July 16, 2012

By RESS and Courier

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario. M4P 1E4

Dear Ms. Walli,

Re: Horizon Utilities Corporation ED-2006-0031
Application for Disposition of Account 1562, Deferred Payments in Lieu of Taxes effective September 1, 2012 – EB-2012-0005

On March 28, 2012, Horizon Utilities Corporation ("Horizon Utilities") filed an Application for Disposition of Account 1562, Deferred Payments in Lieu of Taxes effective September 1, 2012 with the Ontario Energy Board ("OEB" or the "Board"). On June 5, 2012, the Board issued the Notice of Application and Procedural Order #1 in respect of the above-captioned proceeding. In the Notice of Application, the Board defined the process for the adjudication of the Application.
That process included the delivery of interrogatories to Horizon Utilities on June 29, 2012.

Horizon Utilities received interrogatories from Board staff only on June 29, 2012. Accompanying this letter, Horizon Utilities respectfully submits its responses to the interrogatories from Board staff, with the exception of the response to Board staff interrogatory 11. The aforementioned interrogatory pertains to an interest reconciliation for the former St. Catharines Hydro Utilities Services Inc. ("SCHUSI"). In order to complete its response to this interrogatory, Horizon Utilities is working with the former auditors for SCHUSI to access the year-end working papers for SCHUSI. Horizon Utilities expects to have the materials from Crawford and Company (former auditors) this week and anticipates filing the outstanding interrogatory response by the end of the week.

Horizon Utilities has included live Excel models for its responses to interrogatories 2b), 3b) and 13 b). Two hard copies of the responses are being submitted by courier.

Should you have further questions or concerns, please do not hesitate to contact me.

Yours truly,

Original signed by Indy J. Butany-DeSouza

Indy J. Butany-DeSouza
Vice-President, Regulatory and Government Affairs
Horizon Utilities Corporation
Tel: (905) 317-4765

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

AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving of fixing just and reasonable rates and other service charges for the distribution of Electricity as of September 1, 2012.

HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”) RESPONSES TO ONTARIO ENERGY BOARD STAFF (“BOARD STAFF”)

DELIVERED: July 16, 2012

Question 1

<u>Preamble:</u>

Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. HHI’s data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	731,198	937,087	782,671	731,198	702,807	702,807
PILs Recovery Calculations	-977,605	-926,947	-596,913	-622,124	-724,987	-477,153
Difference	**-246,407**	**10,140**	**185,758**	**109,074**	**-22,180**	**225,654**

a. Please explain how HHI calculated the PILs amounts contained in the unbilled revenue accruals at each December year end, at February 28, 2005 and at April 30, 2006.

Response:

Board staff have suggested that "*Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load*". Horizon Utilities Corporation ("Horizon Utilities") submits that while some distributors may have experienced growth in customer counts and load which could result in a pattern where recoveries from customers exceed the PILs proxies, Horizon Utilities and its predecessor companies Hamilton Hydro Inc. ("HHI") and St. Catharines Hydro Utility Services Inc. ("SCHUSI") have not experienced such a pattern.

The initial PILs rates implemented in 2002 were based on 2001 billing quantities which were generally higher than the actual quantities realized in 2002 and 2003. . While the rates were designed to recover these amounts in 2002 and 2003, HHI and SCHUSI did not realize the projected load that would have provided this recovery and therefore the recoveries realized were lower than anticipated.

The following table is created from information provided in the signed Board Decisions ---included in the Application in Appendix F and the amounts billed to customers included in the Application in Appendix H. The table compares the 2001 billing determinants used to calculate the rates with the volumes realized in 2002 and 2003.

Hamilton & St. Catharines	*2001 Data (kWh/kW)*	*2002 10 Months (kWh/kW)*	*Volume Variance*	*2003 Data (kWh/kW)*	*Volume Variance*
RESIDENTIAL CLASS	1,719,816,236	1,442,151,862	(277,664,374)	1,655,935,250	(63,880,986)
GENERAL SERVICE <50 KW CLASS	718,180,364	547,709,309	(170,471,055)	666,278,645	(51,901,719)
GENERAL SERVICE >50 KW NON TIME OF USE	4,504,845	4,244,331	(260,514)	4,976,642	471,797
GENERAL SERVICE >50 KW TIME OF USE	427,857	-	(427,857)	-	(427,857)
GENERAL SERVICE - STANDBY USE	34,293	77,762	43,469	79,491	45,198
UNMETERED & SCATTERED LOAD	20,068,091	12,571,303	(7,496,788)	13,481,215	(6,586,876)
LARGE USER CLASS	6,307,453	3,735,421	(2,572,032)	4,414,965	(1,892,488)
SENTINEL LIGHTS	1,735	779	(956)	1,718	(17)
STREET LIGHTING CLASS	104,574	87,023	(17,551)	105,816	1,242

Horizon Utilities and its predecessor companies calculated and recorded unbilled revenue at the end of each month in the periods referenced together with PILs amounts as reported in Appendix B of the Application. PILs were first included in rates as of March 1, 2002; the PILs amounts reported in Appendix B of the Application represent PILs amounts received from customers for the month of March 2002. Such represents a full month of collections from customers demonstrating that the accrual method was used to record collections.

PILs amounts collected from customers were calculated using billed and estimated unbilled billing determinants for each month, multiplied by the approved rates for PILs. For the years 2002 and 2006, these amounts were calculated using internally generated billed and unbilled statistics. For the years 2003 through 2005, Horizon Utilities has used annual actual billing quantities previously filed with the Board and has calculated the PILs amounts collected from customers on an annual basis by multiplying these annual billing quantities by the rate slivers approved by the Board. Any differences that resulted from the monthly amounts reported in Appendix B were reflected in the last month of the year so that the total collections for the year balanced with the calculated amount based on billing determinants previously reported to the Board.

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Difference	**-246,407**	**10,140**	**185,758**	**109,074**	**-22,180**	**225,654**

b. Please explain the erratic pattern and why the recoveries were so low.

Response:

The table provided in the interrogatory above examines the PILs recoveries at specific points in time, i.e., at particular months within the PILs period. The PILs Proxy within a given month is based on 1/12th of the annualized PILs Proxy amount. Actual consumption and demand does not follow a similar (i.e., level) monthly pattern. For example, Horizon Utilities consumption and demand peaks in the summer months. As such, monthly differences between PILs Proxy and PILs recoveries will vary for this reason. This is natural and expected.

Additionally, “erratic” monthly differences may arise as a result of corrections or true-ups related to differences between accrued quantities based on estimates and actual quantities, or other periodic Account 1562 adjustments arising from annual tax provisions (generally around year end) and tax filings.

Consequently, Horizon Utilities submits that it is not particularly meaningful to assess the reasonableness of balances in Account 1562 based on select monthly differences between PILs Proxies and PILs Recoveries.

