RATE BASE

1. Ref: Exhibit B/ Tab 1/ Schedule 1

Please confirm that Horizon Utilities has no projects for which a Leave to Construct under section 92 is required. If there are projects for which a leave to construct is required then please provide a listing of these projects.

Response:

Horizon Utilities confirms that it does not have any projects for which a Leave to Construct is required under section 92.

2. Ref: Exhibit B/ Tab 1/ Schedule 1

a. Please provide Horizon Utilities' Code of Business Conduct.

b. For the years 2002 to 2008 inclusive, please provide a table listing the following (use actual dollars in years where available, or expected or planned or projected dollars, or % where indicated):

I) Net income
II) Actual Return on Equity (%)
III) Allowed Return on Equity (%)
IV) Retained Earnings;
V) Dividends to shareholders;
VI) Sustainment Capital expenditures excluding smart meters;
VII) Development Capital Expenditures excluding smart meters;
VIII) Operations Capital Expenditures;
IX) Smart meters Capital Expenditures;
X) Other Capital Expenditures (identify)
XI) Total Capital Expenditures including and excluding smart meters;
XII) Depreciation

Response:

a. Horizon Utilities has provided its Code of Conduct, Code of Conduct Sign-off and Conflict of Interest Questionnaire as Attachment A to these responses.

b. Horizon Utilities has provided the requested information in the table below. Horizon Utilities would like reminds the OEB that Horizon Utilities Corporation did not exist prior to 2005 and as such the information provided for the years 2002 to 2004 is derived from the from trial balances and financial statements of Hamilton Hydro Inc. and

St. Catharines Hydro Utility Services Inc., and may not be relied upon as representative of Horizon Utilities Corporation.

Year	2002	2003	2004	2005	2006	2007 Bridge Year	2008 Test Year
Net Income	8,395	8,395	10,791	11,878	16,562	13,519	13,942
Actual Return on Equity	6.54%	5.38%	6.60%	6.01%	9.88%	7.92%	8.04%
Allowed Return on Equity	6.59%	6.59%	6.59%	9.00%	9.00%	9.00%	8.86%
Retained Earnings	27,995	32,328	40,019	34,825	28,737	31,847	34,509
Dividends	-	2,327	2,150	24,690	6,430	8,949	9,677
Sustainment Capital	NA	NA	NA	NA	9,090	8,630	8,997
Development Capital	NA	NA	NA	NA	7,967	7,057	7,180
Operations Capital	NA	NA	NA	NA	4,930	4,853	5,575
Total Distribution Capital				12,786	21,987	20,540	21,752
Smart Meters Capital	-	-	-	-	-	7,117	10,573
Other Capital				4,098	8,920	9,626	11,618
Total Capital Expenditures	23,730	23,699	21,275	16,884	30,907	37,283	43,943
Depreciation	17,012	18,172	18,838	20,054	19,730	21,276	23,728

3. Reference: Exhibit B/Tab 2/Schedule 1

Please provide a description of each item of 'Plant' included in the description for each account.

Response:

The accounts listed in this Schedule correspond to the accounts set out in the OEB's Accounting Procedure Handbook ("APH"). Descriptions of each item of "Plant" included in the description for each account are available in Article 220 of the APH.

4. Ref: Exhibit B/ Tab 2/ Schedule 2

For each of the years 2006, 2007 and 2008, please provide:

a. A comprehensive table of capital expenditures on a project basis, with a subtotal for those which exceed the materiality threshold, and a subtotal for the group of those which do not exceed the materiality threshold as well as the overall total;

b. Please indicate, for each of the years 2006, 2007, 2008 of the table produced according to a) above,

   I) How would the table be adjusted if the budget were required to be reduced by 25%?

   II) What would be the consequences of the adjustment on each of the programs?

Response:

a. Please refer to the following tables for 2006 and 2007. The response for 2008 is included in the table in 4 b below.

b. Since this question was issued, OEB staff have confirmed that the information requested in part b is only required in respect of 2008. please refer to the following table for parts b I) and II).

1

Project Description	2008 Test Year	Meets Materiality Threshold? Yes/No	% Reduced	75 % of 2008 Test Year	Consequences of 25% Reduction Scenario
PLANT DISTRIBUTION CAPITAL:					
Customer Demand					
Customer Service Installations	1,240,000	No	0%	1,240,000	Risk that some customers requesting connection to Horizon's distribution system would not be connected
Roadway Relocations	948,000	No	0%	948,000	Risk that some city roadway work would be delayed due to conflicts with Horizon plant
Underground Upstream Projects	931,000	No	0%	931,000	Increased risk of system outages and reactive repair costs due to insufficient system capacity
Subdivision Developments	686,000	No	0%	686,000	Risk of not being able to connect all new subdivisions to Horizon's distribution system
Overhead Upstream Projects	500,000	No	0%	500,000	Increased risk of system outages due to insufficient system capacity
Commercial Services under 50 kW	477,000	No	0%	477,000	Risk of small commercial customers requesting connection to Horizon's distribution system would not be connected
Enhancements for Customer Projects	128,000	No	0%	128,000	Risk that some customers requesting connection to Horizon's distribution system would not be connected, delays in committed projects
Renewal					
Wood Pole Replacement	2,094,000	No	50%	1,047,000	Increased reactive work, decreased reliability, increased public risk.
Proactive Overhead transformer replacement	1,980,000	No	50%	990,000	Increased reactive work, decreased reliability, increased public risk.
Proactive Underground transformer replacement	459,000	No	50%	229,500	Increased reactive work, decreased reliability, increased public risk.
Overhead Renewal	412,000	No	50%	206,000	Increased reactive work, decreased reliability, increased public risk.
Underground Renewal	580,000	No	50%	290,000	Increased reactive work, decreased reliability, increased public risk.
Spadina Feeder 7 Conversion	393,000	No	30%	275,100	Balance of outstanding work would continue in following year, breaker maintance would be required for an additional year.
Reactive Overhead system replacements	1,567,000	No	30%	1,096,900	Increased risk of system outages and reactive repair costs, increased risk to public safety.
Reactive Underground system replacements	1,310,000	No	30%	917,000	Increased risk of system outages and reactive repair costs, increased risk to public safety, excess of internal resources - will result in layoffs
Security					
Halson Substation Feeder Conversion	2,151,000	No	50%	1,075,500	Defer 50% till next year, decreased reliablity, higher project cost.
St. Catharines Downtown Network Conv., Ph. 3	797,000	No	30%	557,900	Must complete, high reliability risk to commercial businesses.
Fifty Road & South Service Road - Backup Loop	489,000	No	50%	244,500	Defer 50% till next year, decreased reliablity, higher project cost.
Caroline Feeder 6 Conversion	454,000	No	0%	454,000	Must complete, high risk to large # of customers
Welland Feeder 1 Conversion	419,000	No	0%	419,000	Must complete, high risk to large # of customers
Wellington Feeder 5 Conversion	325,000	No	0%	325,000	Must complete, high risk to large # of customers
Hughson Feeder 10 Conversion	141,000	No	0%	141,000	Must complete, high risk to large # of customers
Other Projects	136,000	No	50%	68,000	Defer 50% till next year, decreased reliablity
Capacity					
Horning M50 new feeder	2,017,000	No	50%	1,008,500	Defer 50% till next year, decreased reliablity, higher project cost.
Mohawk Feeder 10 Conversion	253,000	No	0%	253,000	Must complete, high risk to large # of customers
Reliability					
Misc. small projects (install switches etc.)	385,000	No	50%	192,500	Defer 50% till next year, increased SAIDI (outage duration)
Regulatory					
Misc. small projects to eliminate load transfers	278,000	No	30%	194,600	OEB Mandated and cannot decrease without concurrence - resulting in non-compliance
Stations					
Civil Works at Wentworth Substation	150,000	No	0%	150,000	Must complete, high public safety risk
Misc. small projects	52,000	No	0%	52,000	Based on deferring above projects, these must be completed.
Subtotal	21,752,000		31%	15,097,000	

2

3

4 a & b continued					
Project Description	2008 Test Year	Meets Materiality Threshold? Yes/No	% Reduced	75 % of 2008 Test Year	Consequences of 25% Reduction Scenario
SERVICES AND METERS:					
Meter Verification,QMS & Asset Management	283,500	No	25%	212,625	Reduction in this project would result in being non-compliant with Federal legislation-Measurement Canada regulations
Wholesale Meter Verification for IESO Compliance	1,436,768	No	25%	1,077,576	Reduction in this project would result in being non-compliant and subject to IESO sanctions. Projects scheduled and committed with Hydro One
Annual Capital Meter Upgrade & Replacement Progran	767,634	No	25%	575,726	Reduction in this project would result in being non-compliant with Federal legislation-Measurement Canada regulations
Smart Metering Program	10,962,329	Yes	25%	8,221,747	Reduction in this project would only defer costs to 2009 and 2010 smart metering programs
Projects Under $100K	88,850	No	25%	66,638	Reduction in this project would limit the purchase of small tools & equipment that would result not completing other major capital work described.
Subtotal	13,539,081		25%	10,154,311	
GENERAL PLANT:					
Phase II Roof Replacement, Van Sickle Location	225,000	No	0%	225,000	Second of three phases to replace entire roof. If pushed out to 2009 further
Lighting Retrofit	95,000	No	100%	-	Progressive move to annual energy savings impacted
Elevator Machine Guarding	40,000	No	0%	40,000	Worker safety issue, machine guarding
Subtotal	360,000		26%	265,000	
IT ASSETS					
ERP Solution Project - Hardware and Software Capita	4,676,000	No	0%	4,676,000	Committed Project
Software	237,111	No	25%	177,833	Committed projects unable to continue, loss of productivity
Hardware	757,745	No	25	700,017	Committed projects unable to continue
Subtotal	5,670,856			5,553,850	
EQUIPMENT					
Tools and Equipment	296,526	No	24%	224,151	The purchase of two forklifts for the St. Catharines warehouse would not be made as a result of this reduction. The existing forklifts are old and not reliable. Repairs expenses and down time have increased during the last few years. Existing units may not last much longer and parts are getting harder to obtain. May generate safety concerns for the storekeepers.
Measuring and Testing Equipment	110,604		25%	82,953	Safety concerns if new ergonomic tools are not purchased; lack of productivity
Communication equipment	242,506		25%	181,880	Reduction in customer services; possible safety ramifications
Miscellaneous Equipment	32,672		25%	24,504	Safety concerns if new ergonomic tools are not purchased; lack of productivity
Transportation & Related Equipment	1,898,233	No	25%	1,423,674	Reduction of 2 vehicles from the planned 7 vehicles. The 7 chassis for these vehicles have already been purchased in 2007 and are in our possession. The reduction would mean that the 2 chassis would be stored for another year. In addition, this reduction may effect vehicle reliability and available to support our customers. Driver safety may also be a concern since the 7 vehicles would be replacing existing aging vehicles.
Subtotal	2,580,541			1,937,162	
Total	43,902,478		25%	33,007,323	**Note: If Horizon Utilities capital programs are reduced significnatly, its labour capacity will excede its work programs and mitigation measures would be required.**
Total of Projects Exceeding Materiality	10,962,329			8,221,747	
Total of Projects Less than Materiality	32,940,149			24,785,576	
	43,902,478			33,007,323	

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5. Reference: Exhibit B/Tab 2/Schedule 2

Please confirm that the continuity statement includes interest during construction and all overheads.

Response:

The gross asset values on the continuity statement include all overheads. The continuity statement does not include interest on construction, as Horizon Utilities Corporation does not record interest on construction.

6. Reference 1): Exhibit B/Tab 3/Schedule 1/p.21, Exhibit B/Tab 3/Schedule 1/p.4

For each of the years 2006, 2007 and 2008 please provide

a. The number of connections for each project corresponding to the "$" (dollar) in Reference 1 - table, and the average $ per connection for each project;
b. A table listing the number of installations and connections in each category, for each of the years, including those described for 2008 in the text of Reference 2;
c. Details of the number of customer connections in each customer category for
    I) new connections; and
    II) service upgrade connections.

Response:

a. Please refer to the following table, which includes the information set out in Table 8 at Exhibit B/Tab 3/Schedule 1/p.21 together with updates for units and average costs.

	Project	2006			2007 Bridge			2008 Test ***		
		Actual $	Units	Average Cost	Actual $	Units	Average Cost	Actual $	Units	Average Cost
1)	Meter Verifcation, QMS and Assets Management	$ 491,126	See Note	N/A	$ 426,596	See Note	N/A	$ 283,500	See Note	N/A
2)	Wholesale Meter Verification for IESO Compliance	$ 454,471	4	$113,618	$ 643,141	3	$ 214,380	$ 1,436,768	2	$718,384
3)	Annual Capital Meter Upgrade & Replacement Programs	$ 879,571	8,618	$ 102	$ 764,658	8,088	$ 95	$ 767,634	8,353	$ 92
4)	Smart Metering Program (2006 CDM Pilots)	$1,224,628	7,500	$ 163	$ 8,444,605	53,390	$ 158	$10,962,329	80,000	$ 137
5)	Projects Under $100K (Capital purchases)	$ 45,596	See Note	N/A	$ 45,300	See Note	N/A	$ 88,850	See Note	N/A
	Total	$3,095,392			$ 10,324,300			$13,539,081		
Notes					revised for SM $$					
1)	Meter Verification, QMS and Assets Management									
	The costs reported for this item are the "inside " labour and material costs associated with the verification of new meters and managing the quality program..									
2)	Wholesale Meter Verification for IESO Compliance									
	2006 $ represent meter only upgrades for 4 meter points									
	2007 $ represent 3 meter only upgrades and material costs for 2008 wholesale upgrades.									
	2008 $ represent 2 full upgrades									
3)	Annual Capital Meter Upgrade & Replacement Programs includes labour and material to install new /upgraded and expire meters.									
4)	Projects <100K - these are not projects, but $ budgeted for capital purchases for small tools and equipment.									

b. Please refer to the table set out below in response to OEB staff question 6. c. l)

c. (I) Please refer to the following table:

# New Connections	**2006**	**2007**	**2008**
Subdivisions	18	23	20
New Residential Services	1484	1326	1400
New Commercial <50kW	32	32	30
New Pad Services/ Customer Substations	35	46	26

(II) Please refer to the following table:

# Service Upgrades			
Upgraded Residential	1251	1087	1169
Upgraded Commercial	17	14	16
Upgraded Pad Services/ Customer Substations	16	43	29

7. Reference Exhibit B/Tab 3/Schedule 1;

For each of the projects please provide the starting and in-service dates.

Response:

This response is structured by category and project where applicable, corresponding to the categories shown in Exhibit B/Tab 3/Schedule 1/p. 3/Table 1.

Customer Demand:

With the exception of Roadway Relocation, the work in this category is executed throughout the year and is dependent on customer demand and timing. All projects are expected to be completed by end of Q4. For the indicated Roadway Relocation projects the following start and completion dates apply.

- St. Catharines:
  - QEW at Martindale Rd. – begin in Q2 complete by Q4 (dependant on MTO construction schedule)
  - QEW at Scott St. – begin Q2 complete by Q3
  - QEW Dunlop Rd. – begin Q1, complete by Q1
- Hamilton:

For all of the projects identified in the Hamilton area, the City's construction schedule will determine the start and end dates for each project in Hamilton. This differs from the QEW project noted above because each project is separate and requires ongoing coordination with the City's schedule, which is unavailable at this time. However, as indicated in the Application, Horizon Utilities expects to complete these projects during the 2008 Test Year.

Renewal:

All of the project descriptions shown in Table 3, page 9 will be completed on an on-going basis throughout the year across Horizon Utilities service area. The exception to the above is the Spadina Feeder 7 Conversion that will begin in Q1 and be completed by end of Q2 to decrease the potential of failure during the high summer loading.

Security:

- Halson Substation feeder conversion – begin Q1 finish Q4 (large scope will require the full year)
- The 2008 phase of the St. Catharines Downtown Network Conversion – begin Q1 and finish Q4 (large scope will require the full year)
- Fifty Rd. and South Service Rd. – begin Q1 finish Q2
- Caroline Feeder 6 Conversion – begin Q1 finish end of Q2
- Welland Feeder 1 Conversion – begin mid Q1 finish end of Q3
- Wellington Feeder 5 Conversion – begin end of Q1 finish end of Q2
- Hughson Feeder 10 Conversion – begin mid Q1 finish mid Q2

Capacity:

- Horning M50 new feeder – Begin Q1 finish Q3
- Mohawk Feeder 10 – begin Q1 finish Q3

Reliability:

Consists of smaller projects that will begin be in Q1 and completed by Q3.

Regulatory Requirements:

Planned 2008 work on the elimination of load transfer customers will begin Q2 and be completed by Q4.

Stations:

Planned work will begin at the end of Q2 and will be completed by mid Q4.

As a general matter, Horizon Utilities reiterates its comment at Exhibit B/Tab 3/Schedule 1/ p 11 to 12, that only the expenditures in respect of the 2008 phases of multi-year projects have been included in the capital expenditures for the 2008 Test Year

8. Reference: Exhibit B/Tab 3/Schedule 1/Page 7

The text indicates that "Horizon Utilities maintains its distribution plant according to an assessment that uses a combination of time based and condition-based maintenance methodology"

a. Please explain how long the utility has been using this methodology and provide a detailed description of the assessment processes.

b. Please provide information on the costs and benefits of this methodology vs. the prior methodology that Horizon was using.

c. Please demonstrate the criteria according to which the individual 2008 renewal expenditures are justified.

d. Please provide the individual project economic evaluations for all renewal projects, including customer load data for projects ascribed to overloading.

Response:

a. In general, Horizon has been using a combination of time-based and condition-based maintenance for over 10 years depending on the type of asset. In an effort to continuously improve to maintain its distribution plant, the methods, frequencies and technology used have changed over time. The following list identifies the various assessment processes and the periods over which they have been utilized by Horizon Utilities:

- Predictive Wood Pole Testing Program - since the early 1990's.
- Visual Inspection Program - since the late 1990's.
- Tree Trimming Program - for several decades.
- Infrared Thermography Program - In use since late 1990's.

- CO_2 Cleaning Program - since 2000.
- Insulator Washing Program - since the late 1990's.

Detailed descriptions of these processes are contained in Section 2 (pages 11 to 22) of Horizon Utilities' 2008 Distribution System Capital and Maintenance Programs document, filed as Appendix A to Exhibit B/Tab 1/Schedule 1.

b. No cost/benefit analyses are available that would compare the current time and condition-based maintenance methodologies to the maintenance methodologies used prior to and during the 1990's.

c. Please see Horizon Utilities response to VECC Questions 6 and 7.

d. Economic evaluations are not carried out on renewal projects. Identified renewal projects, such as the Spadina Feeder 7 Conversion are scored according to the criteria provided in the response to question 8 c. above. Renewal projects are not attributed to overloading.

9. Ref: Exhibit B, Tab 3, Schedule 1, page 9

The evidence states that "Each year 20% of Horizon Utilities' wood poles older than 25 years are tested and rated to determine when they should be replaced or retested"

a. Please provide the latest test result as mentioned above and the total number of poles that require replacement in the next 5 years.
b. Please provide capital expenditures for wood pole replacement in 2006 & 2007.
c. Please provide variance analysis for 2006 Board approved, 2006 actual, 2007, and 2008 expenditure.

Response:

a. Horizon Utilities' 2007 test results provide the latest information on wood pole testing. During 2007, a total of 4,641 poles were tested resulting in 115 poles identified as requiring replacement in the next one or two years and 105 poles identified as having varying degrees of decay that will require re-testing in the next two to three years.

In 2008, Horizon Utilities will replace the 115 poles identified through the pole testing completed in 2007. Horizon Utilities estimates that an additional 200 poles will be identified as possibly requiring replacement through visual preventative maintenance and follow up pole testing, and that a further 25 poles will require replacing as a result of addressing public concerns and events such as hit and runs in respect of which cost recovery is not available. In total, Horizon Utilities estimates approximately 340 poles will require replacement in 2008.

Horizon Utilities anticipates a similar number of poles will require replacement in each of the next five years.

b. Horizon Utilities' capital expenditures for wood pole replacement for the 2006 Actual year amounted to $1,458,473. The forecast capital expenditure for the 2007 Bridge Year is $2,092,000.

c. Horizon Utilities provides the following variance analysis for the 2006 Actual, 2007 Bridge Year and 2008 Test Year expenditures. The breakdown of capital expenditures for pole replacement for the 2006 Board Approved year is not available.

2006 Board Approved:	breakdown not available
2006 Actual:	$1,458,473
Variance:	not determined

2006 Actual:	$1,458,473
2007 Bridge Year:	$2,092,000
Variance:	$ 633,527

The 2006 expenditure was not sufficient to replace all the poles identified for replacement in 2006 and this resulted in the replacement of these poles being deferred to 2007. In addition, many poles identified for replacement in Horizon Utilities' St. Catharines service area located in back yards, and as such, the 2007 Bridge Year forecast for costs of replacement is higher.

2007 Bridge Year:	$2,092,000
2008 Test Year:	$2,094,000
Variance:	$ 2,000

This variance is immaterial and as such a variance explanation is not necessary.

10. Ref: Exhibit B, Tab 3, Schedule 1, page 12

In regard to the Halson Substation Feeder conversion project,

a. Please provide further details of the Halson conversion and explain the nature of this project. What is the voltage of the existing station?
b. Was this program previously approved by the Board?
c. Please provide the total cost for this project.
d. Please provide the planned budget and actual cost for this project for 2006 Board approved, 2006 actual, 2007, and 2008 including a variance analysis.
e. Please clarify the decommissioning phase of this project which will happen in 2008.
f. Will the switching equipment remain on the property? Will the property be disposed of?
g. Describe the existing system and the 27.6 kV system on how the 27.6 kV distribution voltage is arranged to feed the existing loads.
h. Please indicate the source of the supply.

Response:

a. The Halson Conversion Project was initiated based on the need to replace the poles, transformers, and overhead wire in the Ancaster area as all of such was at the end of its useful life and creating unacceptable reliability risk for affected customers. At the project inception, the substation was operating at full load during peak loading times. The Halson substation is supplied by a 27.6 kV feeder shared with Hydro One and distributes at 4.16 kV. Since this feeder is owned and operated by Hydro One and subject to Hydro One response times, Horizon Utilities' customers experience longer than what Horizon Utilities customers' would normally experience in outage durations. In addition, the current distribution system does not have adequate back

up at its current 4kV distribution voltage which increases the restoration time associated with equipment failures.

The project involves the construction of new overhead lines at the 27.6 kV voltage level, the installation of a feeder (owned by Horizon Utilities) directly from the Hydro One Dundas Transformer Station, and a back-up feeder to the Ancaster area. This will allow Horizon Utilities to adequately supply the area customers while providing for a secure supply in the event of an equipment failure.

This project will improve the reliability of the distribution assets in this area, improve service restoration times, and allow Horizon Utilities to reduce its operating costs by eliminating substation maintenance and operations. Upon the completion of this project in the 2008 Test Year, the Halson substation will be decommissioned.

b. This project was not previously approved by the Board as part of Horizon Utilities 2006 EDR Application. Phase one of this project began in 2006.

c. The total cost of this project, which includes expenditures in 2006, 2007 and 2008, is estimated to be $7,791,929.

d. 2006 Board Approved: Not applicable - see the response to 10. b above

2006 Budget:	$4,863,000
2006 Actual:	$3,128,929
Variance:	$(1,734,071)

Variance Analysis: a portion of the expenditure planned for 2006 was deferred due to higher than expected expenditures on customer driven projects, roadway relocations, and several capital projects arising out of reliability and public safety concerns. This deferral of

costs in 2006 resulted in the project completion date to move into 2008.

