EB-2014-0002
Horizon Utilities Corporation
Responses to Consumers Council
of Canada Interrogatories
Delivered: August 1st, 2014

Responses to Consumers Council of Canada Interrogatories

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1-CCC-1

Please file all materials provided to senior management and Horizon's Board of Directors related to this application. Please file all materials provided to senior management and Horizon's Board of Directors regarding the decision to file for a Custom IR plan for the period 2015-2019.

Response:

There are eight documents related to this question. The following three are being filed in confidence pursuant to the Board's *Practice Direction on Confidential Filings* (the "Practice Direction"):

- 1-CCC-1_Attch 1_2014-15 Budget and Six Year Financial Plan for Horizon Utilities
- 1-CCC-1_Attch 2_Regulatory Strategy 2013 13 06 27
- 1-CCC-1_Attch 3_Application Strategy 13 06 27

The Financial Plan contain commercially sensitive information related to both regulated and unregulated business activities carried on by Horizon Utilities and members of its corporate family, including activities related to Horizon Utilities' involvement in renewable generation activities through the Solar Sunbelt General Partnership. It and Attachments 2 and 3 also contain forward looking financial information.

The public disclosure of these documents could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interest of Horizon Utilities and other members of its corporate family. It would enable Horizon Utilities' and its affiliates' competitors in competitive businesses to determine the extent of Horizon Utilities' and its affiliates' activities in those businesses. The disclosure of forward looking financial information may affect Horizon Utilities' negotiation of borrowing rates in the future.

The material also contains assumptions with respect to labour cost increases. Consistent with the Board's findings on confidentiality set out in Procedural Order No.1 ("PO#1"), Horizon Utilities will not produce that information publicly. As it explained in the cover letter to its Application, the disclosure of assumed 2015-2019 wage and benefit increases for the Union employee group could reasonably be expected to prejudice Horizon Utilities' negotiating position in the upcoming collective bargaining process and interfere significantly with those negotiations.

The Practice Direction recognizes that these are among the factors that the Board will take into consideration when addressing the confidentiality of filings.

Horizon Utilities also notes that the proposed confidential treatment of the Financial Plan is consistent with the Board's treatment of similar plans in Horizon Utilities' 2011 Cost of Service Application (EB-2010-0131).

Horizon Utilities is prepared to provide copies of this material in confidence to those of the parties' counsel and/or consultants who have executed the Board's form of Declaration and Undertaking with respect to confidentiality, subject to Horizon Utilities' right to object to the Board's acceptance of a Declaration and Undertaking from any person.

Copies of the following reports provided to Horizon Utilities' Senior Management and Board of Directors between August 2013 and May 2014 related to the Custom IR Application are being placed on the public record:

- 1-CCC-1_Attch 4_Item 5.1 2015 Cost of Service Application (13_08_15)
- 1-CCC-1_Attch 5_Regulatory Update Report (13_08_15)
- 1-CCC-1_Attch 6_Regulatory Update Report (13_11_14)
- 1-CCC-1_Attch 7_Customer Outreach (13_12_12)
- 1-CCC-1_Attch 8_Reg Update Report (2014_05_15)

1-CCC-1_Attch 1_2014-15 Budget and Six Year Financial Plan for Horizon Utilities

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1-CCC-1_Attch 2_Regulatory Strategy 2013 13 06 27

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1-CCC-1_Attch 3_Application Strategy 13 06 27

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1-CCC-1_Attch 4_Item 5.1 2015 Cost of Service Application (13_08_15)

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5.1

Report to:	Board of Directors	**Submitted by:**	Max A. Cananzi
Date:	August 15, 2013	**Prepared by:**	John G. Basilio

Subject:	Agenda Item 5.1 2015 Cost of Service Application

INFORMATION		APPROVAL	✓

On June 27, 2013, the Horizon Holdings Inc. ("HHI") Board of Directors held its annual Strategy Session. The Board of Directors of Horizon Utilities Corporation ("Horizon Utilities") were present at that session.

At the Strategy Session, Management presented its recommended approach for a 2015 rate application to the Ontario Energy Board.

Specifically, management recommended that Horizon Utilities make such application on the basis of a Custom Incentive Rate ("Custom IR") approach. Under this approach, Horizon Utilities would submit a single comprehensive application to rebase and reset electricity distribution rates for January 1st of each of 2015, 2016, 2017, 2018 and 2019; based on its submission of application evidence for each of those years.

Management reviewed the available application options at the Strategy Session. The options were reviewed in the context of: i) supporting sustainable investment in electricity distribution infrastructure consistent with best asset management practices; and ii) balancing between customer service delivery at a reasonable cost and a fair financial return supportive of long-term capital attraction and financial integrity.

In summary, the Custom IR approach is the best approach at this time to ensure that Horizon Utilities continues to have adequate financial capacity and cash flow on a continuous basis to address real cost growth in annual renewal investments in its distribution system infrastructure over the next several years. Horizon Utilities must increase its distribution system investments over the next several years to address the replacement of a significant portion of distribution system infrastructure that is well beyond the end of its useful life. Addressing such investment is consistent with the principal interest of customers and the public at large for continuous, reliable electricity delivery. The other available application approaches will not result in sufficient regulated cash flow to support these rising investment requirements.

The total application costs are estimated at approximately $3MM over 2013 and 2014. Actual costs may vary considerably depending on the nature of the adjudication process.

Motion

The Horizon Utilities Corporation Board of Directors approves the recommendation of Management to make application to the Ontario Energy Board based on the Custom IR approach for electricity distribution rates effective for January 1st of each of 2015, 2016, 2017, 2018 and 2019.

1-CCC-1_Attch 5_Regulatory Update Report (13_08_15)

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Report to:	Board of Directors	**Submitted by:**	Indy Butany-DeSouza
Date:	August 15, 2013	**Prepared by:**	Indy Butany-DeSouza

Subject:	Agenda Item 4.1 Regulatory Update

INFORMATION	✓	APPROVAL	

1. Horizon Utilities' Applications

a) 2014 Electricity Distribution Rate ("EDR") Incentive Regulatory Mechanism ("IRM") Application (EB-2013-0137)

Horizon Utilities Corporation ("Horizon Utilities") is scheduled to file its 2014 EDR IRM Application with the Ontario Energy Board ("OEB" or the "Board") on August 16, 2013 for rates and other charges effective January 1, 2014.

The 2014 EDR IRM Application seeks the following:

- A 0.98% increase in base distribution rates that will increase gross revenues by approximately $1.0MM. The 0.98% increase comprises an estimate of the Board approved inflation proxy ("GDP-IPI-FDD") of 2.0% net of a productivity factor of 0.72% and a stretch factor of 0.30%;;
- A disposition of certain Regulatory Liabilities of $10.4MM to customers;
- A Shared Tax Savings rate rider that refunds approximately $0.3MM to customers, resulting from a reduction in the effective Ontario corporate tax rate for 2013 as compared to the rate underlying the 2011 CoS Application. This rider continues a similar rider under 2012 EDR IRM rates;
- An adjustment to the retail transmission service rates ("RTSR") to reflect the Board approved Uniform Transmission Rates ("UTR") effective January 1, 2013 which results in increased electricity revenues of approximately $0.5MM. The OEB will update the 2014 RTSR model to reflect any UTR adjustments for January 1, 2014 and will reflect such in the RTSR model. These are flow-through charges to customers with no net impact to Horizon Utilities profitability (other than as may be temporarily created by timing differences); and
- An increase to the Green Energy Act ("GEA") rate adder from $0.04/customer/month to $0.05/customer/month that was approved as part of Horizon Utilities' 2011 GEA Plan included in the 2011 EDR application (EB-2010-0131).

The estimated bill impact of the above changes to the average Residential customer consuming 800 kWh/ month is a decrease of $0.74 or 0.62%. The decrease is principally explained by the disposition of Regulatory Liabilities described above.

The table below provides the bill impacts of the application across customer classes.

Table 1 – Horizon Utilities' 2014 EDR IRM Application Proposed Bill Impacts

Customer Class	Billing Units	Average Monthly Volume	Distribution charges		Bill Impacts on Distribution Charges		Total Bill Charges		Total Bill Impact	
			*Current	Jan 1, 2014 Rates	$	%	*Current	Jan 1, 2014 Rates	$	%
Residential	kWh	800	$ 28.32	$ 27.51	$ (0.81)	(2.86)%	$ 119.02	$ 118.28	$ (0.74)	(0.62)%
GS< 50kW	kWh	2,000	$ 52.47	$ 51.38	$ (1.09)	(2.07)%	$ 287.47	$ 286.58	$ (0.89)	(0.31)%
GS 50 to 4,999 kW	kW	2,500	$ 4,894.82	$ 2,889.21	$(2,005.61)	(40.97)%	$121,145.13	$119,236.65	$ (1,908.48)	(1.58)%
Large Use > 5,000 kW	kW	5,000	$29,282.51	$ 27,060.20	$(2,222.31)	(7.59)%	$294,298.61	$292,337.36	$ (1,961.25)	(0.67)%

*Current charges reflect those approved in Horizon Utilities 2013 Electricity Distribution Rate Application [EB-2012-0132], adjusted for the addition of the SME, removal of the SMDR and adjusted WMS / Rural Rate Protection. Total Bill Charges include HST and OCEB.

b) Cost of Service Application

Horizon Utilities will file its next Cost of Service ("CoS") application in April 2014 using the OEB's new Custom Incentive Rate setting methodology ("Custom IR"). The outcome of this application will be new rates for each year of the five year application term; i.e., January 1, 2015/16/17/18/19. Management is presently in the process of preparing the 2014-2019 Financial Plan that will underlie the Custom IR application. The OEB has released revised filing guidelines for Cost of Service Applications to incorporate the outcomes based approach of the *Renewed Regulatory Framework for Electricity ("RRFE") Distributors: A Performance-Based Approach*, ("RRFE").

