

February 18, 2011

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

Dear Ms. Walli,

**RE: Kingston Hydro Corporation
EB-2010-0136 Cost of Service Rate Application
Responses to Energy Probe Research Foundation (Energy Probe)
Supplemental Interrogatories on Feb 4, 2011 Updated Evidence**

Pursuant to the Board's Procedural Order No. 2, please find attached Kingston Hydro Corporation responses to Energy Probe supplemental interrogatories on the February 4, 2011 evidence update, which have been filed electronically through the Board's RESS filing system and emailed to intervenors listed in Appendix "A" of the Order.

Respectfully submitted,



J.A. Keech, President & CEO
Kingston Hydro Corporation

Copy: Andrew Taylor, Energy Law (by email)
Energy Probe Research Foundation, Randy Aiken (by email)
School Energy Coalition, Jay Shepherd (by email)
Vulnerable Energy Consumers Coalition, Michael Buonaguro (by email)

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

AND IN THE MATTER OF an application by Kingston Hydro Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

EVIDENCE UPDATE INTERROGATORIES OF

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

**Kingston Hydro Corporation 2011 Electricity Distribution Rates Application
EB-2010-0136**

Interrogatory # 50

Ref: Updated Evidence of February 4, 2011, Appendix A

a) How does Kingston Hydro prioritize the capital projects shown in Table 1?

The Applicant considers a number of factors when prioritizing capital projects, as noted at Exhibit 2, Tab 4, Schedule 8 “Asset Management Planning Process & Strategy”. Prioritization of the 2011 projects primarily involved the following considerations:

- Risk of the asset failing and the impact that that would have on customers;
- Age and condition of the infrastructure and the risk to public and worker safety;
- Reducing potential customer impacts and improving system reliability.

b) Please provide a prioritization of the projects (and their costs) shown in Table 1 from the highest priority to the lowest priority.

The Applicant has shown a prioritization of the 2011 projects with the exception of some items that cannot be prioritized as noted:

| Priority | Project | Value |
|---------------|---|-------------|
| 1 | Annual Overhead Line Rebuilds | \$1,300,000 |
| 2 | Annual RFP for Structural Engineering Services | \$20,000 |
| 3 | Substation No.11 Circuit Breakers | \$584,000 |
| 4 | Substation No.8 Transformer | \$453,000 |
| 5 | Substation No.3 Circuit Breakers | \$968,000 |
| 6 | Alfred Street | \$549,000 |
| 7 | Transformer Vault 7 (TV7) | \$112,000 |
| 8 | Transformer Vault 18 (TV18) | \$50,000 |
| 9 | Transformer Vault 41 (TV41) | \$230,000 |
| 10 | Substation No.12 Relays | \$100,000 |
| 11 | Substation No.5 Relays | \$39,000 |
| 12 | Westdale | \$171,000 |
| 13 | SCADA | \$127,000 |
| 14 | Substation No.9 Protection Upgrades | \$40,000 |
| 15 | Motorized 44kV Disconnect | \$55,000 |
| 16 | Annual Substation Battery Replacement | \$60,000 |
| See Note i) | Annual Overhead & Underground Services | \$60,000 |
| See Note ii) | Annual Underground Cable Rebuilds | \$200,000 |
| See Note iii) | Meters | \$100,000 |
| See Note iv) | Tools & Equipment | \$153,000 |
| See Note v) | Enterprise Asset Management System Implementation | \$62,500 |

Note i) This is for the normal service connection work that is customer driven.

Note ii) The Applicant normally has cable faults that occur during the year that require emergency replacements; this is a contingency amount to address those occurrences.

Note iii) This is for the routine replacement of meters to abide by Measurement Canada regulations.

Note iv) This is for routine tool and equipment replacement and additions that occur throughout the year.

Note v) The expense for this occurred in 2010, however it is to be in service in 2011.

Interrogatory # 52

Ref: Updated Evidence of February 4, 2011, Appendix A

With respect to the Substation No. 3 Circuit Breakers Project, please provide the following:

- a) The date upon which Kinston Hydro was advised that the 5kV breakers at this substation were obsolete and not repairable.***

Kingston Hydro was advised about the 5kV breakers at Substation No.3 on October 6, 2010 when field staff updated the Electric Priority Database stating that the 5kV breakers at Substation No.3 "...continually need to be repaired in order to operate them. Need to look at replacing with retrofits or new Switch Gear Line".

While undertaking routine maintenance and testing in September 2010, Utilities Kingston found 8 of 11 breakers at Substation No.3 would not operate (Close) in the test position. Staff had to strip parts from two breakers of the same make and model located at Substation No.15 in order to repair and return all eight faulty breakers at Substation No.3 to service. It took two weeks to complete the breaker repairs. The two breakers at Substation No.15 from which parts were taken are now permanently out-of-service leaving no spare parts for future repairs.

