7,398,959	0.901	0.0045	0.905
Oct	10,012,734	8,361,043	8,762,321	1.048	0.0045	1.052
Nov	8,216,250	11,060,985	8,662,390	0.783	0.0045	0.788
Dec	8,361,043	10,075,858	11,510,885	1.142	0.0045	1.147
Jan '10	11,060,985					
Feb '10	10,075,858					
	107,272,977	**107,272,977**	**110,935,154**	**1.034**	**0.0045**	**1.039**

b) Kenora Hydro does not believe that the low line loss in 2009 is representative of anything other than the timing difference with respect to unbilled consumption.

QUESTION 35

35. <u>Ref: Exhibit 9 /Tab 3/ Schedules 1 & 2</u>

Kenora Power indicates that it is seeking recovery of a one time expense of $16,378 related to the Late Payment Penalty class action settlement and which is expected to be paid on June 30, 2011. Kenora Hydro is proposing to recover this amount using a $0.25

rider/meter/month for one year. Board staff also note that there is a generic proceeding EB-2010-0295 on the matter of the recovery of LLP litigation costs.

w) Please explain why Kenora Hydro is proposing a rate which appears to collect $13,473, which is less that the amount it seeks to recover.

RESPONSE

35. a) An error is noted in Exhibit 9, Tab 2, Table 10. Although the request for recovery of $16,378 is correct, the recoveries by class numbers are not correct. In an effort to split the customer counts by RPP vs non-RPP, this table was not updated to include the counts of the non-RPP customers. The rate of $0.25 per customer per month remains the same, but the total dollar allocation to each class has increased, resulting in the total dollar claim equaling the noted amount in the text of the application.

Exhibit 9 - Table 10 - Late Payment Penalty - Settlement

Late Payment Settlement Costs		Amount	Allocator	Residential	GS < 50 KW	GS > 50	Unmetered Scattered Load	Street Light	Total
				Total Collection By Class					
Late Payment Penalty Settlement Costs		$ 16,378	Customer Count	$ 14,041	$ 2,112	$ 225	$ -	$ -	$ 16,378
Number of years for Recovery	1								
Balance to be collected per year		$ 16,378		$ 14,041	$ 2,112	$ 225	$ -	$ -	$ 16,378
Billing Determinants				/meter/mo	/meter/mo	/meter/mo			
Late Payment Penalty Settlement, Fixed (per month)				$0.25	$0.25	$0.25			

QUESTION 36

36 . Ref: Exhibit 9/ Tab 2/ Schedule 1 p. 1

Kenora Hydro is seeking approval to include smart meter capital deployed as of December 31, 2009 in the 2011 rate base and smart meter operation and maintenance expenses of $59,000 in the 2011 OM&A.

a) Please identify the amount in 2011 rate base that is attributable to smart meter capital deployed.

b) Please indicate where the amount for smart meter capital deployed appears or is included in the Fixed Asset Continuity Schedules shown at Exhibit 2/Tab 2/ Schedule 1 /Table 8 and Table 9.

RESPONSE

36. a) 2011 rate base includes $1,030,168 of Smart Meter capital.

b) In Exhibit 2, tab 2, Schedule 1, Table 9, $1,030,168 of Smart Meter capital is included as part of the opening balance in 2011 under account 1860 Meters. Opening accumulated amortization of $(130,826) was also added to this table in 2011.

QUESTION 37

37. Ref: Exhibit 1/ Tab 1/ Schedule 5 p. 2

Kenora Hydro is seeking approval to create a new variance account to track future charges from the IESO for smart meter entity and MDMR costs.

Please indicate whether Kenora Hydro's 2010 and 2011 OM&A includes a provision/amount for these charges. If so, please state the amount(s).

RESPONSE

37. Kenora Hydro's 2010 and 2011 OM&A expenses do not currently have any provision for future charges from the IESO for the Smart Meter Entity (MDMR) costs.

QUESTION 38

38. Ref: Exhibit 9/ Tab 2/ Schedule 1 p. 2

The evidence states that Kenora Hydro is not asking for recovery of the stranded meter costs, and has not removed any stranded meter assets from the rate base. Kenora Hydro indicates that the net book value of all conventional meters was $174,069, for purchases up to December 31, 2005; that the meters purchased from 2006 to 2008 had a net book value of $40,999 and; the amounts are all currently included in the rate base for this application.

Regarding the regulatory ratemaking treatment of stranded meter costs, some distributors have transferred the cost of stranded meters from Account 1860, Meters, to "Sub-account Stranded Meter Costs" of Account 1555, while in some cases distributors have left these costs in Account 1860. From the evidence it appears that the stranded meter costs are recorded in Account 1860. If so, please provide the following information (under "a"). If the costs are recorded in Account 1555, please provide the information set out under "b"

a) If the stranded meter costs remained recorded in Account 1860, Meters, please answer the following questions:

i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.
ii. Please provide the amount of the pooled residual net book value of removed from service stranded meters, less any sale proceeds and contributed capital as of December 31, 2009.
iii. Was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, provide the total depreciation expense amount for the period from the time the meters became stranded to December 31, 2009.
iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, provide the total depreciation expense amount that would have been applicable for the period from the time the meters because stranded to December 31, 2009.
v. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
vi. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
vii. In the outlined format of the table shown below, Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

Table x - Summary the Residual Net Book Value of Stranded Meter Costs

Year	Gross Asset (A)	Accumulated Amortization (B)	Net Asset (C = A–B)	Proceeds on Disposition (D)	Contributed Capital (E)	Residual Net Book Value (F=C-D-E)
2006						
2007						
2008						
2009						
2010 (1)						
Total						

(1) For 2010, please indicate whether the amounts provided are on a forecast or actual basis.

b) If the stranded meter costs were transferred to "Sub-account Stranded Meter Costs" of Account 1555, answer the following questions:
   i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.

ii. Please provide the amount of the pooled residual net book value of the removed from service stranded meters, less any sale proceeds and contributed capital, which were transferred to this sub-account as of December 31, 2009.
iii. Since transferring the removed stranded meter costs to the sub-account, was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, please provide the total depreciation expense amount for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, please provide the total depreciation expense amount that would have been applicable for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
v. Were carrying charges recorded for the stranded meter cost balances in the sub-account, and if so, please provide the total carrying charges recorded to December 31, 2009.
vi. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
vii. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
viii. In the outlined format of the table shown above (at the end of "a"), Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

RESPONSE

38. a) i) The stranded meters resulting from the installation of the smart meters are currently in account 1860 at their original recorded cost. These meters are currently being amortized at a 25 year rate. Any reporting on the capital assets of Kenora Hydro would include the cost and accumulated amortization on the stranded meters.

ii) As of December 31, 2009, the net book value of all stranded meters is $215,068. This is made up of a NBV of $174,069 for purchases up to December 31, 2005, and $40,999 NBV for purchases in 2006 to 2008. There were no additions to this account in 2009. To date there has been no sale proceeds or historical capital contribution collected for the cost of the meters.

iii) As the stranded meters continue to be a part of the rate base, annual amortization on the stranded meters continues. As at December 31, 2009, the total cost attributable to the stranded meters would be $559,338, and accumulated amortization to the end of

2009 of $365,662. In 2009, there was $21,392 in amortization expense taken for the year.

iv) Depreciation expense was and continues to be taken on the stranded meters.

v) See details in section v. of this question.

vi) Kenora Hydro does not intent to change the accounting treatment for the stranded meters until and as directed by the OEB.

vii) Summary of Stranded Meter costs

OEB Interrogatories
Question 38

Year	Gross Asset	Accumulated Amortization	Net Asset	POD	Contributed Capital	Residual NBV
2006	521,153	(301,507)	219,646	0	0	219,646
2007	558,801	(322,878)	235,923	0	0	235,923
2008	559,338	(344,270)	215,068	0	0	215,068
2009	559,338	(365,662)	193,676	0	0	193,676
2010 *	559,338	(387,054)	172,284	0	0	172,284

* The 2010 figures are forecast

QUESTION 39

39. <u>Ref: Exhibit 9/ Tab 2/ Schedule 1 Table 10 and Schedule 3 Appendix B p.3</u>
Kenora Hydro is seeking approval for a new rate rider of $2.09/mo./meter, to recover the revenue requirement and actual costs to December 31, 2010. Per the *Smart Meter Funding and Cost Recovery G-2008-0002* (dated October 22, 2008) guideline pages 11-12, utilities seeking smart meter cost recovery must base their request on costs already expensed (not forecast).

a) Please provide the rationale for including the "2010 revenue requirement" amount in the rate rider calculation (since there are no audited statements for 2010).

b) Please confirm whether the Incremental Revenue Requirement Calculation shown at Exhibit 9/Tab2/Schedule 3 Appendix B p.3 reflects Kenora Hydro's actual tax rate and

Board-approved allowed rate of return in the revenue requirement calculations for 2008, 2009 and 2010.

RESPONSE

39. a) Kenora Hydro has included the 2010 revenue requirement for smart meter capital and expenses to the end of 2010. The substantial upfront costs of the smart metering project have been funded through borrowing, which comes at a cost to the rate payer. Any interest savings that can be realized through the collection of a rate rider that covers the costs in 2010, without having to borrow additional funds, would be seen as a prudent action.

b) The Incremental revenue calculation for 2008, 2009 and 2010 is based on the proposed 2011 rates, however, these will be updated to reflect the most recent cost of capital rates at the time final rates are determined.

Deemed ST Debt	4%
Deemed LT Debt	56%
Deemed Equity	40%
ST Interest	2.07%
LT Interest	3.95%
ROE	9.85%

QUESTION 40

40. Ref: Exhibit 4/Tab 3/Schedule 2/Appendix A/Tax Return for 2009
Please provide the federal and Ontario Notice of Assessments, Notice of Re-assessments (if applicable), Statements of Adjustments, and any other correspondence with the CRA and Ministry of Finance regarding any tax items, or tax filing positions that may be in dispute, or under consideration or review, for tax years 2007 to 2009.

RESPONSE

40. For the 2007 taxation year, $2,764 was received as a credit for a loss carry-back from the 2009 taxation year. There have been no other re-assessments, amounts in dispute or under review for taxation years 2007, 2008 and 2009. See notices in Appendix D.