The new filing requirements include:

i.) an Executive Summary that addresses the outcomes requirements of the RRFE in the areas of customer focus, operational effectiveness, public policy responsiveness, and financial performance;
ii.) a description of corporate governance including the identification of the structure, mandate, nomination process, and Code of Conduct of the Board of Directors ("BoD"); its meeting schedule; continuing education for directors; and the identification and charter and composition of committees of the BoD.

The OEB anticipates initiating a consultation on distributor governance in Q4 2013.

Management will continue to provide updates to the BoD as the CoS application is developed. Hydro One Networks Inc. ("HONI"), Toronto Hydro-Electric System Limited and Oshawa Public Utilities Commission also appear to be filing applications on a Custom IR basis for rates effective starting January 1, 2015.

2. Other Distributors' Applications:

a) Norfolk Power Distribution Inc. ("NPDI") and Hydro One Networks Inc. ("HONI") MAAD Application – EB-2013-0187/EB-2013-0196/EB-2013-0198

HONI and Norfolk Power Distribution Inc. ("NPDI") have each filed applications to give effect to the disposition of NPDI to HONI.

HONI also applied to reduce NPDI rates by 1% relative to its 2012 base electricity delivery rates.

Interveners in this hearing include: Horizon Utilities, a Group of Distributors (comprised of Essex Power lines Corporation, Niagara-on-the-Lake Hydro Inc. and Bluewater Power Distribution Corporation), School Energy Coalition, Vulnerable Energy Consumers Coalition, and Consumers Council of Canada.

3. OEB Regulatory Initiatives:

a) Benchmarking - Defining and Measuring Performance of Electricity Distributors

As part of RRFE, the OEB recently released a report prepared by Pacific Economics Group ("PEG") entitled "*Empirical Work in Support of Incentive Rate Setting in Ontario*" (the "PEG Report"). The report provides specific recommendations for the inflation, productivity and stretch factor parameters used in incentive rate setting, and for the benchmarking of electricity distributor costs.

Horizon Utilities filed submissions in this proceeding through the Coalition of Large Distributors ("CLD"). In its submission, the CLD identified that the following key principles must be considered in any determination of a 4th Generation IRM ("4GIRM") formula:

- It is in the best interests of a distributor's customers to have gradual and predictable rate increases, not only during the IRM term but also at rebasing. This has not been the case under 3rd Generation IRM ("3GIRM") and should be addressed in the design of the 4GIRM formula;
- It is imperative that the formula used to adjust rates in 4GIRM be sufficient to finance distributor costs to provide the necessary services to customers while at the same time ensuring that customer rate increases are at reasonable levels;
- The formula should encourage distributor productivity and the benchmarking process should allow distributors to understand the consequences of efficiency efforts.

The approach adopted by PEG comprises both an econometric model and peer grouping for benchmarking that is complex to understand and explain.

The CLD engaged its own consultant, Power System Engineering ("PSE"), to develop a model that includes more business condition variables; uses a far simpler equation; and provides distributors with a better understanding of the relationship between model variables and customer costs. The PSE inflation and productivity recommendations result in gradual and predictable rate adjustments that are more reflective of actual distributor cost pressures. Table 2 compares the 3GIRM parameters to those proposed by consultants for 4GIRM.

The Electricity Distributors Association ("EDA") and Power Workers Union ("PWU") each engaged its own respective consultant to recommend certain IRM adjustment parameters.

Table 2 – Summary of Experts' Proposals for 4th Generation Formula Parameters (%)

	3GIRM	PEG (OEB)	PSE (CLD)	Dr. Yatchew (EDA)	Dr.Cronin (PWU)
Inflation ("I")	2.2	0.51	2.16	N/A	N/A
Productivity ("X")	0.72	0.10	-1.10	-0.75	-2.40
Stretch Factor ("S")	0.2 to + 0.6	0.0 to +0.60	0.0 to +0.50	-0.30 to +0.30	N/A
I-X-S	+1.06 to +1.46	-0.19 to +0.41	2.76 to 3.26	N/A	N/A

The outcome of adopting the recommendations of the PEG report would effectively result in a rate freeze through the IRM period as a result of a recommendation for an inflation factor that is much lower than that currently used in 3GIRM. PSE, Dr. Yatchew, and Dr. Cronin have all recommended Productivity ("X") factors that demonstrate real cost growth requirements in LDCs beyond opportunities for productivity.

The benchmarking report of the OEB is expected in August. The outcome of that report will inform the choice of parameters for adoption in 2014 IRM applications.

b) Performance Measurement and Continuous Improvement for Electricity Distributors

On July 4, the OEB released the *Staff Report to the Board on Performance Measurement and Continuous Improvement for Electricity Distributors* ("Performance Report"). The Performance Report outlines the recommendations of Board staff with respect to performance standards, measures, and scorecard development in the context of the objectives of the RRFE; which, as previously identified, promotes the achievement of outcomes that will benefit existing and future customers; aligns customer and distributor interests; and continues to support the achievement of important public policy objectives with a greater focus on delivering value for money.

The OEB has invited comments on the Performance Report by August 12, 2013. Horizon Utilities will participate in the CLD response which is being led by Hydro Ottawa. The OEB expects to finalize the Scorecard in the Fall of 2013 and to subsequently initiate a policy proceeding on incentives for improving distributor performance and consequences for poor performance. More details will follow as they become available.

4. Ministry of Energy Initiatives

a) Long Term Energy Plan

On July 10, 2013, the government initiated a review of the Long Term Energy Plan ("LTEP"). The review is expected to involve a broad and inclusive look at Ontario's energy needs including the future of both electricity and natural gas. The government has identified that: conservation must play a prominent role in energy planning; conservation is an efficient way of reducing ratepayer costs; and, there must continue to be a diversity of energy sources. A discussion guide, *Making Choices: Reviewing Ontario's Long-term Energy Plan,* is available on the Ministry of Energy's Environmental Bill Registry. Horizon Utilities will be participating in the consultations.

b) Conservation First: A Renewed Vision for Energy Conservation in Ontario

On July 16, 2013, the government issued its discussion paper: *Conservation First: A Renewed Vision for Energy Conservation in Ontario* ("CF"). CF will serve as the point of reference for consultations that will occur in parallel with the above-mentioned LTEP review.

CF is divided into two parts:

- Part One is entitled "A Renewed Vision" and includes several proposals about conservation tools for consumers. Part One also addresses expanding the distributor's role in conservation to better support local needs;

- Part Two of the CF is entitled "Towards a Better Framework" and incorporates many of the challenges that distributors have identified including: the lack of flexibility in targets to reflect changing circumstances; limited distributor influence on the design and delivery of programs; the limitation on innovation by the CDM program approvals process; and constraints on local/regional program development. The government has identified objectives to guide the upcoming consultations, the foremost of which is "*empowering LDCs by giving them more autonomy and programming choice for their customers, with streamlined oversight and reduced administrative burdens*".

Horizon Utilities will provide submissions on CF through the CLD and the EDA on key areas including: objectives, targets, program portfolio, and roles and responsibilities in the development of a new multi-year conservation framework.

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1-CCC-1_Attch 6_Regulatory Update Report (13_11_14)

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Report to:	Board of Directors	**Submitted by:**	J. G. Basilio/ Indy Butany-DeSouza
Date:	November 14, 2013	**Prepared by:**	Indy Butany-DeSouza

Subject:	Agenda Item 5.2 Regulatory Update

INFORMATION	✓	APPROVAL	

1. Horizon Utilities' Applications

a) 2014 Electricity Distribution Rate ("EDR") Incentive Regulatory Mechanism ("IRM") Application

On August 15, 2013, Horizon Utilities filed its 2014 EDR IRM Application with the Ontario Energy Board ("OEB") for rates and other charges effective January 1, 2014. The 2014 EDR IRM Application seeks the following:

- A 0.48% increase in base distribution rates that will result in a corresponding increase in distribution revenue by approximately $0.5MM. The 0.48% increase is based on an estimate of the OEB approved total productivity factor for 2014;
- A disposition of certain Regulatory Liabilities of $10.4MM to customers;
- A Shared Tax Savings rate rider that refunds approximately $0.3MM to customers, resulting from a reduction in the effective Ontario corporate tax rate for 2013 as compared to that underlying the 2011 CoS Application;
- An adjustment to Retail Transmission Service Rates ("RTSR") to incorporate revised OEB approved Uniform Transmission Rates ("UTR") to Hydro One Networks Inc. that became effective January 1, 2013. This adjustment will result in an increase to non-distribution electricity revenues of approximately $0.5MM. The OEB will update the 2014 RTSR model to reflect any UTR adjustments for January 1, 2014;
- A Green Energy Act ("GEA") rate rider of $0.04/customer/month to recover amounts approved as part of Horizon Utilities' 2011 GEA Plan included in the 2011 EDR Cost of Service application (EB-2010-0131).

The customer bill impact for the average Residential customer consuming 800 kWh/ month is an overall decrease of 0.69%.

Management expects that the timing of an OEB decision on the application will permit the effective implementation of rates by January 1, 2014.