In addition to the recent maintenance challenge, there have also been difficulties in obtaining replacement parts for these breakers. A breaker that was shipped out to the manufacturer's repair shop was not returned to Kingston Hydro until 17 months later (August 2010), due to the difficulty they experienced in sourcing replacement parts from Europe. That returned breaker was determined to be unusable as a result of the dislodgement of a critical component during routine shipping.

Field staff also considered a long history of maintenance problems with the breakers at Substation No.3 and Substation No.15 when advising that the 5kV breakers at this substation were obsolete and not repairable. These maintenance problems include the latch for charging motors, the spring charging mechanism, and linkage pin locking clips. The most recent repair of one breaker was due to structural problems with several components including a lever, steel plate and a shock absorber.

b) Do all 11 of the circuit breakers need to be replaced at the same time, or can the circuit breakers be replaced one a time over a period of time, using the breakers that are replaced as backup for those not replaced? Please explain.

It has been determined that all 11 circuit breakers at Substation No.3 should be replaced at the same time for the following reasons:

- The breakers have typically failed to Close when operated from the Open position in the past. However, there is concern that the breakers may fail to Open from the Closed position while in-service thus posing a safety hazard to staff and the public.
- Staff have noted clips and other parts dislodging from the switchgear during maintenance and testing. There is a potential safety risk of exposing workers to an arc-flash hazard in the event that a part dislodges while the breaker is in-service and causes a flash-over within a breaker cell.
- Since the entire substation must be de-energized whenever one or more circuit breakers are replaced, it is much less of an inconvenience to customers, as well as more efficient and cost-effective from a switching and labour perspective, to replace all 11 circuit breakers.
- The circuit breakers are clearly a problem. Using the same breakers as back-up to deal with failures, would not be prudent, as it would simply be creating the situation whereby a similar failure may result again, creating safety risks to staff and the public, as well as customer power outages. Kingston Hydro does not consider it appropriate to delay the replacement of these circuit breakers.

Interrogatory # 53

Ref: Updated Evidence of February 4, 2011, Appendix B

- a) Please provide the monthly balances forecast that result in the average amount of Kingston Hydro funds in the City's bank account of \$5,579,323.***

The average amount of Kingston Hydro's funds in the City's bank account was based on an estimated beginning of year (January 1, 2011) amount of \$5,423,936 and the end of year (December 31, 2011) amount of \$5,734,709. Kingston Hydro has not estimated balances for each month of 2011.

- b) What was the amount of Kingston Hydro funds in the City's bank account at the end of 2010?***

Approximately \$2,100,000 was in Kingston Hydro's bank account at December 31, 2010.

- c) Has Kingston Hydro sought to place some of the funds held in the City's bank account into short term investments that pay a rate higher than price less 165 basis points? If not, why not?***

Kingston Hydro has not sought to place any funds into short term investments. Kingston Hydro believes that it does not have excess funds to invest outside of a bank account. The amount planned to be in the bank account plus the amount of accounts receivable that is collected in a month, is needed to pay for the following month's IESO invoice plus current expenditures coming due in a month.

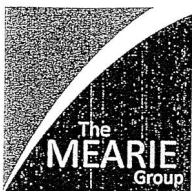
Interrogatory # 54

Ref: Updated Evidence of February 4, 2011, Appendix B

Please provide a copy of the latest invoices received for insurance expenses for the 2011 test year. Please also provide all of the invoices received for insurance expenses in the 2010 bridge year.

We have attached the 2010 MEARIE and Frank Cowan Company insurance invoices. The MEARIE invoice for comprehensive liability totals \$42,191 and the Frank Cowan Company invoice for casualty, property and equipment totals \$58,917. In addition, Kingston Hydro was charged \$17,489 from another policy that included a charge for general and automobile premiums for Kingston Hydro.

We have also attached copies of the MEARIE and Frank Cowan Company invoices for the 2011 test year. The MEARIE invoice for comprehensive liability totals \$70,220 plus 8% retail sales tax for a total premium of \$75,838. The Frank Cowan Company invoice for casualty, property and automobile totals \$75,868 plus applicable taxes for a total premium of \$80,403. The total of the two invoices to Kingston Hydro for 2011 is \$156,241.



MEARIE Comprehensive Liability Policy 2011 Premium Renewal Invoice

mailed
Dec 17/10

Insured: Kingston Hydro Corporation

Coverage Effective January 1, 2011

MEARIE is pleased to provide you with your Comprehensive Liability Policy Premium Detail for the 2011 term. Please be advised terms are based on your expiring coverage options. Should you wish to change your deductible options please contact MEARIE.

