

July 23, 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"). Further to Procedural Order #1, received on June 5, 2012 in respect of the above-captioned proceeding, Horizon Utilities filed its responses to Board staff interrogatories in hard copy and through the Board's RESS system on July 16, 2012.

In that filing, all responses with the exception of the response to Board staff interrogatory 11 were included. Please find attached herewith the interrogatory response of Horizon Utilities to Board staff interrogatory #11 pertaining to the interest reconciliation for the former St. Catharines Hydro Utilities Services Inc. ("SCHUSI"). In order to complete its response to this interrogatory, Horizon Utilities worked with the former auditors for SCHUSI (Crawford and Company) to access the year-end working papers. The attached response is the most complete response Horizon Utilities is able to provide given the availability of information.

Horizon Utilities hopes this will be acceptable to the Board. Two hard copies of the response are being submitted by courier.

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

Yours truly,

Original signed by Jamie B. Gribbon

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

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

DELIVERED: July 23, 2012

11. Ref: 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 SCHSI’s interest expense and the amount associated with each type of interest.

Response:

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

St. Catharines Hydro Utility Services Inc.	2001 Oct. 1 - Dec. 31 (note 1)	2002	2003	2004	2005 Jan. 1 - Feb. 28
Interest on Note Payable - SCHI	176,194	1,293,893	1,407,682	1,407,682	227,543
Allowance for Use of Funds during Construction	-	(162,193)	(43,897)	(65,987)	(3,394)
Other financial expense	(38,312)	62,412	156,544	124,617	21,740
Interest expense, as per PILs Model	137,882	1,194,112	1,520,329	1,466,312	245,889

Notes:

(1) Allowance for Use of Funds during Construction - amount for period Oct. 1 - Dec. 31 not available; Included in miscellaneous.

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

Response:

Yes, SCHSI 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 11 a) for a reconciliation of interest expense.

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

Response:

Yes, SCHUSI 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 11 a) for a reconciliation of interest expense.

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- c. Did SCHSI 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:

No. SCHSI did not net interest income against interest expense in deriving the amounts for actual interest expense in the SIMPIL models.

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

Response:

Yes. Interest expense on customer deposits was included in “Other Financial Expense” in interest expense.

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

Response:

No, SCHSI 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.

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- f. Did SCHSI 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 2001-2005 and the amounts by type of charge.

Response:

Yes – SCHSI incurred interest expense on Standby Letters of Guarantee issued in favour of the IESO for tax years 2001 through 2005. The interest expense related to the Standby Letters of Guarantee was included in “Other Financial Expense” in the audited financial statements of SCHSI.

The specific amount of the interest expense in each year was not readily available from the accounting records of SCHSI for these years. As identified in the audited financial statements of SCHSI, the Standby Letters of Guarantee to the IESO ranged from \$16.0MM in 2002 to \$9.5MM in 2003 to 2005. The standby fees incurred would not have been material.

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

Response:

Horizon Utilities is unable to verify directly through the records of SCHSI as to whether carrying charges on regulatory assets or liabilities were included in interest expense. Horizon Utilities has verified that carrying charges were computed by SCHSI on its regulatory asset and liability balances during the period 2001 through 2005.

Based upon an indirect analysis, including a review of cash and cash equivalent balances, regulatory assets and liability balances, interest income and interest expense for SCHSI for the tax years 2001 to 2005, Horizon Utilities believes that interest income on regulatory assets was recorded through interest income.

The following table summarizes the regulatory asset and regulatory liability balances of SCHSI for the tax years 2001 to 2005, as well as the amount of interest income recorded on the financial statements:

Regulatory Asset (Liability) Account Balances	December 31, 2001	2002	2003	2004	February 28, 2005
Extraordinary Event Losses	1,573,897	1,935,214	166,603	177,014	178,750
Qualifying Transition Costs	2,197,974	2,686,558	2,707,160	2,788,830	-
Pre-Market Opening Energy Variance Account	2,017,352	2,811,980	2,927,303	3,110,345	3,140,851
Deferred PILs	-	(469,353)	(286,681)	693,043	978,936
Retail Settlement Variance	-	(291,921)	(534,992)	(1,680,130)	(1,929,743)
Retailer Cost Variance	-	97,823	209,788	335,828	356,643
Other	-	-	98,428	71,223	114,395
Regulatory Asset Recovery	-	-	-	(1,198,170)	(1,459,146)
Regulatory Asset Allowance	-	-	-	-	(113,071)
	<u>5,789,223</u>	<u>6,770,301</u>	<u>5,287,609</u>	<u>4,297,983</u>	<u>1,267,615</u>
Regulatory Assets	5,789,223	7,531,575	6,109,282	7,176,283	4,769,575
Regulatory (Liabilities)	-	(761,274)	(821,673)	(2,878,300)	(3,501,960)
Net Regulatory Assets (Liabilities)	<u>5,789,223</u>	<u>6,770,301</u>	<u>5,287,609</u>	<u>4,297,983</u>	<u>1,267,615</u>
 Cash and cash equivalents, as per Financial Statements	 4,010,346	 650,281	 5,575,464	 8,429,140	 6,224,423
 Interest Income, as per Financial Statements	 408,704	 486,905	 916,221	 689,909	 105,913

As provided in response to Board staff interrogatory 11 a), interest expense for tax years 2001 through 2005 included "other financial expense" as follows:

	2001	2002	2003	2004	2005
Other financial expense	(38,312)	62,412	156,544	124,617	21,740

Horizon Utilities is not able to determine whether any portion of "other financial expense" includes interest expense on regulatory liabilities.

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

Response:

No – SCHSI 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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- i. Did SCHSI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

Response:

Yes. SCHSI deducted capitalized interest from interest expense in tax years 2001 through 2005. Please refer to Horizon Utilities’ response to Board Staff interrogatory 11 a) for a reconciliation of interest expense.