2007 Bridge Year budget: $2,512,000
Actual costs are not currently available, however Horizon Utilities expects that 2007 actual expenditures will closely approximate the 2007 Bridge Year budget.

2008 Test Year: $2,151,000

e. The decommissioning phase includes the transfer of customer load from the substation, the isolation of the substation from the Hydro One 27.6 kV feeder, and the removal of Horizon Utilities 4 kV feeders, poles, switchgear and transformers.

f. The switchgear will be removed as part of the decommissioning phase.

The property will be subject to an environmental assessment. The results of this assessment will determine the clean up requirements. Once the Ministry of Environment is satisfied, Horizon Utilities will proceed with the disposal of the property.

g. The existing system consists of a 4 kV configuration such that there are 2 feeders that back each other up through a transfer switch. Please refer to the single line diagram attached as Attachment B1 to these responses. The new 27.6 kV feeder from Dundas TS, will feed the Ancaster area with the old Hydro One feeder as a back up. Please refer to the single line diagram attached as Attachment B2 to these responses.

h. The source of supply will be the Hydro One Dundas Transformer Station.

11. Ref: Exhibit B, Tab 3, Schedule 1, page 15

In regard to the Horning M50 – new feeder project,

a. Please provide the total cost of this project when it is completed as well as the cost in 2008.
b. Please provide data or information demonstrating that the Mohawk Transformation Station is overloaded.
c. Please provide load growth data including actual load growth from 2002 to 2006 and forecast growth from 2007 to 2017 for Mohawk Transformation Station if a load growth study on this station has been conducted.
d. Please provide engineering support documentation including single line diagram proving that no other station has load balancing and/or load transfer capability in order to defer investment for the Horning M50 – new feeder project Mohawk Transformation Station.

Response:

a. The Horning M50 – new feeder project will be commenced and completed in 2008 at a total cost of $2,017,000.

b. The following table provides the Hydro One 10 day Limited Time Rating ("LTR") for each TS supplying Horizon Utilities' service area above the Niagara escarpment. In addition, the table provides the actual load ("in MVA") being supplied to Horizon Utilities from each TS.

As shown in the table, the B1B2 and the Y1Y2 buses at Mohawk TS have exceeded the Hydro One 10 day LTR, and as such load must be transferred from the Mohawk TS.

Hydro One Supply Bus		Actual 2002	2003	2004	2005	2006
Horning B1B2	MVA	56.0	51.6	46.7	55.2	52.7
	10 day LTR	62.0	62.0	62.0	62.0	62.0
	Ratio of 10 day LTR	0.90	0.83	0.75	0.89	0.85
Horning Q1Q2	MVA	10.0	8.1	8.5	8.7	13.6
	10 day LTR	62.0	62.0	62.0	62.0	62.0
	Ratio of 10 day LTR	0.16	0.13	0.14	0.14	0.22
Mohawk B1B2	MVA	45.2	42.4	36.9	49.3	45.6
	10 day LTR	42.0	42.0	42.0	42.0	42.0
	Ratio of 10 day LTR	1.08	1.01	0.88	1.17	1.09
Mohawk Y1Y2	MVA	43.8	40.3	37.9	43.4	45.2
	10 day LTR	42.0	42.0	42.0	42.0	42.0
	Ratio of 10 day LTR	1.04	0.96	0.90	1.03	1.08
Nebo QJ	MVA	53.7	49.9	42.1	49.8	61.4
	10 day LTR	57.0	57.0	57.0	57.0	57.0
	Ratio of 10 day LTR	0.94	0.87	0.74	0.87	1.08

c. The tables below provide Horizon Utilities' actual and forecasted load, based on 1% load growth per year, for the Mohawk TS.

	Load in kVA				
Bus	2002	2003	2004	2005	2006
B1B2	46235	47332	43390	45884	46943
Y1Y2	43277	41728	34652	47017	44889

	Forecasted load in MVA										
Mohawk TS Bus	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
B1B2	46.0	46.5	47.0	47.4	47.9	48.4	48.9	49.4	49.9	50.4	50.9
Y1Y2	45.7	46.1	46.6	47.0	47.5	48.0	48.5	49.0	49.4	49.9	50.4

d. The Hamilton area above the Niagara escarpment is supplied by three Hydro One Transformer Stations: Mohawk TS, Nebo TS and Horning TS. Horizon Utilities would refer OEB staff to the single line diagram

outlining the service areas supplied by each TS as provided in Attachment C to these responses.

The Mohawk TS service area is bounded by the escarpment to the north, Nebo TS service area to the south and the 491X, 481X and 4111X circuits supplied by Horning TS. The capacity and load information is provided in the response to question 11 b above.

Horizon Utilities is supplied by the QJ bus at Nebo TS. The actual loads on the QJ bus exceeded the 10 day LTR in 2006 by 4,400 kVa and therefore the QJ bus at Nebo TS does not have load transfer capability.

The 491X, 481X and 4111X circuits supplied by Horning TS are at 61%, 85% and 54% of their rated capacity. Each of these circuits has capacity for 7 MVA. Horizon Utilities is proposing to transfer 4 MVA from the Mohawk TS to Horning TS, representing 57% of circuit capacity. Horizon Utilities has available capacity on the Q1Q2 bus at the Horning TS, as can be seen in the table contained in the response to question 11 b above, but does not have available capacity on the existing circuits. Horizon Utilities therefore requires a new circuit from Horning to pick up the 4 MVA being transferred from Mohawk TS.

12. Ref: Exhibit B, Tab 3, Schedule 1, page 34

a. Please indicate if the ERP project was presented to the Board in a previous proceeding. If it was, then please provide a copy of all the pre-filed evidence relating to the ERP project filed in any previous proceeding.

b. Please confirm that Horizon is proposing to add approximately $4.7 million to its rate base in 2008 for the ERP software solution.

c. Please provide the confidential IFS agreement as mentioned at page 30 to the Board, in accordance with the confidentiality practices of the Board.

d. Please indicate if the amounts in table 11 represent the total cost of the ERP project, or just the amount due in 2008 to be paid to the vendor? What is the total amount of the entire project?

e. Please provide the planned budget and actual cost for this project for 2006 Board approved, 2006 actual, 2007, and 2008 including a variance analysis.

f. Please provide a table listing the expected capital expenditure of this project by year from 2009 to 2012.

g. Please provide a table listing the "Estimated Cost Savings" and "Estimated Process Improvement Benefits" by year from 2006 to 2012 for this project.

Response:

a. The ERP project has not been presented to the OEB in a previous proceeding.

b. Horizon Utilities confirms that approximately $4.7 million is being added to its rate base in 2008.

c. The confidential IFS agreement was provided to the OEB in confidence on October 22, 2007 in a sealed envelope accompanying the Application, in accordance with the confidentiality practices of the Board. Horizon Utilities designated the agreement as Exhibit B/Tab 3/Schedule 1/Appendix D to the Application. The confidential nature of the agreement was addressed in the cover letter accompanying the Application.

d. The amount of $8.7 million in Table 11 represents the total cost of the ERP project.

e. Please refer to the table below. There were no costs related to 2006 Board Approved and 2006 Actual year.

Summary of ERP Budget

	2006 Board Approved	2006 Actual	2007	2008	Sub-Total	2009-2012 (note 1)	Total Project
OM&A			1,650,000	1,295,000	2,945,000	909,000	3,854,000
Work in Progress			3,811,000	(3,811,000)	0	0	0
Capital							
Computer Hardware				3,960,000	3,960,000	0	3,960,000
Computer Software				716,000	716,000	0	716,000
			0	4,676,000	4,676,000	0	4,676,000
Total	NIL	NIL	5,461,000	2,160,000	7,621,000	909,000	8,530,000

Notes:
(1) Excludes future estimated cost savings and estimated process improvement benefits.

f. There are no expected capital expenditures for this project from 2009 to 2012. Please see the table provided in response to question 12 e above.

g. There are no Estimated Cost Savings or Estimated Process Improvement Benefits for the years 2006 and 2007 as the ERP project

will not be complete until 2008. Estimated Cost Savings and Estimated Process Improvement Benefits for 2008 to 2012 are shown at Exhibit B/Tab 3/Schedule 1/Appendix E/p. 21. The "Summary of Benefits" Table on that page is reproduced below. Horizon Utilities notes that this page appears as page 19 of 67 in the electronic version of the Application. The correct page number is 21 of 70, as can be seen in the hard copy of the Application. To assist the OEB and intervenors, Horizon Utilities is providing a scanned version of the hard copy of this document as Attachment D to these responses.

ERP Business Case
Summary of Benefits
($000's)

	2008	2009	2010	2011	2012	Total
Estimated Cost Savings						
Supply Chain Management	10.0	200.0	340.0	380.0	330.0	1,260.0
Asset and Maintenance Management	2.0	2.0	2.0	2.0	2.0	10.0
Work Management	5.3	78.8	78.8	78.8	78.8	320.5
Human Resources	0.0	132.0	165.0	165.0	165.0	627.0
Finance	10.0	10.0	10.0	10.0	10.0	50.0
	27.3	422.8	595.8	635.8	585.8	2,267.5
Estimated Process Improvement Benefits						
Supply Chain Management	0.0	100.0	150.0	100.0	50.0	400.0
Asset and Maintenance Management	50.0	50.0	50.0	50.0	50.0	250.0
Work Management	55.0	210.0	210.0	210.0	210.0	895.0
Human Resources	40.6	18.2	18.2	18.2	18.2	113.4
Finance	50.0	50.0	50.0	50.0	50.0	250.0
	195.6	428.2	478.2	428.2	378.2	1,908.4
Total Benefits	222.9	851.0	1,074.0	1,064.0	964.0	4,175.9

13. Ref: Exhibit B, Tab 3, Schedule 1, page 34

Please provide a copy of the smart meter implementation plan, if any. How does HUC propose to deal with costs associated with stranded meters?

Response:

Horizon Utilities is providing a copy of its SMIP, filed with the OEB on December 15, 2006, as Attachment E to these responses.

In accordance with the OEB Decision in the Combined Smart Meter Proceeding (EB-2007-0063), stranded costs associated with existing meters remain in rate base.

14. Ref: Rate Base

In the audited financial statements under *note 2* regarding the amalgamation, there is a table that indicates the fair value of net assets of St. Catharines Hydro.

Please provide a continuity table that shows the gross and net fixed asset book values of each distributor before amalgamation and the history of changes in fixed assets of the amalgamated distributor from March 1, 2005 through December 31, 2006. [Please use the combined net book values of each distributor before amalgamation, plus capital expenditures, less disposals and depreciation from that date immediately before amalgamation in the above rate base calculation. No appraisal increments should be included in rate base.]

Response:

Horizon Utilities has provided, as Attachment F to these responses, the following fixed asset continuity schedules:

- St. Catharines Hydro Utility Services Inc. January 1, 2005 – February 28, 2005, which provides the Cost, Accumulated Depreciation and NBV of assets before amalgamation;
- Hamilton Hydro Inc. January 1, 2005 to February 28, 2005, which provides the Cost, Accumulated Depreciation and NBV of assets before amalgamation.
- St. Catharines Hydro Utility Services Inc. March 1, 2005 – December 31, 2005, which provides the Cost, Accumulated Depreciation and NBV of assets following amalgamation;

- Hamilton Hydro Inc. March 1, 2005 – December 31, 2005, which provides the Cost, Accumulated Depreciation and NBV of assets following amalgamation;
- Horizon Utilities Corporation March 1, 2005 – December 31, 2005 which provides the Cost, Accumulated Depreciation and NBV of assets for the amalgamated distributor.
- The fixed asset continuity schedule for 2006 for Horizon Utilities can be found at Exhibit B/Tab 2/Schedule 1/p. 1.

Please note that no appraisal increments arose as a result of the amalgamation and therefore, there are no appraisal increments included in the fixed asset continuity schedules.

OPERATING REVENUES

15. Ref: Exhibit C/ Tab 2/Schedule 2/ Pages 1 to 6

At Schedule 2, pages 1 to 6, the HUC explains how it developed its 2008 load forecast. Staff understands the methodology as:

- Determination of 2008 forecasted customer count for each customer class,
- Determination of the weather-normalized retail energy for each customer class for 2004,
- Determination of the 2004 retail normalized average use per customer ("retail NAC") by dividing each of these weather-normalized retail energy values by the number of customers/connections in each class existing in 2004,
- applying the 2004 retail NAC to the 2008 Test Year without modification, and
- Determination of the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value by the 2008 forecasted customer count in that class.

Please confirm that the above accurately captures Horizon's load forecasting methodology. If it does not, then please clarify in detail explaining the methodology used.

Response:

The OEB staff understanding of Horizon Utilities development of the 2008 load forecast for the Residential, General Service < 50 kW and General Service > 50 kW customer classes is correct. The retail normalized average use per customer ("retail NAC"), as determined through Hydro One's weather normalized load forecast for 2004, prepared for Horizon Utilities Cost of Service study filed with the OEB in March 2007, was used to determine the 2008 load forecast based on Horizon Utilities forecast of customer counts.

The 2008 load forecast for the Large Use, Street Lighting, Sentinel Lighting and Unmetered/Scattered Load customer classes was calculated

based on actual customer data as explained in Exhibit C, Tab 2, Schedule 2, page 1, lines 22 to 28 and page 2, lines 1 and 2 which state;

> "The Large Use class consists of 12 customers, down from 14 in 2004. The 2007 customer number is the current actual number of customers in this class. Horizon Utilities does not anticipate a change to the customer count for this class and therefore has used 12 customers for the balance of the 2007 Bridge Year and the 2008 Test Year.
>
> Customer connections for the Street Lighting and Unmetered/Scattered Load classes for the 2007 Bridge Year and the 2008 Test Year were calculated based on the annual average geometric mean growth rate from 2002 to 2006. Horizon Utilities does not install new sentinel lights and therefore has kept the same sentinel light customer count for the 2007 Bridge Year and the 2008 Test Year."

16. Ref: Exhibit C/ Tab 2/ Schedule 2/ Page 1

At Schedule 2, page 1, HUC explains its derivation of the customer count for the various customer classes. For the General Service >50 to 5,000 kW customer class, HUC relies on a 2% annual growth for 2007 and 2008. 2004 and 2005 (growth of 9.25% and 0.39% respectively) were judged to be anomalies. The rationale for removing these values from the trend analysis and simply assuming a 2% annual growth is not clear.

a. Please provide detailed justification for rejecting the 2004 and 2005 values and explain the selection of the 2% annual growth assumption.
b. Please estimate the 2007 and 2008 values if the 2004 and 2005 values had not been eliminated from the growth analysis.

Response:

a. In 2004 Horizon Utilities re-classified approximately 200 customers from the General Service < 50 KW customer class to the General Service > 50 kW customer class in accordance with the Electricity Distribution Rate Handbook Chapter 10.3.9. The total number of customers did not change as a result of this re-classification. However, due to the small number of customers in the General Service > 50 kW class the year over year comparison appears to be a significant "growth", which is not the case as there is no change in total customers. The percentage growth for 2005 would be inaccurate as a result of increasing the customer count in 2004 by re-classifying customers. The two year comparison for 2003 over 2002 and 2006 over 2005 more representative of actual customer "growth" in the General Service > 50 kW class and as such Horizon Utilities used these percentage changes as customer growth going forward.

b. By including the re-classification of customers into the General Service > 50 kW customer class as if this was actual "growth" in Horizon

Utilities customer base would increase the forecasted number of customers for 2007 and 2008 from 2,170 and 2,213, as filed, to 2,198 and 2,272 respectively or an increase in the number of customers in the General Service > 50 kW customers for 2007 and 2008 of 28 and 31 respectively. Horizon Utilities reiterates, however, that for the reasons set out in the response to question 16 (a) above, it is not appropriate to use actual 2004 and 2005 values in forecasting growth in the General Service > 50 kW class.

17. Ref: Exhibit C/Tab 2/Schedule 2/Page 2

At Schedule 2, page 2, the HUC states: "By using the latest Hydro One forecast that is specific to Horizon Utilities, the 2004 weather normalized data has been used to forecast the required information for the 2007 Bridge Year and the 2008 Test Year."

Please explain:

a. What was the Horizon Utilities-specific forecast data that Hydro One used,
b. How was the 2004 weather normalized data used, and
c. What was the "required information" that is referenced?

Response:

a. Horizon Utilities did not provide specific "forecast" data to Hydro One. Horizon Utilities used the 2004 weather normalized data, prepared by Hydro One for Horizon Utilities' cost of service study, as the basis to forecast the 2007 Bridge Year and 2008 Test Year kWh volumes required in the Filing Requirements, Section 2.4, Exhibit 3, Operating Revenue.

b. Hydro One provided the 2004 retail normalized average use per customer ("retail NAC") which Horizon Utilities used to calculate the 2007 Bridge Year Forecast Normalized and the 2008 Test Year Normalized data, based on Horizon Utilities' forecast of customer counts in the Residential, General Service < 50 kW and General Service > 50 kW customer classes.

c. The "required information" being referenced comes from the OEB Filing Requirements for Transmission and Distribution Applications, Chapter 2, Section 2.4, Exhibit 3, Operating Revenue, which requires the Applicant to provide volume and normalization

methodology for volume forecasts for the Historical Actual, Bridge Year and Test Year normalized.

18. Ref: Exhibit C/Tab 2/Schedule 2/Page 5&6

At Schedule 2, page 5, the HUC states: "While total normalized consumption for each class will change from year to year due to changes in customer numbers, average normalized customer consumption will be consistent from year to year." In line with this statement, in Schedule 2, page 6, Table 4, the Applicant shows the Average kWh/Customer for Residential, GS<50 kW and GS>50 kW classes to maintain the same value from 2002 to 2008.

a. Please confirm that no reduction in consumption in the forecast is expected during the 2006 to 2008 period as a result of Horizon Utilities' CDM activities.

Response:

a. Horizon Utilities has not included a reduction in consumption in its forecasts as a result of Horizon Utilities CDM activities, as such are inestimable at this time. Such reductions in consumption and related revenues will be subject to recovery through future LRAM/SSM applications.

19. Ref: Exhibit C/ Tab 2/ Schedule 2/ Page 1-6, Exhibit C/ Tab 2/ Schedule 2/Appendix A, 1st table

At Schedule 2, pages 1 to 6, the Applicant determines the "retail NAC" which, as outlined in the previous interrogatories, does not appear to adequately weather-normalize the energy usage in historical years and did not allow for the possible change in energy usage per customer over the 2002 – 2008 period. In the first table in Appendix A, the Applicant summarizes the calculation of its load forecast incorporating the constant retail energy assumption. The minimal weather normalization and the constant retail NAC assumption could potentially lead to forecasting errors.

a. Please file a data table for the historical years 2002 to 2006 that show:
   - I) the actual kWh for each customer class in each year,
   - II) the weather normalized kWh for each customer class in each year (where, for the three customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year and not rely on results for any other year),
   - III) the values of the weather conversion factors used,
   - IV) the customer count for each class in each year,
   - V) the Average kWh / Customer for each class in each year based on the weather corrected kWh data in item ii. above,
   - VI) as a footnote to the table, the source(s) of the weather correction factors.

b. Please file an updated version of Schedule 2, page 6, Table 4 for the historical years 2002 to 2006, the Bridge Year 2007 and the Test Year 2008:

I) utilizing the weather corrected Average kWh / Customer values for each class in each year obtained in (a) v. above for the historical years 2002 to 2006,

II) including 2007 and 2008 projections for the weather corrected Average kWh / Customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) in each year, and

III) for each of the weather-sensitive classes, describe in detail the trend analysis performed in (ii) above

c. Please file an updated version of the first table in Appendix A:

I) utilizing the weather corrected and other data determined in (b) above, and

II) utilizing the 2007 and 2008 customer count forecasts for the GS>50 to 5,000 kW class as developed in response to interrogatory 16 (b).

Response:

a. (I) This information has been provided at Exhibit C/Tab 2/Schedule 1/p. 1/Table 1, and is reproduced below.

Horizon Utilities Corporation

Year Customer Class		Historical Actual 2002	Historical Actual 2003	Historical Actual 2004	Historical Actual 2005	Historical Actual 2006
Residential	kWh	1,802,565,330	1,655,935,250	1,626,211,541	1,843,752,189	1,725,777,417
GS < 50 kW	kWh	672,420,187	663,278,645	633,716,131	656,818,724	642,409,673
GS >50 kW	kWh	1,956,174,104	1,931,254,768	1,968,528,594	2,109,456,708	2,013,884,593
Large Use > 5000 kW	kWh	1,300,047,388	1,217,676,972	1,223,769,893	1,166,719,994	1,088,833,225

Unmetered/Scattered	kWh	17,518,066	16,481,215	18,732,058	18,953,277	17,707,742
Sentinel Lights	kWh	530,432	641,529	565,589	609,316	606,521
Street Lighting	kWh	37,468,861	37,866,700	42,386,981	41,129,393	41,122,174

(II) The following table provides the weather normalized kWh for the Residential, General Service < 50 kW and General Service > 50 kW customer classes. The kWh consumption for the remaining customer classes is not weather sensitive.

Year Customer Class		Weather Normalized 2002	Weather Normalized 2003	Weather Normalized 2004	Weather Normalized 2005	Weather Normalized 2006
Residential	kWh	1,785,803,080	1,655,829,987	1,624,574,359	1,813,879,203	1,731,816,702
GS < 50 kW	kWh	666,167,279	663,236,482	633,078,140	646,176,764	644,657,758
GS >50 kW	kWh	1,937,983,429	1,931,132,004	1,966,546,786	2,075,278,703	2,020,932,097
not weather sensitive Large Use > 5000 kW	kWh	1,300,047,388	1,217,676,972	1,223,769,893	1,166,719,994	1,088,833,225
Unmetered/Scattered	kWh	17,518,066	16,481,215	18,732,058	18,953,277	17,707,742
Sentinel Lights	kWh	530,432	641,529	565,589	609,316	606,521
Street Lighting	kWh	37,468,861	37,866,700	42,386,981	41,129,393	41,122,174

(III) The following table provides the conversion factors used in weather normalizing the three weather-sensitive customer

classes identified in part ll) above. The source of the information is provided in part Vl) below.

Calendar Year	Annual Energy Demand		
	Actual Energy (TWh)	Weather-Corrected Energy (TWh)	Conversion Factor
2002	**153.0**	**151.5**	**0.9907**
2003	**151.7**	**151.7**	**0.9999**
2004	**153.4**	**153.3**	**0.9990**
2005	**157.0**	**154.4**	**0.9838**
2006	**151.1**	**151.6**	**1.0035**

(IV) The following table provides the number of customers / connections in each customer class.

Year Customer Class		Historical Actual 2002	Historical Actual 2003	Historical Actual 2004	Historical Actual 2005	Historical Actual 2006
Residential	#	204,319	205,427	206,778	208,193	209,370
GS < 50 kW	#	18,368	18,317	18,214	18,124	18,073
GS >50 kW	#	1,864	1,901	2,075	2,083	2,127
Large Use > 5000 kW	#	14	14	14	13	12
Unmetered/Scattered	#	3,117	3,150	3,169	3,169	3,241
Sentinel Lights	#	450	465	479	479	479
Street Lighting	#	50,032	51,482	51,932	52,266	52,327

(V) The following table provides the Average kWh / Customer in each class weather corrected as required.