Horizon Utilities submits that it is most meaningful to assess the reasonableness of Account 1562 balances based on annual differences between PILs Proxies and PILs Recoveries; since this is the basis on which both the PILs Proxies and underlying billing determinants for PILs rate recoveries are determined. This approach resolves the month over month issue of varying demand and consumption related to weather or local economic conditions, adjustments related to prior month accruals, as well as periodic Account 1562 adjustments described above.within any given year would be mainly due to differences in the calculation of monthly estimates which would be offset with corrections or true-ups in other months since the annual recoveries are calculated using billing determinants that are reasonable when compared to other years.

The table above also examines the PILs recoveries for February 2005. The month of February is a shorter month with 28 days compared to other months in the year which have either 30 or 31 days. Therefore, PILs recoveries in that month would be lower. Further, the date of the merger of HHI and SCHUSI was March 1, 2005; therefore the balances at February 28, 2005 would have contained true-ups as a result of the merger.

Finally, the table above also shows the PILs recoveries for the month of April 2006. The PILs rates terminated in April 2006 so the balance in that month would capture any true ups to amounts actually billed as well as actual PILs amounts billed subsequent to April 2006 that related to the period prior to April 2006.

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Difference	**-246,407**	**10,140**	**185,758**	**109,074**	**-22,180**	**225,654**

c. Please provide a table that shows the gross amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006.

Response:

The table below shows the gross billings billed to customers in May, June and July 2006 that related to consumption before May 1, 2006 for HHI. These billings were determined based on a proration of the number of days before May 1, 2006 divided by the number of days in the billing period.

Gross Billings May - July, 2006 for pre-May Consumption
Hamilton

Class	May (kWh / kW)	Gross Billings	
Residential	52,163,008	$	6,204,710.00
GS < 50	23,223,400	$	2,352,243.33
GS > 50	198,569	$	6,526,068.84
Unmetered	1,126,360	$	92,362.04
Sentinel	20	$	743.67
Large Users	320,267	$	7,068,956.36
Streetlighting	6,731	$	193,500.83
		$	**22,438,585.07**

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Difference	**-246,407**	**10,140**	**185,758**	**109,074**	**-22,180**	**225,654**

d. Please show how HHI determined the PILs amounts contained in these gross billings.

Response:

The table below shows the billing determinants and PILs amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006 for HHI. The PILs amounts were calculated by multiplying the billing determinants resulting from the calculation described in Board staff interrogatory 1 c), by the Board approved rates.

PILs Amounts Billed to Customers May - July, 2006

Hamilton	(a)	(b)	(a) x (b)
Class	**kWh / kW**	**Rate**	**Total Billed**
Residential	52,163,008	$ 0.0045	$ 234,734
GS < 50	23,223,400	$ 0.0019	$ 44,124
GS > 50	198,569	$ 0.3113	$ 61,815
Unmetered	1,126,360	$ 0.0003	$ 338
Sentinel	20	$ 0.3932	$ 8
Large Users	320,267	$ 0.1344	$ 43,044
Streetlighting	6,731	$ 0.9880	$ 6,650
			$ 390,712

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e. Please compare the results of this analysis with the evidence filed and explain any material variances.

Response:

While the monthly amounts recorded in Appendix B of the Application as PILs billings will vary from month-to-month, the total PILs amount billed to customers on an annual basis is founded on the billing determinants from March 1, 2002 through April 30, 2006. Horizon Utilities submits that the PILs recovery amounts reported are reasonable and are supported by amounts previously reported to the Board. The following two tables provided in Appendix H of the Application summarize the billing determinants on an annual basis and the related PILs recovered from customers.

Total Billing Determinants used to Calculate Amounts Billed to Customers

Hamilton & St. Catharines	2002	2003	2004	2005	2006 (Jan -Apr) Horizon
Residential	1,442,151,862	1,655,935,250	1,626,211,540	1,764,806,851	532,710,367
GS < 50	547,709,309	666,278,645	633,716,130	629,012,971	199,273,047
GS > 50	4,244,331	4,976,642	5,237,415	5,431,961	1,633,433
Unmetered	12,571,303	13,481,215	15,632,058	14,763,942	4,473,864
GS - Standby	77,762	79,491	74,468	80,656	585
Sentinel	779	1,718	1,574	1,768	585
Large User	3,735,421	4,414,965	4,485,487	4,049,286	1,364,327
Streetlighting	87,023	105,816	109,850	109,892	36,080

Amounts Billed to Customers supported by billing statistics

Year	St. Catharines	Hamilton	Horizon	Total
2002	$ 2,330,105	$ 9,351,206		$ 11,681,312
2003	$ 3,053,417	$ 10,924,712		$ 13,978,129
2004	$ 2,438,251	$ 8,715,809		$ 11,154,060
2005	$ 2,622,430	$ 8,654,748		$ 11,277,177
Jan 1st - Apr 30th 2006			$ 3,485,532	$ 3,485,532
	$ 10,444,203	$ 37,646,474	$ 3,485,532	$ 51,576,210

The PILs Proxy within a given month is based on 1/12th of the annualized PILs Proxy amount. Actual consumption and demand does not follow a similar (i.e., level) monthly pattern. For example, Horizon Utilities consumption and demand peaks in the summer months. As such, monthly differences between PILs Proxy and PILs recoveries will vary for this reason. This is natural and expected.

Additionally, “erratic” monthly differences may arise as a result of corrections or true-ups related to differences between accrued quantities based on estimates and actual quantities, or other periodic Account 1562 adjustments arising from annual tax provisions (generally around year end) and tax filings.

Consequently, Horizon Utilities submits that it is not particularly meaningful to assess the reasonableness of balances in Account 1562 based on select monthly differences between PILs Proxies and PILs Recoveries.

Horizon Utilities submits that it is most meaningful to assess the reasonableness of Account 1562 balances based on annual differences between PILs Proxies and PILs Recoveries; since this is the basis on which both the PILs Proxies and underlying billing determinants for PILs rate recoveries are determined. This approach resolves the month over month issue of varying demand and consumption related to weather or local economic conditions, adjustments related to prior month accruals, as well as periodic Account 1562 adjustments described above.

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ONTARIO ENERGY BOARD STAFF ("BOARD STAFF")**

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Ref: SIMPIL Models for 2001 to 2005

2. Gains and Losses on Disposals of Fixed Assets

HHI included its fixed assets in the calculation of rate base for the 2000 -2001 application. The Board approved the rate base for use in the determination of distribution rates. HHI continued to receive the return on these assets from ratepayers even though it may have disposed of assets during the period 2001 through 2005.

a. Please explain why the variances caused by disposals of fixed assets that HHI input on sheets TAXREC and TAXREC2 for 2001-2005 should true up to ratepayers.

Response:

Horizon Utilities makes reference to the following Ontario Energy Board ("OEB") documents:

i. *Ontario Energy Board Section 93 Tax PILs Gross-Up Notes to Proxy Model ("SIMPIL") Excel Worksheets December 21, 2011*;

ii. *Section 93 PILs Tax Gross-Up – "SIMPIL" MODEL Guide* (this document was issued to address the implications of the passage of Bill 210 on PILs filings);

Footnote 13 of document i. provides guidance with respect to the applicability of true-up adjustments to "Other Adjustments" in PILs Spreadsheet "TAXREC". The footnote clearly provides that: *"No true-up will apply to this category, unless material"*.