Table 1 – Bill Impacts: January 1, 2014 IRM Changes

Customer Class	Billing Units	Average Monthly Volume	Distribution charges		Bill Impacts on Distribution Charges		Total Bill Charges		Total Bill Impact	
			*Current	Jan 1, 2014 Rates	$	%	*Current	Jan 1, 2014 Rates	$	%
Residential	kWh	800	$ 28.32	$ 27.43	$ (0.89)	(3.14)%	$ 119.02	$ 118.20	$ (0.82)	(0.69)%
GS< 50kW	kWh	2,000	$ 52.47	$ 51.03	$ (1.44)	(2.74)%	$ 287.47	$ 286.22	$ (1.25)	(0.44)%
GS 50 to 4,999 kW	kW	2,500	$ 4,894.82	$ 2,861.71	$(2,033.11)	(41.54)%	$ 121,145.13	$ 119,208.68	$(1,936.44)	(1.60)%
Large Use > 5,000 kW	kW	5,000	$29,282.51	$ 26,911.09	$(2,371.42)	(8.10)%	$ 294,298.61	$ 292,185.71	$(2,112.90)	(0.72)%
*Current charges reflect those approved in Horizon Utilities 2013 Electricity Distribution Rate Application [EB-2012-0132], adjusted for the addition of the SME, removal of the SMDR and adjusted WMS / Rural Rate Protection. Total Bill Charges include HST and OCEB.										

Recently, the OEB announced new Regulated Price Plan ("RPP", i.e., commodity) rates effective November 1, 2013. The table below identifies the bill impacts as a result of both the IRM application and the change in commodity rates.

Table 2 – Bill Impacts: January 1, 2014 IRM Changes and New RPP and TOU Rates

Customer Class	Billing Units	Average Monthly Volume	Distribution charges		Bill Impacts on Distribution Charges		Total Bill Charges		Total Bill Impact	
			*Current	Jan 1, 2014 Rates	$	%	*Current	Jan 1, 2014 Rates	$	%
Residential	kWh	800	$ 28.32	$ 27.43	$ (0.89)	(3.14)%	$ 123.49	$ 122.67	$ (0.82)	(0.66)%
GS< 50kW	kWh	2,000	$ 52.47	$ 51.03	$ (1.44)	(2.74)%	$ 299.56	$ 298.31	$ (1.25)	(0.42)%
GS 50 to 4,999 kW	kW	2,500	$ 4,894.82	$ 2,861.71	$(2,033.11)	(41.54)%	$ 126,966.28	$ 125,029.84	$ (1,936.44)	(1.53)%
kW	kW	5,000	$ 29,282.51	$ 26,911.09	$(2,371.42)	(8.10)%	$ 307,523.34	$ 305,410.45	$ (2,112.90)	(0.69)%
*Current charges reflect those approved in Horizon Utilities 2013 Electricity Distribution Rate Application [EB-2012-0132], adjusted for the addition of the SME, removal of the SMDR and adjusted WMS / Rural Rate Protection. Total Bill Charges include HST and OCEB.										

b) 2015 Cost of Service Application

Horizon Utilities' next EDR Cost of Service ("CoS") application is currently being drafted using the OEB's new Custom Incentive Rate setting ("Custom IR") methodology. The application will seek new rates effective each year for five years, commencing January 1, 2015. Management anticipates filing the application in April 2014.

As a component of its CoS application, Horizon Utilities is proposing changes to the basis of allocating regulated distribution costs between its customer rate classes to address inequities caused by an over absorption of such by its larger users.

In 2013, Management undertook a cost allocation study in preparation for the 2015 CoS application. The objective and rationale for the outcomes are further developed below.

The study identified that the four largest industrial customers bear an over-allocation of Horizon Utilities' costs. The distribution assets supporting these customers are separately distinguishable from other customer classes. Additionally, the demand for these customers exceeds 15 MW and is significantly higher than the demand of all other members of the Large Use customer class.

As a result of the cost allocation study, Management is proposing a new customer class for Large Use customers with demand exceeding 15 MW (Large Use (2) > 15MW with dedicated assets). The costs allocated to this group will no longer include those related to shared-assets utilized by other customers nor will they include other pooled costs.

Table 3 below provides customer rate impacts based on a recent iteration of the 2014-2019 Financial Plan but before application of the proposed changes to the basis of cost allocation described in this section. Table 4 provides customer rate impacts on the same Financial Plan basis but including application of the proposed changes to the basis of cost allocation described in this section that is fully implemented as of January 1, 2015. The application of the proposed changes to cost allocation methodology results in a significant shift in distribution rate burden in 2015 from Large Use classes to all other classes of customers.

Management has not yet fully resolved its strategy for cost allocation and rate design through the Custom IR rate years and is performing sensitivity analysis relative to rate impact trends through these years. There are other possible approaches to manage abrupt rate impacts in any particular Custom IR year that will be investigated through the development of this application.

Table 3: Bill Impacts with Existing Rate Classes

Customer Class	Billing Units	Average Monthly Volume	2015				2016				2017				2018				2019			
			Distribution		Total Bill		Distribution		Total Bill		Distribution		Total Bill		Distribution		Total Bill		Distribution		Total Bill	
			$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Residential	kWh	800	$ 1.59	6.01%	$ 2.03	1.84%	$ 1.09	3.89%	$ 1.66	1.48%	$ 0.79	2.71%	$ 1.14	1.00%	$ 0.72	2.41%	$ 1.16	1.00%	$ 0.83	2.71%	$ 0.84	0.73%
GS< 50kW	kWh	2,000	$ 5.41	10.85%	$ 6.21	2.44%	$ 0.49	0.89%	$ 1.88	0.72%	$ 1.58	2.83%	$ 2.24	0.85%	$ 0.87	1.52%	$ 1.73	0.65%	$ 1.19	2.04%	$ 1.21	0.45%
GS 50 to 4,999 kW	kW	2,500	$ 376.25	6.85%	$ 4,975.44	4.41%	$ 124.10	2.11%	$ (902.13)	(0.77)%	$ 86.71	1.45%	$ 415.40	0.36%	$ 93.12	1.53%	$ 421.67	0.36%	$ 68.83	1.11%	$ 70.00	0.06%
Large Use > 5,000 kW	kW	5,000	$11,792.13	39.37%	$18,376.18	6.63%	$(1,456.16)	(3.49)%	$(2,525.24)	(0.85)%	$(416.13)	(1.03)%	$ 325.31	0.11%	$(457.09)	(1.15)%	$ 284.16	0.10%	$ (932.72)	(2.37)%	$ (948.58)	(0.32)%
Large Use > 5,000 kW	kW	10,000	$14,478.13	39.37%	$27,491.47	5.18%	$(1,787.66)	(3.49)%	$(3,906.69)	(0.70)%	$(511.13)	(1.03)%	$ 977.20	0.18%	$(561.09)	(1.15)%	$ 927.41	0.17%	$(1,145.22)	(2.37)%	$(1,164.69)	(0.21)%
Large Use > 5,000 kW	kW	20,000	$19,850.13	39.37%	$45,722.05	4.40%	$(2,450.66)	(3.49)%	$(6,669.61)	(0.61)%	$(701.13)	(1.03)%	$2,281.00	0.21%	$(769.09)	(1.15)%	$2,213.92	0.20%	$(1,570.22)	(2.37)%	$(1,596.91)	(0.15)%

Table 3 identifies the distribution and total bill impacts on the basis described above. On this basis, a Residential customer with an average monthly consumption of 800 kWh would experience a distribution rate increase of 6.01%/ 3.89%/ 2.71%/ 2.41%/ 2.71% for the years 2015/ 2016/ 2017/ 2018/ 2019, respectively. The corresponding monthly distribution charge increases would be $1.59/ $1.09/ $0.79/ $0.72/ $0.83.

The corresponding Residential total bill impacts would be as follows: 1.84%/ 1.48%/ 1.00%/ 1.00%/ 0.73% for 2015/ 2016/ 2017/ 2018/ and 2019, respectively. The corresponding monthly total bill impacts would be $2.03/ $1.66/ $1.14/ $1.16/ $0.84.

Table 4: Bill Impacts with Proposed Rate Classes

Customer Class	Billing Units	Average Monthly Volume	2015				2016				2017				2018				2019			
			Distribution Revenue		Total Bill		Distribution		Total Bill		Distribution		Total Bill		Distribution		Total Bill		Distribution		Total Bill	
			$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Residential	kWh	800	$ 2.69	10.17%	$ 3.50	2.86%	$ 0.96	3.30%	$ 1.69	1.35%	$ 0.87	2.89%	$ 1.36	1.07%	$ 0.72	2.33%	$ 1.28	1.00%	$ 0.75	2.37%	$ 0.85	0.65%
GS< 50kW	kWh	2,000	$ 9.89	19.84%	$ 11.96	4.23%	$ (0.10)	(0.17)%	$ 1.42	0.48%	$ 1.36	2.28%	$ 2.24	0.76%	$ 1.06	1.74%	$ 2.14	0.72%	$ 1.18	1.90%	$ 1.33	0.44%
GS 50 to 4,999 kW	kW	2,500	$ 978.00	17.80%	$ 6,208.24	4.95%	$ 34.16	0.53%	$(1,104.00)	(0.84)%	$ 82.97	1.28%	$ 457.33	0.35%	$ 89.38	1.36%	$ 464.29	0.35%	$ 80.04	1.20%	$ 90.45	0.07%
Large Use > 5,000 kW	kW	5,000	$ (923.43)	(3.08)%	$ 6,049.40	1.96%	$2,910.29	10.03%	$ 2,128.27	0.68%	$(160.61)	(0.50)%	$ 650.19	0.21%	$(208.34)	(0.66)%	$ 596.82	0.19%	$ (245.45)	(0.78)%	$ (277.36)	(0.09)%
Large Use > 5,000 kW	kW	10,000	$ (1,133.93)	(3.08)%	$ 12,904.45	2.19%	$3,573.29	10.03%	$ 1,717.10	0.28%	$(197.11)	(0.50)%	$1,440.63	0.24%	$(255.84)	(0.66)%	$1,375.39	0.23%	$ (301.45)	(0.78)%	$ (340.64)	(0.06)%
Large Use (2)	kW	20,000	$(46,338.09)	(91.90)%	$(23,990.41)	(2.08)%	$2,578.19	63.13%	$(1,728.08)	(0.15)%	$(158.94)	(2.39)%	$3,147.12	0.28%	$(125.89)	(1.94)%	$3,186.72	0.28%	$(2,508.01)	(39.33)%	$(2,834.05)	(0.25)%