Year Customer Class		Weather Normalized kWh per Customer 2002	Weather Normalized kWh per Customer 2003	Weather Normalized kWh per Customer 2004	Weather Normalized kWh per Customer 2005	Weather Normalized kWh per Customer 2006
Residential	kWh	8,740	8,060	7,857	8,712	8,272
GS < 50 kW	kWh	36,268	36,209	34,758	35,653	35,670
GS >50 kW	kWh	1,039,691	1,015,851	947,733	996,293	950,133
not weather sensitive Large Use > 5000 kW	kWh	92,860,528	86,976,927	87,412,135	89,747,692	90,736,102
Unmetered/Scattered	kWh	5,620	5,232	5,911	5,981	5,464
Sentinel Lights	kWh	1,179	1,380	1,181	1,272	1,266
Street Lighting	kWh	749	736	816	787	786

(VI) The following table provides the Average kWh / Customer in each class weather corrected as required.Horizon Utilities used the IESO 10 Year Outlook and 18 Month Outlook to source the Actual and Weather-Corrected energy for the years 2002 to 2006 as identified below.

IESO 10-Year Outlook issued March 2004

Table 2.2: Actual and Weather Corrected Energy

Source: http://www.theimo.com/imoweb/pubs/marketReports/10Year_ODF_2004mar.xls

Calendar Year	Annual Energy Demand				
	Actual Energy (TWh)	Annual Growth (%)	Weather-Corrected Energy (TWh)	Annual Growth (%)	Weather Correction Impact
1995	137.0	1.6%	135.8		-0.9%
1996	137.4	0.3%	136.7	0.6%	-0.5%
1997	138.4	0.7%	138.2	1.1%	-0.1%
1998	139.9	1.1%	140.5	1.6%	0.4%
1999	144.1	3.0%	143.5	2.1%	-0.4%
2000	146.9	2.0%	147.2	2.6%	0.2%
2001	146.9	0.0%	147.2	0.0%	0.2%
2002	**153.0**	4.1%	**151.5**	2.9%	-0.9%
2003	**151.7**	-0.8%	**151.7**	0.1%	0.0%

IESO 18 Month Outlook December 2007

Table 1 - Demand Forecast

Source: http://www.theimo.com/imoweb/pubs/marketReports/18Month_ODF_2007dec.xls

Firm Resource Scenario - No Additional Conservation				
Year	Actual TWh		Weather Corrected TWh	% Growth
2004 Energy	**153.4**		**153.3**	1.9%
2005 Energy	**157.0**		**154.4**	0.7%
2006 Energy	**151.1**		**151.6**	-1.8%
2007 Energy (Forecast)	151.2		151.2	-0.3%
2008 Energy (Forecast)	153.6		153.6	1.6%

b. (I) See Table 4 in the response to part (II) below

(II) The following table encompasses part (I), being the weather corrected Average kWh / Customer for 2002 to 2006 and part (II), being the projections for 2007 and 2008.

Table 4
Historical Actual Normalized Average Consumption

		Historical Actual Normalized	Historical Actual Normalized	Historical Actual Normalized	Historical Actual Normalized	Board Approved Normalize	Historical Actual Normalized	Bridge Year Forecast Normalized	Test Year Normalized Forecast
		2002	2003	2004	2005	2006	2006	2007	2008
Residential	Average kWh / Customer	8,740	8,060	7,857	8,712	8,278	8,272	8,218	8,218
GS < 50 kW	Average kWh / Customer	36,268	36,209	34,758	35,653	35,996	35,670	35,438	35,438
GS >50 kW	Average kWh / Customer	1,039,691	1,015,851	947,733	996,293	1,008,200	950,133	943,967	943,967
	Average kW / Customer	2,694	2,660	2,522	2,568	2,640	2,488	2,466	2,466
Large Use > 5000 kW	Average kWh / Customer	92,860,528	86,976,927	87,412,135	89,747,692	89,083,197	90,736,102	90,736,102	90,736,102
	Average kW / Customer	315,958	315,355	320,392	311,484	317,235	323,027	323,027	323,027

(III) Horizon Utilities forecasted the 2007 and 2008 customer counts for each of the Residential, General Service < 50 kW and General Service > 50 kW customer classes, being the weather-sensitive classes, based on the average of the customer increase for the years 2003 to 2006.

Horizon Utilities forecasted the kWh for the three weather-sensitive customer classes based on forecasted customer counts and the 2006 average kWh per customer. The kWh consumption for each class was weather normalized multiplying by the twelve year average of Actual Energy to Weather Corrected Energy as provided by the IESO 18 month and 10 year Outlook as provided in part a VI) above and summarized in the table below.

Calendar Year	Actual Energy (TWh)	Weather-Corrected Energy (TWh)	**Conversion Factor 2007 & 2008**
1995	137.0	135.8	
1996	137.4	136.7	
1997	138.4	138.2	
1998	139.9	140.5	
1999	144.1	143.5	
2000	146.9	147.2	
2001	146.9	147.2	
2002	153.0	151.5	
2003	151.7	151.7	
2004	153.4	153.3	
2005	157.0	154.4	
2006	151.1	151.6	
Avge	146.4	146.0	**0.9970**

c. (I) and (II) The first table in Appendix A provided Horizon Utilities' actual data for 2002 to 2006 and forecast data for 2007 and 2008. This table has been modified, as required by OEB staff, to provide the weather corrected kWh data determined in response to OEB Staff question 19 b. above and the revised customer counts for the General Service > 50 kW customer class as determined in interrogatory 16 b). The table is set out below. Once again, though, as noted in response to question 16 b. above, for the reasons set out in the response to question 16 a. above, it is not appropriate to use Horizon Utilities' actual 2004 and 2005 values in forecasting growth in the General Service > 50 kW class.

Horizon Utilities Corporation

		Number of Customers										kWh (Weather Corrected per OEB Q 19 c) and kW						
							Bridge Year Forecast	Bridge Year Forecast	Test Year								Bridge Year Forecast	Test Year
		2002	2003	2004	2005	2006	2007	2007	2008			2002	2003	2004	2005	2006	2007	2008
		from 2006 EDR filing																
RESIDENTIAL																		
Regular		204,319	205,427	206,778	208,193	209,370	210,652	210,652	211,942		kWh	1,785,803,080	1,655,829,987	1,624,574,359	1,813,879,203	1,731,816,702	1,737,171,950	1,747,810,121
			0.54%	*0.66%*	*0.68%*	*0.57%*		*0.61%*			AUC	*8,740*	*8,060*	*7,857*	*8,712*	*8,272*		
GENERAL SERVICE																		
Less than 50 kW		18,368	18,317	18,214	18,124	18,073	18,000	18,000	17,927		kWh	666,167,279	663,236,482	633,078,140	646,176,764	644,657,758	640,119,741	637,523,700
			-0.28%	*-0.56%*	*-0.49%*	*-0.28%*		*-0.40%*			AUC	*36,268*	*36,209*	*34,758*	*35,653*	*35,670*		
Other > 50 kW (specify) .> 50 kW (to 5000 kW)		1,864	1,901	2,075	2,083	2,127	2,198	2,198	2,272		kWh	1,937,983,429	1,931,132,004	1,966,546,786	2,075,278,703	2,020,932,097	2,055,576,842	2,096,309,470
			1.98%	*9.15%*	*0.39%*	*2.11%*		*3.35%*			kW	5,022,221	5,055,812	5,232,142	5,349,521	5,291,317	5,371,021	5,477,452
								Counts adjusted for IR 16 b		**0.002613**	LF	0.002591468	0.002618056	0.002660574	0.002577736	0.002618256		
											AUC	*1,039,691*	*1,015,851*	*947,733*	*996,293*	*950,133*		
Large Use (> 5000 kW)		14	14	14	13	12	12	12	12		kWh	1,300,047,388	1,217,676,972	1,223,769,893	1,166,719,994	1,088,833,225	1,088,833,225	1,088,833,225
											kW	4,423,416	4,414,965	4,485,487	4,049,286	3,876,319	3,876,319	3,876,319
										0.003543	LF	0.003402504	0.003625728	0.003665302	0.003470658	0.003560067		
											AUC	*92,860,528*	*86,976,927*	*87,412,135*	*89,747,692*	*90,736,102*		
Unmetered Scattered Load		3,117	3,150	3,169	3,169	3,241	3,273	3,273	3,383		kWh	17,518,066	16,481,215	18,732,058	18,953,277	17,707,742	17,882,579	18,483,583
			1.06%	*0.60%*	*0.00%*	*2.27%*		*0.98%*			AUC	*5,620*	*5,232*	*5,911*	*5,981*	*5,464*		
Sentinel Lighting		450	465	479	479	479	479	479	479		kWh	530,432	641,529	565,589	609,316	606,521	606521	606,521
No new lights being installed								*0.00%*			kW	1,773	1,718	1,574	1,720	1,721	1721	1,721
										0.00288	LF	*0.003342559*	*0.002677977*	*0.00278361*	*0.002822837*	*0.002837494*		
																-0.85%		
Street Lighting		50,032	51,482	51,932	52,266	52,327	52,917	52,917	53,514		kWh	37,468,861	37,866,700	42,386,981	41,129,393	41,122,174	41,585,837	42,054,739
			2.90%	*0.87%*	*0.64%*	*0.12%*		*1.13%*			kW	101,299	105,816	109,850	109,892	110,083	111,660	112,919
										0.002685	LF	*0.002703552*	*0.002794434*	*0.002591588*	*0.00267186*	*0.002676974*		
											AUC	*748.8979253*	*735.5328076*	*816.201596*	*786.9244442*	*785.8691307*		
Totals											kWh	5,745,518,535	5,522,864,889	5,509,653,806	5,762,746,650	5,545,676,220	5,581,776,695	5,631,621,358
											kW	9,548,709	9,578,311	9,829,053	9,510,419	9,279,440	9,360,721	9,468,411

REVENUE OFFSETS AND SPECIFIC SERVICE CHARGES

20. Ref: Exhibit C, Tab 3, Schedule 1

Please provide an explanation of each variance from 2006 Actual versus 2008 Test to explain the overall decrease in "Other Distribution Revenue".

Please reconcile the various amounts included in "Specific Service Charges" and "Other Distribution Revenue" between Exhibit C, Tab 1, Schedule 2 Page 1 of 1 and Exhibit C, Tab 3, Schedule 1 Page 1 of 1.

Response:

(a) Please refer to the table below for the Other Distribution Revenue variance calculations and the reference notes for the explanations.

Description Of Other Revenue	2006 Actual	2008 Test Year	Variance from 2006 Actual	Note:
SSS Administration Revenue	580,685	582,042	1,357	1
Retail Services Revenue	349,191	377,624	28,433	2
Service Transaction Request Revenues	34,265	19,538	(14,727)	3
Rent From Electric Property	1,558,698	1,371,088	(187,610)	4
Late Payment Charges	676,300	720,000	43,700	5
Miscellaneous Service Revenue	3,360,784	3,340,189	(20,595)	6
Interest Income	585,730	114,000	(471,730)	7
	7,145,654	6,524,481	(621,173)	

Explanations

1 estimate in move from contract to SSS

2 additonal contracts signed

3 estimated change in service transaction

4 decrease in pole rental rate 2006 EDR. Stoney Creek facility tenants moved.

5 estimated increased late payment charges

6 elimination of management fee from FibreWired (following sale to Atria. Horizon Utilities no longer provides management services) offset by incease in approved service charge revenues

7 decrease cash due to capital spending requirement for Smart Meters and ERP

(b) Please see the table below for a reconciliation of Specific Service Charges and Other Distribution Revenue as provided in Table 1 - Summary Of Operating Revenue at Exhibit C/Tab 1/ Schedule 2 and Table 1 – Other Distribution Revenues at Exhibit C/Tab 3/Schedule 1.

	Exhibit C/Tab 1/Schedule 2				**Exhibit C/Tab 3/Schedule 1**			
Other Distribution Revenue	**2006 Board Approved**	**2006 Actual**	**2007 Bridge**	**2008 Test**	**2006 Board Approved**	**2006 Actual**	**2007 Bridge**	**2008 Test Year**
Late Payment Charges	728,451	676,300	687,996	720,000	728,451	676,300	687,996	720,000
SSS Administration Revenue	580,038	580,685	580,685	582,042	580,038	580,685	580,685	582,042
Retail Services Revenue	229,209	349,191	411,316	377,624	229,209	349,191	411,316	377,624
Miscellaneous Service Revenue	2,556,464	3,402,381	4,092,744	3,381,785	2,556,464	3,360,784	4,051,148	3,340,189
Adjust to Misc Service Revenue-FW rent						41,596	41,596	41,596
Specific Service Charges	3,365,711	4,332,257	5,084,745	4,341,451	3,365,711	4,332,257	5,084,745	4,341,451
Service Transaction Requests Revenues	2,787	34,265	27,201	19,538	2,787	34,265	27,201	19,538
Rent From Electric Property	1,206,746	1,517,102	1,386,248	1,329,492	1,206,746	1,558,698	1,427,844	1,371,088
Adjust Rent from Electric Property-FW rent						(41,596)	(41,596)	(41,596)
Interest Income	0	585,730	326,996	114,000	0	585,730	326,996	114,000
Other Distribution Revenue	1,209,533	2,137,098	1,740,445	1,463,030	1,209,533	2,137,098	1,740,445	1,463,030
Total	5,303,694	7,145,655	7,513,186	6,524,481	5,303,694	7,145,654	7,513,186	6,524,481

21. Ref: Exhibit I, Tab 1, Schedule 4 Page 3 of 3

Horizon Utilities Corporation is proposing a new specific charge called "Credit Card Convenience Charge" in the amount of $15.00. Please confirm that the costs which Horizon Utilities Corporation will be recovering through this charge has not been included in operating expenses so that they will not also be recovered through the base revenue requirement.

Response:

Horizon Utilities confirms that the costs associated with implementing the Credit Card Convenience Charge are not included in operating expenses in this rate application and will not be recovered through the base revenue requirement as these costs have yet to be incurred and will only be incurred subject to the approval of the Credit Card Convenience Charge.

OPERATING COSTS

22. Ref: General Question on OM&A Expenses

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

Response:

Horizon Utilities confirms that it has not made any changes to the Company's accounting policies in respect to capitalization of operating expenses nor has Horizon Utilities made any significant changes to accounting estimates used in the allocation of costs between operations and capital expenses post fiscal year end 2004.

23. Ref: Exhibit D/ Tab 2

The following table was modified by Board staff to review HUCs OM&A expenses. Note rounding differences may occur, but are immaterial to this question. Board staff notes that HUC is forecasting increases to OM&A before Energy Conservation and Property Taxes by $9.5 million or 29.4% from Actual 2006 to the Test Year 2008.

Board Staff Table 1

	2006 Actual	Variance 2007 Brg / 2006 Act	2007 Bridge	Variance 2008 Tst / 2007 Brg	2008 Test	Variance 2008 Tst/ 2006 Act
Operations Expense	$ 6,932,390	$ 893,472 *2.8%*	$ 7,825,862	$ 168,488 *0.4%*	$ 7,994,350	$1,061,960 *3.3%*
Maintenance Expense	$ 5,405,357	$ 437,353 *1.4%*	$ 5,842,710	$ 1,226,969 *3.1%*	$ 7,069,679	$1,664,322 *5.1%*
Billing and Collection	$ 7,533,580	$ 63,906 *0.2%*	$ 7,597,486	$ 189,139 *0.5%*	$ 7,786,624	$ 253,044 *0.8%*
Community Relations	$ 390,903	$ 109,040 *0.3%*	$ 499,943	-$ 22,525 *-0.1%*	$ 477,418	$ 86,515 *0.3%*
General and Administration	$12,084,417	$ 5,103,917 *15.8%*	$17,188,334	$ 1,335,516 *3.4%*	$18,523,850	$6,439,433 *19.9%*
Total OM&A	**$32,346,647**	**$ 6,607,688** ***20.4%***	**$38,954,335**	**$ 2,897,586** ***7.4%***	**$41,851,921**	**$9,505,275** ***29.4%***
Energy conservation	$ 1,645,980	-$ 808,237	$ 837,743	-$ 573,120	$ 264,623	-$1,381,357
Property Taxes	$ 443,632	$ 114,324	$ 557,956	$ 16,733	$ 574,689	$ 131,057
Total OM&A	$34,436,258	$ 5,913,776	$40,350,034	$ 2,341,199	$42,691,233	$8,254,975

Exhibit D, Tab 2, Schedule2, Page 2

The following table was created by Board staff to review HUCs OM&A forecasted expenses from the evidence provided in the application's Exhibit D Tab 2 schedule. Note rounding differences may occur, but are immaterial to this question.

Board Staff Table 2

	2007	2008
Opening Balance OM&A Expenses	**$ 32,346,647**	**$ 38,954,335**
Salaries and expenses	$ 2,279,134	$ 2,099,966
Tree Trimming	$ -	$ 950,000
ERP 2006	$ 1,650,000	-$ 1,650,000
ERP 2007	$ -	$ 1,351,920
ERP Set-up Outside Services	$ 1,600,000	-$ 1,600,000
Regulatory Outside Services	$ 625,000	-$ 625,000
Unexplained Difference	$ 453,554	$ 2,370,700
Closing Balance OM&A Expenses	**$ 38,954,335**	**$ 41,851,921**
Energy conservation	$ 837,743	$ 264,623
Property Taxes	$ 557,956	$ 574,689
Total Operating, Maintenance and Admin	$ 40,350,034	$ 42,691,233

Exhibit D, Tab 2, Schedule2, Page 2

The following table was created by Board staff to review HUCs OM&A forecasted expenses from the evidence provided in OM&A Cost Table in Exhibit D Tab 2 schedule 2. Note rounding differences may occur, but are immaterial to this question.

Board Staff Table 3

	2006 Actual	Variance 2007 Brg / 2006 Act	2007 Bridge	Variance 2008 Tst / 2007 Brg	2008 Test	Variance 2008 Tst/ 2006 Act
5605 Executive salaries & expenses	$ 1,537,735	$ 454,551	$ 1,992,286	$ 15,044	$ 2,007,330	$ 469,595
5610 Management salaries & expenses	$ 2,677,674	$ 1,083,902	$ 3,761,576	$ 575,347	$ 4,336,923	$ 1,659,249
5615 General administrative salaries & expenses	$ 2,752,772	$ 740,681	$ 3,493,453	$ 1,509,575	$ 5,003,028	$ 2,250,256
5625 Administrative Expense Transferred Credit	$ -	$ -	$ -	$ -	$ -	$ -
Salaries and expenses	$ 6,968,181	$ 2,279,134	$ 9,247,315	$ 2,099,966	$ 11,347,281	$ 4,379,100
		32.7%		22.7%		62.8%

a. Please confirm that HUC agree with the three tables prepared by Board Staff presented above. If HUC does not agree with the tables above, please clarify in detail.

b. *Board Staff Table 3* shows that HUC 2008 Salaries and expenses are forecasted to increase by $4.4 million or 62.8% from 2006. *Board Staff Table 2* shows the increases by year as expense drivers. Please prepare similar styled driver tables as *Board Staff Table 2* above for each account group that segregate or provide the driver details with

references to supporting evidence. Please consider but do not limit to the following example of drivers.

I) Forecasted current labour economic and progression (if applicable) adjustments by year by account group.

II) Forecasted staffing changes (i.e. due to economic changes (customer growth, call growth) or other than economic changes (new project)) by year by account group.

III) Pension or other benefit adjustments by year by account group with explanation.

c. Please provide a detailed headcount of planned changes to personnel during 2007 and 2008. This request should include number of employees, job descriptions, reason for hiring and related budget amount. Please identify timing considerations for planned changes.

d. In HUC's evidence, there is a detailed discussion with respect to the ERP project. On *Board Staff Table 2* above Board staff has identified ERP drivers as provided by HUC in the application. Please confirm that HUC agrees with the drivers as identified. If HUC does not agree with the table please clarify in detail why HUC does not agree with the table and prepare an amended table.

e. In *Board Staff Table 2* Board staff has identified an "Unexplained Difference" cost driver in the amounts of $0.5 and $2.4 million for 2007 and 2008. Please explain in detail the reasons for this variance and clearly identify the drivers of this variance.

Response:

a. Horizon Utilities confirms that it agrees with the calculations in Tables 1 and 3. Horizon Utilities does not agree with the calculations in Table 2 or with OEB staff's reference to an "Unexplained Difference" for 2007 and 2008. Horizon Utilities provided details of all variances in its OM&A Costs Table, at ExhibitD/Tab 2/Schedule 2 of the Application in accordance with the OEB Filing Requirements. Additional detail was provided for those variances exceeding Horizon Utilities OM&A variance analysis threshold of $540,000, also in accordance with the Filing Guidelines. Horizon Utilities also notes that the references to "ERP 2006" and "ERP 2007" in the first column should properly have been shown as "ERP 2007" and "ERP 2008" respectively.

Horizon Utilities has provided a revised version of Table 2 in its response question 23 e. below.

b. Horizon Utilities has prepared similar style driver tables, provided below, for each of the OEB USoA accounts 5605 – Executive Salaries and Expenses; 5610 – Management Salaries and Expenses; and 5615 – General Administration Salary and Expenses including explanations in the tables as applicable.

1

Executive OEB 5605 Salaries & Expenses

Driver	**2007**	**2008**
Opening Balance $'s	**1,537,735**	**1,992,286**
Salary Increases year over year	41,486	59,420
New positions timed throughout year & increases	123,478	88,224
Benefit Increases(Decreases)	38,301	32,037
Incentive	13,697	50,772
Increased Board Honorarium, Meeting Fees and Expenses *	104,835	11,500
Management Fees from Hamilton Utilities Corporation	111,130	(329,448)
Training and development	-	31,308
Subscriptions and memberships	-	30,544
Other miscellaneous expenses	21,624	40,687
	1,992,286	2,007,330

2

Management OEB 5610 Salaries & Expenses

Driver	**2007**	**2008**
Opening Balance $'s	**2,677,674**	**3,761,576**
Salary increases year over year	70,845	
New hire (HR Manager)		98,000
Merit increases		116,000
Other, including filling of vacant positions		238,508
Increase in Group Benefits (note 1)	223,500	-
Benefit Increases(Decreases)	35,000	78,070
Incentive (note 2)	(128,293)	93,232
Temporary Employment Agency Fees (note 3)	106,305	(125,000)
Employee recruitment		(70,000)
Legal Expenses	85,700	(49,000)
Miscellaneous Expense (note 4)	567,551	-
Wellness Costs (Wellness Programs/Events)	35,636	-
Training & Development, including travel related expenditures	30,000	21,748
Increase in allocated service costs (note 5)		143,000
Increase in various other management expenses	57,658	30,789
	3,761,576	4,336,923

Notes:
(1) 2006 included approx. $150,000 premium rate refund for previous year's experience.
(2) 2007 includes the reversal of an over accrual of 2006 incentive.
(3) 2007includes additional resources to backfill full-time employees dedicated to ERP implementation, as well as additional resources in Regulatory Services department.
(4) 2006 expenses were lower due to a regulatory adjustment of $567,000 to reflect deferral of OMERS expenses.
(5) Increase in allocated service costs as a result of sale of FibreWired and reduced allocation to affiliate.