The third full paragraph of Page 16 of document ii. provides that:

"The items to be included in true-up adjustments are as follows:

……

- *other additions and deductions exceeding the materiality level"*

Horizon Utilities has chosen a materiality level of zero with respect to amounts that should be trued up. Horizon Utilities submits that this choice is consistent with the Board Findings for Issue#8 in its Decision on Account 1562 Deferred PILs Combined Proceeding (EB-2008-0381).

On this basis, Horizon Utilities submits that a true-up with respect to variances described in Board Staff interrogatory 2 a. is appropriate and consistent with the Board Staff documents described in i. and ii. above and the Decision of the Board on EB-2008-0381.

On this basis, Horizon Utilities identifies the following errors:

a) Appendix C-1, which reports a deduction for a gain on disposal of assets per financial statements in the amount of $103,782 in TAXREC 3 No True-up;

b) Appendix C-2-5, which reports a deduction for a gain on disposal of assets per financial statements in the amount of $366 in TAXREC 3 No True-up.

The amounts in a) and b) should be reported in corresponding TAXREC 2 spreadsheets and subject to True-up adjustments.

EB-2012-0005

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b. Please provide an alternate scenario by moving these variances to sheets TAXREC3 for 2001-2005 SIMPIL models and file the active Excel SIMPIL models and revised continuity schedule.

Response:

The following table summarizes the impact on AC1562 by adopting the alternative scenario:

EB-2012-0005
Board Staff Interrogatory 2.b.
Gains and Losses on Disposals of Fixed Assets
Alternate Scenario to move variances to TAXREC3

	As Filed (A) (+ve Dr./ -ve Cr. AC1562)		Alternate Scenario (B) (+ve Dr./ -ve Cr. AC1562)		Change ((B) - (A)) (+ve Dr./ -ve Cr. AC1562)	
	True-Up Adjustment	Deferral Account Adjustment	True-Up Adjustment	Deferral Account Adjustment	True-Up Adjustment	Deferral Account Adjustment
C-2-1 - HHI SIMPIL 2001	416,320	-	458,394	-	42,074	-
C-2-2 - HHI SIMPIL 2002	120,779	-	162,075		41,296	-
C-2-3 - HHI SIMPIL 2003	(246,640)	(374,681)	(213,726)	(374,681)	32,914	-
C-2-4 - HHI SIMPIL 2004	(483,633)	(678,932)	(312,183)	(678,932)	171,450	-
C-2-5 - HHI SIMPIL 2005 (1)	223,010	(546)	223,010	(546)	-	-
Total	29,836	(1,054,159)	317,570	(1,054,159)	287,734	-

Notes:
(1) The $366 gain on disposal of fixed assets was reported in TAXREC 3

The adoption of the alternative scenario will increase the debt balance of AC1562 by $287,734, before carrying charges. Carrying charges forecast to August 31, 2012 increase by $42,878.

The active Excel SIMPIL models and revised continuity schedule have been provided separately.

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
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3. Depreciation Adjustments

HHI has included capitalized fleet depreciation as an addition on SIMPIL sheet TAXREC or TAXREC2 for 2001-2005. Variances on these schedules true up to ratepayers. Variances entered on sheet TAXREC3 do not true up to ratepayers.

Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If HHI included this depreciation in 2001 rate base, HHI is receiving a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, HHI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

a. Please explain why HHI believes that ratepayers should pay for this variance.

Response:

Horizon Utilities submits that ratepayers should pay for this variance. HHI did not recover this cost in its distribution rates in the years noted above.

The amount of depreciation expense underlying the 1999 return was $11,570,187.39. This was the amount sought for recovery in 2000 rates and reflected in PILs SIMPIL models for 2001 (pro-rated) to 2005. This was less than the total amount of depreciation on fixed assets underlying the 1999 return by approximately $0.7 million.

The difference of $0.7MM is represented by that portion of depreciation on fleet fixed assets in that year (e.g., trucks, etc.,) that was recapitalized into distribution plant fixed asset additions in the year ("Capitalized Fleet Depreciation"). The amount of fleet depreciation allocated to distribution plant fixed asset additions is based on the utilization of fleet assets in distribution plant capital activities.

As a component of distribution plant fixed assets, Capitalized Fleet Depreciation is amortized into financial statement income in accordance with the corporation's depreciation policy applicable at the time (25 years under former Canadian Generally Accepted Accounting Principles). However, Capitalized Fleet Depreciation does not qualify as depreciable capital property ("DCP") for tax purposes and, as such, is added back to income for such purposes. Since the source of the amortization of this amount is not DCP for tax purposes, the related financial statement amortization is not a component of the depreciation addback for tax purposes (as is typical of depreciation sourced from assets that also qualify as DCP).

In the absence of its longstanding policy with respect to Capitalized Fleet Depreciation, Horizon Utilities would have sought recovery of an additional $0.7 million in its 2000 distribution rates.

The determination of the 1999 return and the SIMPIL models and methodology did not contemplate this specific set of circumstances; other than the general approach to true up for material "Other Additions" or "Other Deductions". Horizon Utilities submits that the true-up adjustment with respect to Capitalized Fleet Depreciation (net of subsequent amortization) preserves a balance between the deferral of rate recovery of Capitalized Fleet Depreciation (net) and the related tax implications. Horizon Utilities submits this to be a fair and balanced approach with its ratepayers that effectively benefit from this deferral on an after-tax basis. Otherwise, Horizon Utilities would be punitively impacted by tax consequences imposed in 2001 that were outside of its control.

Horizon Utilities advises that these adjustments, along with detailed cell comments, were made in each of its original PILs SIMPIL filings with the Board for each of the years under review in this application. Horizon Utilities is unaware of any prior objections to these adjustments.

Over the long-term, the tax adjustment for Capitalized Fleet Depreciation net of amortization will naturally amortize as the amount of annual amortization increases based on related additions over a number of years.

Horizon Utilities further submits that the full amount of these adjustments remain subject to true-up on the basis of the materiality discussion in response to Board Staff Interrogatory 2.a).

EB-2012-0005

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Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If HHI included this depreciation in 2001 rate base, HHI is receiving a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, HHI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

b. Please provide an alternate scenario by moving the depreciation entries to sheet TAXREC3 for 2001-2005 SIMPIL models and file the 2001-2005 active Excel SIMPIL models and continuity schedule.