Tax Year	Notice of Assement Date	Assessment Amount	Notice of Re-Assessment	Re-Assessment Amount	Credit on Re-Assessment	Re-Assessment Purpose
2007	16-Jul-08	26,747	10/25/2010	23,983	(2,764)	2009 loss carry back
2008	10-Jun-09	22,694				
2009	20-Sep-10	2,269				

QUESTION 41

41. Ref: Exhibit 9/ Tab 1/ Schedule 1
Table 1 presents the Regulatory Balances as at December 31, 2009.

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

a. Please revise the deferral and variance account continuity schedule to include account 1592 as a group 2 account and enter all the required information for transactions, adjustments, interest carrying charges, etc. for all the relevant years.

b. Please describe each type of tax item that has been accounted for in account 1592.

c. Please provide the calculations that show how each item was determined and provide any pertinent supporting evidence.
d. Please confirm whether or not the Applicant followed the guidance provided in the July 2007 FAQ. If not, please explain why not.

e. Please identify the account balance as of December 31, 2009 as per the 2009 audited financial statements. Please identify the account balance as of December 31, 2009 as per the April 2010 2.1.7 RRR filing to the Board. Please provide a reconciliation if the balances provided in the above are not identical to each other and to the total amount shown on the continuity schedule.

f. Should the Board wish to dispose of this account at this time, please identify the following:
   i. the allocator that in the applicant's view would be most appropriate to use in allocating the balance to the rate classes.

ii. the disposition period that the applicant would prefer if different from the period proposed for the remaining deferral and variance accounts and explain why.
iii. the billing determinant that in the applicant's view would be most appropriate to use.

g. Please complete the following table based on the previous answers. Add rows as required to complete the analysis in an informative manner, or if the applicant considers that any of the rows are not applicable, please delete the rows and provide an explanation. If the applicant uses Excel to prepare the table, please submit the live Excel workbook.

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

RESPONSE

41. Kenora Hydro has recorded only carrying charges of $(466.77) since April 30, 2006 into account 1562. Kenora Hydro will be reviewing this account and will follow the Board's recommendations on the outcome of Proceeding EB-2008-0381. As no disposition is requested, a detailed review of this account was not done for this filing.

APPENDIX A

Question 10 – Capital Contribution

	A	B	C	D	E	F	G	H	I	J
1	Table No.			**Project name**	Kristjansson Ext					
2				**Developer name**						
3				**Customer connection horizon (max 5)**	5	YELLOW CELLS ONLY ARE FOR DATA INPUT OF ANNUAL CONSTANTS.				
4				**Customer revenue horizon (max 25)**	25	BLUE CELLS ARE USED FOR PROJECT SPECIFIC DATA				
5	1			**Forecasted customer additions (non-cumulative)**						
6				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
7				Residential	1		1			
8				General Service < 50kW						
9				General Service > 50kW (non-TOU)						
10				General Service > 50kW (TOU)						
11				Large User						
12				Other class - non-demand						
13				Other class - non-demand						
14				Other class - demand		0				
15				Other class - demand						
16	2			**Estimate of average energy per added customer (monthly kWh)**						
17				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
18				Residential	400	400	800	800	800	
19				General Service < 50kW						
20				Other class - non-demand						
21				Other class - non-demand						
22	3			**Estimate of average demand per added customer kW**						
23				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
24				General Service > 50kW (non-TOU)	0	0	0	0	0	
25				General Service > 50kW (TOU)	0	0	0	0	0	
26				Large User	0	0	0	0	0	
27				Other class - demand	0	0	0	0	0	
28				Other class - demand	0	0	0	0	0	
29	4			**Approved wires only rates per rate schedule - monthly fixed charge**						
30				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
31				Residential	10.81	10.81	10.81	10.81	10.81	
32				General Service < 50kW	20.56	20.56	20.56	20.56	20.56	
33				General Service > 50kW (non-TOU)	291.41	291.41	291.41	291.41	291.41	
34				General Service > 50kW (TOU)	291.41	291.41	291.41	291.41	291.41	
35				Large User	0.00	0.00	0.00	0.00	0.00	
36				Other class - non-demand						
37				Other class - non-demand						
38				Other class - demand	0.00	0.00	0.00	0.00	0.00	
39				Other class - demand						
40	5			**Approved wires only rates per rate schedule - variable charge (per kWh)**						
41				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
42				Residential	0.0114	0.0114	0.0114	0.0114	0.0114	
43				General Service < 50kW	0.0033	0.0033	0.0033	0.0033	0.0033	
44				Other class - non-demand						
45				Other class - non-demand						
46	6			**Approved wires only rates per rate schedule - demand charge (per kW)**						
47				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
48				General Service > 50kW (non-TOU)	0.6222	0.6222	0.6222	0.6222	0.6222	
49				General Service > 50kW (TOU)	0.6222	0.6222	0.6222	0.6222	0.6222	
50				Large User	0.0000	0.0000	0.0000	0.0000	0.0000	
51				Other class - demand	0.0000	0.0000	0.0000	0.0000	0.0000	
52				Other class - demand						

	A	B	C	D	E	F	G	H	I	J
53	7		**New facilities and/or reinforcement investments**							
54				*Capital elements*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
55				Distribution stations						
56				Distribution lines	35,500					
57				Distribution transformers						
58				Secondary busses						
59				Services	-	-	-			
60				Other	-					
61				Total	35,500	-	-	-	-	
62				Assessed value of land						
63	8		**Customer specific capital**							
64				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	
65				Residential	0	0	0	0	0	
66				General Service < 50kW	0	0	0	0	0	
67				General Service > 50kW (non-TOU)	0	0	0	0	0	
68				General Service > 50kW (TOU)	0	0	0	0	0	
69				Large User	0	0	0	0	0	
70				Other class - non-demand	0	0	0	0	0	
71				Other class - non-demand	0	0	0	0	0	
72				Other class - demand	0	0	0	0	0	
73				Other class - demand	0	0	0	0	0	
74				Total	0	0	0	0	0	
75	9		**Incremental overheads (capital) at project level applicable to distribution system expansion**							
76				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Years 6-25*
77				Residential	0	0	0	0	0	0
78				General Service < 50kW	0	0	0	0	0	0
79				General Service > 50kW (non-TOU)	0	0	0	0	0	0
80				General Service > 50kW (TOU)	0	0	0	0	0	0
81				Large User	0	0	0	0	0	0
82				Other class - non-demand	0	0	0	0	0	0
83				Other class - non-demand	0	0	0	0	0	0
84				Other class - demand	0	0	0	0	0	0
85				Other class - demand	0	0	0	0	0	0
86	10		**Attributable incremental annual operating, maintenance and administration expenditures (per customer addition)**							
87				*Customer Class*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Years 6-25*
88				Residential	170	170	340	340	340	340
89				General Service < 50kW						
90				General Service > 50kW (non-TOU)						
91				General Service > 50kW (TOU)						
92				Large User						
93				Other class - non-demand						
94				Other class - non-demand						
95				Other class - demand			1290	1290	1290	1290
96				Other class - demand						

	A	B	C	D	E	F	G	H	I	J
97	**11**		**Discount rate data**							
98				*Incremental after-tax cost of capital*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Years 6-25*
99				Borrowing rate	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
100				Rate of return on common equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
101				Total debt outstanding (%)	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
102				Total common equity (%)	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
103				Marginal income tax rate	43.50%	43.50%	43.50%	43.50%	43.50%	43.50%
104				**Incremental after-tax weighted average cost of capital**	6.1700%	6.1700%	6.1700%	6.1700%	6.1700%	6.1700%
105										
106	**12**		**Tax rate data**							
107				*Type of tax*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Years 6-25*
108				Municipal tax rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
109				Marginal income tax rate	43.50%	43.50%	43.50%	43.50%	43.50%	43.50%
110				Federal capital tax rate	0.225%	0.225%	0.225%	0.225%	0.225%	0.225%
111				Provincial capital tax rate	0.300%	0.300%	0.300%	0.300%	0.300%	0.300%
112				Capital cost allowance rate	4.000%	4.000%	4.000%	4.000%	4.000%	4.000%
113				Taxable capital employed in Canada	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
114				Capital Deduction (Federal purposes)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
115				Base for Federal capital tax	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

	Total	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15	YEAR 16	YEAR 17	YEAR 18	YEAR 19	YEAR 20	YEAR 21	YEAR 22	YEAR 23	YEAR 24	YEAR 25
Discount rate		0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170	0.06170
Present value factor - end of year		0.94189	0.88715	0.83559	0.78703	0.74129	0.69821	0.65764	0.61942	0.58342	0.54952	0.51758	0.48750	0.45917	0.43249	0.40735	0.38368	0.36138	0.34038	0.32060	0.30197	0.28442	0.26789	0.25232	0.23766	0.22385
Present value factor - mid-year		0.97051	0.91411	0.86098	0.81095	0.76382	0.71943	0.67762	0.63824	0.60115	0.56622	0.53331	0.50232	0.47313	0.44563	0.41973	0.39534	0.37237	0.35073	0.33034	0.31115	0.29306	0.27603	0.25999	0.24488	0.23065
	Total	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
OPERATIONS																										
Customer revenue - fixed charge rate																										
Residential	6,097	65	130	195	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259
General Service < 50kW	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (non-TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Large User	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total fixed charge revenue	6,097	65	130	195	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259	259
Customer revenue - variable charge rate																										
Residential	5,062	27	55	164	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219
General Service < 50kW	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (non-TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Large User	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total variable charge revenue	5,062	27	55	164	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219	219
Customer revenue - total	11,158	92	184	359	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478	478

Revenue received for each of the years 6 - 25 are the same as year 5

	Total	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Incremental OM&A																										
Residential	15,725	85	170	510	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680
General Service < 50kW	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (non-TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Service > 50kW (TOU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Large User	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - non-demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other class - demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Incremental OM&A	15,725	85	170	510	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680	680

Current year customer additions are divided by two in order to recognize level activities throughout the year.