Table 4 identifies the distribution and total bill impacts on the basis described above. On this basis, a Residential customer with an average monthly consumption of 800 kWh would experience a distribution rate increase of 10.17%/ 3.30%/ 2.89%/ 2.33%/ 2.37% for the years 2015/ 2016/ 2017/ 2018/ 2019, respectively. The corresponding monthly distribution charge increases would be $2.69/ $0.96/ $0.87/ $0.72/ $0.75.

The corresponding Residential total bill impacts would be as follows: 2.86%/ 1.35%/ 1.07%/ 1.00%/ 0.65% for 2015/ 2016/ 2017/ 2019, respectively. The corresponding monthly total bill impacts would be: $3.50/ $1.69/ $1.36/ $1.28/ $0.85.

Objectives and Rationale for Proposed Changes

As identified above, the review of the cost allocation model for the CoS application has resulted in a significant shift in distribution rate burden in 2015 from Large Use classes to all other classes of customers. Generally, distributors allocate costs to ratepayer classes based on the OEB allocation principle of cost causality; which results in ratepayer equity relative to the costs required to serve various classifications of ratepayer. As a result of its review, Management identified that the Large Use classes were allocated a large share of costs for elements of the distribution system that does not serve them. The changes to cost allocation and rate design for Large users, as described above, are necessary to comply with the OEB principle of cost causality in the determination of distribution rates by ratepayer classification.

2. Noteworthy Applications of Other Distributors:

a) Norfolk Power Distribution Inc. ("NPDI") and Hydro One Networks Inc. ("HONI") Mergers, Acquisitions, Amalgamations and Divestitures ("MAADs") Application – (Update)

In April 2013, HONI applied to the OEB for leave to purchase all of the issued and outstanding shares of Norfolk Power Inc. through a MAADs application. NPDI applied to the OEB for leave to dispose of its distribution system to HONI. HONI also applied for the inclusion of a rate rider in the 2013 OEB approved rate schedule of NPDI to give effect to a 1% reduction relative to 2012 base electricity delivery rates (exclusive of rate riders).

The MAADs application has attracted the interest of intervenors representing many consumer interests (e.g., School Energy Coalition, Consumer Council of Canada, and Vulnerable Energy Consumers Coalition), as well as several distributors.

The Applicants had filed certain portions of the Share Purchase Agreement within their pre-filed evidence, but on a confidential basis. As a preliminary matter, the OEB rendered a decision on confidentiality; which took several months to resolve. The OEB has subsequently released its next procedural order in this proceeding at the end of September, five months after the application was filed.

The OEB's most recent procedural order provides two alternative timelines for the adjudication of the application. The timelines proposed are each contingent on whether respective intervenors decide to file their own evidence in this proceeding. In the event that intervenor evidence is filed, a round of interrogatories on the intervenors' evidence would be required. In the event that intervenors do not file evidence, the Applicants would file their final submissions to the OEB no later than December 6, 2013. However, should intervenors file their own evidence, this proceeding would extend into 2014, with final submissions of the Applicants due no later than January 17, 2014. The OEB has a benchmark of rendering decisions within 60 days following final submissions.

Intervenors have submitted interrogatories with respect to the MAADs Application for completion by the Applicants. One of the central themes of the interrogatories is the probing of the "no harm" test of the OEB with respect to electricity consumers and the affected utilities. Specifically, the "no harm" test consists of a consideration as to whether the proposed transaction would have an adverse effect relative to the status quo in relation to the OEB's statutory objectives:

1. to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; and
2. to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

Based on past OEB decisions on MAADs applications, it is expected that this transaction will be approved if the OEB concludes that it does not have an overall adverse effect in terms of the factors identified in its statutory objectives.

Regulatory Initiatives

a) OEB Business Plan 2013 - 2016

The OEB has released its Business Plan for 2013-2016. Three items in particular have strategic impact on Horizon Utilities:

- The OEB has initiated a process to review the framework for intervenors to participate in OEB proceedings. The principle issues in this review include: i) whether the OEB will impose a requirement for intervenors to demonstrate financial need for cost awards in proceedings; ii) whether and to what extent distributors may be mandated to consult with consumers and stakeholders prior to filing their rate applications; and iii) whether the OEB will mandate the creation of a Consumer Advisory group or Consumer advocate.

- The OEB has identified that it will develop an approach to revenue decoupling for electricity and gas distributors (i.e., relaxing the current link between the recovery of a distributor's revenue requirement and customer use of the distributor's system to introduce more stability in distributor revenues). Revenue stability continues to be a significant issue for many distributors including Horizon Utilities; particularly considering rising investment requirements to renew distribution systems. The OEB will consider the stability of revenue for distributors, rates for customers, regulatory simplicity, consistency across distributors, and the impact of conservation.

- The OEB is scheduled to conduct a Cost of Capital review in 2014 (initially planned in 2009 as part of the adoption of the OEB's revised policy). The OEB will examine whether its current approach requires adjustment to maintain compliance with its statutory requirement to meet the "fair return" standard in delivering a financially viable sector.

b) Independent Electricity System Operator ("IESO") Prudential Framework Review

Purchasers of electricity through the IESO-administered markets, such as electricity distributors, are required to provide security for such purchases based on creditworthiness. Such security is determined based on the IESO's prudential framework which is designed to mitigate its related credit risk with respect to electricity purchases.

The amount of security required by the IESO may be provided in forms such as cash or acceptable letter of credit.

In 2013, the IESO reviewed its prudential framework with the following outcomes:

a) Changes to the types of security accepted by the IESO are not warranted at this time;

b) The IESO should continue to utilize its existing prudential framework; and
c) The IESO should reduce security relative to certain levels of credit ratings and payment behaviour.

These changes are expected to have a favourable impact on the amount of security required from Horizon Utilities relative to the magnitude of its trading limit with the IESO.

c) OEB Review of Merger, Amalgamation, Acquisition and Divestiture Transactions ("MAADs") and Service Area Policies

On November 4, 2013, the OEB announced two new policy reviews in the context of its review of distributor efficiency. The first initiative will focus on OEB policies regarding MAADs. The second initiative will focus on policies related to service area amendments ("SAAs"), including long-term load transfer arrangements.

MAADs Policy Review

The OEB has identified that distributors cite the risk that transaction costs will not be recovered within the five year timeframe and that shareholders will not benefit from efficiency savings as reasons for not proceeding with consolidations within the sector. The OEB is reviewing the recommendation from distributors that the OEB permit a longer delay prior to the first rebasing after a MAADs transaction. Horizon Utilities would be supportive of a review of the MAADs policy that would increase the attractiveness of such for both the distributor and shareholder.

Service Area Policy Review

The OEB has also identified that distributors suggested a potential for increased efficiencies if they could expand their service territory to municipal boundaries and/ or assume service territory that is adjacent to the existing service boundaries. This has been an ongoing position advanced by Horizon Utilities, both generally and in the context of service area amendment applications filed with the OEB over the last decade.

As part of this review, the OEB will also consider its policy with respect to SAAs that address outstanding long term load transfers between distributors. However, for Horizon Utilities and other distributors generally, the existing long term load transfers between neighbouring utilities remain the most cost effective way to serve the customers in the near term. Over the longer term, Horizon Utilities would be supportive of system expansion to municipal boundaries in order to service customers through Horizon Utilities' own assets.

The OEB will also announce an additional initiative related to the review of the Affiliate Relationships Code ("ARC"), in the near future.

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1-CCC-1_Attch 7_Customer Outreach (13_12_12)

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Report to:	Board of Directors	**Submitted by:**	Indy J. Butany-DeSouza
Date:	December 12, 2013	**Prepared by:**	Indy Butany-DeSouza

Subject:	Agenda Item 5.0 2015 Cost of Service Application – Customer Outreach

INFORMATION	✓	APPROVAL	

1. Horizon Utilities' 2015 Cost of Service Application – Customer Outreach

Horizon Utilities' next EDR Cost of Service ("CoS") application is currently being drafted using the Ontario Energy Board's ("OEB") new Custom Incentive Regulation ("Custom IR") rate setting methodology.

The *Report of the Board: Renewed Regulatory Framework for Electricity – An Outcomes Based Approach* (the "RRFE Report") contemplates enhanced engagement between distributors and their customers to provide better alignment between distributor operational plans and customer needs and expectations.

The OEB's new "consumer-centric" approach to rate applications requires distributors to seek customer input regarding rate changes and specific infrastructure proposals.

Horizon Utilities has engaged a 3rd party, Innovative Research Group Inc. ("Innovative"), to gather customer feedback to inform its CoS Application.