3

4

General Admin OEB 5615 Salaries & Expenses

Driver	**2007**	**2008**
Opening Balance $'s	**2,752,772**	**3,493,453**
Salary and benefit increases year over year		
Wage increases	171,000	183,000
New hires	111,000	30,000
Temporary employment agencies		60,000
Head Office Cost Distribution (note 1)	349,692	416,531
PC Support Services Distribution (note 2)		289,712
ERP OM&A costs		486,000
Training & Development	51,841	-
Employee Promotion (recognition/events)	32,956	15,900
Other miscellaneous increases	24,192	28,432
	3,493,453	5,003,028

Notes:
(1) Head Office costs have incorrectly been coded to OEB 5615. Should be included in 5675. costs. Correctly allocated out as part of distributed costs.
(2) PC Support Services distributed costs incorrectly coded to OEB 5615, correctly allocated out as part of distributed costs.

c. Horizon Utilities has provided the planned changes in headcount for the 2007 Bridge Year and the 2008 Test Year, including position description, reason for hiring, timing and the related budget amount. Job descriptions are provided in Attachment G to these responses.

Executive CEO, CFO,VP/Directors – three positions

- VP Customer Service

This position is responsible for the direction and development of service delivery to customer touch points with concentration on the 'meter to cash' processes including metering, customer service, billing, collections, customer connections and conservation and demand management.

The position manages and executes operational activities focused on continuous improvement and optimizing performance aligned with Horizon's strategy and business objectives.

The 2007 salary budget is $120,300.

- VP Business Development

This newly created position on the Executive Management Team is designed to enhance the strategic capacity and corporate development expertise of the team and provide a specific focus on business development initiatives. The position will be focused on actively seeking out merger opportunities and developing comprehensive plans through to successful execution of mergers aligned to provide mutual benefit to all parties, most specifically customers.

The Ontario government has introduced initiatives such as the current transfer tax window that encourage further consolidation of electricity distribution companies. In March 2005 Horizon Utilities was established with the successful merger of St. Catharines Hydro Utilities Services Inc. and Hamilton Hydro Inc.

This merger realized on more than $5 million annualized cost savings that resulted in a decrease in customer rates on average 2.3% in 2006 and a 8.25% decrease in Horizon Utilities' Controllable Cost per Customer. In addition Horizon Utilities continues to regularly achieve excellent customer satisfaction ratings and maintain top reliability and service levels.

The establishment of this position enables Horizon Utilities to pursue additional opportunities for customer benefits, and capitalize on further economies of scale through;

- the integration of management, billing and record systems;
- lower financial costs and improved access to capital for investment in the distribution system in all Horizon communities; and

- pursuing productivity improvement strategies in the best interests of customers to continue to mitigate future rate impacts.

The 2007 salary budget is $150,000

- Director, Business Strategies

This role supports the VP Business Development and provides specific focus on the development of business strategies to enhance the strategic capacity and corporate development expertise of Horizon Utilities. A key function of this role will be to develop comprehensive plans for business opportunities through to successful execution of mergers and other opportunities that are aligned to provide mutual benefit to all parties, most specifically customers.

The 2007 salary budget is $120,000 – added mid year

Management – Middle Manager, Supervisors – four positions

- Project Management Lead

This position was created to maintain an up-to-date corporate project portfolio to ensure human resources are properly allocated; project plans are maintained and reported; consistency in documentation is maintained; and to provide project management expertise across the organization.

The 2007 salary budget is $92,000

- Commodity Manager

This position was created to carry out the strategic purchasing initiatives with the objective of optimizing procurement strategies, defining and maintaining preferred vendor relations and leading

negotiations on agreements with suppliers. This position will integrate procurement into the project management process and align strategic procurement initiatives with project objectives.

The 2007 salary budget is $72,000

- Manager Network Assets

This position existed at a more junior level and was elevated to a management position in 2007. With a significant focus on developing the asset management strategy and plans, it was important to ensure that a leadership position was in place for this program, particularly for the electrical distribution network.

The 2007 salary budget is $84,000

- Supervisor, Customer Services

This position was created to provide front line leadership and support to the Customer Service Team in a call centre environment including monitoring daily activities and call quality to optimize performance levels and provide excellent customer service. The growth of the call centre since the 2005 merger with St. Catharines Hydro resulted the requirement for an additional resource.

The 2007 salary budget is $64,000

Non-Union/Non Supervisory – Reduction of two positions:

- Planning Engineer. This position was eliminated as it is being replaced by a higher level position - Manager, Network Assets (see above)

- Administrative Assistant – This position was not replaced.

Union – Reduced 7 positions:

- Two 1st Class Line Maintainers left the organization in 2007 and were not replaced.
- Two labourers left the organization in 2007 and were not replaced.
- One Engineering Technician left in 2007 and was not replaced. This decision will be re-evaluated in 2008.
- Two Customer Service Clerks left the organization in 2007 and were not replaced.

Horizon Utilities has planned for two additional employees in the 2008 Test Year as follows:

Management – Middle Managers, Supervisors – one position:

- Manager Human Resources

The HR Manager position, expected to be hired in March 2008, will provide for additional competency and experience in labour relations and associated HR functions.

The 2008 salary budget is $70,800.

Union – one position:

- Network Operator

This position is required in 2008 in order to prepare for projected attrition of operators over the next 3 to 5 years. It takes approximately four to five years to fully train a network operator. This position is expected to be filled in September 2008.

The 2008 salary budget is $24,200.

d. With respect to Table 2, Horizon Utilities notes that the references to "ERP 2006" and "ERP 2007" in the first column should properly have been shown as "ERP 2007" and "ERP 2008" respectively. Horizon Utilities has provided revised ERP drivers and descriptions in the table provided in its response to question 23 e. below.

e. As explained above in Horizon Utilities' response to question 23 a above, Horizon Utilities provided details of all variances in its OM&A Costs Table, at ExhibitD/Tab 2/Schedule 2 of the Application in accordance with the OEB Filing Requirements. As such there are no unexplained differences in this Application. Horizon Utilities has provided a revised Table 2 below.

Revised Table 2

	2007	2008
Opening balance OM&A Expenses (2006/2007)	32,345,647	38,954,335
Incremental Changes in OM&A Expenses		
Salaries and expenses	2,279,134	2,099,966
Tree Trimming	-	950,000
Increased Operating expenses	893,472	168,468
Increased Maintenance expenses (excluding tree trimming)	532,837	259,575
ERP		
2007 expenses (See Q 12e)	1,650,000	(1,650,000)
2008 expenses (See Q 12e)	-	1,296,000
Regulatory Outside Services	625,000	(625,000)
OEB Regulatory Costs (Costs, Hearings, etc.)	-	289,000
Bad debt expense	-	290,000
Various other miscellaneous increases (decreases)	628,245	(180,423)
	6,608,688	2,897,586
Closing balance OM&A Expenses (2007/2008)	38,954,335	41,851,921
Energy conservation	837,743	264,623
Property taxes	557,956	574,689
Total Operating, Maintenance and Admin	40,350,034	42,691,233

24. Ref: Exhibit D/ Tab 2/ Schedule 1 Page 18

HUC is proposing to recover the ERP system capital and operating expenses based on a uniform average annual revenue requirement over a six year period. This is being proposed by HUC to offset a potential over recovery of $657,000 during two periods of IRM regulation or the next five years. HUC is proposing to include the six year average annual revenue requirement of $1,351,920 in 2008 for this project.

a. Please provide detailed calculation supporting the $657,000 potential over recovery.
b. In Appendix A for the calculation of revenue requirement please provide calculations supporting amortization and grossed-up PIL's for each year presented.
c. Please discuss what the normal capitalization process would be for the ERP system project. More specifically please discuss how HUC would have accounted for this system capital had the company not made this proposal.
d. Please advise all 2007 transaction values for the ERP system that have been included in the opening balances of this application. Include all calculations if applicable.
e. Please advise all 2008 transaction values, both capital and operating, HUC would have included in this 2008 Cost of Service application if they had not proposed the $1,351,920. Please confirm that HUC has excluded these values from the application.
f. The federal government announced in an Economic Statement on October 30, 2007 that the federal income tax rates for corporations will be reduced. The changes are expected to be approved before the House rises, and the new income tax rates would be effective January 1, 2008. In HUC's 2006 electricity distribution rate (2006 EDR) applications, an effective tax rate of 36.12% was used. The new federal income tax rate for larger companies will be 19.5% for 2008 and the Ontario income tax rate is 14%, the new combined income tax

rate will be 33.5% - a difference of 2.62% from the 36.12% level. Please provide a revised Appendix A along with the amortization and PIL's calculations as requested above reflecting this change in the income tax rate.

Response:

a. Horizon Utilities prepared the table below to support the potential over recovery of revenue requirement with the inclusion of the ERP project in rate base. As shown in the table below, the inclusion of the ERP project in its entirety in this Application will result n a revenue requirement of $1,483,330. Horizon Utilities calculated the 2008 revenue requirement associated with the ERP Software Solution (including return on capital, applicable working capital, OM&A and amortization) to be $1,351,920. This is an average figure, which reflects the smoothing of the ERP-related revenue requirement. Horizon Utilities reiterates that this value also incorporates the Estimated Cost Savings, even though those savings remain to be realized over a five-year period.

The over recovery in the revenue requirement for the first year would be $131,410 and over five years would be $657,051. Accordingly, Horizon Utilities adjusted its revenue requirement as a means of mitigating customer bill impacts.

Revenue Requirement including ERP	101,712,269
Revenue Requirement before ERP	100,228,939
Revenue Requirement for addition of ERP	1,483,330
Revenue Requirement ERP Exhibit D/Tab 2/Schedule 1/Appendix A	1,351,920
Revenue Requirement over recovered	131,410
ERP recovered over five years	X 5
Over recovery of revenue requirement after five years	657,051

b. Horizon Utilities has provided the original tables filed including the amortization and grossed-up PIL's calculations for each year as Attachment H.

c. Horizon Utilities will follow its normal capitalization process and policies with respect to the accounting for the ERP system project. The proposal with respect to the revenue requirement will not affect the accounting for this project. As the ERP implementation project will not be substantially complete by the end of fiscal 2007, capital costs related to this project will be recorded as work-in-progress in 2007. In 2008, once the ERP software solution is implemented and considered to be substantially complete, the costs will be removed from work-in-progress and capitalized. OM&A costs will be recorded as an expense when they are incurred.

d. The total 2007 transaction value, included in the opening balance of this application, amounts to $3,811,000 in Work In Progress. Please refer to Horizon Utilities' response to question 12(e) above.

e. Horizon Utilities projects $865,000 in capital expenditures and $1,295,000 in operating expenditures for 2008 Test Year, for a total of $2,160,000. When the $3,811,000 in work in progress from 2007 is capitalized in 2008, the total ERP-related transaction amount that would be included in this Application if the ERP-related recovery were not being smoothed over five years would be $5,971,000. However, the total 2008 ERP-related expenditure has been reduced in the Application in order to generate an ERP-related revenue requirement for Horizon Utilities sufficient to recover the ERP-related expenditures over five years. Had Horizon Utilities included the entire 2008 ERP-related expenditures in this Application, Horizon Utilities would earn a revenue requirement in excess of that required to recover its ERP-related investment over the next five year period, including cost of

capital. Horizon Utilities would refer OEB staff to the response to question 24 a above for the detailed calculations of the over recovery.

f. Horizon Utilities has provided the original tables filed including the amortization and grossed-up PILs calculations reflecting the revised tax rate for each year as Attachment I.

25. Ref: Exhibit D/ Tab 2/ Schedule 2/ OM&A Costs Table

Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Include in this listing the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether HUC considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

Response:

The following table provides a comprehensive listing by smart meter minimum functionality work unit. Horizon Utilities has budgeted for all smart meter related O&M costs in its Operations Meter Expense account. Horizon Utilities confirms that all 2008 Test Year smart meter-related O&M costs identified below and included in the Application are components of minimum functionality.

		2008 Test Year
ADVANCED METERING COMMUNICATION DEVICE (AMCD)		
Maintenance		136,776
Maint. Tools & Equip.		2,500
Telephones		1,600
		140,876
ADVANCED METERING REGIONAL COLLECTOR (AMRC) (includes LAN)		
Maintenance		49,467
Manual Data Collection (On-Site)	(Cells/Pager/BBs/Modem Cards)	12,800
		62,267
ADVANCED METERING CONTROL COMPUTER (AMCC)		
Software Maintenance/License		173,107
WIDE AREA NETWORK (WAN)		
Monthly Meter Data Collection Fees		147,600
OTHER		
Customer Communication & Education		225,000
Program Management (Prof. Fees, Office supplies/memberships)		95,300

Utility Staff Training	56,253
Meter Scraping	104,537
	481,090
Total OM&A	1,004,940

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PURCHASE OF SERVICES OR PRODUCTS

26. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 1 and 2

Under Table 1, 2007 Bridge Year, Horizon Utilities Corporation ("HUC") documents purchases from FibreWired for internet connectivity, PC Technical Support Services, and Telephone Support.

On page 2, HUC states that its FibreWired division is being sold to an unrelated third party and upon the completion of that transaction in 2007, HUC will no longer be purchasing internet connectivity services from an affiliate.

a. How will HUC acquire these services specifically:
   - I) Name of the company(s) that will be providing internet connectivity, PC technical and telephone support services and the rationale to switch to this service provider.
   - II) Annual dollar value for each service and a variance analysis of showing the cost of the new contract vs. prior contract as well as an explanation for the cost increase(s).
   - III) Description of specific methodology used in determining the price.

Response:

b. (I) The sale of FibreWired closed effective December 31, 2007. The business was purchased by Atria Networks, a business providing services substantially the same as those of the former FibreWired. Horizon Utilities will be acquiring the services, referred to in Q 26 a. l) below, from Atria Networks.

(II) There is no new contract at the present time. It is anticipated that Horizon Utilities will acquire services from Atria Networks in 2008, under similar terms and conditions as those between Horizon Utilities and the former Fibrewired. Horizon Utilities

anticipates that costs will rise in 2008 to reflect inflation, as well as costs related to additional internet connectivity services, including increased data storage and co-location fees.

Fibre Wired / Atria Services	2007	2008	Variance
Internet Connectivity	$182,560	$256,632	$74,072
PC Tech Support Services	$432,000	$462,000	$30,000
Telephone support	$100,500	$96,000	-$4,500
	$715,060	$814,632	$99,572

(III) As noted above, Horizon Utilities will acquire services from Atria Networks, under the same arrangements as with the former Fibrewired.

27. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 3

a. In regards to Table 2 (2006 Supplier List), HUC has disclosed expenditures equal to or greater than $250,000. Please provide the following information:
   I) The identity of each company transacting with the Applicant
   II) A summary of the nature of the activity transacted for each company.
   III) Annual dollar value, in aggregate, of all transactions
   IV) Description of specific methodology used in determining the price.

b. Please provide reasoning if an inclusive list of all expenditures cannot be provided.

Response:

a. Horizon Utilities provided all the requested information in I) to IV) above in its application at Exhibit D/Tab 2/Schedule 6/p 3.

b. An all-inclusive list would have included an additional 870 suppliers with purchases exceeding $2,000 annually. Horizon Utilities limited the list to those suppliers from whom it purchased goods and or services totaling $250,000 or more per year to maintain the list to those suppliers that are of a significant dollar value to Horizon Utilities.

28. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 4

a. In regards to Table C (2007 Supplier List), HUC has disclosed expenditures equal to or greater than $125,000. Please provide the following information:
   I) The identity of each company transacting with the Applicant
   II) A summary of the nature of the activity transacted for each company.
   III) Annual dollar value, in aggregate, of transactions
   IV) Description of specific methodology used in determining the price.

b. Please provide reasoning if an inclusive list of all expenditures cannot be provided.

Response:

a. Horizon Utilities provided all the requested information in l) to lV) above in its application at Exhibit D/Tab 2/Schedule 6/p 4.

b. An all-inclusive list would have included an additional 590 suppliers with purchases exceeding $2,000 annually. Horizon Utilities limited the list to those suppliers from whom it purchased goods and or services totaling $125,000 or more per year to maintain the list to those suppliers that are of a significant dollar value to Horizon Utilities.

29. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 3 and 4

For each specific methodology used in determining the price of the service/product, please provide a detailed description of the methodology.

Response:

A detailed description of the methodology in determining the price of the service/product is as follows:

RFQ (Request for Quotation) – This document is issued to potential suppliers requesting a quote for a product or service. The RFQ requests a specific list of prices for defined items. The resulting agreement will confirm the pricing structure.

RFP (Request for Proposal) – This document is issued to potential suppliers where a bid is required for a product or service. Once all bids are received and evaluated, an analysis is completed to assist in determining the selected supplier. At this time, further negotiations such as possible cost reduction may be undertaken. The resulting agreement will confirm the pricing structure.

Sole Source – A non-competitive procurement process is used where the there is only one potential supplier available.

Retained – Used as a means to ensure a specific external service is available when required.

Regulated – The purchase of the product or service is mandatory.

SHARED SERVICES

30. Ref: Exhibit C/ Tab 3/ Schedule 2/ Page 4

In Table 2, HUC identifies the allocators used for each shared service department. Please provide a rationale outlining how each of these allocators was chosen.

Response:

Horizon Utilities shares certain corporate functions, resources and services with various affiliates pursuant to a Master Services Agreement (the "MSA"), provided at Exhibit C/Tab 3/Schedule 2/Appendix A, among Horizon Utilities, Hamilton Utilities Corporation, Hamilton Hydro Services Inc., Horizon Holdings Inc. and Horizon Energy Solutions Inc.

Horizon Utilities and its subsidiaries undertook the following steps to develop the methodologies underlying the allocation of corporate costs:

- Reviewed Affiliate Relationship Code;
- Created an inventory of affiliate company service transactions by surveying existing service level agreements, review of financial records and held discussions with Executive and Managers from each business unit;
- Reviewed each shared services and inter-affiliate transaction to determine if the FMV could be estimated from reasonably available information;
- Reviewed typical or reasonable cost allocation methodologies including those used by other LDCs; and
- Developed costs using direct cost allocation, time reporting and appropriate cost allocator proxies.

The development of costs follows the OEB requirements as well as current industry practice, including:

- Direct allocation of costs where possible.
- Where direct allocation is not possible, allocation of costs based on time/cost tracking of individual efforts when possible.
- Where necessary, selection of appropriate "allocator proxies" based on cost causation or benefits received.

Costs are also appropriately computed on a fully-burdened basis.

The following is a summary of the corporate functions and shared services provided by Horizon Utilities and its affiliates, including the methodology used to allocate costs:

Corporate Management including all statutory and other activities of the Senior Vice President and Chief Financial Officer and the Vice President Corporate Services and their respective offices:

- Pricing methodology for Corporate Management is based on total costs incurred by this cost centre to provide services and allocated based on proportional share of total assets. Note that direct costs, where identifiable, are excluded from the above calculation and paid directly by the affiliate with no mark-up.

  The use of a financial measure (in this case total assets) to allocate costs is a common corporate cost allocation methodology used by other LDCs, as well as many corporate entities.

Accounting and Financial Services including all necessary accounting, invoicing, banking and cash management, budgeting and business planning, accounts receivable, accounts payable, reporting, risk management, tax/PILS administration and other financial services:

- Pricing methodology for Accounting and Financial Services is based on total costs incurred by this cost centre to provide services and allocated based on proportional share of total estimated time

spent on each affiliate. Direct costs, where identifiable, are excluded from the above calculation and paid directly by the affiliate with no mark-up.

Cost allocation based on estimated time spent on an activity is a reasonable basis for the allocation of costs and is a common method of allocating costs for accounting and financial services based upon review of other LDCs. The estimated time spent on each affiliate was based on discussion and review of key processes with staff and management. The use of estimates is an accepted practice for cost allocation. It allows the business units to have cost certainty during the year and avoids the effort that would be required to obtain monthly data, update the allocations, and analyze changes in results.

Corporate Communications, Health & Safety and Human Resource Services:

Corporate Communications including all necessary corporate, customer, public and media releases and other public relations services. Health & Safety including all necessary legislated reporting, safety matrices and meetings and other safety services. Human Resource Services including all recruiting, salary administration, payroll, labour relations, benefit administration, and other human resources responsibilities.

- Pricing methodology for Corporate Communications, Health & Safety and Human Resource Services is based on total costs incurred by the department to provide services and allocated based on proportional share of total actual average annual number of employees. Note that direct costs, where identifiable, are excluded from the above calculation and paid directly by the affiliate with no mark-up.

The use of average number of employees (FTEs) is a reasonable basis for the allocation of costs as the services are generally being provided to or for the benefit of employees. Based upon a review of other LDCs cost allocations, this is an industry acceptable basis for allocation of these costs.

Supply Chain Management:

Purchasing including issuance and management of blanket and regular purchase orders, and other purchasing responsibilities:

- Charges for Purchasing are based on total costs incurred by purchasing department to provide services and then allocated based on proportional share of the current year's actual number of purchase orders issued.

  The primary cost driver with respect to purchasing is the issuance of purchase orders and is therefore a reasonable proxy for allocating costs.

Inventory including inventory management and other inventory related responsibilities:

- Charges for inventory are based on total costs incurred by the stores department to provide inventory services and then allocated based on proportional share of the total actual value of goods withdrawn from Stores.

  The primary cost driver with respect to inventory is the issuing of inventory requisitions and is therefore a reasonable proxy for allocating costs.

Information Systems (IT) including managing the mainframe computer system and peripherals and other services:

- Charges for IT are based on total costs incurred by the department to provide services and then allocated based on proportional share of total actual average annual number of personal computer users. Note that direct costs are excluded from the above calculation and paid directly by the affiliate with no mark-up.

  As the services provided by IT directly relate to computer systems and usage, the allocation by number of personal computers is a reasonable proxy. This proxy is also used by other LDCs as an acceptable proxy.

Programmer Services including program development and maintenance, and other services:

- Charges for Programmer Services are based on actual costs for hours worked and materials used.

Facilities including building maintenance, cleaning, heating and air conditioning and any other facilities services.

- Charges for facilities are allocated based on floor space utilized by Horizon Utilties and its affiliates. Costs are identified for each location and allocated separately. Charges are also allocated to various Horizon Utilities departments that occupy specific locations and that provide shared services.

  Floor space is a common cost allocation methodology used for facilities costs, both within the utility industry as well as other industries, and is therefore a reasonable proxy.

31. Ref: Exhibit C/ Tab 3/ Schedule 2/ Appendix A

An unsigned, draft copy of the Master Services Agreement for Shared Services was filed. Please provide the expected date by which the Master Services Agreement for Shared Services will be officially signed and filed with the Board.

Response:

The Master Services Agreement for Shared Services was officially signed with an effective date of January 1, 2007. No changes where made to the form of agreement provided in Exhibit C/Tab 3/Schedule 2/Appendix A.

EMPLOYEE COMPENSATION

32. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average employee compensation totals, by employee category for 2005 to 2008. Please provide an expanded version of this table showing Historical Board Approved data for 2006 and Historical Actual data for 2006.

Response:

The Board Approved 2006 data comes from Horizon Utilities' 2006 EDR application, Schedule 6-4 and is based on the 2004 actual data filed. The 2006 Historical Actual was filed in the column for the 2006 year. A copy of the requested table is provided below.