Response:

The following table summarizes the impact on AC1562 by adopting the alternative scenario:

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Board Staff Interrogatory 3.b.
Depreciation Adjustments
Alternate Scenario to move adjustments to TAXREC3

	As Filed (A) (+ve Dr./ -ve Cr. AC1562)		Alternate Scenario (B) (+ve Dr./ -ve Cr. AC1562)		Change ((B) - (A)) (+ve Dr./ -ve Cr. AC1562)	
	True-Up Adjustment	**Deferral Account Adjustment**	**True-Up Adjustment**	**Deferral Account Adjustment**	**True-Up Adjustment**	**Deferral Account Adjustment**
C-2-1 - HHI SIMPIL 2001	416,320	-	291,417	-	(124,903)	-
C-2-2 - HHI SIMPIL 2002	120,779	-	(133,262)	-	(254,041)	-
C-2-3 - HHI SIMPIL 2003	(246,640)	(374,681)	(487,395)	(374,681)	(240,755)	-
C-2-4 - HHI SIMPIL 2004	(483,633)	(678,932)	(685,911)	(678,932)	(202,278)	-
C-2-5 - HHI SIMPIL 2005	223,010	(546)	196,113	(546)	(26,897)	-
Total	29,836	(1,054,159)	(819,038)	(1,054,159)	(848,874)	-

The adoption of the alternative scenario will decrease the debit balance of AC1562 by $848,874, before carrying charges. Carrying charges forecast to August 31, 2012 would decrease by $264,789.

The corresponding active Excel SIMPIL models and revised continuity schedule have been provided separately.

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4. Movement in Financial Statement Reserves

HHI has entered amounts in SIMPIL for changes in financial statement reserves that do not appear on T2 Schedule 1 for 2001-2005.

a. Please provide a table that shows how the SIMPIL models map to the actual tax returns for additions and deductions for each year 2001-2005.

Response:

Horizon Utilities has provided tables for each year 2001 to 2005 that reconciles financial statement reserves reported in SIMPIL tab "Tax Reserves" to financial statement reserves reported in T2 Schedule 1 of the related PILs filings. The reconciling items are described as follows:

i. Employee Benefit Plans

Changes in Employee Benefit Plans were reported as a component of Financial Statement Reserves within T2 Schedule 1 of the annual PILs filings. The amounts accrued and paid are reported as items 3 and 8 in SIMPIL tab TAXCALC. In order to avoid double counting of the changes for purposes of SIMPIL, Employee Benefit Plans were not recorded in SIMPIL tab Tax Reserves.

ii. Regulatory Assets/ Liabilities

Please also refer to Board Staff interrogatory 5a.

Horizon Utilities reported a change in the Power Purchase Variance Account through opening and closing Financial Statement Reserves for purposes of T2 Schedule 1. This amount represents a change in Regulatory Asset/ Liability. As such, it was reported in SIMPIL tab TAXREC 3 rather than SIMPIL tab Tax Reserves.

The tables noted above are provided as follows:

Hamilton Hydro Inc.
Interrogatory 4a.
Movement in Financial Statement Reserves
2001 PILs Year

	Balance at Beginning of Year	Balance at End of Year	Notes
As Reported in SIMPIL tab 'Tax Reserves'	675,000	1,465,700	
Employee Benefit Plans	11,501,206	11,520,877	- Changes reported in items 3 and 8 in tab TAXCALC
Power Purchase Variance Account	9,501,625	1,313,454	- Regulatory Asset/ Liability
			- Change reported in TAXREC 3
			- Also refer to Board Staff Interrogatory 5a.
Total per T2 Schedule 1	21,677,831	14,300,031	

Hamilton Hydro Inc.
Interrogatory 4a.
Movement in Financial Statement Reserves
2002 PILs Year

	Balance at Beginning of Year	Balance at End of Year	Notes
As Reported in SIMPIL tab 'Tax Reserves'	1,465,700	1,856,584	
Employee Benefit Plans	11,520,877	12,004,692	- Changes reported in items 3 and 8 in tab TAXCALC
Power Purchase Variance Account (1)	1,313,454	-	- Regulatory Asset/ Liability
			- Also refer to Board Staff Interrogatory 5a.
Total per T2 Schedule 1	14,300,031	13,861,276	

(1) As provided in Board Staff Interrogatory 5a., the practice of recording changes in Regulatory Assets/ Liabilities was discontinued in 2002. The tax impact of the change in PPVA was eliminated through an addback of $1,313,454 on T2 Schedule 1. Refer to Appendix D of the 2002-12-31 T2 PILs return for HHI and, specifically, line 199 on Page 1 of 3 of T2Schedule 1 and line 601 of Page 2 of 3 of T2 Schedule 1 for this adjustment. Given that the change in PPVA had no net impact on 2002 PILs liability, it was not otherwise reported in SIMPIL.

Hamilton Hydro Inc.
Interrogatory 4a.
Movement in Financial Statement Reserves
2003 PILs Year

	Balance at Beginning of Year	Balance at End of Year	Notes
As Reported in SIMPIL tab 'Tax Reserves'	1,856,584	1,590,000	
Employee Benefit Plans	12,004,692	12,473,788	- Changes reported in items 3 and 8 in tab TAXCALC
Total per T2 Schedule 1	13,861,276	14,063,788	

	Hamilton Hydro Inc.			
	Interrogatory 4a.			
	Movement in Financial Statement Reserves			
	2004 PILs Year			
		Balance at Beginning of Year	**Balance at End of Year**	**Notes**
	As Reported in SIMPIL tab 'Tax Reserves'	1,590,000	1,040,000	
	Employee Benefit Plans	12,473,788	12,897,124	- Changes reported in items 3 and 8 in tab TAXCALC
35	**Total per T2 Schedule 1**	14,063,788	13,937,124	

	Hamilton Hydro Inc.			
	Interrogatory 4a.			
	Movement in Financial Statement Reserves			
	2005 PILs Year			
		Balance at Beginning of Year	**Balance at End of Year**	**Notes**
	As Reported in SIMPIL tab 'Tax Reserves'	1,040,000	1,040,150	
	Employee Benefit Plans	12,897,124	13,249,891	- Changes reported in items 3 and 8 in tab TAXCALC
36	**Total per T2 Schedule 1**	13,937,124	14,290,041	

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5. Changes in Regulatory Assets and Liabilities

a. Please explain how HHI treated the changes in regulatory assets and liabilities in its actual tax returns and in the SIMPIL models for 2001 through 2005.

Response:

Generally speaking and subject to the exception below, HHI did not treat regulatory assets and liabilities as taxable items for either actual tax return purposes or for purposes of the SIMPIL models for 2001 through 2005.

HHI recorded the change in its Power Purchase Variance Account for both actual tax return purposes and for purposes of the SIMPIL model for 2001. The change recorded was the amount of balance as at October 1, 2001 that reversed during the three month period thereafter to December 31, 2002. This practice was discontinued in 2002 and thereafter.

The changes in Regulatory Assets/ Liabilities, for the applicable year above, have been reported in TAXREC3 consistent with the Decision of the Board in EB-2008-0381.

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5. Changes in Regulatory Assets and Liabilities

b. Please provide a table of the amounts included in the tax returns and SIMPIL models for the period 2001-2005.