	Total	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
CAPITAL COSTS																										
New facilities and/or reinforcement investments	35,500	35,500	0	0	0	0																				
Customer specific capital																										
Residential	0	0	0	0	0	0																				
General Service < 50kW	0	0	0	0	0	0																				
General Service > 50kW (non-TOU)	0	0	0	0	0	0																				
General Service > 50kW (TOU)	0	0	0	0	0	0																				
Large User	0	0	0	0	0	0																				
Other class - non-demand	0	0	0	0	0	0																				
Other class - non-demand	0	0	0	0	0	0																				
Other class - demand	0	0	0	0	0	0																				
Other class - demand	0	0	0	0	0	0																				
Total customer specific capital (exclude land)	0	0	0	0	0	0																				
Incremental Overheads at project level																										
Residential	0	0	0	0	0	0																				
General Service < 50kW	0	0	0	0	0	0																				
General Service > 50kW (non-TOU)	0	0	0	0	0	0																				
General Service > 50kW (TOU)	0	0	0	0	0	0																				
Large User	0	0	0	0	0	0																				
Other class - non-demand	0	0	0	0	0	0																				
Other class - non-demand	0	0	0	0	0	0																				
Other class - demand	0	0	0	0	0	0																				
Other class - demand	0	0	0	0	0	0																				
Total incremental overheads	0	0	0	0	0	0																				
Land and land rights	0	0	0	0	0	0																				
Annual Total Capital Costs	35,500	35,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Annual Capital Costs excluding land	35,500	35,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

There is assumption made here that there are no up front capital costs in the first year, that Costs in the first year are incurred evenly during the year.

	Total	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Present Value Of Annual Capital Costs	34,453	34,453	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Present Value Of CCA Tax Shield																										
Opening undepreciated capital cost		35,500	-200	-192	-184	-177	-170	-163	-156	-150	-144	-138	-133	-128	-122	-118	-113	-108	-104	-100	-96	-92	-88	-85	-81	-78
Less: Contributed Capital		-35,704																								
Less: Capital cost allowance	-129	-4	-8	-8	-7	-7	-7	-7	-6	-6	-6	-6	-5	-5	-5	-5	-5	-4	-4	-4	-4	-4	-4	-3	-3	-3
Closing undepreciated capital cost		-200	-192	-184	-177	-170	-163	-156	-150	-144	-138	-133	-128	-122	-118	-113	-108	-104	-100	-96	-92	-88	-85	-81	-78	-75
CCA Annual Income Tax Savings		-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-1	-1	-1
Present Value of CCA Tax Shield	-32	-2	-3	-3	-3	-2	-2	-2	-2	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-0	-0	-0	-0	-0

	Total	1	2	3	4	5	6	7	8	9	10	11	12
Present Value of Operating Cash Flow													
Present Value of Net Operating Cash													
Customer revenue - total	11,158	92	184	359	478	478	478	478	478	478	478	478	478
Less Total Incremental OM&A	-15,725	-85	-170	-510	-680	-680	-680	-680	-680	-680	-680	-680	-680
Net (Wires) Operating Cash before Income Tax	-4,567	7	14	-151	-202	-202	-202	-202	-202	-202	-202	-202	-202
Present value of Net Operating Cash	-2,170	7	13	-130	-164	-154	-145	-137	-129	-121	-114	-108	-101
Present Value of Taxes													
Income Taxes	-1,982	3	7	-66	-87	-88	-88	-88	-88	-88	-88	-88	-88
Provincial Capital Taxes	-10	-1	-1	-1	-1	-1	-0	-0	-0	-0	-0	-0	-0
Federal Capital Taxes	-7	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0
Annual Municipal Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Taxes	-1,999	2	6	-67	-88	-88	-88	-88	-88	-88	-88	-88	-88
PV of Taxes	-951	2	5	-57	-72	-68	-64	-60	-56	-53	-50	-47	-44
PV of Municipal TaxesTaxes	0	0	0	0	0	0	0	0	0	0	0	0	0

	13	14	15	16	17	18	19	20	21	22	23	24	25
Present Value of Operating Cash Flow													
Present Value of Net Operating Cash													
Customer revenue - total	478	478	478	478	478	478	478	478	478	478	478	478	478
Less Total Incremental OM&A	-680	-680	-680	-680	-680	-680	-680	-680	-680	-680	-680	-680	-680
Net (Wires) Operating Cash before Income Tax	-202	-202	-202	-202	-202	-202	-202	-202	-202	-202	-202	-202	-202
Present value of Net Operating Cash	-95	-90	-85	-80	-75	-71	-67	-63	-59	-56	-52	-49	-47
Present Value of Taxes													
Income Taxes	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88
Provincial Capital Taxes	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0
Federal Capital Taxes	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0
Annual Municipal Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Taxes	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88	-88
PV of Taxes	-42	-39	-37	-35	-33	-31	-29	-27	-26	-24	-23	-22	-20
PV of Municipal TaxesTaxes	0	0	0	0	0	0	0	0	0	0	0	0	0

Net Present Value Summary

1. PV of Operating Cash Flow		
a) PV of Net Operating Cash Flow	-2,170	
b) PV of Taxes	951	
PV of Operating Cash Flow	-1,219	
2. PV of Capital	-34,453	
3. PV of CCA Tax Shield	-32	
NET PRESENT VALUE	($35,704)	Capital Contribution required from Customer

APPENDIX B

Question 13 – Truck #54

TO: Dave Sinclair

FROM: Mike Mostow, Fleet/Solid Waste Supervisor

DATE: January 14, 2011

SUBJECT: H-54

The accompanying photos are of the rusted components of the service body on unit 54. Although the under body deterioration is hard to visualize through still photos, there is enough material corroded away to cause concern in the very near future. The actual body construction is that of fiberglass bins installed onto a steel sub frame assembly. At first look the fiberglass body components look good, but the material attaching them together and securing the components as an assembly, are deteriorating to the point of failure. The cross members securing the turret to the chassis is corroded as well but not showing signs of movement. The main truck frame in the area of the turret mounting has lost 25% of its original thickness due to rust.

Due to the components at this time, it would be my recommendation to start the proceeding of ordering a replacement unit as delivery will take anywhere from 6-11 months for delivery.

The photos and numbers are grouped into structure components of concern as follows:

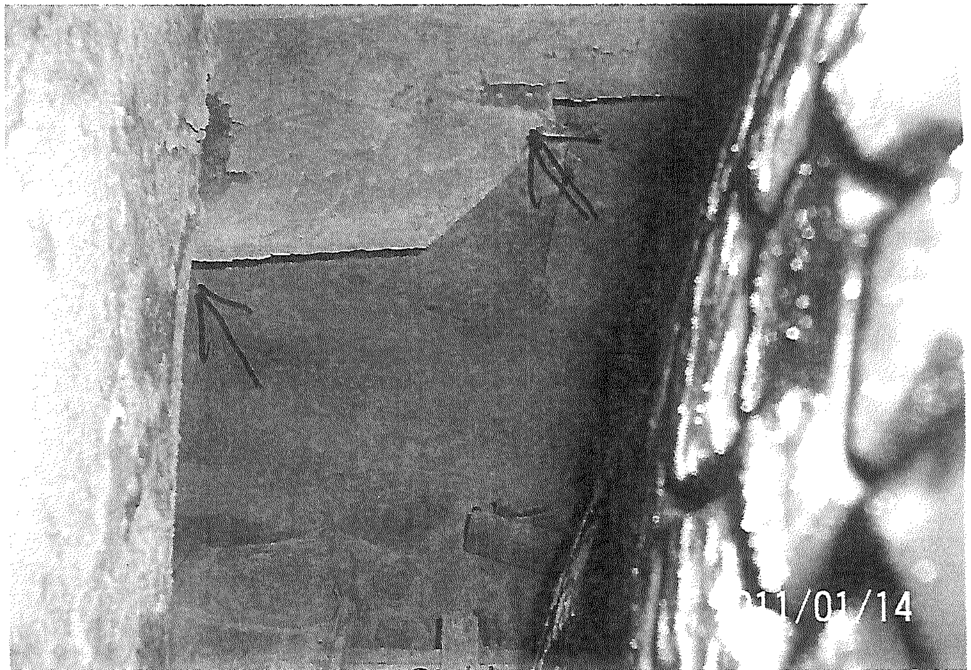
Substructure, 2484, 2490, 2491, 2495, 2498, badly rusted Gussets and Framework.

Main Frame 2485,2486,2487, Deteriorated main frame

Wheel Wells and Bin Supports, 2488, 2489, 2492, 2493,2494, 2496, 2497

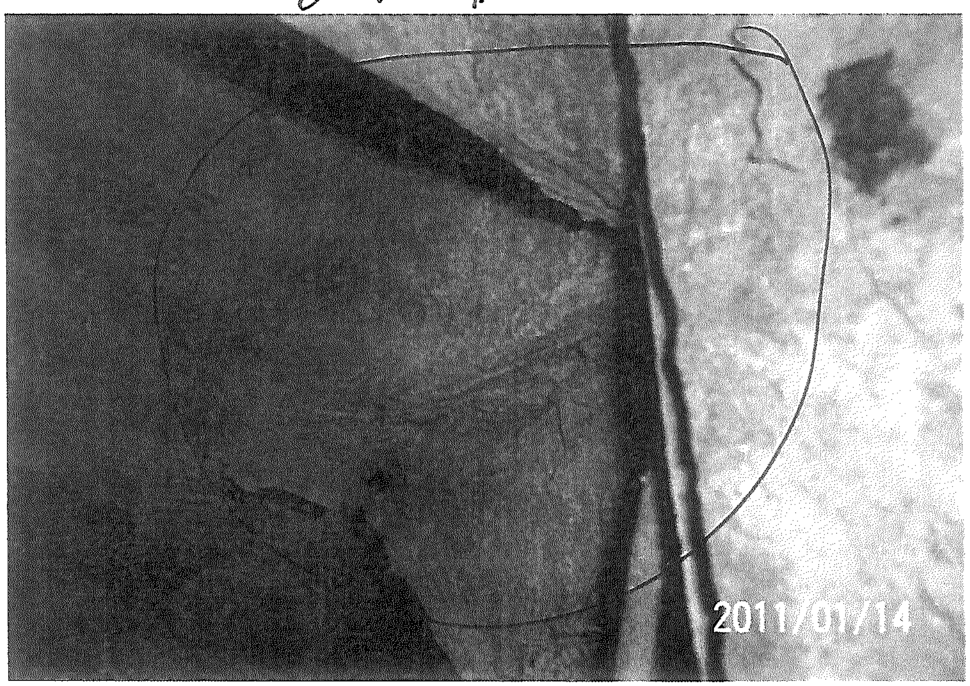
Inner Fenders and Side Bin Support, 2499, 2500, 2501, 2502