1

Horizon Utilities' Employee Complement And Compensation					
	Board Approved 2006 based on 2004 Actuals		Historic Actual		
Number of employees (FTEs)	**2004**	**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	22	17	14	17	17
Management - Middle Managers, Supervisors.	47.6	35	39	43	44
Non-Union - non-supervisory	35.6	19	28	26	26
Union	294.7	285	292	285	286
Total	399.9	356	373	371	373
Number of part employees		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	no Board				
Management - Middle Managers, Supervisors.	Approved				
Non-Union - non-supervisory	Numbers				
Union	in 2006 EDR	2	2	2	2
Total		2	2	2	2
Total Compensation		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	no Board	2,595,379	2,265,401	2,897,109	3,046,530
Management - Middle Managers, Supervisors.	Approved	3,514,541	3,982,417	4,406,905	4,812,081
Non-Union - non-supervisory	Numbers	1,619,100	2,280,484	2,253,265	2,334,027
Union	in 2006 EDR	18,554,640	19,528,904	20,174,343	21,145,758
Compensation - Average Yearly Base Wages		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	101,989	114,897	117,074	122,641	126,118
Management - Middle Managers, Supervisors.	72,564	76,048	77,596	80,101	83,331
Non-Union - non-supervisory	52,973	60,298	61,528	63,496	65,771
Union	48,457	49,687	51,265	52,850	56,464
Compensation - Average Yearly Overtime		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	-	-	-	-	-
Management - Middle Managers, Supervisors.	261	941	432	314	217
Non-Union - non-supervisory	3,716	2,182	934	1,005	710
Union	1,414	3,458	3,177	5,164	3,636
Compensation - Average Yearly Incentive		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	18,541	18,208	24,394	23,905	27,207
Management - Middle Managers, Supervisors.	6,561	9,774	9,888	7,534	8,698
Non-Union - non-supervisory	3,320	8,264	5,482	7,311	6,856
Union	-	-	-	-	-
Compensation - Average Yearly Benefits		**2005**	**2006**	**2007**	**2008**
Executive CEO, COO VP/Director(s)	8,635	19,564	20,346	23,872	25,883
Management - Middle Managers, Supervisors.	7,561	13,652	14,198	14,537	17,120
Non-Union - non-supervisory	5,781	14,472	13,502	14,852	16,433
Union	7,372	11,959	12,438	12,774	13,836
Total Salary, Wages & Benefits Charged O&M	no Board	**2005**	**2006**	**2007**	**2008**
Total	Approved #'s	15,982,082	16,274,490	15,637,044	16,771,548

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33. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of the number of employees from 2005 to 2008.

a. Please provide the rationale and justification for the increase from 14 to 17 executive positions, from 2006 to 2008.

b. Please provide the rationale and justification for the increase from 39 to 44 management positions, from 2006 to 2008.

Response:

a. Please refer to Horizon Utilities' response to OEB staff question 23 c above.

b. Please refer to Horizon Utilities' response to OEB staff question 23 c above.

34. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average yearly overtime amounts by employee category from 2005 to 2008. Please provide the rationale and justification for the two-year increase of 14% in average yearly union overtime, from $3,177 to $3,636.

Response:

The increase in overtime dollars is directly attributable to year-over-year salary increases of approximately 3% per year. In addition, 2008 amounts include expected vacation payouts. Excluding vacation payouts, the average yearly union overtime for 2008 is approximately $3,400.

35. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of the number of average yearly incentive amounts by employee category from 2005 to 2008.

a. Please provide the rationale and justification for the two-year increase of 12% in executive incentive compensation, from $24,394 in 2006 to $27,207 in 2008.

b. Please provide the rationale and justification for the two-year increase of 25% in non-union incentive compensation from $5,482 in 2006 to $6,856 in 2008.

Response:

a. The executive incentive (comprising CEO, CFO, VP's and Directors) remains fairly constant over the period 2006 through 2008 when considering the average incentive percentage payout per employee at 21% in 2006 to budgeted 22% in 2008. The potential maximum earnable incentive remained constant, in percentage terms, from 2006 to 2008.

The increase in dollars is attributable to year-over-year salary increases. The incentive component of wages is contingent based on individual employee efforts in achieving corporate and individual goals. It is not unusual for the incentive to fluctuate from year to year based on corporate and individual performance.

b. From 2006 to 2008, the non-union incentive remains fairly constant when considering the average incentive percentage payout per employee at 9% in 2006 to budgeted 10% in 2008. The potential earnable incentive remained constant, in percentage terms, from 2006 to 2008.

The increase in dollars is attributable to year-over-year salary increases ranging on average 3.5 percent. The incentive component

of wages is contingent based on individual employee efforts in achieving corporate and individual goals. It is not unusual for the incentive to fluctuate from year to year based on corporate and individual performance.

36. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average yearly benefits by employee category from 2005 to 2008.

a. Please provide the rationale and justification for the two-year increase of 27% in executive benefits from $20,346 in 2006 to $25,883 in 2008.

b. Please provide the rationale and justification for the two-year increase of 21% in management benefits from $14,198 from 2006 to $17,120 in 2008.

c. Please provide the rationale and justification for the two-year increase of 22% in non-union benefits from $13,502 in 2006 to $16,433 in 2008.

Response:

a. The increase is attributed to increases in salary based benefit costs resulting from year over year salary increases of 4.7% and 2.9% in 2007 and 2008 respectively, and direct benefit cost increases of 10% for medical benefits, 3% for dental benefits and a 3% increase in OMERS pension benefits.

b. The two year increase is attributed to increases in salary based benefit costs resulting from year over year salary increases of 3.2% and 4.0% in 2007 and 2008 respectively, and direct benefit cost increases of 10% for medical benefits, 3% for dental benefits and a 3% increase in OMERS pension benefits.

c. The two year increase is attributed to increases in salary based benefit costs resulting from year over year salary increases of 3.2% and 3.6% in 2007 and 2008 respectively, and direct benefit cost increases of 10% for medical benefits, 3% for dental benefits and a 3% increase in OMERS pension benefits.

37. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 9, Table 3 provides a breakdown of the total salary, wages and benefits charged to O&M from 2006 to 2008. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.

Response:

The balance of total compensation costs for 2006, 2007 and 2008 that is not charged to O&M reflects amounts charged to the various distribution plant capital accounts based on timesheet and work order allocation.

38. Ref: Exhibit D / Tab2 / Schedule 7

On Page 9 of 10, Horizon provides an overview of its current accounting treatment of post-retirement benefits. Please provide specific details on all assumptions used in calculating employee future benefits. Please describe any deviation, if any, in Horizon's accounting policy from CICA Guidelines regarding pension and post-retirement benefits.

Response:

As described in Note 9 to Horizon Utilities' audited financial statements provided at Exhibit A/Tab3/Schedule1/Appendix A, the following are the major assumptions underlying the calculation of employee future benefits:

(a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 7% to 4% over five years. Other medical and dental expenses are assumed to increase at 4% per year.

(b) Interest (discount) rate

The obligations at the period end and the present value of future liabilities were determined using a discount rate of 5.0% representing an estimate of the yield on high quality corporate bonds as at the valuation date.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 4% per year.

There is no deviation in Horizon Utilities' accounting policy from CICA Guidelines regarding pension and post-retirement benefits.

39. Ref: Exhibit D / Tab2 / Schedule 7

On Page 10 of 10, Tables 4 and 5 provide a comparison of pension amounts and post-retirement benefits for 2006 to 2008 indicating increases in costs. Please state whether Horizon has a plan to address these increasing costs? If yes, please describe in detail how HUC plans to address these increasing costs and file a plan if available.

Response:

Horizon recognizes the continuing escalating costs associated with both pension and post-retirement benefits. Horizon Utilities participates as an OMERS employer and accordingly OMERS has provided the premium information for the 2006 Actual, 2007 Bridge Year, and the 2008 Test Year.

The post-retirement benefits are based on actuarial analysis using future assumptions related to employee length of service, average retirement age, turnover, etc. Horizon Utilities has made progress in the past few years in making policy and practice changes that will help mitigate continuing escalating costs of this benefit.

Horizon introduced a minimum twenty years (20) required length of service before an employee could be eligible to receive retiree benefits. In addition, all employees hired after October 1, 2001 and with twenty years of service would be eligible for benefits to the age of sixty-five at which time benefits would cease.

CORPORATE COST ALLOCATION

40. Ref: Exhibit D / Tab 2 / Schedule 5 / Page 1

As defined in the November 14, 2006 Filing Requirements for Transmission and Distribution Applications, Corporate Cost Allocation is an allocation of costs for corporate and miscellaneous shared services from the parent to the utility. This is not to be confused with the allocation of the revenue requirement to rate classes for the purposes of rate design.

Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications, Applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please file the specific information requested in the Filing Guidelines (referenced above). If HUC is unable to provide this information please explain why it is unable to do so.

Response:

Horizon Utilities does not presently purchase services from its parent Horizon Holdings Inc.

TAXES

41. Ref: Amount of PILs in 2008 Test Year Revenue Requirement:

l) For the 2005 and 2006 tax years, please provide copies of the following:

a. Actual signed federal T2 tax returns and supporting schedules;
b. Actual signed Ontario CT23 tax returns and supporting schedules;
c. Financial statements that were submitted with the tax returns for each tax year to the Ministry of Finance; and
d. Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for each tax year.

Response:

Horizon Utilities has provided the required tax information as Attachments J1-J13 to these responses. Item (a) above is addressed in Attachments J1-J4; item (b) is addressed in Attachments J5-J8; item (c) is addressed in Attachments J9-J12; and item (d) is addressed in Attachment J13.

42. <u>Ref: Exhibit D/Tab 3/Schedule 3/Page 1 Capital Cost allowance for 2006</u>

No OEB RRR 2.1.8 SIMPIL filing is required for the 2006 tax year. Please provide the 2006 Schedule 8 from the distributor's 2006 T2 tax return.

Response:

Horizon Utilities has provided the 2006 Schedule 8 as Attachment K to these responses.

43. Ref: Future payments in lieu of taxes

In the 2006 audited balance sheet there is an asset of $4,208,000 for future payments in lieu of taxes. Is this future PILs asset related to an appraisal increment in the fixed asset values of $274,054,000? Please show how this future PILs asset was calculated.

Response:

Horizon Utilities provides the following comments in respect to the future payments in lieu of taxes:

- The future PILs asset is not related to an appraisal increment in the fixed asset values.

- The future PILs asset comprises timing differences between inclusions and deductions for accounting purposes versus PILs purposes as follows:

Cumulative changes in balance Sheet reserves not deductible for PILs purposes	($1,224,622)
Partnership income/ losses	27,290
Excess of Net Book Value over Undepreciated Capital Cost	5,409,390
Other	(4,058)
Total future PILs asset	$4,208,000

SMART METERS

44. Ref: Exhibit B /Tab 3 /Schedule 1 /Page 24

On "Table 9: Smart Meter Costs – Rate Based", Horizon Utilities indicates that it will install 50,000 smart meters in 2007 for a capital cost of $8,444,605 and 80,000 smart meters in 2008 for a capital cost of $10,962,329.

a. Has Horizon Utilities installed smart meters in 2006? If so, please provide the number of smart meters installed in 2006;

In "Table 2 – Fixed Asset Continuity Schedule: 2007 Bridge Year" under "Exhibit B /Tab 2 /Schedule 1 /Page 2", Horizon Utilities shows an amount of $7,117,061 for smart meter additions in 2007.

b. Please explain the reason for the difference between $8,444,605 for capital budget and $7,117,061 for the fixed asset additions in 2007. Which of the two amounts would be consistent with the 50,000 planned smart meter installations in 2007?

In "Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year" under "Exhibit B /Tab 2 /Schedule 1 /Page 3", Horizon Utilities shows an amount of $10,573,416 for 2008 smart meter additions.

c. Please explain the reason for the difference between $10,962,329 for capital budget and $10,573,416 for the fixed asset additions in 2008. Which of the two amounts would be consistent with the 80,000 planned smart meter installations in 2008?

In the 2nd paragraph of page 5 of "Exhibit B /Tab 1 /Schedule 1 /Appendix B /2008 Department Budget Details: 20-59 Smart Metering", Horizon Utilities states: "The smart meter budget also contains all Commercial & Industrial meters to be exchanged with a new Smart Interval Meter."

d. Please provide the budgeted number of Commercial & Industrial Smart Interval Meter installations and the associated amount of capital expenditure for 2008.

In "Table 1 – Rate Base Variances" under "Exhibit B /Tab 1 /Schedule 2 /Page 1", Horizon Utilities provides, as a component of the 2007 Test Year Rate Base amount ($345,476,843), the amount of $562,861,727 for year-end 2007 Gross Fixed Assets. The smart meter addition amount of $7,117,061 in "Table 2 – Fixed Asset Continuity Schedule: 2007 Test Year" is consistent with the total Gross Fixed Assets closing balance of $562,861,727.

e. Please confirm that the smart meter addition of $7,117,061 in 2007 is the amount included in Horizon Utility's 2007 rate base. If not, please provide the appropriate amounts of smart meter addition (capital expenditure) and the rate base for 2007.

In "Table 1 – Rate Base Variances" under "Exhibit B /Tab 1 /Schedule 2 /Page 1", Horizon Utilities provides, as a component of the 2008 Test Year Rate Base amount ($362,942,366), the amount of $603,434,772 for year-end 2008 Gross Fixed Assets. The smart meter addition amount of $10,573,416 in "Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year" is consistent with the total Gross Fixed Assets closing balance of $603,434,772.

f. Please confirm that the smart meter addition of $10,573,416 in 2008 is the amount included in Horizon Utility's 2008 rate base. If not, provide the appropriate amounts of smart meter addition (capital expenditure) and the rate base for 2008.

g. Please confirm if the proposed smart meter addition (capital expenditure) amounts for 2007 and 2008 will meet the "minimum functionality" criteria which formed the basis in the Board's August 8, 2007 Decision with Reasons in EB-2007-0063 to allow the recovery of smart meter capital costs.

h. In that Decision (EB-2007-0063), the Board determined that there were fourteen cost categories in relation to "minimum functionality" which were set out in Appendix "A" of this decision. If any of the proposed capital costs for 2007 and 2008 are outside of these fourteen cost categories, please describe these costs and why Horizon Utilities is seeking to recover them. Please provide a breakdown of total smart meter capital costs for 2007 and 2008 in terms of "minimum functionality" and "outside of minimum functionality".

Response:

a. Horizon Utilities installed 7,500 smart meters in 2006 as part of its third tranche CDM funding.

b. The $7,117,061 represents the total costs of the smart meters, including installation for 50,000 planned smart meter installations. Horizon Utilities notes that the figure of $8,444,605 shown in Table 9 of Exhibit B/Tab 3/Schedule 1/p. 24 is incorrect - the correct capital budget amount for the 2007 Bridge Year is $7,907,832. Horizon Utilities confirms that the correct value of $7,907,832 has been used in the development of the electricity distribution rates proposed in this Application, with one exception addressed in its response to question 45 c. below.

The $7,907,832 capital budget amount reflects the total budget for the 2007 Bridge Year Smart Meter program, which also includes capital expenditures for computer hardware, software, and other tools and equipment. These non-meter capital expenditures are included in their respective categories in the fixed asset continuity schedule. Horizon Utilities is providing a corrected version of Table 9 below.

Table 9
Smart Meter Costs – Rate Based

	2007 Bridge Year	2008 Year	Test
Total Smart Meter Costs	$7,907,832	$10,962,329	
Planned Installation of smart meters	50,000	80,000	
Total cost per installed meter	$158.16	$137.03	

c. The $10,573,416 represents the total costs of the smart meters, including installation for 80,000 planned smart meter installations. The $10,962,329 capital budget amount reflects the total budget for the 2008 Test Year Smart Meter program, which also includes capital expenditures for computer hardware, software, and other tools and equipment. These non-meter capital expenditures are included in their respective categories in the fixed asset continuity schedule.

d. The 2008 Test Year includes the installation of 2,013 Commercial and Industrial meters. The capital cost for the purchase of these meters, associated collectors and communication devices, sealing rings, electrical boxes and hardware is $1,208,650.

e. Horizon Utilities confirms that the smart meter capital addition to 2007 Bridge Year rate base is $7,117,061.

f. Horizon Utilities confirms that the smart meter capital addition to 2008 Test Year rate base is $10,573,416.

g. Horizon Utilities confirms that the capital amounts for the 2007 Bridge Year and the 2008 Test Year meet the “minimum functionality” criteria as detailed in the Board’s Decision with Reason EB-2007-0063.

h. Horizon Utilities confirms that there are no capital costs outside of the fourteen cost categories in relation to “minimum functionality” as described in the Board’s Decision EB-2007-0063.

45. Ref: Exhibit E /Tab 1 /Schedule 4

On page 2 and "Table 2 – 2006 Smart Meter Deferral Account Balance", Horizon Utilities provides an amount of $100,262 for "2006 Revenue Requirement for 2006 Smart Meters" which recovers only incremental operating expense.

a. Please confirm that this implies that no smart meters were installed in 2006, since Table 2 includes no capital expenditures for 2006. If smart meters were installed in 2006, please provide the number of smart meters installed in 2006 and why no capital expenditure amount is included in Table 2.

On page 3 and "Table 3 – 2007 Smart Meter Deferral Account Balance", Horizon Utilities provides an amount of $1,628,340 for "2006 Revenue Requirement for 2006 Smart Meters".

b. Please confirm whether the amount of $1,628,340 should be "2007 Revenue Requirement for 2007 Smart Meters". If not, please provide reasons why it is for 2006.

In this table Horizon Utilities uses an amount of $7,648,143 for "Smart Meter Fixed Net Book Value" which is consistent with $7,949,832 for "Smart Meter Gross Fixed Assets Cost" as at December 31, 2007 according to the table on page 4: "Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance".

c. Please explain the difference between $7,949,832 for "Smart Meter Gross Fixed Assets Cost" on Table 4 and $7,117,061 for fixed asset additions & closing balance in 2007 according to "Table 2 – Fixed Asset Continuity Schedule – 2007 Bridge Year" under "Exhibit B /Tab 2 /Schedule 1 /Page 2".

In the 1st paragraph of page 1 of "Exhibit E /Tab 1 /Schedule 4", Horizon Utilities states: "Horizon Utilities participated in the OEB's Combined Smart Meter Proceeding (OEB File No. EB-2007-0063) in

June and July of 2007. During that proceeding Horizon Utilities undertook, as did the other LDCs that participated in the proceeding, to recalculate its smart meter variance account balances using the revenue requirement methodology as opposed to tracking capital and operating costs in two separate variance accounts for future recovery. Horizon Utilities agrees with the revenue requirement methodology, which involves tracking the recovery of smart meter revenues against the revenue requirement for the smart meter program as if these costs been included in rate base."

And in the 2nd paragraph, Horizon Utilities adds: "As a result of the undertaking, Horizon Utilities has changed its method of recording the smart meter variances. The balance in the smart meter variance now reflects the revenue requirement calculated for the years 2006, 2007 and the four months ending April 30, 2008; the revenues recovered through the smart meter rate adder; and the recalculation of carrying costs." Then, Horizon Utilities summarized on "Table 1 – Smart Meter Deferral Account Balance for Recovery" amounts of "over-recovery" for 2006 ($612,165, as calculated in Table 2), for 2007 ($228,006, as calculated in Table 3), and for the first 4 months of 2008 ($329,820, as calculated in Table 4), representing "Total Smart Meter Over-Recovery for Disposition" of $1,169,991.

Horizon Utilities used the total over-recovery amount of $1,169,991 in order to calculate a credit rate rider amount of $0.42 per month per metered customer for 2008 in "Table 1 – Class Specific RDVA Rate Riders" under "Exhibit E /Tab 1 /Schedule 6 /Page 1".

d. Please confirm whether the revenue requirement calculations on Table 3 (for 2007) and Table 4 (for the first four months of 2008) pertain only to smart meters installed in 2007. If not, please explain whether 2008 smart meter installations are also included in the revenue requirement calculations on these two tables and why.

According to "Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance", Return on Rate Base is calculated properly only for the first four months of 2008 (the Deemed Debt and Deemed Equity per annum rates are divided by 3). According to "Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year" under "Exhibit B /Tab 2 /Schedule 1 /Page 3", the closing Net Fixed Asset balance for 2007 is brought forward into 2008.

e. Please confirm if by bringing forward the closing Net Fixed Asset smart meter balance for 2007 into 2008, Horizon Utilities has included this balance in its 2008 rate base. If so, is the return on the smart meter component of the 2008 rate base based on annual rates of deemed debt and deemed equity and therefore the return calculated on the first four months of 2008 (with respect to 2007 smart meters) in "Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance" (for the purpose of calculating the credit rate rider of $0.42) results in a duplication (or overlap) with the return on the smart meter component of the 2008 rate base? If not, please explain why it does not result in duplication or overlap with the return on the smart meter component of the 2008 rate base.

Response:

a. Horizon Utilities installed 7,500 smart meters in 2006. No capital expenditures were included in 2006 as the smart meters were installed as part of Horizon Utilities' third tranche CDM funding.

b. Horizon Utilities confirms that this is a typographical error resulting from copying formats and that this should read as identified in b. above: "2007 Revenue Requirement for 2007 Smart Meters".

c. The $7,117,061 represents the total costs of the smart meters, including installation for 50,000 planned smart meter installations.

The $7,949,832 for smart meters in Exhibit E /Tab 1 /Schedule 4/Table 4 is incorrect – the correct value, as noted in Horizon Utilities' response to question 44 b above, is $7,907,832. The difference in total smart meter capital of $42,000 is from a previous document Horizon Utilities was using in the preparation of its Application and should have been changed accordingly. The difference between the values of $7,907,832 and $7,117,061 is explained in Horizon Utilities response to 44 b. above. When the correct value of $7,907,832 is used in the calculation of the smart meter rate rider, the rider is increased by $0.0013 (or 13/100 of 1 cent) per metered customer per month.

d. Horizon Utilities confirms that the smart meter revenue requirement calculations pertain only to smart meters installed in the 2007 Bridge Year.

e. Horizon Utilities' 2008 rate base is calculated, in part, as the average of its 2007 Bridge Year net fixed assets and 2008 Test Year net fixed assets. Rate base is calculated on calendar year balances. Horizon Utilities is collecting the 2007 smart meter revenue, by way of an OEB approved rate rider, over the rate year period, from May 1, 2007 to April 30, 2008. Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance – calculates the revenue requirement over the same period as Horizon Utilities is collecting the smart meter rate adder for the 2007 year. This approach matches the smart meter rate adder revenue with the 2007 expenditures. Had Horizon Utilities not included the four months of 2007 smart meter rate adder revenue, collected in 2008, as an offset to the total smart meter expenditures in 2007, its revenue requirement would be increased and its customers' smart meter rate rider credit would be reduced., Horizon Utilities is proposing to return to its customers, the over recovery of the smart

meter related revenue requirement, on the basis that all revenues and expenditures occurred in the same time period.

The 2008 return is calculated on the 2008 Test Year results which are based on the calendar year. However, Horizon Utilities does not begin to earn its rate of return until the implementation of 2008 rates which is May 1, 2008, therefore there is no duplication or overlap with the return on the smart meter component of the 2008 rate base.

LOSS FACTORS

46. References: Exhibit D, Tab 2, Schedule 9, Page 1, Exhibit D, Tab 2, Schedule 9, Page 2, Exhibit I, Tab 1, Schedule 4, Page 3, Exhibit A, Tab 1, Schedule 12, Page 1

The 1st reference provides calculations for distribution loss factors (DLF) and Supply Facilities Loss Factor (SFLF) for 2002 to 2007. The 2nd reference provides DLF and total loss factor (TLF) presumably for 2008 as the TLF values match the values provided in the 3rd reference which is the Proposed Tariff of Rates and Charges Effective May 1, 2008. The 4th reference provides a summary of host and embedded utilities.

a. In the 1st reference, Table 1 provides values for each of "Distribution Loss Adjustment Factor (5-year avg.)" as 3.81% and "Supply Facility Loss Adjustment Factor (3-year avg.)" as 0.67%.