Working collaboratively with Innovative, Horizon Utilities drafted a Distribution System Plan Review Workbook (the "Workbook"; attached as Appendix A). The purpose of the Workbook is to identify Horizon Utilities' investment plans over the next five years. The Workbook also provides indicative bill impacts by customer class, for all classes with the exception of the Large Use and Large Use (2) customer classes.

Innovative tested the Workbook with residential customers, GS<50kW customers and GS>50kW customers in facilitated sessions held in St. Catharines and Hamilton over three separate evenings. The Workbook was refined following each session to incorporate customer feedback. Modifications to the Workbook following the facilitated sessions largely focused on simplifying key messages and improving readability.

Testing of the Workbook has now been completed and Horizon Utilities will be going 'live' online shortly.

Since the CoS Application will have significant impacts for all customer classes over the five year term of the application, Horizon Utilities has initiated customer outreach activities to address each customer class.

Volunteered Public
Shortly, Horizon Utilities will launch its Online Workbook. All customers who have access to the internet will be able to access the workbook through a link from the Horizon Utilities website to a 3rd party site at www.horizonutilitiesworkbook.com. The website will screen for Horizon Utilities' customers through the input of valid postal codes related to Horizon Utilities' service area. Customers will review the Workbook online and answer a short survey. The online Workbook will be launched in early December with ads in the St. Catharines Standard and the Hamilton Spectator (a copy of the ad is attached as Appendix B). The online workbook will be open for approximately five weeks and will conclude in the second week of January 2014.

GS<50kW, GS>50kW and Community Stakeholders
In order to initiate discussions with commercial customers as well as interested community stakeholders, including low income groups, Innovative will conduct a series of focus groups in Hamilton and St. Catharines in early January 2014. Using the Workbook for discussion purposes, the facilitator from Innovative will discuss Horizon Utilities' capital investment plans and application with the customers, including a series of embedded discussion questions. The final question to focus group participants will be as to whether the customer supports rate increases proposed by Horizon Utilities.

Large Use Customers
Management presently meets with its Large Use Customers on an ongoing basis. In order to leverage this key account relationship, Horizon Utilities will be meeting with its Large Use customers from late November 2013 through January 2014 to inform the customers of the capital investment that Horizon Utilities intends to undertake and that forms the basis of the CoS Application. Management will review the Workbook with the Large Use Customers with a goal of receiving support for the rate increases identified. Following the Large Use Customer meetings, Innovative will conduct a telephone survey with the Large Use customer representative, in order to validate the Large Use customer feedback.

Residential Customer
Once the Online Workbook closes, Innovative will conduct a random field telephone survey to residential customers for one week in mid January 2014 to gather further feedback on residential customers' experience with Horizon Utilities and customers' view on the DSP.

The table below summarizes medium for outreach by customer class, along with the tentative dates for execution.

Table 1 – Customer Outreach Timelines

Customer Class	Medium for Outreach	Tentative Dates
All customer classes	Online workbook – www.horizonutilitiesworkbook.com	December 11, 2013 – January 13, 2014
	Media release; Social media: Twitter, Facebook	Launch on December 11, 2013
	Advertisement driving online workbook campaign in Hamilton Spectator and St. Catharines Standard	Hamilton Spectator: December 14 and 18, 2013 St. Catharines Standard: December 14 and 19, 2013
Large Use class (GS>5MW)	One-on-one customer meetings facilitated by Horizon Utilities Management	November 27, 2013 – January 2014
	Follow Up Telephone Survey by Innovative	November, 2013 - January 2014
GS<50kW class	Class-specific Focus Groups	January 14, 2014 – St. Catharines January 15, 2014 - Hamilton
GS>50kW class	Class-specific Focus Groups	
Community stakeholders	Focus Groups	
Residential class	Random Telephone Survey	January 17-24, 2014

At the end of each of the customer outreach initiatives, Innovative will provide Horizon Utilities with a report identifying the results of the customer feedback. Management will review these results and incorporate the findings into the DSP and the CoS Application, as necessary.

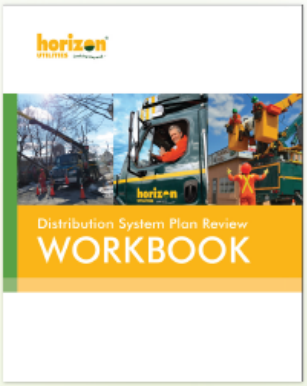
Appendix 1 – Draft Distribution System Plan Review Workbook

Appendix 2 – Draft Advertisement for the Online Workbook

horizon UTILITIES Looking beyond...

Have Your Say

Tell us what you think about our five-year plan



Horizon Utilities Corporation has developed a plan for distributing electricity to our community over the next five years. From now until January 13, 2014, this plan will be online in the form of an interactive Workbook. As a customer, this is the opportunity to learn more about Horizon's plan and to fill out a short survey online. All responses are anonymous and strictly confidential.

Find the Workbook at **HorizonUtilitiesWorkbook.com**

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1-CCC-1_Attch 8_Reg Update Report (2014_05_15)

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Report to:	Board of Directors	**Submitted by:**	J. G. Basilio/ Indy Butany-DeSouza
Date:	May 15, 2014	**Prepared by:**	J.G. Basilio/ Indy Butany-DeSouza

Subject:	Agenda Item 9.0 Regulatory Update

INFORMATION	✓	APPROVAL	

1. Applications

2015 Custom IR Application for Electricity Distribution Rates effective January 1, 2015, 2016, 2017, 2018 and 2019

Horizon Utilities filed its 2015-2019 Electricity Distribution Rates ("EDR") Application (the "Application") on April 16, 2014. The Ontario Energy Board's ("OEB") *Renewed Regulatory Framework for Electricity: A Performance Based Approach* (the "RRFE") provided three different approaches to rate setting. Horizon Utilities filed the Application using the Custom Incentive Regulation ("IR") option to ensure that it continues to have adequate financial capacity and cash flow to address real cost growth in annual renewal investments in its distribution system infrastructure over the next several years. Addressing such investment is consistent with the principal interest of customers and the public at large for continuous, reliable electricity delivery and public safety.

This Application covers a five year period from 2015-2019, with new rates effective January 1st of each year. This differs from the previous Cost of Service ("CoS") applications, where rates were sought for the test year alone and the subsequent years' rates within the IRM term were subject to a mechanistic adjustment only.

Key Elements of the Application:

Revenue Requirement

Horizon Utilities is requesting approval for revenue requirements for each of the 2015–2019 Test Years. The table below identifies the revenue requirement for each year.

Table 1 - Revenue Requirement

	2011 Board Approved CGAAP	2015 Test Year MIFRS	2016 Test Year MIFRS	2017 Test Year MIFRS	2018 Test Year MIFRS	2019 Test Year MIFRS
OM&A Expenses	$ 42,418,667	$ 62,332,489	$ 64,089,437	$ 65,946,564	$ 67,394,756	$ 68,821,878
Depreciation and Amortization	$ 27,025,538	$ 24,970,618	$ 26,487,624	$ 26,379,676	$ 25,824,486	$ 26,490,670
Return on Equity - Target *	$ 14,142,097	$ 18,106,344	$ 18,792,922	$ 19,582,055	$ 20,495,153	$ 21,466,097
Interest	$ 12,328,781	$ 9,809,232	$ 10,181,190	$ 10,608,708	$ 11,605,518	$ 12,571,676
Taxes Other than PILs	$ 337,800	$ 300,190	$ 304,693	$ 309,263	$ 313,902	$ 318,611
PILs	$ 6,093,853	$ 2,915,069	$ 4,289,143	$ 4,473,115	$ 3,952,701	$ 3,966,866
Service Revenue Requirement	**$ 102,346,735**	**$ 118,433,942**	**$ 124,145,010**	**$ 127,299,380**	**$ 129,586,516**	**$ 133,635,798**
Revenue Offsets	$ 5,896,000	$ 5,477,916	$ 5,516,509	$ 5,555,937	$ 5,666,198	$ 5,753,899
Base Revenue Requirement	**$ 96,450,735**	**$ 112,956,026**	**$ 118,628,501**	**$ 121,743,444**	**$ 123,920,317**	**$ 127,881,899**
Return on Equity - Target *	9.85%	9.36%	9.36%	9.36%	9.36%	9.36%

Note: The 2011 Board Approved amount is reported on the former Canadian Generally Accepted Accounting Principles ("CGAAP") basis; 2015-2019 Test Years are reported on a Modified International Financial Reporting Standards ("MIFRS") basis.

The principal drivers of the revenue increase requested are:

- An increase in OM&A Costs associated with the Smart Meter implementation; increases in salary, wage and benefit costs; repairs and maintenance; and new business requirements;
- An increase in distribution system investments to renew aging infrastructure and address declining system reliability; and
- An increase in buildings investments to replace assets which have reached end-of-life and to address operational deficiencies, building accessibility, the removal of hazardous materials, security, and air quality.

Rate Base and Capital Plan

The 2015 Test Year rate base is calculated as $483,609,614, which represents a 31.0% or $114,556,978 increase over the 2011 Board-Approved rate base of $369,052,637. The rate base for each of the 2016 to 2019 Test Years has been calculated as follows:

Table 2 – 2016-2019 Rate Base

	2016	2017	2018	2019
Total Rate Base	501,947,697	523,024,973	547,413,274	573,346,618
Increase Over Previous Year ($)	18,338,082	21,077,276	24,388,302	25,933,344
Increase Over Previous Year (%)	3.8%	4.2%	4.7%	4.7%

The principal contributor to growth in total Rate Base from 2011 to 2019 is the growth in capital expenditure net of depreciation.