Exterior bin supports, 2503, 2504, 2505

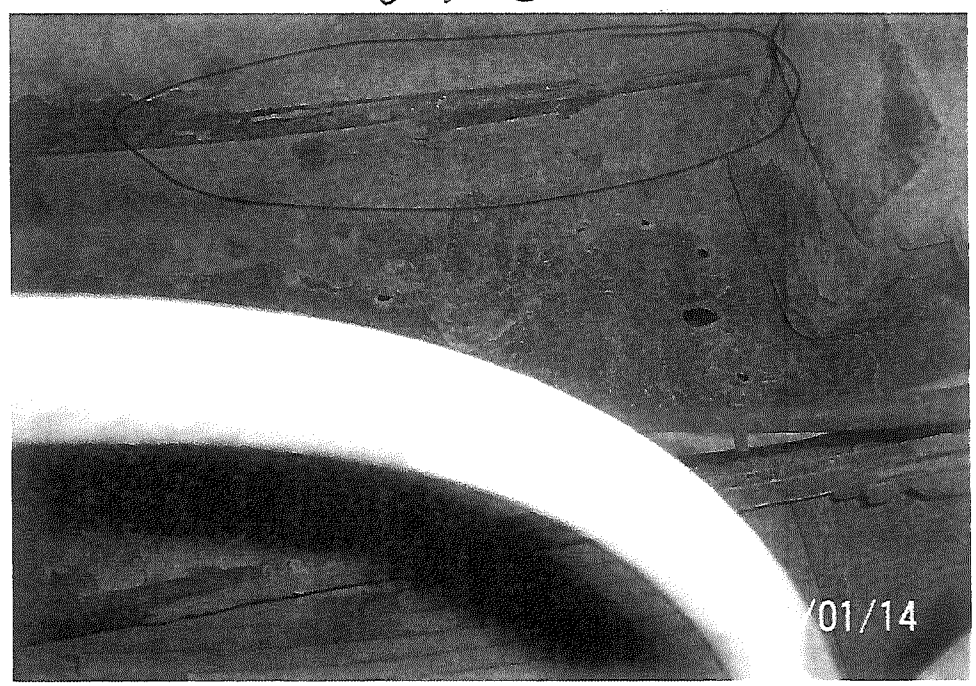


2484

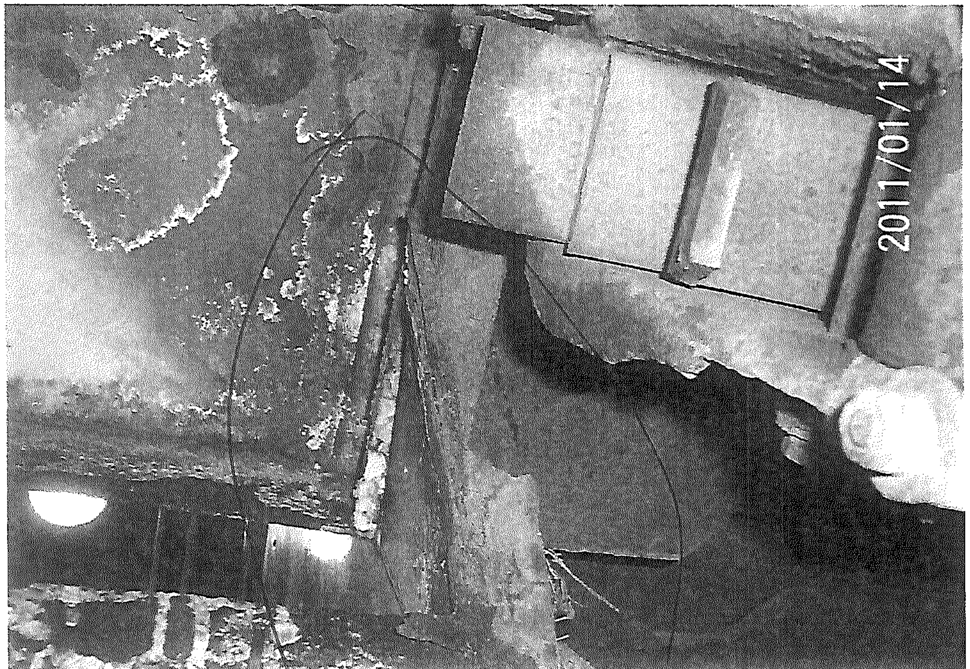
2490



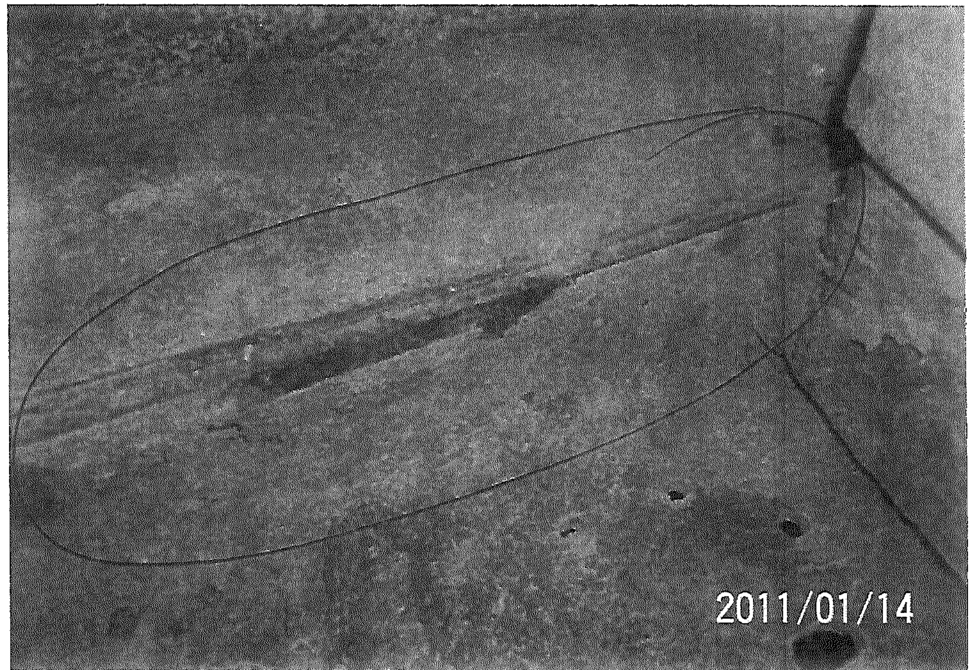
2495



2485



2491



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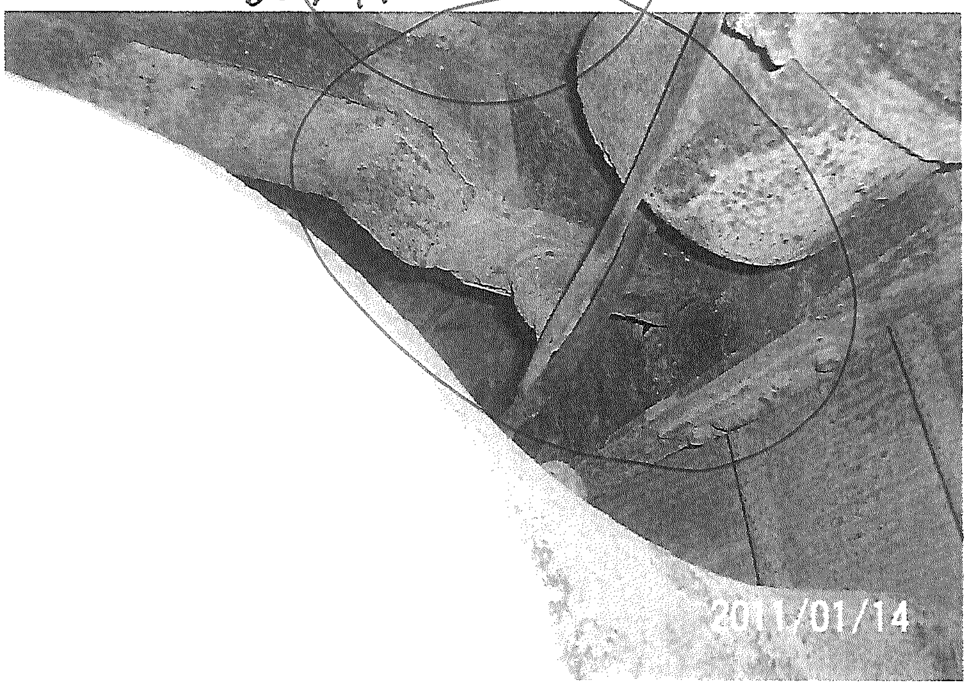