   I) Please explain the calculation method used to obtain the averaging and specify which 5-year and 3-year period was utilized for the averaging calculation for DLF and SFLF respectively.

   Response MW: Both the DLF and SFLF are calculated based upon an average of years 2002 to 2007.

   II) Please explain the rationale for using different averaging periods (5-year and 3-year) for DLF and SFLF.

   Response MW: Exhibit D, Tab 2, Schedule 9, Page 1 contains a typographical error. Both the DLF and SFLF are based upon the same averaging period, 2002 to 2007.

b. In the 1st reference, Table 1 has a footnote which includes the text "…default loss factor for primary metered customers with demands > 5,000 kW is 1.0000". In the 2nd reference, Table 3 provides the DLF for primary metered customers > 5,000 kW as 1.0100.

   I) Please explain which value is correct.

Response MW: The DLF of 1.0100 for primary metered customers in Table 3 is further reduced by the primary metered discount of 1%.

II) Additionally, please explain the reason why the values provided in Table 3 for DLF for primary metered customers > 5,000 kW and DLF for secondary metered customers > 5,000 kW are identical, i.e. 1.0100.

Response MW: See response for I).

c. In the 1st reference, both Tables 1 and 2 provide SFLF ranging from 1.0062 (0.62 %) to 1.0075 (0.75%) for the period 2002 to 2007, and proposed factor of 1.0067 (0.67%) for 2008.

I) Given that Horizon's service area is partially embedded in the Hydro One Networks Inc. (HONI) distribution system (4th reference), please explain if these SFLF values which are significantly higher than the industry norm of 1.0045 include losses that occur in the HONI distribution system.

Response MW: The SFLF values do not include losses that occur in the HONI distribution system since the supply points are for transmission only and not for energy.

II) If the above is correct, please provide a breakdown of losses that occur in the embedded and non-embedded points of supply.

Response MW: Embedded losses are not included. See OEB IR 46 c II for loss factors for non-embedded supply points.

III) Additionally, in Table 2, please explain the source of "Wholesale kWh IMO Losses" and "Wholesale kWh IMO No Losses", e.g. are these actual metered amounts or deemed metered amounts from engineering estimates or a combination.

d. In the 1st reference, Table 1 indicates that the observed DLF for 2005 and 2006 is respectively 1.0350 (3.50%) and 1.0435 (4.35%). Please provide an explanation for this increase.

Response:

a. (I) Horizon Utilities has calculated both the DLF and SFLF based upon an average of the actual wholesale and retail kWh for the period May 1, 2002 June 30, 2007. The SFLF has been calculated based upon measured quantities between the transformer stations and the wholesale meter points for the same time period. In Exhibit D/Tab 2/Schedule 9/p. 1, the SFLF line reads 3-year average but should read 5-year average.

(II) The Supply Facility Loss Adjustment Factor (3 year avg.) should read – Supply Facility Loss Adjustment Factor (5 year avg.). Please see the response to question 46 a. l) above.

b. (I) The Distribution Loss Factor ("DLF") for primary metered customers > 5,000 kW is 1.0000 and has been typed incorrectly in Table 3 as 1.0100. Horizon Utilities would note that the Total Loss Factor ("TLF") for primary metered customers >5,000 kW has been calculated correctly as 1.0067.

(II) Please see the response to question 46 b l) above. Horizon Utilities would note that the Total Loss Factor ("TLF") for primary metered customers >5,000 kW has been calculated correctly as 1.0067.

c. (I) The SFLF values include losses that occur in the HONI distribution system.

(II) Horizon Utilities has provided a table below showing the SFLF as filed in its Application, the embedded SFLF and the SFLF

loss factor calculated net of the embedded points. Horizon Utilities used the average of the 2005 to 2007 actual quantities for the embedded points as an estimate for the 2002 to 2004 years due to the lack of separate data for the embedded points during this time period.

Description	May 1, to Dec 31 2002	Full Year 2003	Full Year 2004	Full Year 2005	Full Year 2006	Jan to June 2007	Total
SFLF Computations as Filed							
"Wholesale" kWh IMO With Losses	4,069,864,072	5,710,451,702	5,685,870,885	5,829,785,243	5,558,732,567	2,768,644,541	29,623,349,009
"Wholesale" kWh IMO No Losses	4,044,792,359	5,674,816,539	5,649,210,468	5,790,994,236	5,518,372,852	2,747,905,450	29,426,091,905
	0.0062	0.0063	0.0065	0.0067	0.0073	0.0075	0.0067
Embedded SFLF							
Embedded Points kWh With Losses	508,383,394	762,575,091	762,575,091	788,500,730	775,156,384	377,685,287	3,974,875,977
Embedded Points kWh No Losses	504,484,898	756,727,347	756,727,347	784,538,928	768,075,373	374,381,597	3,944,935,490
	0.0077	0.0077	0.0077	0.0050	0.0092	0.0088	0.0076
SFLF Net of Embedded							
"Wholesale" kWh IMO With Losses, Excluding Embedded Points	3,561,480,678	4,947,876,611	4,923,295,794	5,041,284,513	4,783,576,183	2,390,959,254	25,648,473,032
"Wholesale" kWh IMO No Losses, Excluding Embedded Points	3,540,307,461	4,918,089,192	4,892,483,121	5,006,455,308	4,750,297,480	2,373,523,853	25,481,156,416
	0.0060	0.0061	0.0063	0.0070	0.0070	0.0073	0.0066
2005 to 2007 Embedded Points data is actual.							
2003 to 2004 Embedded Points data is based on an average of 2005-2007.							
May 1 to Dec 31 2002 Embedded Points data is 8/12 times the average of 2005-2007.							

(III) The source for "Wholesale kWh IMO Losses" and "Wholesale kWh IMO No Losses" in Table 2 are actual metered amounts. The wholesale metered amounts with losses were obtained from the final settlement statements issued by the IESO. The wholesale metered amounts without losses were obtained from Horizon Utilities' MV90 metering system.

d. Horizon Utilities had an error in the calculation of unbilled kWh for 2006 and 2007. Retail kWh were reported as 5,337,611,515 and 2,651,865,583 for the year 2006 and for the period January to June 2007 respectively. The correct retail kWh are 5,388,698,521 for 2006 and 2,671,988,909 for the period January to June 2007. Table 1 and Table 3 below have been corrected accordingly.

1

Table 1
Total Loss Factor Calculations

	Calculation for distribution loss adjustment factors	2002	2003	2004	2005	2006	2007
A	"Wholesale" kWh IESO plus Embedded Generation	6,881,147,617	5,679,572,815	5,653,546,694	5,794,163,761	5,522,085,125	2,749,761,587
B	"Wholesale" kWh for Large Use customer(s)	2,227,769,173	1,216,251,332	1,222,339,355	1,161,493,274	1,072,361,748	524,586,212
C	Net "Wholesale" kWh (A)-(B)	4,653,378,444	4,463,321,483	4,431,207,339	4,632,670,487	4,449,723,377	2,225,175,374
D	"Retail" kWh (Distributor)	6,716,092,382	5,531,145,991	5,493,004,360	5,637,872,343	5,388,698,521	2,671,988,909
E	"Retail" kWh for Large Use Customer(s)	2,227,769,173	1,216,251,332	1,222,339,355	1,161,493,274	1,072,361,748	524,586,212
F	Net "Retail" kWh (D)-(E)	4,488,323,209	4,314,894,659	4,270,665,005	4,476,379,069	4,316,336,772	2,147,402,697
G	Loss Factor [(C)/(F)]	103.68%	103.44%	103.76%	103.49%	103.09%	103.62%
H	Average Distribution Loss Adjustment Factor						**103.51%**
	Supply Facility Loss Factor	0.62%	0.63%	0.65%	0.67%	0.73%	0.75%
	Average Supply Facility Loss Adjustment Factor						**0.67%**
	Total Loss Factor						**104.21%**

Horizon Utilities is using the default large use Distribution Loss Factor (DLF) of 1% as the loss factor for secondary metered customers with demands > 5,000 kW. Horizon Utilities large use customers are primary metered and the the default loss factor for primary metered customers with demands > 5,000 kW is 1.0000.

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4 # Table 3

5 # Total Loss Factors by Class

	Loss Adjustment Factor
Supply Facility Loss Factor	1.0067
Distribution Loss Factors	
Secondary Metered Customer	
Total Loss Factor - Secondary Metered Customer < 5,000kW	1.0351
Total Loss Factor - Secondary Metered Customer > 5,000kW	1.0100
Primary Metered Customer	
Total Loss Factor - Primary Metered Customer < 5,000kW	1.0248
Total Loss Factor - Primary Metered Customer > 5,000kW	1.0000
Total Loss Factor	
Secondary Metered Customer	
Total Loss Factor - Secondary Metered Customer < 5,000kW	1.0421
Total Loss Factor - Secondary Metered Customer > 5,000kW	1.0168
Primary Metered Customer	

Total Loss Factor - Primary Metered Customer < 5,000kW	1.0316
Total Loss Factor - Primary Metered Customer > 5,000kW	1.0067

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RETAIL TRANSMISSION RATES (RTR)

47. Ref: Retail Transmission Rates

The Wholesale Network Transmission Rate will decrease 28% effective November 1 2007.

I) For each rate class, please provide a revised RTR – Network Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the revised RTR – Network Service Rate for each rate class should equal the amount paid for the Wholesale Transmission Rate.)

The Wholesale Connection Transmission Rate will decrease 18% and the Wholesale Transformation Connection Transmission Rate will increase 7% effective November 1 2007.

II) For each rate class, please provide a revised RTR – Line and Transformation Connection Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the RTR - Line and Transformation Connection Service Rate for each rate class should equal the amount paid for the Wholesale Connection Transmission Rate and the Wholesale Transformation Connection Transmission Rate.)

Deferral and Variance Accounts 1584 & 1586

Utilities have been required to provide information on Account 1584 RSA NW and 1586 RSVA CN to the Board as part of the quarterly RRR filings. The Board may need confirmation of the actual balances in these accounts in order to set a rate rider for the RTS rates.

III) What are your current balances for Accounts 1584 RSA NW and 1586 RSVA CN?

IV) Please explain how your balances in Accounts 1584 RSA NW and 1586 RSVA CN have trended or fluctuated since January 1 2005.

V) Assuming your RTR – Network Service Rate for each rate class is revenue neutral, please provide the rate riders you would recommend beginning May 1 2008, and the duration in months for each rate rider, to reduce the balance in Account 1584 RSVA NW to a $0 balance. Please provide an explanation for the recommended duration of the rate riders.

VI) Assuming your RTR - Line and Transformation Connection Service Rate for each rate class is revenue neutral, please provide the rate riders you would recommend beginning May 1 2008, and the duration in months for each rate rider, to reduce the balance in Account 1586 RSVA CN to a $0 balance. Please provide an explanation for the recommended duration of the rate riders.

Response:

(I) Horizon Utilities has calculated Retail Transmission Service Rates ("RTSR") for both Network and Connections charges. The calculations are based on the actual kW charges billed to Horizon Utilities in 2007 and the new Ontario transmission charges approved in the OEB's Ontario Uniform Transmission Rate Order EB-2007-0759, issued October 17, 2007.

The table below – IESO Charges Based on 2007 kW and New Transmission Charges provides the calculations for IESO transmission charges that would be charge to the RSVA transmission accounts for recovery from retail customer billings.

IESO Charges Based on 2007 kW and New Transmission Charges									
	NW Total $	Rate	kW 2007 Actual	Trans CN Total $	Rate	kW 2007 Actual	Line CN Total $	Rate	kW 2007 Actual
January	2,014,879	2.31	872,242	1,491,200	1.61	926,211	509,955	0.59	864,330
February	2,111,566	2.31	914,098	1,570,531	1.61	975,485	533,127	0.59	903,605
March	2,012,303	2.31	871,127	1,507,329	1.61	936,229	512,197	0.59	868,130
April	1,822,220	2.31	788,840	1,389,427	1.61	862,998	468,643	0.59	794,310
May	2,031,377	2.31	879,384	1,517,319	1.61	942,434	515,797	0.59	874,233
June	2,486,435	2.31	1,076,379	1,786,981	1.61	1,109,926	609,605	0.59	1,033,229
July	2,294,121	2.31	993,126	1,729,064	1.61	1,073,953	590,884	0.59	1,001,498
August	2,466,858	2.31	1,067,904	1,773,016	1.61	1,101,252	605,298	0.59	1,025,928
September	2,293,303	2.31	992,772	1,687,061	1.61	1,047,864	576,615	0.59	977,314
October	1,712,528	2.31	741,354	1,396,606	1.61	867,457	475,715	0.59	806,296
November	1,879,467	2.31	813,622	1,406,882	1.61	873,840	479,847	0.59	813,300
December	1,927,213	2.31	834,291	1,428,054	1.61	886,990	513,180	0.59	869,796
				18,683,469			6,390,862		
	Network			Connection					
Total	25,052,272			25,074,330					

In addition to IESO charges for transmission, Horizon Utilities is charged for transmission by Hydro One in respect of certain delivery points. The 2007 charges from Hydro One are provided in the following table and must be included with the IESO charges for recovery through Horizon Utilities RTSRs.

Hydro One Charges for 2007				
Network Charges			Connection Charges	
Month	$	KW	$	KW
January	178,797	71,264	148,942	70,951
February	183,222	73,088	152,754	72,707
March	167,116	78,276	163,597	66,316
April	237,198	94,669	197,858	94,126
May	200,254	79,466	166,084	79,466
June	236,179	93,722	195,879	93,722
July	237,807	94,368	197,229	94,368
August	231,575	91,895	192,061	91,895
September	217,272	86,219	180,198	86,219
October	151,782	73,847	154,340	60,231
November	172,019	67,478	140,075	68,262
December	179,399	72,156	150,806	71,190
Total	2,392,620	976,448	2,039,822	949,453

The following table provides a summary of the IESO and Hydro One charges for transmission connection and network services and Horizon Utilities proposed retail billing in order to maintain revenue neutrality over the 12 month period beginning May 1, 2008. Based on Horizon Utilities current RTSRs and the calculations performed in order to be revenue neutral, Horizon Utilities is proposing a decrease to the transmission connection rate of 1.20% and a decrease in the transmission network rate of 19.26%. The implementation of the RTSR reduction and the application of the proposed RTSRs effective May 1, 2008 will result in forecasted credit balances in the RSVA accounts for connection and network of Horizon Utilities of $4,355 and $1,779 respectively.

Description	IESO Charged	Hydro One Chges	Horizon Billed	RSVA Balance
Connection with 1.20% reduction	25,074,330	2,039,822	27,118,508	(4,355)
Network with 19.26% Reduction	25,052,272	2,392,620	27,446,671	(1,779)

The following table provides the RTSR revenue that is required to maintain revenue neutrality over the 12 month period beginning May 1, 2008. The consumption or demand volumes are based on Horizon Utilities' weather corrected data for the 2008 Test Year. Horizon Utilities is proposing the Retail Transmission Service Rates shown in the column Rates May 1, 2008 as part of its Application for approval of rates and charges effective May 1, 2008.

Connection		Adjustment Factor		1.20%		
Rate Class	Rates May 1, 2007	UOM	Consuption or Demand	Rates May 1, 2008	UOM	Adjusted Revenue
Residential	0.0046	kWh	1,741,715,062	0.0045	kWh	7,915,747
Gen Svc < 50	0.0042	kWh	635,300,492	0.0041	kWh	2,636,243
Gen Svc > 50	1.6685	kW	5,458,029	1.6485	kW	8,997,441
Large User	1.9174	kW	3,876,319	1.8944	kW	7,343,265
Sentinel	1.3427	kW	1,721	1.3266	kW	2,283
Streetlighting	1.3091	kW	112,919	1.2934	kW	146,048
Unmetered	0.0043	kWh	18,237,718	0.0042	kWh	77,481
						27,118,508
Network		**Adjustment Factor 19.26'**		**19.26%**		
Rate Class	Rates May 1, 2007	UOM	Consuption or Demand	Rates May 1, 2008	UOM	Adjusted Revenue
Residential	0.0058	kWh	1,741,715,062	0.0047	kWh	8,156,312
Gen Svc < 50	0.0052	kWh	635,300,492	0.0042	kWh	2,667,296
Gen Svc > 50	2.0540	kW	5,458,029	1.6584	kW	9,051,594
Large User	2.3464	kW	3,876,319	1.8945	kW	7,343,622
Sentinel	1.7068	kW	1,721	1.3781	kW	2,372
Streetlighting	1.6171	kW	112,919	1.3056	kW	147,432
Unmetered	0.0053	kWh	18,237,718	0.0043	kWh	78,043
						27,446,671

(II) Please refer to Horizon Utilities response to question 47 l) above.

(III) Horizon Utilities' November 30, 2007 balance in Account 1584 RSVA NW is ($649,050). Horizon Utilities November 30, 2007 balance in Account 1586 RSVA CN is ($4,236,839).

(IV) Horizon Utilities has provide the table below to demonstrate how its RSVA Transmission accounts have been tracking since January 1, 2005. As can be seen from the table Horizon Utilities' RSVA Transmission Network account has been decreasing slightly each month with the exception of March and May 2007. Horizon Utilities' RSVA Transmission Connection account has remained relatively constant since the Transmission Network rate was changed in Horizon Utilities' 2006 EDR Application.

Month	Network - 1584	Connection - 1586
January 2005	(1,289,557.76)	(12,285,526.90)
February 2005	(1,352,623.13)	(12,695,138.11)
March 2005	(1,543,727.93)	(13,227,245.06)
April 2005	(1,729,942.83)	(13,685,639.62)
May 2005	(2,137,867.45)	(14,249,089.16)
June 2005	(2,012,162.11)	(14,550,644.58)
July 2005	(1,945,493.74)	(14,951,844.14)
August 2005	(1,979,062.01)	(15,426,912.49)
September 2005	(1,769,465.52)	(15,626,714.04)
October 2005	(1,913,015.31)	(16,117,212.62)
November 2005	(2,042,357.00)	(16,514,049.58)
December 2005	(2,141,185.98)	(17,027,921.83)
January 2006	(2,329,154.54)	(17,526,436.58)
February 2006	(2,531,296.80)	(17,916,031.45)
March 2006	(2,809,395.05)	(18,622,396.18)
April 2006	(1,819,129.55)	(7,731,983.23)
May 2006	(972,241.93)	(7,476,992.99)
June 2006	(673,065.65)	(6,207,698.43)
July 2006	(622,063.48)	(5,542,361.95)
August 2006	(234,645.66)	(5,237,818.16)
September 2006	(238,460.10)	(5,181,955.48)
October 2006	(676,248.51)	(5,411,358.72)
November 2006	(616,992.98)	(5,385,073.63)
December 2006	(693,156.04)	(5,254,370.83)
January 2007	(850,447.81)	(5,321,337.88)
February 2007	(886,039.64)	(5,414,337.04)

March 2007	(1,006,259.57)	(5,398,781.81)
April 2007	(978,611.76)	(5,244,207.16)
May 2007	(1,036,729.83)	(5,310,525.87)
June 2007	(677,072.73)	(5,025,614.24)
July 2007	(531,986.89)	(4,763,792.97)
August 2007	(253,668.42)	(4,511,106.92)
September 2007	298,397.08	(4,033,697.75)
October 2007	(78,668.42)	(4,090,204.78)
November 2007	(649,049.88)	(4,236,839.98)
December 2007	(596,958.70)	(4,196,120.41)
January 2008	(544,660.97)	(4,155,487.66)
February 2008	(492,156.69)	(4,114,941.75)
March 2008	(439,445.87)	(4,074,482.66)
April 2008	(386,528.49)	(4,034,110.41)

* Balances after November 2007 are based on forecasts

(V) The forecasted balance of RSVA Account 1584 Transmission Network for the period January 1, 2007 to April 30, 2008 is a credit of $306,628. The following table provides a proposed rate rider by customer class for a period of one year, beginning May 1, 2008. Horizon Utilities is proposing to dispose of this RSVA balance over one year due to the small value of the proposed rate rider.

Rate Class	Unit of Measure	Rate Rider
Residential	kWh	$ 0.00005
GS < 50	kWh	0.00005
GS > 50	kW	$ 0.02140
Large Users	kW	$ 0.01600
Unmetered & Scattered	kWh	$ 0.00005
Sentinel Lighting	kW	$ 0.01930
Street Lighting	kW	$ 0.02050

(VI) The forecasted balance of RSVA Account 1586 Transmission Connection for the period January 1, 2007 to April 30, 2008 is a credit of $1,220,260. The following table provides a proposed rate rider by customer class for a period of one year, beginning May 1, 2008. Horizon Utilities is proposing to dispose of this RSVA

balance over one year due to the small value of the proposed rate rider.

Rate Class	Unit of Measure	Rate Rider	
Residential	kWh	$	0.00022
GS < 50	kWh	$	0.00022
GS > 50	kW	$	0.08533
Large Users	kW	$	0.06349
Unmetered & Scattered	kWh	$	0.00022
Sentinel Lighting	kW	$	0.07693
Street Lighting	kW	$	0.08154

COST OF CAPITAL

48. Ref: Exhibit F / Tab 1 / Schedule 3 and Appendix A – Long-term Debt and Promissory Note

Horizon Utilities states that its "only long-term debt is embedded debt in the form of a Promissory Note in favour of Hamilton Utilities Corporation." It is further stated that "…the interest rate on the Promissory Note is 7.00%". The Promissory Note has been restated and replaced in 2002 and most recently on February 28, 2005. A copy of the Promissory Note is included in Appendix A to the schedule. Horizon Utilities states that "... the latest Promissory Note dated February 28, 2005, and included in Appendix A, reflects an amendment to the terms of the Promissory Note with respect to the frequency of interest payments. No other terms were revised." [Emphasis added]

Page 1 of the Promissory Note included in Appendix A states that the Interest Rate Per Annum is 7.0%. Schedule "A" to the 2005 Promissory Note states that Hamilton Utilities Corporation issued Senior Unsecured Debentures at a rate of 6.25%.

Schedule "B" to the Promissory Note is a copy of the prior 2002 Promissory Note, which states, under Interest, that "[t]he outstanding Principal Amount of this Promissory Note shall bear interest from the Interest Commencement Date at the Permitted Rate". Schedule "A" to the 2002 Promissory Note defines the Permitted Rate as follows:

> "Permitted Rate" means the debt rate which the Ontario Energy Board or its successor may, from time to time, permit Hamilton Hydro Inc. ("WiresCo") pursuant to the OEB's Electricity Distribution Rate Handbook and WiresCo's distribution rate order issued by the OEB. As of the date of this Promissory Note, the Permitted Rate is seven percent (7.0%) per annum.

Similar definitions are provided with the copy of the 2001 Promissory Note also included in Appendix A.

a. Please confirm that Hamilton Utilities Corporation has used the issued debentures at 6.25% to raise the funding for the debt associated with the Promissory Note for which Horizon Utilities Corporation pays interest at a rate of 7.0%.

b. Please provide Horizon Utilities Corporation's explanation for why a 75 basis point difference, between the interest rate of the unsecured debentures and the interest rate that Horizon Utilities Corporation pays Hamilton Utilities Corporation, is reasonable.

c. The definition of the 2002 and 2001 Promissory Notes suggests that the Permitted Rate could be altered based on what the Board could permit, and was initially set at 7.0%. This rate was the deemed long-term debt rate applicable to an electricity distributor of similar size to Hamilton Hydro Inc., as established by the Board in Table 3.1 of the original Electricity Distribution Rate Handbook issued in March 2000.