Please completed and return the accompanying **2011 Company Operations Information** form.

| | |
|--|---|
| MEARIE Comprehensive Liability Policy for Electric Operations | |
| Deductible: \$1000 | Electric Operations Premium:* \$48,062.00 |
| Affiliate & Subsidiary Coverage: | |
| Affiliate and/or Subsidiary must be listed to be covered. (Minimum premium is \$1,000 per Affiliate/Subsidiary.) | |
| Name of Affiliate and Subsidiary | Premium per Affiliate/Subsidiary |
| 1425445 Ontario Limited O/A Utilities Kingston [only as it relates to management of the electricity assets of Kingston Electricity Distribution Limited] | 3121 |
| 1425447 Ontario Limited | 1000 |
| Affiliate & Subsidiary Premium: \$4,121 | |
| Enhanced Plus+ Directors & Officers Coverage: | |
| Please return the attached renewal application for coverage to be bound. | |
| Deductible: \$0 | D & O Premium: \$19037.00 |

*2011 Premium is subject to adjustment based on the submission and review of completed applications.

Total 2011 Premium*: \$71,220.00

RST 8%: \$5697.60

Total Premium Due: \$76,917.60

Payment must be received by January 1, 2011. An interest penalty of 3% plus the bank prime rate per annum will be charged on late premiums. Cancellation of your coverage may apply in the event of non-payment or premium.

Please make cheque payable to: Municipal Electric Association Reciprocal Insurance Exchange.
Please attach the completed **2011 Company Operations Information** form with your payment.

By virtue of this Policy and any other policies purchased from the Company being in force, the Insured is a member of the Company Underwriting Group I, subject to the provisions of the Subscribers Agreement.



2011 GENERAL INSURANCE PROGRAM



KINGSTON HYDRO CORPORATION

Prepared for: Mr. Bryn Evans, CAIB, RIB (Ontario)
Thomson Jemmett Vogelzang
321 Concession Street
Kingston, ON K7K 2B9

Prepared by: Ms. Debra Murphy, CIP
Account Manager
Frank Cowan Company Limited
4 Cowan Street East
Princeton, ON N0J 1V0

This is a summary. Nothing herein alters the terms, conditions and
exclusions contained in the printed insurance contract(s).
REF: 38557/cg
November 9, 2010, 2010

debra.murphy@frankcowan.com
1-800-265-4000
T/519-458-4331
F/519-458-4366



2011

Report Attachments

KINGSTON HYDRO CORPORATION

COST ANALYSIS

| | EXPIRING PROGRAM 2010-2011 TERM | RENEWAL PROGRAM 2011-2012 TERM |
|----------------------------|---------------------------------------|--------------------------------------|
| PART A - CASUALTY | | |
| COMPREHENSIVE CRIME | 3,000. | 3,000. |
| BOARD MEMBERS' ACCIDENT | 375. | 375. |
| PART B - PROPERTY | | |
| PROPERTY | 30,023. | 31,524. |
| EQUIPMENT BREAKDOWN | 21,155. | 21,790. |
| PART C - AUTOMOBILE | | |
| OWNED AUTOMOBILE | 18,792. | 19,179. |
| ANNUAL PREMIUM | \$ 73,345. | \$ 75,868. |

PLUS APPLICABLE TAXES

Frank Cowan Company

- 3 -

19,179.
= 56,689
x 1.08
= 61,224
+ 19,179
70,403



February 3, 2010

PREMIUM BREAKDOWN

KINGSTON HYDRO CORPORATION
C/O CITY OF KINGSTON
216 ONTARIO STREET
KINGSTON, ONTARIO K7L 2Z3

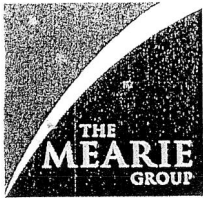
| DATE | CLASS | COMPANY | POLICY NO. | TOTAL |
|-----------|---|--------------|------------|--------------------|
| Jan. 1/10 | Combined Casualty Policy - Crime - Accident | Subscription | CP98890 | 3,000.00 375.00 |
| Jan. 1/10 | Property | Subscription | FC32804 | 30,023.00 |
| Jan. 1/10 | Equipment Breakdown | B. I. & I. | 2503033 | 21,155.00 |
| 38557/tk | | | | 54,553.00 |

PLUS APPLICABLE
RETAIL SALES TAX

+PST 4,364.24
= 58,917.24

Frank Cowan Company Limited
4 Cowan Street East
Princeton, ON N0J 1V0
www.frankcowan.com

1 800 265 4000
T/ 519 458 4331 F/ 519 458 4366



MEARIE COMPREHENSIVE LIABILITY
POLICY
2010 PREMIUM RENEWAL DETAIL

INSURED: **KINGSTON HYDRO CORPORATION**

Coverage Effective January 1, 2010

MEARIE is pleased to provide you with your Comprehensive Liability Policy Premium Detail for the 2010 term. Please be advised that terms are based on your expiring coverage options. Should you wish to change your deductible options please contact MEARIE.