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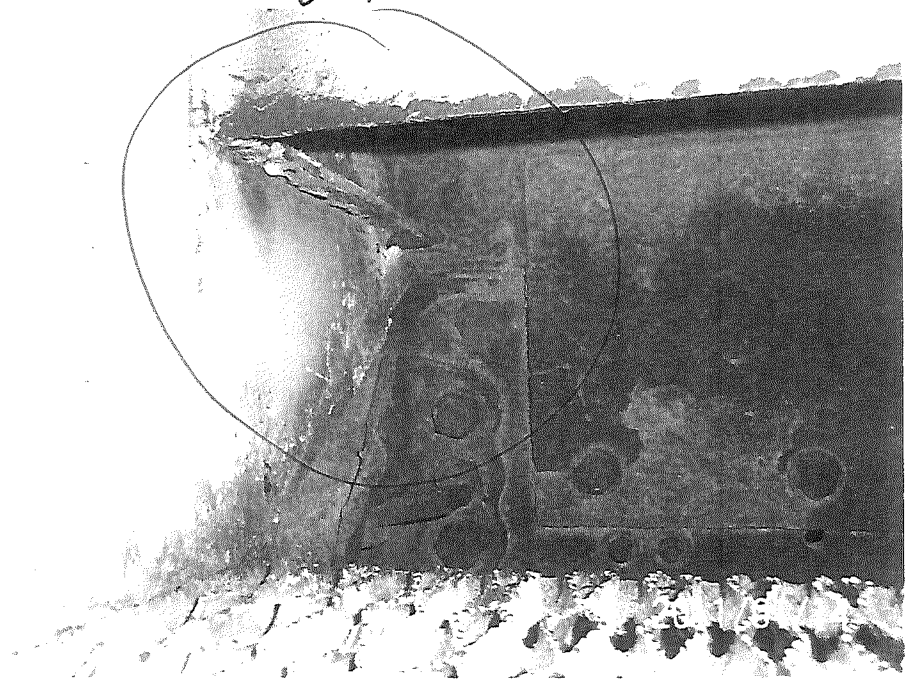
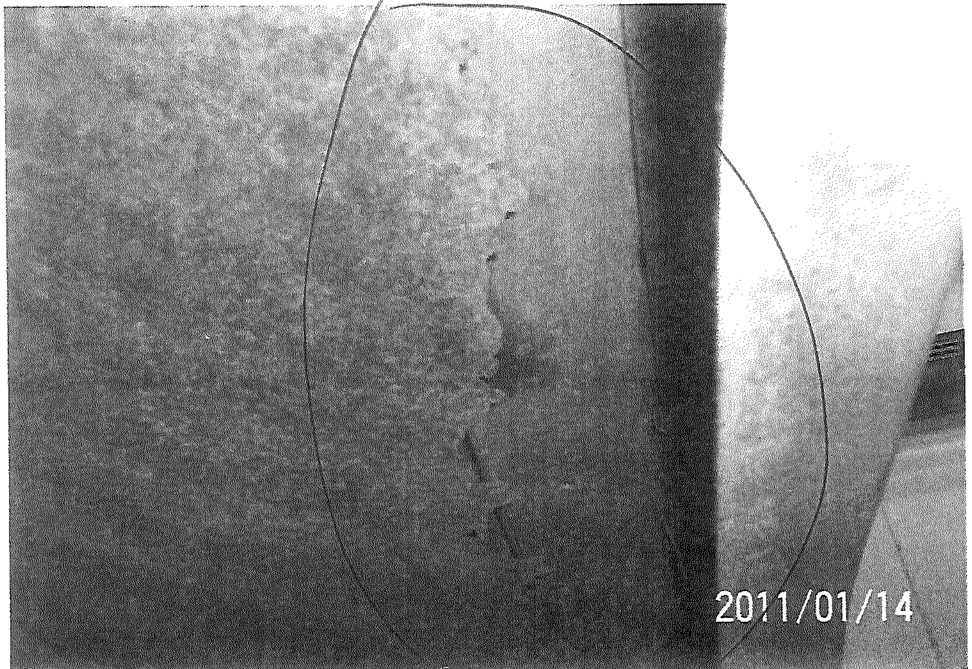
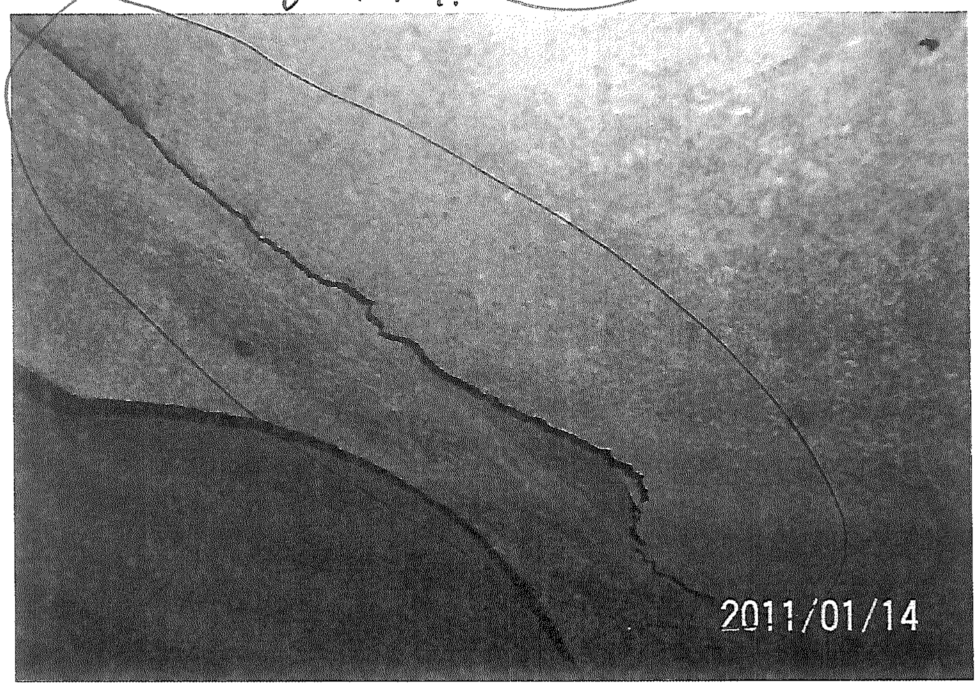


2498



2497.