Response:

Please refer to Board Staff interrogatory 4a. including tables and accompanying notes applicable to the 2001 and 2002 PILs year.

As provided in Board Staff interrogatory 4a) and 5a), these were the only Regulatory Assets/ Liabilities included in the tax returns and SIMPIL models for the above noted period.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

a. Please provide a table for the years 2001 to 2005 that shows all of the components of HHI's interest expense and the amount associated with each type of interest.

Response:

The following table summarizes the components of interest expense for Hamilton Hydro for tax years 2001 to 2005:

Fiscal 2001 through 2005	2001 Oct. 1 - Dec. 31	2002	2003	2004	2005 Jan. 1 - Feb. 28
Hamilton Hydro Inc.					
Interest on Note Payable - Hamilton Utilities Corporation	2,505,000	9,112,000	8,120,000	8,120,000	1,312,548
Interest on $3.4MM Debenture (Stoney Creek Hydro)	67,004	240,122	94,764	59,117	-
Deposit interest - Customers	-	175,766	176,463	184,892	38,667
Deposit interest - Retailers	-	-	16,422	13,056	2,480
Letter of Credit fees (note 1)	NA	54,850	27,425	-	-
Interest on Capital Lease	-	28,592	10,346	-	-
Interest on intercompany credit facilities	18,598	28,800	4,289	-	4,500
Miscellaneous	(14,485)	8,078	2,141	759	-
	2,576,117	9,648,208	8,451,849	8,377,824	1,358,195
Less: Interest income (note 2)	(320,053)	(563,054)	-	-	-
Interest expense, as per PILs Model	2,256,064	9,085,154	8,451,849	8,377,824	1,358,195
Add: Interest expense, non-wires business			44,000	38,004	-
Interest expense, as per Corporate Tax Return	2,256,064	9,085,154	8,495,849	8,415,828	1,358,195

Notes:

(1) Letter of credit ("LOC") fees in fiscal 2004 and 2005 were netted against intercompany interest income.
LOC was provided by Hamilton Utilities Corporation. Fiscal 2004: $52,450; 2005: $8,608

(2) Interest income was netted against interest expense in 2001 and 2002 only. Please refer to response to Board Staff IR #6(c).

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

b. Did HHI have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

Response:

Yes, HHI recorded interest expense related to other than debt in its financial statements for 2001 to 2005 tax years. Please refer to Horizon Utilities' response to Board staff interrogatory 6 a) for a reconciliation of interest expense.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

c. Did HHI net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details as to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.

Response:

HHI netted interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models for 2001 and 2002.

The following table provides a breakdown of net interest expense between interest income and interest expense:

	October 1 to December 31 2001	**2002**	**2003**	**2004**	**January 1 to February 28 2005**
Interest expense	2,576,117	9,648,208	8,451,849	8,377,824	1,358,195
Interest income	(320,053)	(563,054)	[redacted]		
Net interest expense reported in SIMPIL	2,256,064	9,085,154	8,451,849	8,377,824	1,358,195

Substantially all of the interest income reported through SIMPIL in 2001 and 2002 is in respect of cash balances.

HHI was incorporated on June 1, 2000 with net assets contributed from predecessor hydro-electric commissions ("HECs") continuing in the corporation on June 30, 2000 ("Transfer Date"). On the Transfer Date and based on an estimate of its regulated rate base at that time, HHI was capitalized by its shareholder with debt and equity with regard for the Board's deemed levels of capitalization. As a result of the capitalization, HHI entered into a $142 million promissory note obligation with its shareholder ("Prom Note"). The capitalization of HHI was undertaken well in advance of the effective date of payments in lieu of taxes ("PILs") to local distribution companies and the development of related rate-making policy for the recovery of PILs in electricity distribution rates.

Certain of the former HECs continuing in HHI contributed large cash balances on the Transfer Date. Rather than repatriating these cash balances immediately, the sole shareholder (the City of Hamilton) left such balances with HHI as a source of liquidity for future investment and with consideration for investment uncertainty surrounding a relatively new structure and new service requirements for local distribution in the Province of Ontario.

From a treasury management perspective, sources and costs of liquidity are generally considered and managed in aggregate. Given the negative carry between interest expense on long-term borrowings and interest income on cash balances or short-term securities, treasury managers generally do not borrow to invest in or hold cash other than to address liquidity concerns or take advantage of favourable market-based debt rates to support anticipated future investment requirements.

For an interim period through to a financial restructuring in 2002, HHI debt levels supported the availability of cash to address investment uncertainties in the new local distribution sector. This was thought to be a prudent approach at the time. On this basis, HHI believed at the time it prepared its 2001 and 2002 SIMPIL models that it was appropriate to net the interest income on these cash balances from interest expense as it was managing the related sources of financial liquidity in this manner in support of the regulated electricity distribution business.

In 2002, HHI undertook a financial restructuring. In that year, HHI paid $26 million in respect of the Prom Note and was provided access to short-term financial capital through a $55 million revolving credit facility from its shareholder ("HHI Credit Facility"). The availability of the HHI Credit Facility resulted in a more cost-efficient form of financial liquidity than holding cash balances to address the previously noted concerns.

HHI discontinued netting interest income from interest expense for purposes of SIMPIL reporting following 2002. While Horizon Utilities asserts that it remains valid to manage sources of liquidity and related costs in aggregate, it appeared at that time that the Board might not permit the use of net interest expense for purposes of SIMPIL.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

d. Did HHI include interest expense on customer security deposits in interest expense?

Response:

Yes. Please refer to Horizon Utilities' response to Board staff interrogatory 6 a).

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

e. Did HHI include interest income on customer security deposits in interest expense?

Response:

No, HHI did not include interest income on customer security deposits in interest expense. All interest income on account of cash balances was recorded as interest income.

However, as discussed in Horizon Utilities’ response to Board staff interrogatory 6 c), interest income was netted from interest expense in 2001 and 2002. As such, interest income on customer security deposits would have effectively been netted from interest expense in those years.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

f. Did HHI incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs by year for 2001-2005 with the amounts by type of charge.

Response:

Please refer to Horizon Utilities' response to Board staff interrogatory 6 a). HHI recorded interest costs in respect of the prudential to the IESO (identified as LOC fees in the table). The prudential to the IESO was issued by HHI's parent company, Hamilton Utilities Corporation, and interest was allocated to HHI through intercompany interest charges.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

g. Did HHI include interest carrying charges on regulatory assets or liabilities in interest expense?

Response:

HHI did not include carrying charges on regulatory assets or liabilities within interest expense for tax years 2001 to 2005.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

h. Did HHI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

Response:

No - HHI did not have any debt issue costs, debt discounts or debt premiums in interest expense in the 2001 to 2005 tax years.

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6. Ref: 2001 to 2005 SIMPIL Models, Actual Interest Expense for Tax Years 2001 to 2005 for True-up Calculations

i. Did HHI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

Response:

HHI did not capitalize interest for tax years 2001 to 2005 and therefore no deduction was required in deriving the interest expense disclosed in HHI's financial statements.