Capital expenditures for the 2015 Test Year are forecast to be $39,939,881 (reported on a MIFRS and IFRS basis, as appropriate), which represents an increase of 2.4% or $939,881 over the 2011 Board-Approved amount of $39,000,000 (reported on the CGAAP basis) as identified in the table below.

Operating, Maintenance and Administration Expense ("OM&A")

The Application includes a request for recovery of 2015 Test Year OM&A of $62,632,679 (reported on a MIFRS basis and net of other income charges to affiliates), which represents a $20,496,478 or 48.6% increase over the 2011 Board-Approved OM&A of $42,136,201 (reported on a CGAAP basis). A significant portion of this increase is attributable to the conversion to MIFRS and the addition of Smart Meter related costs totaling $9,145,756.

- Management has previously communicated, and the Application analysis demonstrates, that Horizon Utilities is projecting and requesting real OM&A growth, net of achieved and forecast productivity and inflation, of approximately $4,400,000 from 2011 Board Approved through the 2019 Test Year. Table 6 below has been included in the Application evidence to demonstrate to the OEB that: Horizon Utilities has real cost structure growth beyond amounts afforded by the regulated IRM adjustment factors;
- the standard IRM inflation and productivity factors adopted by the OEB are not consistent with the actual experience of Horizon Utilities and the distribution sector in general;
- Horizon Utilities has achieved meaningful productivity in excess of the expectations set by OEB ratemaking policy.

In summary, Horizon Utilities is advancing argument that it is seeking approval for real OM&A growth of $4.4MM from 2011 to 2019, and that the remaining growth of approximately $13.6MM is consistent with the Incentive Rate Mechanism methodology otherwise but based on actual Horizon Utilities experience with respect to inflation and productivity.

Table 3 – OM&A Trend Analysis: Forecast vs. Price Cap

		2011 Board Approved MIFRS	2012 Actual MIFRS	2013 Actual MIFRS	2014 Bridge Year MIFRS	2015 Test Year MIFRS	2016 Test Year MIFRS	2017 Test Year MIFRS	2018 Test Year MIFRS	2019 Test Year MIFRS
	OM&A Analysis - Actual and Forecast per Application									
	Total OM&A - MIFRS including Smart Meters (A)	$ 51,281,957	$ 51,478,365	$ 54,516,505	$ 60,387,369	$ 62,632,679	$ 64,394,131	$ 66,255,827	$ 67,708,658	$ 69,140,489
	Customer/ Connections Counts (D)	237,161	238,444	240,014	241,573	243,237	245,038	246,941	248,923	250,790
	Total OM&A/ Customer - Application	$ 216.23	$ 215.89	$ 227.14	$ 249.98	$ 257.50	$ 262.79	$ 268.31	$ 272.01	$ 275.69
	Year over Year Change in OM&A/ Customer		$ (0.34)	$ 11.25	$ 22.84	$ 7.52	$ 5.30	$ 5.51	$ 3.70	$ 3.68
	Cumulative/ Permanent Change in OM&A/ Customer Cost Structure		$ (0.34)	$ 10.91	$ 33.74	$ 41.26	$ 46.56	$ 52.07	$ 55.77	$ 59.46
	Customer Growth Rate - Annual		0.54%	0.66%	0.65%	0.69%	0.74%	0.78%	0.80%	0.75%
	OM&A/ Customer Growth Rate per Application									
	Year over Year per Application		-0.16%	5.21%	10.05%	3.01%	2.06%	2.10%	1.38%	1.35%
	Cumulative from 2011 Approved		-0.16%	5.04%	15.60%	19.08%	21.53%	24.08%	25.79%	27.50%
	CAGR - Total Actual OM&A Growth		-0.16%	2.49%	4.95%	4.46%	3.98%	3.66%	3.33%	3.08%
	OM&A Analysis - Price Cap vs. Application									
	Price Cap Index - Actual/ Forecast Inflation									
	Labour Based OM&A (including wage components of Management Fees)		$ 32,500,000	$ 35,100,000	$ 37,800,000	$ 39,100,000	$ 40,600,000	$ 41,800,000	$ 42,600,000	$ 43,800,000
	Non-Labour OM&A		19,000,000	19,400,000	22,600,000	23,500,000	23,800,000	24,500,000	25,100,000	25,300,000
(i)	**Total OM&A (rounded)**		**$ 51,500,000**	**$ 54,500,000**	**$ 60,400,000**	**$ 62,600,000**	**$ 64,400,000**	**$ 66,300,000**	**$ 67,700,000**	**$ 69,100,000**
	Labour OM&A as % of Total OM&A		63.1%	64.4%	62.6%	62.5%	63.0%	63.0%	62.9%	63.4%
	Non-Labour OM&A as % of Total OM&A		36.9%	35.6%	37.4%	37.5%	37.0%	37.0%	37.1%	36.6%
	Labour inflation index (actual and forecast)		2.9%	3.1%	3.1%	2.8%	2.8%	2.8%	2.8%	2.8%
	Non-Labour inflation index (application assumption)		1.7%	2.2%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%
	Inflation (Actual/ Forecast Combined Labour and Non-Labour Index)		2.46%	2.78%	2.58%	2.31%	2.32%	2.32%	2.32%	2.32%
	Productivity Factor		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Stretch Factor		-0.40%	-0.40%	-0.15%	-0.15%	-0.15%	-0.15%	-0.15%	-0.15%
	Price Cap Index - Actual/ Forecast + X-Factor		2.06%	2.38%	2.43%	2.16%	2.17%	2.17%	2.17%	2.17%
	Price Cap Index - Adjusted for Customer Growth		2.07%	2.40%	2.44%	2.18%	2.19%	2.19%	2.19%	2.19%
	Price Cap OM&A/ Customer (on 2011 Approved) (E)	$ 216.23	$ 220.71	$ 225.99	$ 231.51	$ 236.55	$ 241.72	$ 247.01	$ 252.40	$ 257.93
	Price Cap OM&A/ Customer Growth (Year over Year)		$ 4.47	$ 5.29	$ 5.52	$ 5.04	$ 5.17	$ 5.29	$ 5.40	$ 5.53
	Price Cap OM&A/ Customer Growth (Cumulative)		$ 4.47	$ 9.76	$ 15.28	$ 20.32	$ 25.49	$ 30.77	$ 36.17	$ 41.70
	Difference - Application vs. Price Cap OM&A (Cumulative)		$ (4.81)	$ 1.15	$ 18.47	$ 20.95	$ 21.07	$ 21.30	$ 19.60	$ 17.76
	CAGR - Price Cap OM&A/ Customer		2.07%	2.23%	2.30%	2.27%	2.25%	2.24%	2.23%	2.23%
	Analysis of OM&A/ Customer Difference under Price Cap vs. 2011									
	Year over Year Change in OM&A/ Customer (Application)		$ (0.34)	$ 10.91	$ 33.74	$ 41.26	$ 46.56	$ 52.07	$ 55.77	$ 59.46
	Less: Net Inflationary Growth (Price Cap)		4.47	9.76	15.28	20.32	25.49	30.77	36.17	41.70
	Real Growth in OM&A/ Customer vs. 2011 Approved		$ (4.81)	$ 1.15	$ 18.47	$ 20.95	$ 21.07	$ 21.30	$ 19.60	$ 17.76
(ii)	**Projected OM&A under Price Cap (B = D * E) (rounded)**		**$ 52,600,000**	**$ 54,200,000**	**$ 55,900,000**	**$ 57,500,000**	**$ 59,200,000**	**$ 61,000,000**	**$ 62,800,000**	**$ 64,700,000**
(iii)	**Real OM&A Growth - Application vs. Price Cap (C = A - B) (rounded)**	**51,281,957**	**$ (1,100,000)**	**$ 300,000**	**$ 4,500,000**	**$ 5,100,000**	**$ 5,200,000**	**$ 5,300,000**	**$ 4,900,000**	**$ 4,400,000**

Bill Impacts

Horizon Utilities has considered the impacts of rates on its customers in preparing the Application. A summary of these impacts, on the basis of Distribution Charges and Total Bill (excluding HST and the Ontario Clean Energy Benefit ("OCEB")), are provided below. The total bill impacts for each of the 2015-2019 Test Years are under the 10% threshold and, as such, rate mitigation is not required.