MEARIE COMPREHENSIVE LIABILITY POLICY FOR ELECTRIC OPERATIONS

DEDUCTIBLE \$,1000

Amount Due
↓
Premium: \$47,109

AFFILIATE & SUBSIDIARY COVERAGE: Affiliate and/or Subsidiary must be listed to be covered.

| Name of Affiliate and Subsidiary | Complete and return attached Descriptions of Operations Covered. | Premium for Affiliate/Subsidiary [minimum \$1,000 per Affiliate/Subsidiary] |
|--|--|--|
| 1425445 Ontario Limited O/A Utilities Kingston [only as it relates to management of the electricity assets of Kingston Electricity Distribution Hydro Limited Co RPorATION | | \$2,392 |
| 1425447 Ontario Limited | | \$1,000 |
| | | \$0 |
| | | \$0 |
| | | \$0 |
| | | \$0 |
| | | \$0 |
| | | \$0 |

ENHANCED Plus+ DIRECTORS & OFFICERS COVERAGE:

You must complete the attached application before coverage will be bound. Coverage is effective Jan. 1, 2010.

| | | |
|-------------------|-----------------------------|-------------|
| DEDUCTIBLE \$1000 | D&O Premium: | \$10,100 |
| | *2010 Premium: | \$60,601.00 |
| | Liability Premium Reduction | \$21,535.00 |
| | Retail Sales Tax @ 8%: | \$3,125.30 |
| | Total Remitted: | \$42,191.30 |

Total Remitted includes premium minus Liability Premium Reduction plus Tax. Payment must be received by January 1, 2010. Please note that an interest penalty of 3% plus the bank prime rate per annum will be charged on late premiums. Cancellation of your coverage may apply in the event of non-payment of premium.

Premium is payable to: MEARIE, 3700 Steeles Avenue West, Suite 1100, Vaughan, Ontario L4L 8K8.

Please attach a copy of the Description of Operations Covered with your payment.

*2010 Premium is subject to adjustment based on the submission and review of completed applications.

By virtue of this Policy and any other policies purchased from the Company being in force, the Insured is a member of the Company Underwriting Group I, subject to the provisions of the Subscriber's Agreement.

Interrogatory # 55

Ref: Updated Evidence of February 4, 2001, Appendix D

a) Please confirm the following figures related to the adjustments for taxable income:

| | | <i>Historical</i> | <i>Bridge</i> | <i>Test</i> |
|-------------------------------------|--|-------------------------|-------------------------|-------------------------|
| <i>Additions</i> | <i>Reserves from financial statements - balance at end of year</i> | <i>1,174,887</i> | <i>1,254,336</i> | <i>1,544,435</i> |
| <i>Deductions</i> | <i>Reserves from financial statements - balance at beginning of year</i> | <i><u>1,140,247</u></i> | <i><u>1,174,887</u></i> | <i><u>1,254,336</u></i> |
| <i>Net Impact on Taxable Income</i> | | <i>34,640</i> | <i>79,449</i> | <i>290,099</i> |

Confirmed.

b) Please explain the significant increase in the net impact on taxable income in the test year relative to the historical and bridge figures shown.

The increase in the net impact on taxable income in the test year relative to the historical and bridge figures shown is a result of the change in Future Benefit Liabilities from 2009 to 2010 and again from 2010 to 2011. These amounts are only deductible when paid as per the KPMG letter.

c) How has the increase in the reserves from the financial statements forecast for the test year been forecast? In particular, what are the drivers behind the increase?

The amount for the increase in reserves from the financial statements has been forecast based on the number of employees allocated to Kingston Hydro in each of the historical, bridge and test years. In the 2009 historical test year, future benefit liabilities were calculated to be \$1,006,343 based on an allocation of 43.79 employees for an average of \$22,981.11 per employee. In 2008, future benefit liabilities were calculated to be \$967,775 based on an allocation of 43.79 employees for an average of \$22,100.36 per employee. The average future benefit liability per employee for 2008 and 2009 (the previous 2 historical years) was \$22,540.73 per employee.

The future benefit liabilities for 2010 were estimated to be \$1,085,787 based on 48 FTE's at \$22,540.73 per FTE. Please refer to Table 1 of Exhibit 4, Tab 4, Schedule 2 for the makeup of the 48 FTE's.

The future benefit liabilities for 2011 were estimated to be \$1,375,886 based on 61 FTE's at \$22,540.73 per FTE. Please refer to Table 1, of Exhibit 4, Tab 4, Schedule 2 for the makeup of the 61 FTE's.

Pension plan liabilities of \$168,549 (2009 actual liability) are added to each of the above-noted years to get total future benefit liabilities of \$1,254,336 for 2010 and \$1,544,435 for 2011.