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7. Ref: 2001 to 2005 Tax Returns
Tax Years – Statute-barred

a. Please confirm that all tax years from 2001 to 2005 are now statute-barred.

Response:

Horizon Utilities confirms that, with the exceptions noted below, all tax years from 2001 to 2005 are now statute barred for Horizon Utilities Corporation and each of the former Hamilton Hydro Inc. ("HHI") and St. Catharines Hydro Utility Services Inc. ("SCHUSI")

HHI has filed Notices of Objection with the Ministry of Finance (Ontario) ("MoF") for each of the PILs years 2001 to 2003. The Notices of Objection have been filed with respect to the disallowance of certain bad debts that MoF reassessed for these years as being related to accounts receivable arising prior to October 1, 2001.

SCHUSI has filed Notices of Objection with the Ministry of Finance (Ontario) ("MoF") for each of the PILs years 2001 to 2002. The Notices of Objection have been filed with respect to the disallowance of certain bad debts that MoF reassessed for these years as being related to accounts receivable arising prior to October 1, 2001.

It is not known at this time when MoF will render a decision on these Notices of Objection.

MoF has noted on its reassessments that: *"We have not the opening balance of asset value adopted for use by this MEU on its [applicable year] tax return. As such, the valuation of assets may be reviewed and changes made at a subsequent date"*. It is not clear whether MoF has retained a right to change the taxation years 2001 to 2005 with respect to potential future reassessments of opening asset balances as at October 1, 2001.

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8. Large Corporation Tax (LCT)

a. LCT from the 2005 application was $311,123. Did HHI enter 4/12ths of this amount in account 1592 for the period January 1 to April 30, 2006 consistent with FAQ July 2007? Please provide the schedule filed in evidence from the 2011 application EB-2010-0131 that supports the statement on page 10, paragraph 28 of this application summary.

Response:

HHI did not enter 4/12ths of the LCT from the 2005 application in account 1592 for the period January 31 to April 30, 2006.

Horizon Utilities believes that Board Staff intended to make reference to page 10, paragraph 38 of the application summary; which describes certain the true-up variance adjustments through Account 1592 in relation to the elimination of the Large Corporations Tax. On this basis, the schedule requested in this interrogatory is provided below (response to Board Staff interrogatory 55.g. in respect of EB-2011-0131 and delivered by Horizon Utilities Corporation on January 24, 2011):

Tax Item	Principal as of December 31, 2009
Large Corporation Tax grossed-up proxy from 2006 EDR application PILS model for the period from May 1, 2006 to April 30, 2007	296,128
Large Corporation Tax grossed-up proxy from 2005 EDR application PILS model for the period from May 1, 2006 to April 30, 2006 (4/12th of approved grossed-up proxy if not recorded in PILS account 1562)	
Ontario Capital Tax rate decrease and increase in capital in capital deductions for 2007	326,992
Ontario Capital Tax rate decrease and increase in capital in capital deductions for 2008	
Ontario Capital Tax rate decrease and increase in capital in capital deductions for 2009	
Ontario Capital Tax rate decrease and increase in capital in capital deductions for 2010	
Capital Cost Allowance class changes from the 2006 EDR application for 2006	32,164
Capital Cost Allowance class changes from the 2006 EDR application for 2007	48,246
Capital Cost Allowance class changes from the 2006 EDR application for 2008	14,328
Capital Cost Allowance class changes from the 2006 EDR application for 2009	
Capital Cost Allowance class changes from the 2006 EDR application for 2010	
Capital Cost Allowance class changes from any prior applicaton not recorded above	
Income Tax Rate Reduction 2008	299,317
Total	**1,017,175**

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8. Large Corporation Tax (LCT)

b. If HHI/ Horizon did not enter the 4/12ths amount of the 2005 LCT proxy in account 1592, does HHI/ Horizon agree that this amount should be included in account 1562 for disposition to ratepayers?

Response:

Horizon Utilities regrets that it has erred in not entering the 4/12ths amount of the 2005 LCT proxy in either of account 1592 or within the amount sought for disposition with respect to account 1562. Horizon Utilities submits that its regulatory accounting practices should at all times be consistent with the related rules and requirements of the Board and Board Staff including FAQ’s issued from time to time; and it endeavours to comply in this manner.

Horizon Utilities believes it had originally made such adjustment in account 1562 prior to the time of completing the table provided in response to Board Staff interrogatory 8.a) for purposes of EB-2011-0131 (i.e., in January 2011). However, this adjustment was inadvertently overlooked in the process of revising the PILs SIMPIL models and continuities in a manner consistent with the updated model filed by Halton Hills and that otherwise described in paragraphs 15 through 19 of the application summary.

This notwithstanding, Horizon Utilities does not agree that this amount should now be included in account 1562 for disposition to ratepayers. PILs proxy filings were implemented through rate adjustments effective for annual periods from May 1 to April

30th. The PILs year is effective January 1 to December 31. The recovery of PILs in rates has effectively lagged PILs liabilities by four months.

The adjustment suggested in 8.b. would effectively limit the recovery of the 2005 LCT proxy to 2/3rds despite the fact that this tax was applicable for the entire 2005 PILs year. The corollary would be that, if this adjustment were made, Horizon Utilities would effectively return 16 months of LCT proxy to ratepayers (with consideration for the related Account 1592 adjustment for 2006 EDR LCT proxy provided in the table in response to Board Staff interrogatory 8.a.) when only 12 months should have been due. LCT was eliminated effective January 1, 2006 and the full related proxy applicable to the 2006 PILs year was returned by way of the 2006 EDR LCT proxy adjustment effective May 1, 2006 to April 30, 2007.

Horizon Utilities submits that it should recover the full 2005 LCT proxy for the period May 1, 2005 to April 30, 2006 on the basis that this matches the underlying actual period of liability for this tax.

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9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	**-64,285**	**24,101**	**127,628**	**-8,874**	**227,400**	**-6,299**

a. Please explain how SCHSI calculated the PILs amounts contained in the unbilled revenue accrual at each December year end, at February 28, 2005 and at April 30, 2006.

Response:

Please see Horizon Utilities' response to Board staff interrogatory 1a) which provides an explanation of the calculation of unbilled revenue.

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9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	**-64,285**	**24,101**	**127,628**	**-8,874**	**227,400**	**-6,299**

b. Please explain the erratic pattern and why the recoveries were so low.

Response:

Please see Horizon Utilities' response to Board staff interrogatory 1b) which explains the reasons for monthly variances and the analysis that has been provided on an annual basis to support the amounts collected from customers.

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9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	**-64,285**	**24,101**	**127,628**	**-8,874**	**227,400**	**-6,299**

c. Please provide a table that shows the gross amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006.

Response:

The table below shows the gross billings billed to customers in May, June and July 2006 that related to consumption before May 1, 2006 for SCHUSI. These billings were determined based on a proration of the number of days before May 1, 2006 divided by the number of days in the billing period.