Table 4 - Bill Impacts

Distribution Bill Impacts												
Customer Class	Billing Units	Average Monthly Volume	2015		2016		2017		2018		2019	
			$	%	$	%	$	%	$	%	$	%
Residential	kWh	800	$ 2.58	9.67%	$ 1.31	4.48%	$ 0.60	1.96%	$ 0.41	1.32%	$ 0.91	2.88%
GS< 50kW	kWh	2,000	$ 12.32	24.44%	$ 2.93	4.67%	$ 1.62	2.47%	$ 1.03	1.53%	$ 1.89	2.77%
GS > 50 kW	kW	250	$ 184.31	22.26%	$ 44.01	4.35%	$ 24.72	2.34%	$ 14.39	1.33%	$ 29.39	2.68%
LU (1)	kW	5,000	$ (7,174.84)	(23.70)%	$ 1,061.63	4.60%	$ 500.84	2.07%	$ 352.58	1.43%	$ 717.98	2.87%
LU (1)	kW	10,000	$ (8,809.34)	(23.70)%	$ 1,303.63	4.60%	$ 614.84	2.07%	$ 433.08	1.43%	$ 881.48	2.87%
LU (2)	kW	20,000	$(44,386.32)	(87.10)%	$ 1,270.89	19.33%	$ 2,585.82	32.96%	$ 155.77	1.49%	$ 303.42	2.87%
Street Lighting	kW	6,800	$ 31,625.04	24.46%	$ 7,524.96	4.68%	$ 3,971.12	2.36%	$2,585.76	1.50%	$5,024.68	2.87%
Table excludes the impact of HST (13%) and OCEB (10%)												

Distribution Bill and Horizon Variance Account & Rider Bill Impacts (GEA, and SMIRR)												
Customer Class	Billing Units	Average Monthly Volume	2015		2016		2017		2018		2019	
			$	%	$	%	$	%	$	%	$	%
Residential	kWh	800	$ 1.16	4.13%	$ 1.30	4.44%	$ 0.60	1.96%	$ 0.41	1.32%	$ 0.91	2.88%
GS< 50kW	kWh	2,000	$ 11.16	20.72%	$ 0.63	0.97%	$ 1.62	2.47%	$ 1.03	1.53%	$ 1.89	2.77%
GS > 50 kW	kW	250	$ 188.22	22.66%	$ 37.26	3.66%	$ 24.72	2.34%	$ 14.39	1.33%	$ 29.39	2.68%
LU (1)	kW	5,000	$ (6,977.88)	(23.08)%	$ 901.63	3.88%	$ 500.84	2.07%	$ 352.58	1.43%	$ 717.98	2.87%
LU (1)	kW	10,000	$ (8,415.38)	(22.69)%	$ 983.63	3.43%	$ 614.84	2.07%	$ 433.08	1.43%	$ 881.48	2.87%
LU (2)	kW	20,000	$(43,978.36)	(86.55)%	$ 1,010.89	14.79%	$ 2,585.82	32.96%	$ 155.77	1.49%	$ 303.42	2.87%
Street Lighting	kW	6,800	$ 32,301.60	25.05%	$ 7,213.52	4.47%	$ 3,971.12	2.36%	$2,585.76	1.50%	$5,024.68	2.87%
												3

Total Bill Impacts (Excluding HST and OCEB)												
Customer Class	Billing Units	Average Monthly Volume	2015		2016		2017		2018		2019	
			$	%	$	%	$	%	$	%	$	%
Residential	kWh	800	$ 3.67	3.02%	$ 1.23	0.98%	$ 0.93	0.74%	$ 0.82	0.65%	$ 0.37	0.29%
GS< 50kW	kWh	2,000	$ 16.64	5.88%	$ 0.85	0.29%	$ 2.24	0.75%	$ 1.85	0.61%	$ 1.72	0.56%
GS > 50 kW	kW	250	$ 531.05	3.78%	$ 54.20	0.37%	$ 56.90	0.39%	$ 46.54	0.32%	$ 61.56	0.42%
LU (1)	kW	5,000	$ (1,897.27)	(0.57)%	$ 1,291.16	0.39%	$ 1,236.84	0.37%	$1,089.08	0.33%	$1,453.98	0.43%
LU (1)	kW	10,000	$ 1,745.84	0.27%	$ 1,762.70	0.27%	$ 2,086.84	0.32%	$1,906.08	0.29%	$2,353.48	0.36%
LU (2)	kW	20,000	$(25,161.92)	(1.99)%	$ 4,075.02	0.33%	$ 5,529.82	0.44%	$3,101.77	0.25%	$3,247.42	0.26%
Street Lighting	kW	6,800	$ 38,475.03	9.25%	$ 10,341.39	2.28%	$ 4,659.28	1.00%	$3,273.92	0.70%	$5,711.48	1.21%

Next Steps

The OEB issued the Letter of Acknowledgement indicating receipt of the Application on April 21, 2014. A review of the Application by OEB staff for completeness is currently underway. Once the Application is accepted as complete, the next steps are likely to include the following (dates are indicative):

- The OEB will issue the Letter of Direction and Notice of Application ("NOA") by mid to late May;
- Horizon Utilities will post the NOA in: the Hamilton Spectator, St. Catharines Standard, La Regionale, and its website;
- Intervenors will submit their requests for status in the proceeding to the OEB;
- The OEB will issue a procedural order identifying: the intervenors in the proceeding, the key issues in the Application, and the dates for the filing of interrogatories;
- Horizon Utilities will receive OEB staff and intervener interrogatories by mid to late July;
- Interrogatory responses will be due four weeks after the date of receipt of the OEB staff interrogatories (likely by the middle to end of August);
- Settlement conference (September/ October);
- Oral hearing (October/ November);
- Final submissions (November/ December);
- OEB decision (January/ February);
- Development and implementation of final rates (February for January 1st effective date).

The Application represents the first full filing of a Custom IR Application with the OEB. Hydro One Networks Inc. ("HONI") filed a portion of its Custom IR Application in December 2013. HONI has subsequently updated its evidence in late January 2014 and is expected to issue a further update in May 2014. Toronto Hydro Electric System Limited and Oshawa PUC are among distributors who are expected to file Custom IR applications later this year.

2. Ontario Energy Board Initiatives

a) Draft Report of the Board: "*Rate Design for Electricity Distributors"* (the "Rate Design Report")

The OEB released the *Draft Report of the Board: Rate Design for Electricity Distributors* on March 31, 2014. The Rate Design Report is the next step in the process of consultation formerly known as Revenue Decoupling for Distributors.

The OEB intends to pursue a fixed rate design solution to achieve revenue decoupling. The current rate design includes a fixed monthly charge and a variable rate. The fixed:variable ratio for Horizon Utilities' residential customers is 63%:37%. The Rate Design Report advances the argument that a variable charge based on consumption (kWh) is not aligned with the principally fixed cost drivers for distribution (this has been Horizon Utilities position with the OEB for many years).

The OEB recognized that under the RRFE, distributors are required to file a 5-year capital plan with their CoS Applications (the Distribution System Plan or "DSP"). Revenue recovery linked to variable throughput does not provide distributors with adequate revenue certainty to confidently advance the execution of long-term capital and operating plans. The OEB has identified that a

fixed rate design for recovery of electricity distribution costs is the most effective rate design for ensuring that rates reflect the cost drivers for the distribution system.

The OEB is proceeding with revenue decoupling for low volume customer classes only (Residential and GS < 50 kW customers) at this time. The OEB indicated in the Rate Design Report that it plans to address rate design for the larger commercial customers in the future. Horizon Utilities' previous submissions on this subject identified that a fixed charge for large commercial customers is necessary to mitigate the risk that distributors otherwise experience due to revenue fluctuations from these classes.

The OEB is proposing three potential rate design solutions for the Residential and GS < 50 kW customer classes as follows:

1. A single monthly charge which is the same for all customers within the rate class;
2. A fixed monthly charge with the size of the charge based on the size of the electrical connections; and
3. A fixed monthly charge where the size of the charge is based on use during peak hours.

The OEB has been explicit with its intention that rate design to achieve revenue decoupling should not change either the amount of revenue a distributor collects from a class, or the cost allocations between classes.

Within its Application, Horizon Utilities has identified that it must have the ability to adapt to changes that may be made by the OEB as a result of the consultation during this period.

Horizon Utilities will file a submission on the Rate Design Report with the Coalition of Large Distributors ("CLD").

b) OEB staff Discussion Paper: "*Review of the Board's Policies and Processes to Facilitate Electricity Distributor Efficiency: Service Area Amendments and Rate-Making Associated with Distributor Consolidation*"

The OEB issued an OEB staff discussion paper (the "Discussion Paper") regarding service area amendments ("SAA") and rate-making policies associated with mergers, amalgamations, acquisitions, and divestiture ("MAADs").

The OEB has established distribution planning as a key element in the achievement of the outcomes expected of the distribution sector. The OEB has also specified regional planning as a means of ensuring that regional issues are integrated into distributor planning through the RRFE.

The OEB staff discussion paper provides: background on the related current OEB policies; a summary of the stakeholder input received by the OEB in relation to those policies; and provides questions for stakeholder comment with respect to potential changes to those policies.

The Discussion Paper is an initial step in revising the current SAA and MAADs process. The Distribution Sector Review Panel supported the view that consolidation among distributors can be a significant opportunity for achieving efficiency improvements and cost savings in the sector. The OEB acknowledges that an improved method for merging must be determined in order to facilitate consolidation as and when it may occur. The OEB has stated that it has no official position on consolidation as a means of achieving distribution efficiency.

The creation of a more efficient SAA and MAADs process aligns with Horizon Utilities' objective of growth. Horizon Utilities will provide comments through a joint CLD submission.

1-CCC-2

Please provide all correspondence provided to employees regarding the development of this Application. Please include all budget letters, guidelines etc. Please describe, in detail, how the operating budgets and capital budgets were developed and indicate all relevant dates.

Response:

Please refer to the attached "1-CCC-2_Attch_1_HOR Correspondence to employees" for correspondence provided to employees regarding the development of the Application.

Please refer to the attached 1-CCC-2_Attch_2_2014-18 Business Planning Process for the communication regarding the budget process underlying this Application.

Please refer to the response to Interrogatory 1-SEC-2 for information regarding the development of budgets.