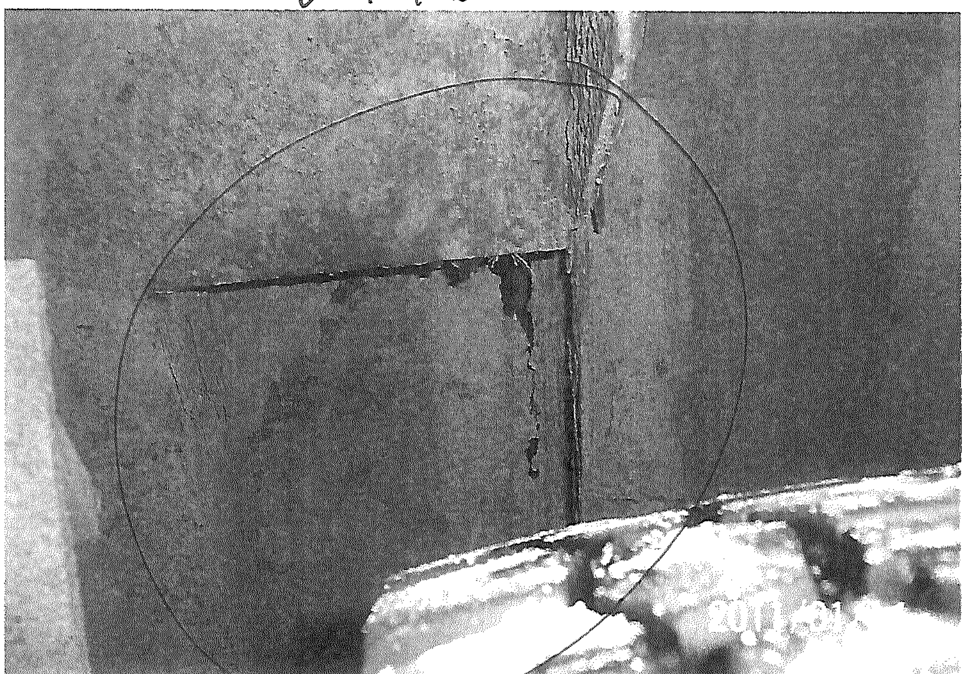
2480



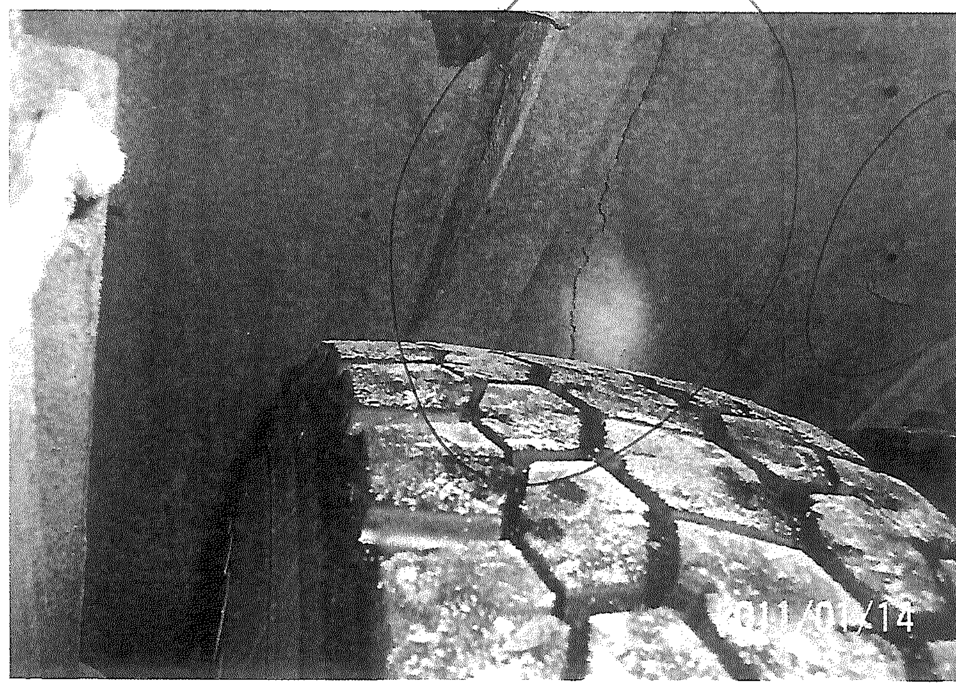
2496

2488

2493

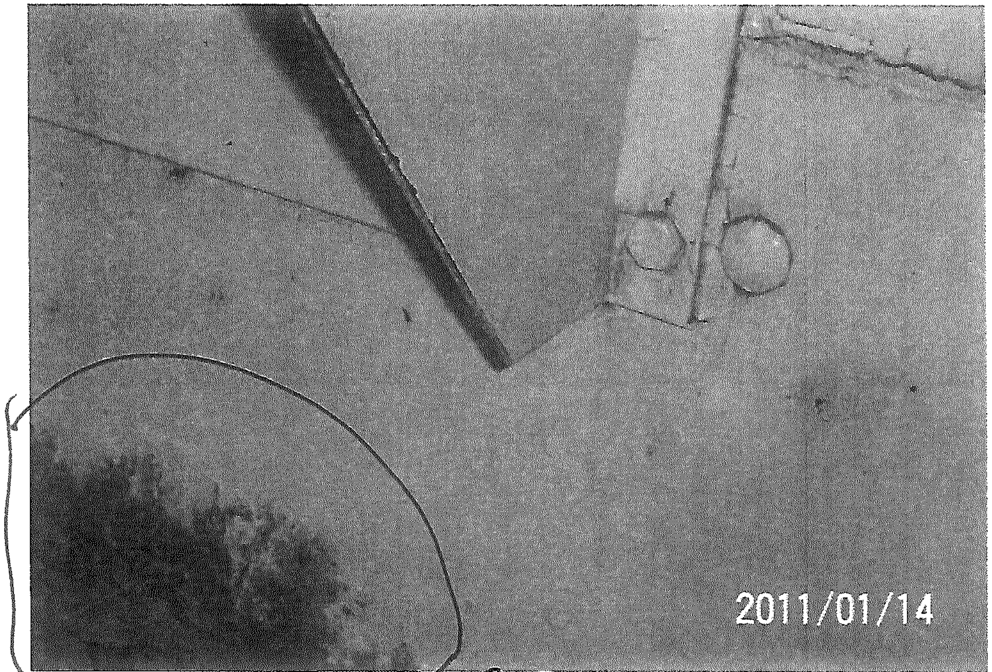


2492



2494

2499.



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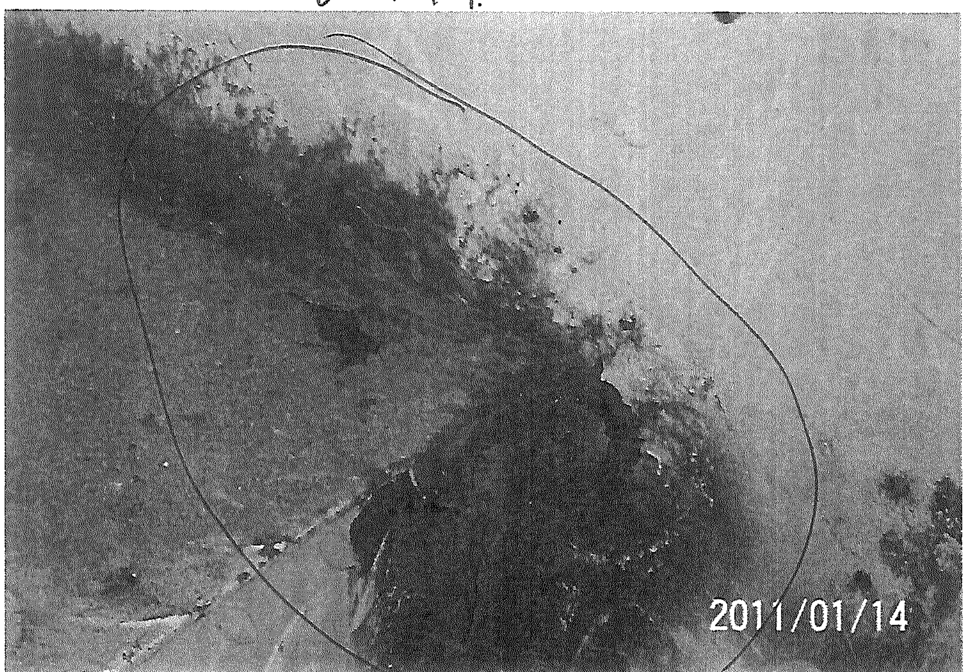
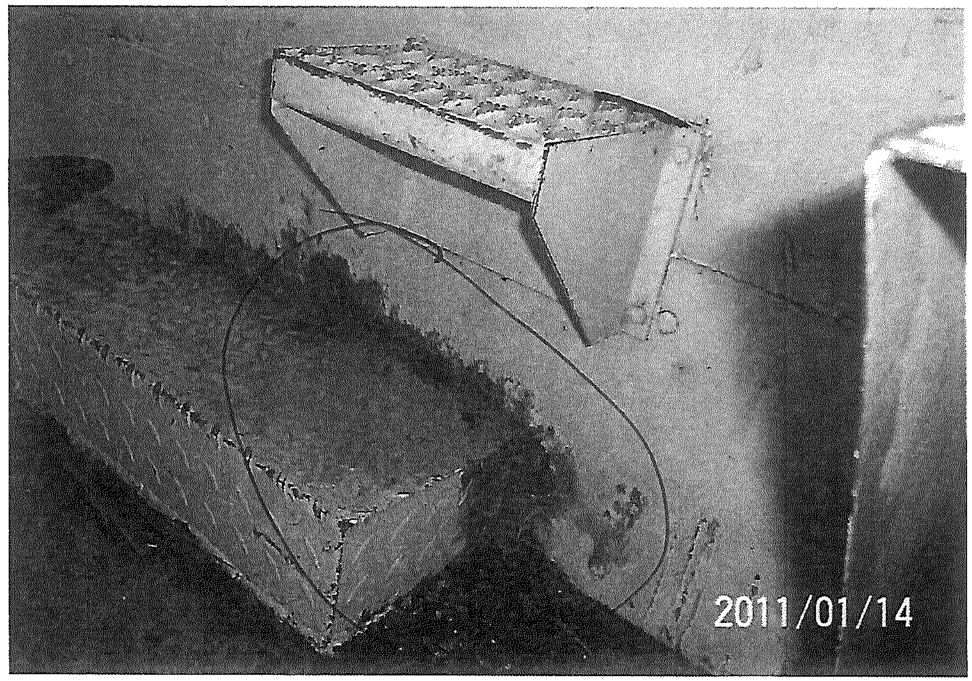
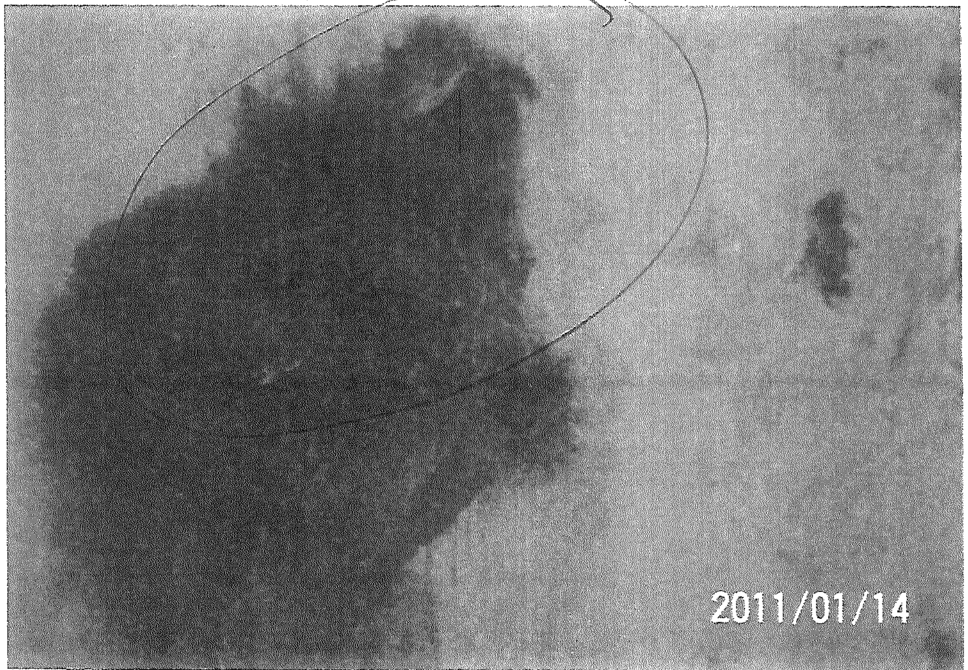


2502.

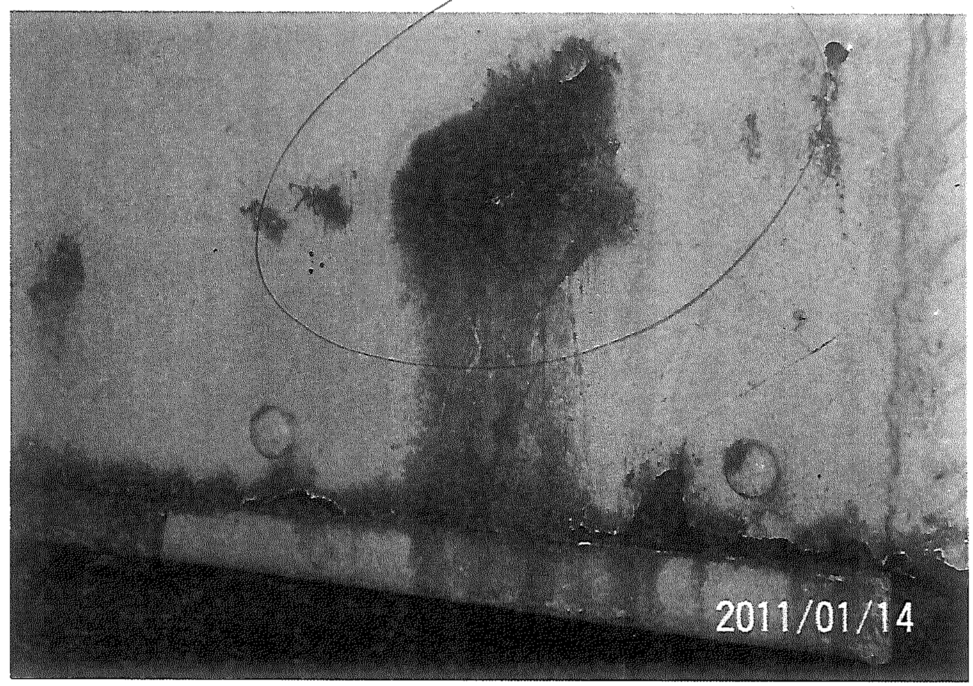


2500



2503

2505



2504.