Gross Billings May - July, 2006 for pre-May Consumption
St. Catharines

Class	kWh / kW	Gross Billings
Residential	14,287,837	$ 1,679,642.51
GS < 50	9,562,859	$ 938,324.28
GS > 50	90,932	$ 2,777,565.19
Unmetered	240,926	$ 30,523.60
Large Users	50,782	$ 1,826,682.64
Streetlighting	2,438	$ 82,919.37
		$ 7,335,658

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9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	**-64,285**	**24,101**	**127,628**	**-8,874**	**227,400**	**-6,299**

d. Please show how SCHSI determined the PILs amounts contained in these gross billings.

Response:

The table below shows the billing determinants and PILs amounts billed to customers in May, June and July 2006 related to consumption before May 1, 2006 for SCHUSI. The PILs amounts were calculated by multiplying the billing determinants resulting from the calculation explained in Horizon Utilities' response to Board staff interrogatory 1 c), by the Board approved rates.

PILs Amounts Billed to Customers May - July, 2006

St. Catharines

Class	(a) kWh / kW	(b) Rate	(a) x (b) Total Billed
Residential	14,287,837	$ 0.0044	$ 62,866
GS < 50	9,562,859	$ 0.0020	$ 19,126
GS > 50	90,932	$ 0.2844	$ 25,861
Unmetered	240,926	$ 0.3300	$ 79,506
Large Users	50,782	$ 0.1163	$ 5,906
Streetlighting	2,438	$ 0.9880	$ 2,409
			$ 195,674

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St. Catharines

9. Ref: Continuity Schedule, Carrying Charges, and Recoveries from Ratepayers

Distributors in southern Ontario typically have shown a pattern where recoveries from customers exceed the PILs proxies due to growth in customer counts and load. SCHSI's data do not demonstrate a similar pattern. In the table below Board staff has shown data from period ends where unbilled revenue accruals would affect the reported numbers.

PILs Proxies vs. Recoveries Unbilled Revenue Accrual	December 2002	December 2003	December 2004	February 2005	December 2005	April 2006
PILs Proxies in Rates	196,301	249,313	196,301	196,301	209,122	209,122
PILs Recovery Calculations	-260,586	-225,212	-68,673	-205,175	18,278	-215,421
Difference	**-64,285**	**24,101**	**127,628**	**-8,874**	**227,400**	**-6,299**

e. Please compare the results of this analysis with the evidence filed and explain any material variances.

Response:

Please see Horizon Utilities' response to Board staff interrogatory 1 e).

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10. Ref: SIMPIL Models for 2001 to 2005
Changes in Regulatory Assets and Liabilities

a. Please explain how SCHSI treated the changes in regulatory assets and liabilities in its actual tax returns and in the SIMPIL models.

Response:

SCHUSI recorded changes in regulatory assets and liabilities on T2 Schedule 1 for actual tax return purposes for 2001 through 2005.

The changes in Regulatory Assets/ Liabilities reported on T2 Schedule 1 have been reported in SIMPIL tab TAXREC3 consistent with the Decision of the Board on EB-2008-0381.

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10. Ref: SIMPIL Models for 2001 to 2005
Changes in Regulatory Assets and Liabilities

b. Please provide a table of the amounts included in the tax returns and SIMPIL models for the period 2001-2005.

Response:

The table requested in the interrogatory is provided below:

St. Catharines Hydro Utility Services Inc.
Interrogatory 10b.
Changes in Regulatory Assets and Liabilities
2001 to 2005 PILs Year

	2001	2002	2003	2004	2005		Notes
ADDITIONS							
Reported on T2 Scehdule 1							
RCVA/RSVA variance accounts	-	194,098	32,678	-	-		
Deferred PILs account	-	469,353	-	-	-		
Regulatory Asset write-down	-	-	1,768,611	303,193	26,067	-	refer to Note 3 of SCHUSI 2003 audited financial statements (Appendix D-1 appended to 2003 tax return)
Regulatory Asset Recovery	-	-	-	941,268	260,975		
Reported in TAXREC 3	-	663,451	1,801,289	1,244,461	287,042		
DEDUCTIONS							
Reported on T2 Schedule 1							
Qualifying transition costs	288,996	297,326	20,602	112,144			
Extraordinary event	-	226,585	-	-	-		
Energy variance account	1,402,974	794,628	115,323	-	-		
Deferred PILs account	-	-	182,672	-	-		
Net change in Energy Variance/ RSVA/ RCVA/ Deferred PILs	-	-	-	154,079	115,414	-	These amounts were grouped from 2004 forward
Change in Miscellaneous deferred debits	-	-	-	6,964	-		
Reported in TAXREC 3	1,691,970	1,318,539	318,597	273,187	115,414		

The "Regulatory Asset write-down" reported under "Additions" is a permanent condition that will not reverse as a result of the Board decision referred to in the corresponding financial statement note described under "Notes".

Excluding the aggregate “Regulatory Asset write-down” of $2,097,871, the remaining net additions and deductions aggregated a net deduction of $1,819,335 from 2001 to 2005.

As described in Board staff interrogatory 15 a), certain cumulative regulatory asset/ liability adjustments of SCHUSI from 2001 to 2005 were fully reversed in the 2005 Horizon Utilities actual tax return and SIMPIL model (in tab TAXREC 3). The amount of such adjustment in the 2005 Horizon Utilities actual tax return and SIMPIL model (in tab TAXREC 3) is $1,819,335.

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12. Ref: 2001 to 2005 Tax Returns
Tax Years – Statute-barred

a. Please confirm that all tax years from 2001 to 2005 are now statute-barred.

Response:

Please refer to Horizon Utilities' response to Board staff interrogatory 7 a).

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Horizon

Ref: SIMPIL Model for 2005

13. Depreciation Adjustments

Horizon has included capitalized fleet depreciation as an addition on SIMPIL sheet TAXREC2 for 2005. Variances on this schedule true up to ratepayers. Variances entered on sheet TAXREC3 do not true up to ratepayers.

Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If Horizon/ HHI/ SCHSI included this depreciation in 2001 rate base, Horizon/ HHI/ SCHSI received a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, Horizon/ HHI/ SCHSI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

a. Please explain why Horizon believes that ratepayers should pay for this variance.

Response:

Please refer to Horizon Utilities' response to Board staff interrogatory 3 a).

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<u>Horizon</u>

Ref: SIMPIL Model for 2005

13. Depreciation Adjustments

Horizon has included capitalized fleet depreciation as an addition on SIMPIL sheet TAXREC2 for 2005. Variances on this schedule true up to ratepayers. Variances entered on sheet TAXREC3 do not true up to ratepayers.

Depreciation is an item which, like CCA and net income, does not true up under the Board's PILs 1562 methodology. If Horizon/ HHI/ SCHSI included this depreciation in 2001 rate base, Horizon/ HHI/ SCHSI received a return. If 1999/2000/2001 depreciation expense was included in the 1999 return, Horizon/ HHI/ SCHSI recovered this cost in its distribution rates.