    I) Under the terms of the original, 2001 and 2002 versions of the Promissory Note, did the Promissory Note attract a fixed or variable rate?

    II) The 2005 Promissory Note states that the interest rate applicable is 7.0%, but there is no definition of the Permitted Rate as per the predecessor Promissory Notes. However, Horizon Utilities states that only the frequency of interest payments was altered in the 2005 version of the Promissory Note. Is the interest rate of the current Promissory Note defined similar to the "Permitted Rate" of the predecessor Promissory Notes, or is it fixed? If the latter, please explain the reason for this change, and why Horizon Utilities does not consider this a change to the terms of the contract.

Response:

a. The issuance of the Promissory Note by Horizon Utilities and the issuance of the debenture by HUC are independent events.

The Promissory Note for which Horizon Utilities pays interest at a rate of 7.0% (the "Current Horizon Utilities Note") is a continuation, through restatement and replacement, of an original Promissory Note dated July 1, 2000 in favour of Hamilton Utilities Corporation ("HUC") (the "Original Horizon Utilities Note"). The date of the Original Horizon Utilities Note reflects the effective date of a transfer as contemplated by sub-section 145(1) of the Electricity Act, 1998 (the "EA").

On June 28, 2000, the Transition Board of the City of Hamilton passed By-Law No. 1-2000 (the "Transfer By-Law") which provided for the transfer of certain employees, assets, liabilities, rights and obligations of the municipal corporation to Hamilton Hydro Inc., a predecessor corporation of Horizon Utilities, which was a corporation incorporated under the Ontario *Business Corporations Act* pursuant to section 142 of the EA for a purpose associated with distribution of electricity. HUC was incorporated as a Holding Company to hold the shares of Hamilton Hydro Inc., as contemplated by section 142(1.1) of the EA.

In consideration of such transfer and pursuant to By-Law No. 1-2000, Hamilton Hydro Inc. issued the Original Horizon Utilities Note, in the amount of $142 million, and 1,000 common shares to the City of Hamilton. Immediately following such issuance and, again, pursuant to By-Law No. 1-2000, the City of Hamilton transferred the Original Horizon Utilities Note and all common shares of Hamilton Hydro Inc. to HUC and received the following as consideration for such transfer:

1. a $137 million promissory note (the "HUC Note") bearing interest at 6.75%; and

2. common shares in HUC representing the fair value of the shares of Hamilton Hydro Inc. plus $5 million to finance the difference between the value of the Original Horizon Note and the HUC Note.

In July of 2002, HUC refinanced the HUC Note with the private issuance of 6.25% debentures ("HUC Debentures"). Such refinancing and related considerations were independent of Hamilton Hydro Inc. When related issuance costs are taken into consideration, the effective interest rate on the HUC Debentures is 6.62% over their term to maturity.

b. The Current Horizon Utilities Note represents "embedded debt", as that term is discussed in the OEB's December 20, 2006 "Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors" (the "Report"). The Report was prepared and issued by the OEB following extensive stakeholder consultation. The OEB has considered the appropriate treatment of embedded debt in the Report. Specifically, at page 13 of the Report, the OEB wrote:

> "For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.
>
> The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt." (OEB's emphasis)

The 7.0% interest rate on the Current Horizon Utilities Note, which predated Horizon Utilities' 2006 electricity distribution rate application, remains unchanged from the Original Horizon Note which represented the rate permitted by the Board at that time, and further which

continues to be grandfathered as embedded debt. The 7% interest rate was approved in the OEB's previous Decisions on Horizon Utilities' electricity distribution rate applications. Most recently, the debt rate of 7% has (in part) formed the basis for Horizon Utilities' OEB-approved 2006 (RP-2005-0020/EB-2005-0375) and 2007 (EB-2007-0538) electricity distribution rates. In this context, Horizon Utilities considers the interest rate under the Current Horizon Utilities Note to be reasonable irrespective of any corporate borrowing activities of HUC.

Furthermore, the HUC Debenture and Current Horizon Utilities Note were issued independently under different market conditions. The 75 basis point difference noted in the question represents the difference in coupon rate between the HUC Debenture and the Current Horizon Utilities Note. However, the effective difference is 38 basis points with consideration for related issuance costs on the HUC Debenture.

c. (I) The Promissory Note attracted a fixed rate under its original, 2001, and 2002 versions. It was the intention of Hamilton Hydro Inc. to establish a debt rate consistent with the deemed long-term debt rate as established by the Board in Table 3.1 of the original Electricity Distribution Rate Handbook issued in March 2000. The definition of "Permitted Rate" permitted Hamilton Hydro with some flexibility to amend the debt rate in the event the Board amended related regulation. This flexibility seemed to be a prudent approach at the time given perceived regulatory uncertainty related to the recoverability of interest costs in regulated electricity distribution rates and a related risk that such costs continue to be deductible for PILs purposes. In the almost eight years since the OEB issued its initial Electricity Rate Handbook, the OEB has not revised the rate that would be applicable to Hamilton Hydro Inc.'s (and

subsequently Horizon Utilities') long-term debt for rate making purposes.

(II) As discussed above in Horizon Utilities' response to the preceding question c.I, the Promissory Note attracted a fixed rate under its original, 2001, and 2002 versions. The interest rate of the 2005 Promissory Note (the Current Horizon Utilities Note) is not defined in a manner similar to the "Permitted Rate" of predecessor Promissory Notes. However, the 7.0% rate is fixed which is also consistent with the former "Permitted Rate" definition, the underlying OEB regulation at the time, and the underlying intentions for such between the parties to the Current Horizon Note. This change merely reflects the following conditions at the time:

1. A perceived improvement in regulatory certainty regarding the deemed long-term debt rate as established by the Board in Table 3.1 of the original Electricity Distribution Rate Handbook, in its original form and as amended;

2. Consistency with the original intention and expectation of both Hamilton Hydro Inc. and Hamilton Utilities Corporation that the interest rate reflect a long-term debt rate through to maturity; and

3. Compliance with and support for the terms of the trust indenture under which HUC issued the HUC Debentures at which time Hamilton Hydro Inc. remained wholly-owned by HUC.

Accordingly, the lack of an identical "Permitted Rate" definition in the Current Horizon Utilities Note does not represent a change in the debt rate. The Current Horizon Utilities Note is embedded debt in accordance with the terms of the OEB's Report, with a fixed

interest rate of 7.0%, the interest rate that has been applicable to Hamilton Hydro Inc.'s (and now Horizon Utilities') long term debt for almost eight years and through six OEB rate decisions.

DEFERRAL AND VARIANCE ACCOUNTS

49. Exhibit A/Tab 3/Schedule 1/Appendix B/Page 2, Exhibit E/Tab 1/Schedule 1/Page 1

The total regulatory deferral and variance account balance in Table 1 on Exhibit E/Tab 1/Schedule 1/Page 1 of ($7,278,859) for 2006 is not identical to the balance of ($8,096,000) for 2006 on Exhibit A/Tab 3/Schedule 1/Appendix B/Page 2. Please state which balance is correct and provide the reasons for the different balances and also indicate how these were derived.

Response:

The difference between the Regulatory Deferral and Variance Account balance in the 2006 Regulatory trial balance amount of $8,096,000 and the balance provided in the Summary of Regulatory Deferral & Variance Accounts, in the amount of $7,278,859, is reconciled in the following table. Horizon Utilities has removed the balance related to Hydro One's Regulatory Assets; the adjustment to the deferral account for pension contributions, as discussed in Exhibit E/Tab 1/Schedule3/p. 2; and a 2007 smart meter adjustment of $217.

Description	$
Reported in Financials	(8,096,000)
2405-Reg. Liability – Hydro One Regulatory Assets	911,382
Adj. To Pension costs for 2005 & 2006 (Entry made in 2007) Exhibit E/Tab 1/Schedule 3/p. 3	(94,458)
2007 Smart Meter Adjustment	217
Balance Reported	(7,278,859)

50. Exhibit E/Tab 1/Schedule 1/Page 5

a. Please explain why rebate cheque costs pertaining to the Ontario Price Credit are not recorded according to the instructions stated in the Accounting Procedures Handbook (APH) and the December 2005 FAQs.

b. Please restate what the balance would be if Horizon were following the December 2005 FAQs regarding the Ontario Price Credit.

Response:

a. Horizon Utilities used the USoA account 1508 and sub account to track the cheque costs. Please refer to Table 2 at Exhibit E/Tab 1/ Schedule 3/p.4 – Other Regulatory Assets – OPC Rebate Cheque Costs. Should these costs be transferred into USoA account 1525 there would be no impact on the total Deferral Account balance of $4,161,431.

b. The balance in USoA account 1508 Other Regulatory Assets – Provision for Rebate Cheque Costs would be restated from $78,949 to zero. The USoA account 1525 – Miscellaneous Deferred Credits would be restated from zero to $78,949.

51. Exhibit B/Tab 3/Schedule 3/Page 5

a. Horizon stated that it "does not currently capitalize interest on funds during construction". Please explain why HUC is not using the Board-prescribed interest rate, as per the Board's letter to LDCs dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?

b. Please recalculate and provide the impact on rate base, revenue requirement, and CWIP using the Board prescribed interest rate?

Response:

a. Horizon Utilities has not adopted an accounting policy for the capitalization of interest on funds during construction for reporting under GAAP and this is not a CICA requirement. Horizon Utilities maintains consistency in its GAAP and Regulatory accounting to the extent possible. The OEB's letter to LDCs dated November 28,2006 authorized the use of USoA account number 2055, Construction Work in Progress, for the purposes of recording carrying charges at interest rates prescribed by the OEB, but did not require LDCs to capitalize interest on funds during construction.

b. Horizon Utilities has provided an estimate of the impact of capitalizing 2007 interest on average CWIP on the 2008 Test Year Rate Base and Revenue Requirement in Attachment L to these responses. The estimated impact is an approximate reduction of the Revenue Requirement of $230,000 and an average increase in Rate Base of $255,000 for the 2008 Test Year.

However, Horizon Utilities does not capitalize interest on funds during construction and does not believe such to be in the interests of the distribution company or its customers.

Horizon borrows funds to finance capital projects. The principal amount of such borrowings is effectively re-paid over the life of such capital projects, but, in practical terms, generally revolves since the total investment in Rate Base is expected to grow over time. However, the related interest expense is required to be paid currently and Horizon relies on timely cashflow from distribution rates to pay such interest currently.

The capitalization of interest on CWIP effectively defers the payment of interest on capital projects over their useful life. This has an adverse impact on cashflow available to Horizon to make interest payments.

The impact on customers of capitalizing interest on CWIP also proves to be unfavourable over the long-term as illustrated in Attachment L (same as above) to these responses. The favourable impact to customers illustrated in the context of the 2008 Rate Year (Schedule 1) is simply a deferral of future rate increases but, in addition, customers now pay the cost of capital related to the increase in Rate Base.

Schedule 2 provides that customers ultimately bear higher rates (see Years 15 through 26) and support higher Revenue Requirement as a result of capitalizing interest on CWIP. Ultimately, the impact in Year 26 persists thereafter as additions in the 25 years prior expire. In the example in Schedule 2, customers ultimately support a higher Revenue Requirement of $121,000 thereafter than if interest on CWIP was not capitalized.

Lastly, the impact of a change in accounting policy is immaterial relative to the total Revenue Requirement of Horizon; between -0.23% and 0.12% over a 25 year period.

52. Exhibit E/Tab 1/Schedule 2/Page 2&3, Exhibit E/Tab 1/Schedule 3/Appendix A

I) What interest rates are being used to calculate carrying charges for each regulatory deferral and variance account for the period, January 1, 2005 to present?

II) Is Horizon using the Board-prescribed interest rate, as per the Board's letter to LDCs dated November 28, 2006, for Board-approved deferral and variance accounts since May 1, 2006?
Response MW: Yes, Horizon is using the Board-prescribed interest rates as per the Board's letter to LDCs dated November 28, 2006.

III) If HUC is not using the Board-prescribed interest rate to calculate the carrying charges, please explain in detail what interest rate has HUC relied on for calculating carrying costs on deferral and variance accounts since May 1, 2006?
Response MW: Not applicable.

IV) If HUC is not using the Board-prescribed interest rate to calculate the carrying charges since May 1, 2006, then please recalculate the balances using the Board-prescribed rate and clearly identify the impact of using the different interest rates?
Response MW: Not applicable.

Response:

(I) The following table provides the interest rates being used by Horizon Utilities to calculate carrying charges on each regulatory deferral and variance account for the period, January 1, 2005 to present.

Interest Rates Used to Calculate Carrying Charges

Regulatory Deferral and Variance Accounts

Date	Annual Interest Rate	Month-Year	Annual Interest Rate	Month-Year	Annual Interest Rate
Jan-05	7.00%	Jan-06	7.00%	Jan-07	4.59%
Feb-05	7.00%	Feb-06	7.00%	Feb-07	4.59%
Mar-05	7.00%	Mar-06	7.00%	Mar-07	4.59%
Apr-05	7.00%	Apr-06	7.00%	Apr-07	4.59%
May-05	7.00%	May-06	4.14%	May-07	4.59%
Jun-05	7.00%	Jun-06	4.14%	Jun-07	4.59%
Jul-05	7.00%	Jul-06	4.59%	Jul-07	4.59%
Aug-05	7.00%	Aug-06	4.59%	Aug-07	4.59%
Sep-05	7.00%	Sep-06	4.59%	Sep-07	4.59%
Oct-05	7.00%	Oct-06	4.59%	Oct-07	5.14%
Nov-05	7.00%	Nov-06	4.59%	Nov-07	5.14%
Dec-05	7.00%	Dec-06	4.59%	Dec-07	5.14%

(II) Horizon Utilities is using the Board-prescribed interest rates as per the Board's letter to LDCs dated November 28, 2006.

(III) Not applicable.

(IV) Not applicable.

53. Exhibit E/Tab 1/Schedule 3/Appendix A

Horizon is applying for disposition of regulatory variance accounts as per schedule Exhibit E/Tab 1/Schedule 3/Appendix A. These totals do not correspond with totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements (RRR) for the period ending December 31st, 2006 plus interest accrued on those balances to April 30th 2008. Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit E/Tab 1/Schedule 3/Appendix A. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional. Please reconcile balances requested for disposition to those filed in 2.1.1 of the RRR.

Response:

Horizon has completed the continuity schedule titled BdStaff_IR No 53_Horizon_20071213. A copy of the schedule accompanies these responses as Attachment M.

The table below provides the reconciliation between the amounts requested for disposition and those filed in section 2.1.1 of Horizon Utilities RRR filing. Horizon Utilities made an adjustment of $ 94,458 to the Pension Contribution Deferral Account subsequent to the RRR filing as explained in Exhibit E/Tab 1/Schedule 3/p.2. This reduced the principal amount for recovery and the carrying charges were adjusted accordingly.

Horizon Utilities' smart meter variance accounts 1555 and 1556 were added together for its RRR filing. There is a difference in the amount requested for disposition and that filled in Horizon Utilities RRR filing of $242. Horizon Utilities has not adjusted for this amount.

The RSVA Power account was reported net of Global Adjustment. The two amounts have been shown separately in the table below.

Account Description		Balances requested for Disposition	2.1.1 of RRR Filing	Variances
RSVA - Wholesale Market Service Charge	1580	(2,857,140)	(2,857,140)	0
RSVA - One-time Wholesale Market Service	1582	328,861	328,861	(0)
RSVA - Retail Transmission Network Charge	1584	(693,156)	(693,156)	0
RSVA - Retail Transmission Connection Charge	1586	(5,254,370)	(5,254,371)	1
Other Regulatory Assets - Sub-Account - OEB Cost Assessments	1508	0	0	0
Other Regulatory Assets - Sub-Account - Pension Contributions	1508	1,904,826	1,999,284	**(94,458)**
Other Regulatory Assets - Sub-Account - Other [7]	1508	0	0	0
Other Regulatory Assets - Sub-Account - Other [7]	1508	0	0	0
Other Regulatory Assets - Sub-Account - Other [7]	1508	0	0	0
Retail Cost Variance Account - Retail	1518	(70,844)	(70,844)	(0)
Retail Cost Variance Account - STR	1548	48,983	48,983	(0)
Misc. Deferred Debits	1525		0	0
LV Variance Account	1550	(269,457)	(269,457)	(0)
Smart Meter Capital & Recovery Offset Variance - Sub-Acct - Capital	1555	0	0	0
Smart Meter Capital & Recovery Offset Variance - Sub-Acct - Recoveries	1555	(711,652)	(612,407)	**(99,245)**
Smart Meter Capital & Recovery Offset Variance - Sub-Acct - Stranded Meters	1555		0	**0**
Smart Meter OM&A Variance	1556	99,487	0	**99,487**
Conservation and Demand Management Expenditures and Recoveries	1565	0	0	0
CDM Contra	1566	0	0	0
Qualifying Transition Costs [5]	1570	0	0	0
Pre-Market Opening Energy Variances Total [5]	1571	0	0	0
Extra-Ordinary Event Costs	1572	0	0	0
Deferred Rate Impact Amounts	1574	0	0	0
Other Deferred Credits	2425	0	0	0
Deferred PILs Contra Account [8]	1563			
RSVA - Power (including Global Adjustment)	1588	2,236,902	(112,552)	2,349,454
RSVA - Power - Sub-Account - Global Adjustment [4]	1588	2,349,454	2,349,454	0
Recovery of Regulatory Asset Balances	1590	0	0	0
Totals		1,001,343	1,095,559	

Net variance = 242

54. Ref: Exhibit E/Tab 1/Schedule 3, 4, 5 and 6

Horizon has stated that for account 1555 Smart Meter Capital and Recovery Offset Variance Account and 1556 Smart Meter OM&A Variance Account that as result of OEB's Combined Smart Meter Proceeding (EB-2007-0063) in June and July of 2007 that "Horizon Utilities has changed its method of recording the smart meter variances. The balance in the smart meter variance accounts now reflects the revenue requirement calculated for the years 2006, 2007 and the four months ending April 30, 2008; the revenues recovered through the smart meter rate adder; and the recalculation of carrying costs."

However, guidance on the use of these accounts was provided in the APH. The APH states that Account 1555 is to record revenues for smart meter funding recovered by the fixed and/or variable rate charge for each class of customer, capitalized direct costs related to the smart meter program with carrying charge amounts to be calculated using simple, prescribed interest. Stranded Meters are to be recorded in a sub-account of 1555, with no carrying charges. Stranded Meter costs are defined to be "the pooled residual net book value cost of removed meters or meters held in reserve for replacement of in-service meters, less any net sale proceeds when received."

And account 1556 is "to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters."

For further guidance, please refer to the Accounting Procedures Handbook.

a. Why is Horizon not following guidance provided in the APH for recording entries into accounts 1555 and 1556?

b. How do Tables 2, 3, and 4 on ExE/Tab1/Sch4/Pg2-4 tie to the balances in accounts 1555 and 1556? How are the balances in each of 1555 and 1556 derived? Please tie Tables 2, 3, and 4 with the balances on Exhibit E/Tab 1/Schedule 5/Pg 1 and Exhibit E/Tab 1/Schedule 3/Appendix A.

c. Please state why the December 31, 2006 balances for 1555 and 1556 on ExE/Tab1/Sch5/Pg 1 are not identical with the December 31, 2006 balances on the ExE/Tab1/Sch3/AppA. Which are the correct numbers? Please restate the appropriate schedules with the correct numbers, including ExE/Tab1/Sch6.

d. In particular, why is return on capital and PILs included in Tables 2, 3, and 4 on ExE/Tab1/Sch4/Pg2-4 and which accounts (1555 and 1556) do each of the components on these tables relate to?

e. What regulatory precedent or order is there to support Horizon's current approach to accounting for 1555 and 1556? Please provide the exact reference.

f. What would the balances of 1555 and 1556 be as of December 31, 2006 if Horizon was following guidance provided in the APH? Provide supporting a schedule of calculations and update the appropriate schedules.

g. Did Horizon remove from the revenue requirement the incremental operating, maintenance, amortization and administrative expenses directly related to smart meters in this application included in 1556? If not, what is the amount in the revenue requirement that is associated with this and the total bill impact?

Response:

a. Horizon Utilities has followed the APH for recording entries into accounts 1555 and 1556 for smart meters at the end of December 31, 2006. The balances provided in Exhibit E/Tab 1/Schedule 2/p. 3/Table 3 reflect the 2006 year end balances in accounts 1555 and 1556 in the amounts of $(711,652) and 99,488 respectively.

b. Tables 2, 3 and 4 in Exhibit E/Tab 1/Schedule 4/p,2-4 calculate Horizon Utilities' smart meter revenue requirement. The December 31, 2006 closing balances, as calculated in accordance with the APH, become the opening balances for the building of these tables. Horizon Utilities has provided the reconciliation for accounts 1555 and 1556 from December 31, 2006 to April 30, 2008 in the table below.

Account 1555 from 2006 - 2008

Description	$
Closing 2006 Balance	(701,294)
Carrying Charges - 2006	(10,359)
Revenue Earned - 2007	(1,850,836)
Return on Rate Base - 2007	309,800
Carrying Charges - 2007	(5,511)
Revenue Earned - 2008	(748,000)
Return on Rate Base - 2008	196,217
Carrying Charges - 2008	(8,001)
Total Balance of 1555 as at April 30, 2008	**(2,817,984)**

Account 1556 from 2006 - 2008

Description	$
Closing 2006 Balance	99,487
Incremental Operating Expenses - 2007	984,632
Depreciation Expense - 2007	301,689
PILs - 2007	32,221
Amortization Expenses - 2008	202,667
PILs - 2008	27,297
Total Balance of 1556 as at April 30, 2008	**1,647,993**
Total Smart Meter Over Recovery	**(1,169,992)**

c. Table 1 – Allocation of Regulatory Assets, included in Exhibit E/Tab 1/Schedule 5/p.1, is missing a footnote which reads "* Smart meter principal additions for 2007 are included", with the asterisk referring to the December 31, 2006 balances for account 1555 and 1556. Horizon Utilities has provided the following revision to Table 1 which includes a column to separate the December 31, 2006 balances for account 1555 and 1556.