APPENDIX C

Question 25 – Services Agreement with the City of Kenora

THE CORPORATION OF THE CITY OF KENORA

BY-LAW NUMBER 147 - 2009

A BY-LAW TO EXECUTE AN AGREEMENT BETWEEN THE CORPORATION OF THE CITY OF KENORA AND THE KENORA HYDRO ELECTRIC CORPORATION LTD.

WHEREAS By-law Number 39-2003 established a contractual relationship between the Corporation of the City of Kenora and the Kenora Hydro Electric Corporation Ltd.; and

WHEREAS the Kenora Hydro Electric Corporation Ltd. and the Corporation of the City of Kenora are affiliated corporations; and

WHEREAS the Corporation of the City of Kenora and the Kenora Hydro Electric Corporation Ltd. wish to modify the existing contractual relationship previously established by By-Law 39-2003;

NOW THEREFORE the Council of the Corporation of the City of Kenora enacts as follows:

1. THAT the Corporation of the City of Kenora enters into an Agreement with the Kenora Hydro Electric Corporation Ltd., and that this Agreement forms part of this By-law as Attachment "A".

2. THAT the Mayor and Clerk be hereby authorized to execute the Agreement on behalf of The Corporation of the City of Kenora.

3. THAT By-law Number 39-2003 shall be repealed effective 1 January, 2010.

4. THAT this By-law, including the Agreement as outlined in Attachment "A" shall be in effect from the 1st day of January, 2010.

By-law read a First & Second Time this 19th day of October, 2009.

By-law read a Third & Final Time this 19th day of October, 2009.

THE CORPORATION OF THE CITY OF KENORA:

..............................**L. Compton, MAYOR**

..............................**J. McMillin, CLERK**

MAINTENANCE AND SERVICE AGREEMENT

THIS MAINTENANCE AND SERVICE LEVEL AGREEMENT
is entered into as of

January 1, 2010.

BETWEEN

KENORA HYDRO ELECTRIC CORPORATION LTD. (the "Corporation"),
a corporation incorporated under the laws of Ontario

- and -

THE CITY OF KENORA (the "City").

WHEREAS:

(1) The Corporation is a licensed distribution company ED-1999-0240 that supplies electricity within the service area of the City, which is the municipal boundary of the former Town of Kenora and part of the former Town of Keewatin from the eastern boundary of Keewatin, westerly to Keewatin Beach Road, southerly to Lake-of-the-Woods, and northerly to Darlington Bay;

(2) The City is the sole proprietor of the Corporation and an "affiliate", as defined by section 1 of the *Ontario Business Corporations Act 2002*;

(3) The Corporation shares and/or utilizes services and/or resources with the City, it shall do so in accordance with this Agreement; and

(4) It is a condition precedent for the sharing of services or resources that the Corporation and the City enter into this Agreement pursuant to the *Affiliate Relationships Code for Electricity Distributors and Transmitters*, which sets conditions on the business relationships between local distribution companies and any affiliated company by providing a clear separation between the regulated and non-regulated parts of the Corporation's business.

NOW, THEREFORE IT IS AGREED THAT in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Services Provided Under this Agreement

1.1 Reading, Billing and Service

1.1.1 The Corporation covenants and agrees that:

(a) it shall perform all water meter reading as required for the City ("**Reading**")

(b) it shall perform certain billing functions as required for the City ("**Billing**")

(c) it shall provide the Reading and Billing in reasonable quantities that are sufficient for the area serviced by the Corporation;

1.1.2 The City covenants and agrees that:

(a) it shall provide for services, including, but not limited to, customer service, billing, collections, cashiering, accounting, payroll, general administration, information technology, records keeping, and regulatory compliance on behalf of the Corporation ("**Service**"), or as more accurately outlined in *Schedule A* attached hereto, which may be amended or updated from time to time to reflect prevailing circumstances;

(b) it shall provide the Service in reasonable quantities that are sufficient for the area serviced by the Corporation;

(c) it shall provide and maintain the quality of Service at least equal to the service levels required by the Ontario Energy Board ("OEB") for the term of the Agreement; and

(d) it shall provide sufficient information to the Corporation to make all necessary filings and reports to the OEB with respect to the levels of Service as the OEB may require from time to time.

1.2 Failure to Maintain Reading, Billing and Service Levels

In the event the parties fail to maintain Reading, Billing and Service at levels referred to in Section 1.1 during the term of this Agreement:

(a) either party shall be entitled, at its own expense, to retain a professional in the industry to review and analyze all relevant records and reports of the other to determine proper Maintenance, Reading and Service levels; and

(b) the Corporation and the City shall meet to discuss remediation and agree, acting reasonably, on the appropriate course of action to be taken.

1.3 *Apportionment of Risk*

In the case of any actions that may arise during the course of this Agreement, each of the Corporation and the City shall:

(a) indemnify, defend and save harmless the other from all fines, suits, proceedings, liabilities, losses, damages, costs, expenses, claims, demands or actions of any nature or kind whatsoever caused directly or indirectly related to the assets or operations which are the subject of this Agreement through a failure of either party to fully perform its obligations under this Agreement;

(b) be individually responsible for all liability which results from:

a. the operations of the Corporation or the City;

b. any products, goods or materials brought onto the property or used by the Corporation or the City; or

c. any risks related to the under or over provision of Reading, Billing or Service provided by either of the parties.

1.4 *Equal Access*

The Corporation and the City shall take all reasonable steps to ensure:

(a) that either party does not knowingly use either the Corporation's or the City's name, logo or other distinguishing characteristics in a manner which would mislead consumers as to the distinction between the Corporation and the City;

(b) that either party does not purposely imply in its marketing material favoured treatment or preferential access to the other. If either party becomes aware of any significant inappropriate marketing activity by the other, it shall:

a. immediately take reasonable steps to notify affected customers of the violation;
b. take necessary steps to ensure the other party is aware of the concern; and

c. inform the Director of Licensing at the OEB of such activity and the remedial measures that were undertaken.

(c) Requests by the City for access to the Corporation's transmission and distribution network or for utility services shall be processed and provided in the same manner as would be processed or provided for similarly situated non-affiliated parties;

1.5 Conduct of Work

In connection with the terms of this Agreement, each of the Corporation and the City shall ensure:

(a) their respective employees, agents, contractors and subcontractors are duly qualified under any applicable federal and provincial laws; and

(b) that all work performed by their respective employees, agents, contractors and subcontractors are in compliance with any applicable federal and provincial laws.

2. Pricing

In determining the price which either party shall charge the other, special consideration must be given to the circumstances of the transaction, specifically:

(a) where either party performs the Reading, Billing or Service or shares a resource with the other, both parties shall ensure that the sale price is no more than the fair market value of the Reading, Billing, Service or resource;

(b) in performing the Reading and Billing for the City, the Corporation shall charge the City a rate no less than the actual cost of providing that Reading and Billing and no greater than the fair market value;

(c) in performing the Service for the Corporation, the City shall charge the Corporation an allocation of related expenditures based on budgeted expenditures and all other reasonable costs, which shall be negotiated annually based on budgeted expenditures and projected volumes/share of activity, but in any event, no more than fair market value; and

(d) where a fair market value is not available for any Reading, Billing, Service or resource, the cost-based price of producing the service or resource shall be used.

3. Financial Transactions

3.1 Cost Allocation

Both parties shall be individually responsible for obtaining and maintaining in force, and charging at actual cost and expense, as applicable, all necessary licenses, permits and approvals in respect of providing the Reading, Billing or Service on behalf of the other.

3.2 Financial Support

The Corporation or the City shall ensure that any loan, investment or other financial support provided to the other is provided on terms no more favourable than what the Corporation or the City would be able to obtain on its own from the capital markets.

4. Confidentiality

Where the Corporation or the City shares information services with the other, all information relating to a consumer, retailer or generator ("Confidential Information") must be protected from access by the other unless:

(a) either party receives the consent of that consumer, retailer or generator for release of the Confidential Information;

(b) the Confidential Information is for:

a. billing or market operation purposes;
b. the purpose of complying with a legal or law enforcement requirement; or
c. the processing of past due accounts of the consumer that has been passed to a debt collection agency;

(c) the Confidential Information may also be disclosed where the information has been sufficiently aggregated such that any individual consumer, retailer or generator's information cannot reasonably be identified. If such information is aggregated, it must be disclosed on a non-discriminatory basis to any party requesting the information.

5. Record Keeping and Reporting Requirements

5.1 *Maintenance of Records*

(a) the parties shall maintain updated records in a form and manner as prescribed by the OEB so as to be able to substantiate compliance with the *Affiliate Relationships Code*, and provide such information to the OEB as requested; and

(b) in any event, the City shall maintain the financial and accounting records on behalf of the Corporation as an independent entity separate from the financial records of the City.

5.2 *Transactions over $100,000.00*

Where the total cost of transactions with the City exceeds on an annual basis $100,000.00, the Corporation shall maintain, and make available upon request by the OEB, separate records showing:

(a) the nature of the relationship amongst the City and the Corporation;

(b) the product or service in question;

(c) the form of price or cost determination; and

(d) the start date and expected completion date of the transaction.

6. Dispute Resolution

An agreeable arbitration process shall settle any dispute, controversy or claim arising out of or in connection with, or relating to, this Agreement, or the performance, breach or validity thereof.

7. Applicable Law

This Agreement shall be construed, interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein, and each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of such province and all court competent to hear appeals therefrom.

8. Severability

If any provision of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such determination shall not impair or affect the validity, legality or enforceability of the remaining provisions hereof, and each provision is hereby declared to be separate, severable and distinct.

9. Amendments and Waivers

No amendment or waiver of any provision of this Agreement shall be binding unless consented to in writing, or as specified in the Agreement. No waiver of any provision of this Agreement shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver otherwise provided.