While the addition to calculate taxable income is correct from a tax perspective, the regulatory issue is whether the amount should true up to ratepayers or to the shareholder.

b. Please provide an alternate scenario by moving the depreciation entries to sheet TAXREC3 for 2005 SIMPIL model and file the 2005 active Excel SIMPIL model and continuity schedule.

Response:

The following table summarizes the impact on AC1562 by adopting the alternative scenario:

EB-2012-0005						
Board Staff Interrogatory 13.b.						
Depreciation Adjustments						
Alternate Scenario to move adjustments to TAXREC3						
	As Filed (A) (+ve Dr./ -ve Cr. AC1562)		**Alternate Scenario (B) (+ve Dr./ -ve Cr. AC1562)**		**Change ((B) - (A)) (+ve Dr./ -ve Cr. AC1562)**	
	True-Up Adjustment	**Deferral Account Adjustment**	**True-Up Adjustment**	**Deferral Account Adjustment**	**True-Up Adjustment**	**Deferral Account Adjustment**
C-1 - Horizon Utilities SIMPIL 2005	605,626	30,907	419,016	30,907	(186,610)	-

The adoption of the alternative scenario will decrease the debit balance of AC1562 by $186,610 before carrying charges. Carrying charges forecast to August 31, 2012 would decrease by $28,604 (with respect to this adjustment only and not including other illustrative adjustments provided in response to Board staff interrogatory 3 b).

The corresponding active Excel SIMPIL model and revised continuity schedule have been provided separately.

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14. Movement in Financial Statement Reserves

Horizon has entered amounts in SIMPIL for changes in financial statement reserves that do not appear on T2 Schedule 1 for 2005.

a. Please provide a table that shows how the 2005 SIMPIL model maps to the actual tax returns for additions and deductions for 2005.

Response:

The table is provided as follows:

Horizon Utilities Corporation Interrogatory 14a. Movement in Financial Statement Reserves 2005 PILs Year	Balance at Beginning of Year	Balance at End of Year		Notes
As Reported in SIMPIL tab 'Tax Reserves'	1,040,150	1,472,655		
Employee Benefit Plans	16,277,387	16,676,839	-	Changes reported in items 3 and 8 in tab TAXCALC
Total per T2 Schedule 1	17,317,537	18,149,494		

Please refer to Horizon Utilities' response to Board staff interrogatory 4 a) with respect to an explanation of the treatment of Employee Benefit Plans for the actual tax return and the SIMPIL model.

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15. Changes in Regulatory Assets and Liabilities

a. Please explain how Horizon treated the changes in regulatory assets and liabilities in its actual tax returns and in the 2005 SIMPIL model.

Response:

Horizon Utilities adopted the policy of HHI with respect to the treatment of regulatory assets and liability changes in actual tax returns and SIMPIL models. Given that the policies of HHI and SCHUSI were different in this regard (refer to Horizon Utilities' response to Board staff interrogatories 5.a. and 10.a.), a conforming 2005 Horizon Utilities actual tax return and SIMPIL adjustment was required with respect to certain aggregate 2001 to 2005 changes in SCHUSI regulatory asset and liability balances through to just prior to the date of the merger of SCHUSI and HHI (February 28, 2005).

Specifically, certain cumulative regulatory asset/ liability adjustments of SCHUSI from 2001 to 2005 were fully reversed in the 2005 Horizon Utilities actual tax return and SIMPIL model. This adjustment is reflected in TAXREC 3. Please refer to Horizon Utilities' response to Board staff interrogatory 10 b) for an explanation of the determination of this adjustment.

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15. Changes in Regulatory Assets and Liabilities

b. Please provide a table of the amounts included in the tax returns and in the 2005 SIMPIL model.

Response:

Please refer to Horizon Utilities' response to Board staff interrogatory 10 b) and 15 a) for an explanation and determination of the amounts included in the 2005 actual tax return and SIMPIL model for Horizon Utilities Corporation.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

a. Please provide a table for 2005 that shows all of the components of Horizon's interest expense and the amount associated with each type of interest.

Response:

a. The following table is a summary of the components of Horizon Utilities' interest expense for the period March 1, 2005 to December 31, 2005:

March 1, 2005 to December 31, 2005

Interest on Note Payable - Hamilton Utilities Corporation	6,807,452
Interest on Note Payable - St. Catharines Hydro Inc.	416,678
Deposit interest - Customers	239,201
Letter of Credit - CIBC	67,038
Deposit interest - Retailers	15,952
Intercompany interest (credit facility)	4,464
Interest expense, as per PILs Model	7,550,785
Add: Interest expense, non-wires business	27,000
Interest expense, as per Corporate Tax Return	**7,577,785**

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

b. Did Horizon have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

Response:

b. Yes, Horizon Utilities recorded interest expense related to other than debt in its 2005 financial statements. Please refer to Horizon Utilities' response to Board staff interrogatory 16 a) for a reconciliation of interest expense.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

c. Did Horizon net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models? If yes, please provide details to what the interest income relates and explain why interest income and expense should be netted to reduce the interest expense used in the true-up calculations.

Response:

Horizon Utilities did not net interest income against interest expense in deriving the amount it shows as actual interest expense in the SIMPIL models.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

d. Did Horizon include interest expense on customer security deposits in interest expense?

Response:

Yes, Horizon Utilities included interest expense on customer security deposits in interest expense for 2005 tax year.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

e. Did Horizon include interest income on customer security deposits in interest expense?

Response:

No, Horizon Utilities did not include interest income on customer security deposits in interest expense for the 2005 tax year.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

f. Did Horizon incur interest expense or standby fees or charges on IESO or other prudentials? Please provide a table that lists all of the prudential costs for 2005 with the amounts by type of charge.

Response:

Yes, Horizon Utilities incurred interest costs on the prudential to the IESO for 2005. Please refer to Horizon Utilities' response to Board staff interrogatory 16 a), which reflects an amount of $67,038 in LOC (letter of credit) fees.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

g. Did Horizon include interest carrying charges on regulatory assets or liabilities in interest expense?

Response:

Horizon Utilities did not include carrying charges on regulatory assets or liabilities within interest expense for the 2005 tax year.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

h. Did Horizon include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

Response:

No. Horizon Utilities did not have any debt issue costs, debt discounts or debt premiums in interest expense in the 2005 tax year.

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16. Ref: Actual Interest Expense for 2005 Tax Year for True-up Calculations

i. Did Horizon deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

Response:

Horizon Utilities did not capitalize interest for the 2005 tax year and therefore no deduction was required in deriving the interest expense disclosed in HHI's financial statements.

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17. Ref: 2005 Tax Returns
Tax Years – Statute-barred

a. Please confirm that the 2005 tax year is now statute-barred.

Response:

Please refer to Horizon Utilities' response to Board staff interrogatory 7 a).