Account Description	Account Number	Principal to December 31, 2006 *	Principal to April 30, 2008 for SM	Interest to April 30, 2008	Total For Recovery	Cost Allocator
Variable Distribution Rate Rider Components:						
RSVA - wholesale market services	1580	(2,977,770)		(61,610)	(3,039,380)	kWh
RSVA - one time wholesale market services	1582	305,935		41,649	347,584	kWh
RSVA - retail transmission network charge	1584	(604,752)		(125,415)	(730,167)	kWh
RSVA - retail transmission connection charge	1586	(4,849,527)		(701,634)	(5,551,162)	kWh
RSVA - power	1588	88,903		(196,014)	(107,111)	kWh
sub-total		(8,037,212)		(1,043,024)	(9,080,236)	
Other Regulatory Assets	1508	1,821,734		194,582	2,016,316	Dx Revenue
RCVA retail	1518	(70,844)		(4,336)	(75,179)	# of Customers
RCVA str	1548	48,983		2,998	51,981	# of Customers
Low Voltage	1550	(265,277)		(28,939)	(294,216)	kWh
sub-total		1,534,597		164,305	1,698,902	
Total For Variable Distribution Rate Rider		(6,502,615)		(878,719)	(7,381,334)	
Fixed Distribution Rate Rider Components:						
Smart Meter Revenue and Capital	1555	(711,652)	(2,082,461)	(23,871)	(2,817,984)	# of Metered Customers
Smart Meter Operating Expenses	1556	99,487	1,548,506	0	1,647,993	# of Metered Customers
Total For Fixed Distribution Rate Rider		(601,806)	(544,314)	(23,871)	(1,169,991)	
Total For Distribution Rate Rider		(7,104,421)	(544,314)	(902,590)	(8,551,325)	
* - Smart meter principal additions for 2007 included.						

d. Horizon Utilities refers OEB Staff to the OEB Decision with Reasons in EB-2007-0063 dated August 8, 2007. At page 18 of the Decision, in the section titled "The Rate Increase Methodology" the OEB states "The Board will allow each utility to recover its costs as set out Appendix 'A' by including those costs in rate base for the 2006 and 2007 rate years and calculating a revenue requirement on that

investment in the manner set out in Appendix 'E'. That Appendix includes a return of rate base, working capital component and grossed-up PILs in the calculation of the revenue requirement. Please refer to Horizon Utilities' response to question 54 b. above for the allocation of these components.

e. Horizon Utilities has complied with the APH in the calculations for accounts 1555 and 1556 for the balances outstanding at December 31, 2006. Horizon Utilities is proposing to recover its costs in rate base for the 2006 and 2007 rate years. Horizon Utilities again refers OEB Staff to page 18 of the OEB's Decision with Reasons EB-2007-0063 dated August 8, 2007, in which the OEB states "The Board will allow each utility to recover its costs as set out Appendix 'A' by including those costs in rate base for the 2006 and 2007 rate years and calculating a revenue requirement on that investment in the manner set out in Appendix 'E'.

f. The balances provided in Exhibit E/Tab 1/Schedule 2/p. 3/Table 3 are calculated in accordance with the APH. The 2006 year end balances in accounts 1555 and 1556 are $(711,652) and 99,488 respectively.

g. The revenue requirement calculated in Exhibit E/Tab 1/Schedule 3, 4, 5 and 6 includes only those incremental operating, maintenance, amortization and administrative expenses for the years 2006 and 2007 that are directly related to smart meters in this Application and included in account 1556.

Horizon Utilities has not included in its 2008 revenue requirement calculations the incremental operating, maintenance, amortization and administrative expenses directly related to smart meters and in account 1556. Therefore, there is no change to Horizon Utilities 2008 revenue requirement as proposed in its Application, and therefore no change in total bill impact.

55. Exhibit E/Tab 1/Schedule 3/Page 1

a. Please provide the regulatory precedent and justification for Horizon proposing that the smart meter variance account balances be disposed of as a credit to the fixed distribution charge for all metered customers?

b. Please provide the regulatory precedent for Horizon proposing that the smart meter variance account balances be disposed of over a period of one year, whereas the other deferral and variance account balances are being disposed of over a period of three years?

c. Why are principal balances being forecasted for the smart meter variance accounts to April 30, 2008, whereas the other deferral and variance account balances are being disposed of with December 31, 2006 principal balances?

d. How is Horizon accounting for its stranded meters?

e. Please confirm that there is no reference in the Combined Smart Meter Proceeding that allows LDCs to recalculate its smart meter variance account balances using the revenue requirement methodology as opposed to tracking capital and operating costs in two separate variance accounts for future recovery.

Response:

a. The smart meter rate adder was collected as an addition to the fixed distribution charge for the years 2006 and 2007. Horizon Utilities application of the smart meter credit follows this precedent of collecting through the fixed distribution charge by refunding the smart meter credit as a component of the fixed distribution charge for those customer classes that the charge was collected from.

b. The 2006 and 2007 smart meter rate adders were calculated and applied on an annual basis and as such Horizon Utilities has applied

for disposition of the smart meter variance account balances requirement over a period of one year. Horizon Utilities will be applying for new smart meter rate adders for smart meter investments for 2009 and 2010 at times to be determined by the OEB.

c. Horizon Utilities has included the investment in smart meters for 2007 and 2008 in its rate base calculations. At the same time Horizon Utilities is recovering, through the smart meter rate rider, revenues up to April 30, 2008. Horizon Utilities is matching the recovery of smart meter revenues with the 2007 smart meter investment. This matching principle of revenue and expenditures is in accordance with GAAP and recognizes that recovery of 2007 smart meter expenditures are currently included in distribution rates.

d. In accordance with the OEB Decision in the Combined Smart Meter Proceeding (EB-2007-0063), stranded costs associated with existing meters remain in rate base.

e. Horizon Utilities confirms that there is no reference in the Combined Smart Meter Proceeding that allows LDCs to recalculate their smart meter variance account balances using the revenue requirement methodology as opposed to tracking capital and operating costs in two separate variance accounts for future recovery. Horizon Utilities' 2006 smart meter variance account balances are calculated in accordance with the APH.

CONSERVATION AND DEMAND MANAGEMENT

56. Ref: Exhibit D /Tab 3/Schedule 3 and Ref: Exhibit D /Tab 2/Schedule 7

Horizon Utilities state that it will be maintaining a small CDM department for future programs, and that it has established a CDM function to develop and deliver CDM programs.

a. Please confirm whether the "CDM department" referenced in Exhibit D/Tab 2/Schedule 3/page 4 is the same organizational group as the "CDM function" referenced in Exhibit D/Tab 2/Schedule 7/page 4. If these are not the same, please describe how the roles differ.

b. Please confirm whether these future programs will be funded through distribution rates, or through the OPA.

c. If funded through the OPA, how has Horizon Utilities allocated costs for the CDM department associated with OPA funded programs?

d. If the CDM department will be used for both rate funded and OPA funded programs, please provide a breakout of funds that would be used for rate funded and non rate funded activities.

e. The Report of the Board on Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond EB-2006-0266 ("Report of the Board") stated:

> For CDM activities funded by the OPA, the direct costs and the proportional share of the indirect costs attributable to OPA-funded CDM activities should be removed from the distributor's distribution rates, and more appropriately recovered through the distributor's OPA-funded CDM activities. This is necessary to avoid double-counting, since all existing direct and indirect costs are included in distribution rates.

Please confirm and provide documentation that Horizon Utilities has followed the guidelines established in the Report of the Board regarding cost allocation for the CDM department, i.e. allocation of direct and indirect costs.

Response:

a. Horizon Utilities confirms that the "CDM department" referenced in Exhibit D/Tab 2/Schedule 3/page 4 is the same organizational group as the "CDM function" referenced in Exhibit D/Tab 2/Schedule 7/page 4.

b. Horizon Utilities confirms that its CDM function and programs are specific to Horizon Utilities for customer education through community events, an education program through the local school boards, conservation champions committee, ask the (Horizon Utilities) expert, development of self-help conservation tools for our customers and demand response strategy planning. These activities will be funded through distribution rates as they are not eligible for funding through the OPA.

c. Horizon Utilities' programs are not funded through the OPA. Horizon has engaged two contract employees along with third party vendors to work exclusively on OPA programs; these costs are not included in this rate application for recovery and will be tracked separately.

d. Currently the OPA has not permitted recovery of administration costs associated with preparation and review of the CDM program applications. In addition, costs associated with the preparation of custom applications have not been eligible for recovery through the OPA. At this time Horizon Utilities has not registered with the OPA for 2008 programs. Horizon Utilities has included a minimal staff of three

in this rate application to engage in Horizon Utilities programs and has included these cost for recovery through rates.

Horizon Utilities will apply for recovery of costs from the OPA for the two contract employees and third party vendors for the continuation of the 2007 programs and implementation of 2008 programs. These costs have not been included in this rate application for recovery and in the event that the 2008 OPA programs are not accepted or run over budget, Horizon Utilities is at risk to absorb these costs.

e. Horizon Utilities confirms that it has followed the guidelines established in the Report. The costs included in this Application are for CDM activities exclusive to Horizon Utilities and are not funded through OPA programs. Horizon Utilities has not yet applied for 2008 OPA funding. However, as noted in response to question 56 d above, Horizon Utilities will apply for recovery of costs from the OPA for two contract employees and third party vendors for the implementation of 2008 OPA programs. Costs specific to the contract employees and third party vendors will be recorded separately.

57. Ref: Exhibit D /Tab 2/Schedule 2

Please provide an itemized breakout and description of the $264,623 expense captured in Account 5415 – Energy Conservation.

Response:

The following table provides the itemized description of the expenses included in the Energy Conservation total for the 2008 Test Year.

Account 5415 Energy Conservation	
Wages & Benefits	233,013.00
Computer maintenance	31,610.00
Total	264,623.00

58. Ref: Exhibit J /Tab 1/Schedules 1 – 6

The Board's "Filing Requirements for Transmission and Distribution Applications" issued on November 14, 2006, outlines on page 39 the information that is required when filing an application for LRAM or SSM. Please provide the following:

a. The kW or kWh impacts not adjusted for free riders. kW or kWh impacts net of free riders for each program and each rate class has been provided, however, the kW or kWh impacts not adjusted for free riders has not been provided ;
b. Verification of participation levels; and
c. Duration of the programs in years or months.

Response:

Response to a. b. c. – General:

Horizon Utilities has provided in Attachment N to these responses, the 2005 and 2006 LRAM and SSM information as prepared by SeeLine Group Ltd. The responses that follow will refer OEB staff to the appropriate document, and will identify the tab and the appropriate columns in which to find the data.

a. The kW and kWh impacts not adjusted for free riders are provided in the following spreadsheets:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results/Column Gross Savings kWhrs & Gross Savings kW.

2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results/Column Gross Savings kWhrs & Gross Savings kW.

2006: Horizon 2006 TRC Details/Horizon Utilities - 2006 CDM Reported Results/Column Gross Savings kWhrs & Gross Savings kW.

b. The verification of participation levels is provided in the following spreadsheets:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results/Column participant project.
2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results/Column participant project.
2006: Horizon 2006 TRC Details/Horizon Utilities - 2006 CDM Reported Results/Column participant project.

c. The duration of the programs in years or months is provided in the following spreadsheets:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results/Column program duration.
2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results/Column program duration.
2006: Horizon 2006 TRC Details/Horizon Utilities - 2006 CDM Reported Results /Column program duration.

59. Ref: Exhibit J /Tab 1/Schedules 1 – 6

Please identify any programs that include measures not listed in the TRC Guide and/or programs where the inputs and assumptions (e.g. energy savings, free rider rates, equipment life, etc.) used by Horizon Utilities differ from those in the TRC Guide. For any such programs, please provide documentation supporting the inputs and assumptions used by Horizon Utilities.

Response:

Horizon Utilities implemented two programs which were included in its CDM plans and approved by the OEB, but are not clearly identified in the Assumptions and Measures list in the TRC Guide. Both programs are similar to Toronto Hydro programs. The two programs are the LED Traffic Lights program, which involved the replacing of traffic signals with LED technology, and the Leveraging Energy Conservation program, which involved lighting retrofits to condominium buildings. In accordance with the Toronto Hydro Decision, Horizon Utilities has applied a 30% free ridership rate to the program results.

Horizon Utilities has provided supporting documentation for these programs in Attachment O to these responses.

Further information on the source of data is provided in the following spreadsheets in Attachment N:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification)/Column kwhr (Net) – Data Source & kw (Net) – Data Source

2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results (Data Verification)/Column kwhr (Net) – Data Source & kw (Net) – Data Source

2006: Horizon 2006 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification) [Note – correct title is Horizon Utilities 2006 CDM Reported Results (Data Verification)]/Column kwhr (Net) – Data Source & kw (Net) – Data Source

60. Ref: Exhibit J /Tab 1/Schedule 3

Please provide the calculations, inputs and assumptions that were used to determine the LRAM amount. Please ensure that the free rider rates used for each program are included.

Response:

The calculations, inputs and assumptions that were used to determine the LRAM amount, including the free rider rates used for each program are provided in the following spreadsheets in Attachment N:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification)/Column FreeRidership

2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results (Data Verification)/Column FreeRidership

2006: Horizon 2006 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification) [Note – correct title is Horizon Utilities 2006 CDM Reported Results (Data Verification)]/Column FreeRidership

References to the LRAM amounts for each program are provided in the following spreadsheets:

2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 LRAM Calculation/Column LRAM

2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 LRAM Calculation/Column LRAM

2006: Horizon 2006 TRC Details/Horizon 2006 CDM Results - LRAM Calculation/Column LRAM

61. Ref: Exhibit J /Tab 1/Schedule 4

Please provide the calculations, inputs and assumptions that were used to determine the SSM amount. Please ensure that the free rider rates used for each program are included.

Response:

The calculations, inputs and assumptions that were used to determine the SSM amount including free rider rates used for each program are included are provided in the following spreadsheets in Attachment N:

- 2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification)/Column FreeRidership
- 2005: Horizon 2005 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results
- 2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results (Data Verification)/Column FreeRidership
- 2005: Horizon 2005 TRC Details/Horizon Utilities - St. Catharines - 2005 CDM Reported Results
- 2006: Horizon 2006 TRC Details/Horizon Utilities - Hamilton - 2005 CDM Reported Results (Data Verification) [Note – correct title is Horizon Utilities 2006 CDM Reported Results (Data Verification)]/Column FreeRidership
- 2006: Horizon 2006 TRC Details/Horizon Utilities - 2006 CDM Reported Results

62. Ref: Exhibit J /Tab 1/Schedule 4

a. Please confirm that there was no double counting of TRC benefits in the co-sponsored TAPS program with Enbridge. Please identify for Tables 1 – 3, which program includes the co-sponsored TAPS program.

b. Please confirm whether Horizon Utilities has met the test of centrality established by the Board in RP-2005-0020/EB-2005-0523, and set out in the Board's TRC Guide.

Response:

a. Horizon Utilities confirms that there was no double counting of TRC benefits in the co-sponsored TAPS program with Enbridge and submits a copy of correspondence from Enbridge confirming this statement as Attachment P. The TAPS program is included in the Residential and Small Commercial (<50kW) Mass Market program

b. Horizon Utilities confirms that it has met the test of centrality as Horizon Utilities initiated the partnership, the program and the implementation of the program as set out in the TRC Guide "where the LDC's financial contribution is less than 50% of the program funding, the LDC initiated the partnership, initiated the program or initiated the implementation of the program." Please see the Enbridge letter at Attachment P.

COST ALLOCATION

63. Ref: Large User Class Revenue to Cost Ratio, Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet I6 'Customer Data'

Annual Distribution Revenue from the Large User class is entered in the cost allocation model at $2,770,821. Please confirm that the derivation of $2,770,821 is the calculated class revenue at the gross rate, less a calculated amount of Transformer Allowance at $0.60 per kW.

Response:

Horizon Utilities confirms that the derivation of $2,770,821 is the calculated class revenue at the gross rate, less a calculated amount of Transformer Allowance at $0.60 per kW.

64. Ref: Rate Class Proportions of Total Revenue Requirement, Exhibit H / Tab 1 / Schedule 2 / page 6 (Table 5), and Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet O1 'Revenue to Cost Summary Worksheet'

The cost allocation summary in Sheet O1 shows in row 35 the revenue requirement for the Residential class at $49,528,453, which is 56.34% of the total revenue requirement of $87,899,641. The corresponding amount in the first column of Table 5 (headed "100% Cost Allocation") is 55.81%. The discrepancy for the residential class is about $0.5 million. Please explain how the results in Table 5 are derived from the results of the cost allocation. Alternatively, if the first column in the table is not derived from this source, please identify the actual source and show the derivation.

Response:

The class share of 2008 distribution revenue is derived by using the 2006 cost of service results to apportion Horizon Utilities 2008 distribution revenue requirement in order to establish a starting point to begin rate design. Each class share of 2008 distribution revenue is then adjusted for miscellaneous revenue offsets and Hydro One Low Voltage charges. Horizon Utilities has provided immediately following this paragraph, a copy of the Tab titled Cost of Service Allocation, taken from its 2008 Distribution Rate Design Model submitted with this Application, which illustrates the calculation of the 2008 distribution revenue by class.

1

Cost Allocation Based Calculations

Class	Revenue Requirement -Cost Allocation	Service Revenue Requirement %	2008 Serv Rev Requirement	2006 EDR Miscellaneous Rev Allocation	Miscellaneous Revenue %	Current Miscellaneous Revenue	Base Rev Requirement	LV- Wheeling	Base Rev Requirement Less LV	Base Revenue Per Class %	Transformer Allowances	Gross Revenues By Class	Gross Revenues %
Residential	49,528,453	56.35%	57,237,352.47	3,443,156	64.92%	4,235,689.80	53,001,662.67	56,069.62	52,945,593.05	55.81%		52,945,593.05	54.79%
GS <50 kW	11,666,227	13.27%	13,482,027.64	940,621	17.74%	1,157,130.34	12,324,897.29	19,083.90	12,305,813.40	12.97%		12,305,813.40	12.73%
GS>50 kW	16,672,253	18.97%	19,267,220.47	553,855	10.44%	681,340.07	18,585,880.40	66,273.41	18,519,606.99	19.52%	1,778,591.49	20,298,198.48	21.00%
Large Use >5MW	5,766,749	6.56%	6,664,319.19	100,698	1.90%	123,875.90	6,540,443.30	53,332.27	6,487,111.02	6.84%	0.00	6,487,111.02	6.71%
Street Light	2,620,584	2.98%	3,028,466.74	29,555	0.56%	36,357.79	2,992,108.95	1,060.71	2,991,048.23	3.15%		2,991,048.23	3.10%
Sentinel	41,146	0.05%	47,549.85	710	0.01%	873.33	46,676.52	16.58	46,659.94	0.05%		46,659.94	0.05%
Unmetered Scattered Load	1,035,853	1.18%	1,197,078.96	228,211	4.30%	280,739.82	916,339.14	562.73	915,776.42	0.97%		915,776.42	0.95%
Back-up/Standby Power	568,378	0.65%	656,843.58	6,889	0.13%	8,474.14	648,369.43	0.00	648,369.43	0.68%		648,369.43	0.67%
TOTAL	**87,899,641**	**100.00%**	**101,580,859**	**5,303,694**	**100.00%**	**6,524,481**	**95,056,378**	**196,399**	**94,859,978**	**100.00%**	**1,778,591**	**96,638,570**	**100.00%**

2

3

4

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65. Ref: Streetlighting Load Profile, Exhibit H / Tab 1 / Schedule 2 / page 8, and Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet I8 'Demand Data'

Horizon Utilities suggests that a deemed profile for streetlights would yield a more accurate revenue to cost ratio for the streetlighting class. Please provide a brief description of how the deemed profile would differ from the load profile used for the data that was input to Sheet I8, and if possible provide an indication of how the outcome of the cost allocation would be affected by the difference.

Response:

Horizon Utilities discussion on the use of deemed profile for the billing of electricity charges for street lights was not intended to suggest a more accurate revenue to cost ratio for the Street Light customer class. The recommendation to use the deemed profile for street lighting was solely to allow the Street Light class to come off the Regulated Price Plan ("RPP") and be billed on spot market pricing. The Street Lighting customer class would pay for electricity on the basis of off peak electricity pricing, which is consistent with those customers' electricity usage.

Horizon Utilities states at Exhibit H/Tab 1/Schedule 2/p. 9 "By complying with Ontario Regulation 95/05 in this manner, street lighting load will be billed for electricity charges at the appropriate Hourly Ontario Electricity Price ("HOEP") thereby reducing the electricity charges which in turn offsets the increase in distribution charges resulting from the shift in revenue to cost recovery." This statement makes reference to the reduced electricity charges being a method of mitigating any increase in distribution charges that would occur by moving the revenue to cost ratio for the Street Light customer class closer to the appropriate minimum range for the revenue to cost ratio of .70 as concluded in the Report of the Board – Application of

Cost Allocation for Electricity Distributors, EB-2007-0667 issued November 28, 2007.

RATE DESIGN

66. Ref: Transformer Allowance, Exhibit 1 / Tab 1 / Schedule 3 / page 1, and Exhibit 1 / Tab 1 / Schedule 4 / page 2

a. Please confirm that the current approved volumetric rate for the Large User class, at $0.9236 per kW, is gross of the Transformer Allowance of $0.60 per kW, and that all customers in this class receive the allowance.

b. Please confirm that the volumetric rate being applied for, $1.1107 per kW, is net of any transformer allowance, and that the effective increase in the rate as it would be experienced by all customers is an increase of approximately $0.79 per kW.

Response:

a. Horizon Utilities confirms that the current Large User volumetric rate is gross of the Transformer Allowance.

b. The OEB's Cost Allocation Model eliminated the Transformer Allowance for customers supplied from an LDCs' primary distribution system. This affected all members of Horizon Utilities' Large User customer class. It is therefore inaccurate to state that the volumetric rate being applied for is net of any Transformer Allowance. There is simply no Transformer Allowance applicable to this class. Horizon Utilities confirms that the rate increase proposed in respect to this customer class is approximately $0.79 per kW.

67. Ref: Impacts, Exhibit I / Tab 1 / Schedule 1 / page 3 / Table 2

The impact on the total bill of two hypothetical Large Users is calculated, at 3.76% and 2.69%. Please provide the calculated impacts on Horizon Utilities' 12 actual Large Users. Note that it is not necessary to show the kWh and kW inputs to the calculation, nor to put the impacts in any particular order.

Response:

The following table illustrates the total bill impact on the individual Large User customers in Horizon Utilities' service area at proposed 2008 distribution rates.

Account #	2007 Total Bill	2008 Total Bill	Change	Change (%)
1	3,099,985	3,163,591	63,605	2.05%
2	241,475	245,397	3,922	1.62%
3	348,616	358,559	9,942	2.85%
4	2,237,602	2,284,559	46,957	2.10%
5	248,670	260,604	11,934	4.80%
6	516,613	522,698	6,085	1.18%
7	286,841	294,814	7,974	2.78%
8	942,263	964,541	22,278	2.36%
9	3,414,073	3,439,241	25,168	0.74%
10	157,053	164,215	7,162	4.56%
11	262,304	267,224	4,919	1.88%
12	76,205	79,932	3,727	4.89%

The following table illustrates the total bill impact on the individual Large User customers in Horizon Utilities' service area at proposed 2008 distribution rates and the revised RTSR proposed in Horizon Utilities' response to question 47 above.

Account #	2007 Total Bill	2008 Total Bill	Change	Change (%)
1	3,099,985	3,126,836	26,851	0.87%
2	241,475	242,666	1,191	0.49%
3	348,616	354,095	5,479	1.57%
4	2,237,602	2,257,821	20,218	0.90%
5	248,670	254,893	6,223	2.50%
6	516,613	515,615	(998)	(0.19%)
7	286,841	291,545	4,704	1.64%
8	942,263	952,646	10,382	1.10%
9	3,414,073	3,394,162	(19,911)	(0.58%)
10	157,053	161,412	4,359	2.78%
11	262,304	262,396	92	0.04%
12	76,205	77,474	1,269	1.67%

68. Ref: Exhibit I / Tab 1 / Schedule 6 / page 1

Horizon Utilities has designed the distribution rates so that the total bill impact will average no more than 3% in each rate class. Would the Applicant alter its distribution rate design to limit the impact to 3% in the event that its application for approval of Retail Transmission Service Rates together with the distribution rates in this application caused the impact to exceed 3%?

Response:

Horizon Utilities' Retail Transmission Service Rates, included in this Application do not reflect the OEB's Ontario Uniform Transmission Rate Order (EB-2007-0759), which decreased transmission rates in Ontario. Horizon Utilities' revised transmission rates will be reduced accordingly, which will result in a reduction to customers' total bill, and therefore Horizon Utilities will not have a need to alter its distribution rate design in this Application.

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