10. Term

The term of this Agreement shall commence upon the date of execution hereof for a period of 5 years. Upon agreement, the parties may renew this Agreement no later than six (6) months from the end of the term for an additional period of 5 years.

11. Termination

Either party may terminate this agreement with written notice. Where notice is provided prior to June 30, the agreement termination date shall be no sooner than December 31 of that year. Where notice is provided after June 30, the agreement termination date shall be not less than six months from the day written notice was provided.

12. Counterparts

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF this Agreement has been executed by the Parties.

KENORA HYDRO ELECTRIC CORPORATION LTD.

By: ______________________
Dave Sinclair, President & CEO

By: ______________________
Gerry Lucas, Chair

THE CITY OF KENORA

By: ______________________
Len Compton, Mayor

By: ______________________
~~Joanne McMillan~~, City Clerk
J.L. McMillin, City Clerk

- SCHEDULE A –

APPENDIX TO SERVICES PROVIDED

1. GENERAL RULES GOVERNING THIS AGREEMENT

A) This Agreement is based on the City and the Corporation having an affiliate Relationships as described in the Affiliate Relationships Code for Electricity Distributors and Transmitters.

B) The City is not an energy service provider as described in the Affiliate Relationships Code for Electricity Distributors and Transmitters.

C) The City is authorized to use the Corporation's logo for all information sent to customers on behalf of the Corporation.

2. SCOPE OF CUSTOMER SERVICE, CASHIERING, BILLING & COLLECTING ACTIVITY

A) The City shall provide appropriate staff to administer and execute the following:

(a) initiation and maintenance of customer files that either party receives, including the consent of that consumer, retailer or generator for release of the Confidential Information;

(b) processing of customer inquiries, orders and adjustments;

(c) printing and mailing of regular customer billings on the basis of completed billing calculations as supplied by the Corporation;

(d) preparation and mailing of informational pamphlets with the regular customer billings as required;

(e) receipt and application of customer payments;

(f) such measures as may be required from time to time to effect the timely collection of accounts in arrears, including but not limited to the cut-off of power supply to the subject customer.

B) The City shall ensure that its staff shall be adequately trained by enrolment in applicable courses pertaining to job function.

C) The City shall supply all materials and services related to the provision of customer service, cashiering, billing and collecting and related training, as outlined in Paragraphs A and B above. These materials and supplies shall include the costs of general office supplies and services, postage, billing forms and envelopes, as well as costs of maintenance of the HTE hardware and software as applicable to the water and sewer billing.

D) The Corporation shall provide appropriate and adequately trained staff to administer and execute the following:

(a) the recording of customer consumption;

(b) the maintenance of consumption meters in good working order, according to the requirements of the Federal Ministry of Consumer and Corporate Affairs or the ultimate governing authority;

(c) the provision of billing services, including generation of any required and related work orders for water and sewer services, as well as costs of maintenance of the HTE hardware and software as applicable to the hydro billing;

(d) the performance of any required hydro related work orders, including cut-offs.

E) The Corporation shall supply all materials and services related to the provision of meter reading and maintenance, as outlined in Paragraph D above.

F) The Corporation shall take all reasonable steps to ensure the City is informed of all changes of meters and related specifications related to customer service and collecting on a timely basis.

G) The Corporation shall not provide services to new customers without prior approval from the City customer service and/or collection staff.

3. SCOPE OF FINANCIAL & ACCOUNTING RECORDS KEEPING ACTIVITY

A) The City shall provide appropriate staff to administer and execute the following:

(a) maintenance of all financial and accounting records; according to Generally Accepted Accounting Principles (GAAP);

(b) back-up documentation as required by the Corporation's Board of Directors and/or the Ontario Energy Board (OEB);

4. SCOPE OF PAYROLL & BENEFITS RECORDS KEEPING ACTIVITY

A) The City shall provide appropriate staff to administer and execute the following:

(a) maintenance of payroll records and administration of pay for the employees of the Corporation;

(b) maintenance and administration of benefits of the employees of the Corporation;

(c) preparation and mailing of informational pamphlets with employee pay deposit receipts as required

5. SCOPE OF INFORMATION TECHNOLOGY SERVICES

A) The City shall provide appropriate staff to administer and execute the following:

(a) set up and access to the internet;

(b) access to and maintenance of the HTE system;

(c) troubleshooting of all computer, application and internet problems encountered by the Corporation's employees.

6. SCOPE OF GENERAL ADMINISTRATION & REGULATORY COMPLIANCE SERVICES

A) The City shall prepare any required documentation for necessary filings and reports to the OEB related to information generated with respect to Service provided by the City for the Corporation as the OEB may require from time to time.

B) The Corporation shall ensure that all updates and changes relating to the electricity market are communicated to the appropriate employees.

7. PAYMENT OF MONIES

A) On or before the 15th of the following month, the City shall remit to the Corporation the total amount of current billing, including such late payment charges levied and collected during the month.

B) On or before the 15th of the following month, the Corporation shall remit to the City its payment for billing and collecting services, calculated as one twelfth (1/12th) of the total annual charge.

8. SETTLEMENT OF BAD DEBTS

A) The City requires both Council and Board approval to remove accounts as uncollectible from active receivables. Once accounts are deemed by the City to be uncollectible, and approved by both Council and the Board, those accounts shall be removed from the City's active receivables list and their collection settled between the City and the Corporation on the basis of an equal sharing of the bad debt.

B) Either of the parties shall be entitled to pursue the collection of bad debts, provided that both parties agree that vigorous collection of the debt should be undertaken and that both parties agree to share in the costs of that collection. In the event that one party is not prepared to pursue the collection of a bad debt, the other party shall be entitled to take whatever action is necessary to collect the debt, provided that party is solely responsible for all charges and expenses incurred in the collection. In the event that the debt is collected either in whole or in part, the expense incurred collecting the debt shall be paid first and thereafter, the amount collected shall be paid equally to each of the parties herein.

APPENDIX D

Question 40 – Income Tax Notice of Assessment/Re-Assessment

Ontario

Ministry of Revenue
Hydro PIL
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Assessment

Electricity Act, 1998 • *Corporations Tax Act, R.S.O. 1990*
from 2009/01/01 to 2009/12/31

	Account No.	Assessment Date (year, month, day)	Page
KENORA HYDRO ELECTRIC CORPORATION LTD.	1800119	2010/09/20	1 of 1

ASSESSMENT NO. 155

Tax: Federal and Provincial PIL		2,269.00
Assessment Interest		13.32CR
Total Assessment Liability		2,255.68

SUMMARY OF 2009/12/31 TAXATION YEAR TRANSACTIONS

Payments/Transfers	13,000.00CR	
Sub-Total		13,000.00CR
CREDIT BALANCE AVAILABLE IN THIS TAXATION YEAR		10,744.32CR

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of tax, penalty and interest for which you are assessed.

Total tax assessed as per company estimate

Ontario

Ministry of Revenue
Hydro PIL
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Assessment

Electricity Act, 1998 • *Corporations Tax Act, R.S.O. 1990*
from 2008/01/01 to 2008/12/31

Account No.	Assessment Date (year, month, day)	Page
1800119	2009/06/10	1 of 1

KENORA HYDRO ELECTRIC CORPORATION LTD.

ASSESSMENT NO. 138

Tax: Federal and Provincial PIL		22,694.00
Assessment Interest		208.00
Total Assessment Liability		22,902.00

SUMMARY OF 2008/12/31 TAXATION YEAR TRANSACTIONS

Payments/Transfers	25,087.12CR	
Sub-Total		25,087.12CR
CREDIT BALANCE AVAILABLE IN THIS TAXATION YEAR		2,185.12CR

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of tax, penalty and interest for which you are assessed.

Total tax assessed as per company estimate

Ontario

Ministry of Revenue
Hydro PIL
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Reassessment

Electricity Act, 1998 • *Corporations Tax Act, R.S.O. 1990*
from 2007/01/01 to 2007/12/31

	Account No.	Reassessment Date (year, month, day)	Page
KENORA HYDRO ELECTRIC CORPORATION LTD.	1800119	2010/10/25	1 of 1

REASSESSMENT NO. 160 REPLACING ASSESSMENT DATED: 2008/07/16

Tax: Federal and Provincial PIL		23,983.00
Assessment Interest		516.39
Total Reassessment Liability		24,499.39

SUMMARY OF 2007/12/31 TAXATION YEAR TRANSACTIONS

Payments/Transfers	27,382.62CR	
Sub-Total		27,382.62CR
CREDIT BALANCE AVAILABLE IN THIS TAXATION YEAR		2,883.23CR

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of tax, penalty and interest for which you are assessed.

Subsequent year(s) non-capital loss applied.

Tax before loss increased from original tax. Interest is computed on the increased tax from the balance of tax due date to the loss carry back date before the loss is applied.

Ontario

Ministry of Revenue
Hydro PIL
PO Box 620
33 King Street West
Oshawa ON L1H 8E9

Keep this portion for your records.

Notice of Assessment

Electricity Act, 1998 • *Corporations Tax Act, R.S.O. 1990*
from 2007/01/01 to 2007/12/31

	Account No.	Assessment Date (year, month, day)	Page
KENORA HYDRO ELECTRIC CORPORATION LTD.	1800119	2008/07/16	1 of 1

ASSESSMENT NO. 91

Tax: Federal and Provincial PIL		26,747.00
Assessment Interest		647.74
Total Assessment Liability		27,394.74

SUMMARY OF 2007/12/31 TAXATION YEAR TRANSACTIONS

Payments/Transfers	6,500.00CR	
Sub-Total		6,500.00CR
TAXATION YEAR BALANCE DUE **		20,894.74

In accordance with s.s.80(8) of the Corporations Tax Act, as made applicable by s.95 of the Electricity Act, 1998, notice is hereby given of the amount of tax, penalty and interest for which you are assessed.

Tax Assessment as per Company Estimate.

**Remember to include additional interest due with your payment. Interest on the balance is compounded daily from the date of this Notice/Statement until payment is received by the Ontario Electricity Financial Corporation (OEFC) The current interest rate is 0.0219178%.