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1-CCC-2_Attch 1_HOR Correspondence to employees

From: Butany-DeSouza, Indy
To: [redacted]
Subject: Launching the 2015 EDR CoS Application Prepopulated Application!
Date: Thursday, August 01, 2013 4:48:48 PM
Attachments: Sharepoint Orientation Document V1.1.pdf
Importance: High

Good afternoon everyone;

As has been communicated throughout this year, the Regulatory team has been working on the pre-population of the CoS Application to create a template for the 2015 application. We have used the 2011 application as the starting point and have drawn on content from the Cost of Service Application Readiness ("CSAR") process for 2011 and for 2012.

The OEB has now released the *Chapter 2 Filing Requirements for Transmission and Distribution applications* (the "Filing Requirements" - the minimum requirements for a CoS Application) and the *Chapter 5 Guidelines for a Consolidated Distribution System Plan* ("DSP"). The Regulatory team has revised the naming convention for all of the Chapter 2 Appendices that you will be populating to align to the new Filing Requirements as well as adding in those that are net new for the 2015 EDR CoS Application process.

The CoS Prepopulated Application (the "Pre-pop") has now been posted to the CoS Project Team Site on SharePoint. The Pre-pop has been divided into the OEB requisite 9 Exhibits; an additional exhibit, Exhibit 10, has been added as a placeholder for "Off-Ramps and Re-Openers" – a catch all for those items that we do not know about as yet but that we anticipate may impact Horizon Utilities' rates.

In addition to the Pre-pop, the CoS Project Team Site also has the Chapter 2 Appendices that will need to be populated by the appropriate evidence owner. They are referenced in Pre-pop document, as well.

The CoS Project Team Site also has the 2011 EDR CoS Application for reference purposes.

Attached, you will find a document called "SharePoint Orientation Document". This document outlines information you will need to know in accessing the documents on the SharePoint site. A short orientation to SharePoint will also be included as part of the upcoming August 12th Application Development Refresher Session.

Listed below, is a buddy's list that you can reference should you have any questions while contributing material to the exhibits.

Engineering, Operating & (EOI) - [redacted]
Operation & Maintenance (O&M) - [redacted]
Information Systems (IST) - [redacted]
Supply Chain Management - [redacted]
Customer Connections - [redacted]
Customer Services - [redacted]
Customer Demand Management (CDM) - [redacted]
Finance - [redacted]
Human Resources - [redacted]
Communications [redacted]
Regulatory - Regulatory

The SharePoint link is below:

http://hits/CostofServiceApplication2013-2014

We look forward to working together with you on this exciting and important initiative!

Warmly, Indy
on behalf of Horizon Utilities' Regulatory Team

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs
Horizon Utilities Corporation
Tel: (905) 317-4765
Cel: (416) 451-1822
indy.butany@horizonutilities.com

From: Corporate Communications
To: Horizon - All Employees; Horizon - Contract Employees
Subject: Horizon Utilities filing for new rates for 2015
Date: Monday, September 09, 2013 10:23:00 AM

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You may recall from past CEO Updates that I explained how our rates are set with the Ontario Energy Board (OEB). Many of you were surprised to discover that Horizon Utilities applies for new rates only once every four years. This application is referred to as a "Cost of Service Application". Our last Cost of Service Application was filed back in 2010 for rates effective January 1, 2011.

It is time for us to file again and the company is busy preparing our 2015 Cost of Service application.

New Changes

In October 2012, the OEB established a new approach to regulation in a report entitled, *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (RRFE).

As a result of this new regulatory framework, Horizon Utilities and all other electricity distributors are allowed to choose from three new rate-setting methods depending on individual needs and circumstances. Horizon Utilities is opting for the "Custom Incentive Rate" setting method (Custom IR) for our 2015 OEB Cost of Service Application. This Custom IR method will now allow Horizon Utilities to cover a five year period (2015 to 2019).

We selected the Custom IR option because it allows rates to be adjusted and fine-tuned during the five year period for each and every year. In effect, it is like we are filing five separate rate applications for each year from 2015 to 2019 which provides us greater control over our business.

As you have heard me say previously, these applications are critical to our business because they represent the authorization for our revenue – the rates we are permitted to charge customers.

Benefits of the Custom IR Approach

We are filing a Custom IR application for two key reasons:

1. Horizon is rebuilding our electric distribution system. We have investment requirements that are above historical levels as we renew the infrastructure in our communities.
2. An aging workforce means we will have increasing operating costs as we address planned retirements. We will need to hire in advance of these retirements which will put upward pressure on our costs for a period of time.

The Custom IR method allows Horizon to manage and appropriately fund these two very important issues as we progress through each year in the five year period. This method provides the optimal balance between customer rate impacts and our required investments.

The application will require participation from every department and our Regulatory Affairs group has already begun to reach out to many of you. Special studies and internal work to draft the application will continue throughout the fall.

I look forward to keeping you informed as we progress.

Thank you in advance for your participation and support in this extremely important process.

Max Cananzi
President & CEO

From: Corporate Communications
To: Horizon - All Employees; Horizon - Contract Employees
Subject: Cost of Service goes online
Date: Tuesday, December 10, 2013 2:08:00 PM

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Cost of Service goes online - Horizon Utilities invites customers to "Have Their Say"
As you heard at last week's CEO Update, progress is well underway on our 2015 Cost of Service (CoS) application. This application will allow us to address the need to: renew our distribution system due to aging infrastructure, upgrade our facilities and fund increasing capital and operating costs from 2015 to 2019.

We are seeking customer input on our new five-year plan for electricity distribution in Hamilton and St. Catharines. We are sharing our plan with customers and stakeholders to inform them of the proposals and seek input. The feedback received during the consultation process will be used to inform and improve the plan. The final plan will be presented to the Ontario Energy Board.

To make it easy for customers to review the new five-year plan and offer input, Horizon has posted a Distribution System Plan Review Workbook online at HorizonUtilitiesWorkbook.com. The website will be activated on December 11.

The online workbook contains information on Horizon Utilities' plans for investments in infrastructure renewal, system improvements and new technology for the next five years. Survey questions give our customers a chance to have their say. Ads promoting the workbook will appear in the Hamilton Spectator and the St. Catharines Standard on December 14, 2013.

How you can help
As our best ambassadors, I encourage you to tell your family and friends who live in our service area about our workbook and view it online to "Have Their Say"! The workbook will be available from December 11 through January 13, 2014 at HorizonUtilitiesWorkbook.com. Also, follow our Twitter campaign at @HorizonLink and visit our Facebook page. I look forward to providing you with more updates on our CoS application. Thank you to everyone for their hard work and dedication to date.

Indy J. Butany-DeSouza
Vice President, Regulatory Affairs

From: Corporate Communications
To: Horizon - All Employees; Horizon - Contract Employees
Subject: Cost of Service Customer Outreach Continues
Date: Tuesday, January 21, 2014 5:03:00 PM

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Cost of Service Customer Outreach Continues
As part of the development of our Cost of Service Application, we are using various forms of communication to seek customer input on our new five-year plan for electricity distribution in Hamilton and St. Catharines.

From January 22- 29, Innovative Research Group will be conducting a 10-minute telephone survey on behalf of Horizon Utilities. They will be contacting 1,000 of our residential customers to ask their preferences on topics related to Horizon Utilities' distribution system, service, reliability and rates.

Please spread the word about the survey to your family and friends who are Horizon Utilities customers so that they are aware that the survey is legitimate and encourage them to participate if they are contacted. The survey will be promoted on our website, Facebook page and Twitter.

Overview of customer initiatives to date

- **Facilitated sessions** in Hamilton and St. Catharines to review and provide feedback on our Distribution System Plan Review Workbook
  - Attended by community stakeholders and small and large business customers
- **Key Customer sessions** – face-to-face meetings to engage some of our key customers on our Distribution System Plan
- **Newspaper Ads** driving traffic to our online Distribution System Plan Review Workbook
  - Ads ran in the Hamilton Spectator and the St. Catharines Standard in December
- **Online survey** on our Distribution System Plan Review Workbook
  - Live from December 11, 2013 through January 13, 2014
  - Over 1,000 customers viewed the Workbook

Cost of Service Application Progress Update
Thank you to everyone who is working diligently to complete our 2015 Cost of Service Application. Business unit representatives have been very busy writing narrative and analysis that support the application requirements and that "tell our story". The application is currently going through the review and revision process.

We continue to target filing the Application by the end of April, 2014 with the Ontario Energy Board. Watch for more details.

From: Corporate Communications
To: Horizon - Contract Employees ; Horizon - All Employees
Subject: Cost of Service Update
Date: Monday, March 24, 2014 11:54:00 AM

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Cost of Service Update

Since the last CEO Update, a significant amount of work has been done to advance our 2015 Cost of Service application to the Ontario Energy Board.

Many individuals from a variety of departments have been very busy writing narrative and providing analysis that support the application requirements. I would like to recognize the efforts of these employees. The work has not been easy. It has taken long days and many hours of work to get us where we are today.

This application is very important to Horizon Utilities because it will allow us to address aging infrastructure needs and renew key areas of our distribution system. It will also set our strategic direction and operating investment needs from 2015 through 2019 while ensuring the safe and reliable delivery of electricity to our customers.

We continue to target filing the application by the end of April, 2014. As we head into the homestretch I would like to thank all the employees throughout the organization for their continued hard work and dedication.

We are almost there!

Max

From: Corporate Communications
To: Horizon - All Employees; Horizon - Contract Employees
Subject: A message from Max - Cost of Service Update
Date: Monday, May 26, 2014 11:31:00 AM

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Cost of Service Update: Horizon Utilities posts Notice of Application and Hearing for Five-Year Custom Incentive Rate Application

On April 16, 2014, Horizon Utilities Corporation submitted its Cost of Service (CoS) application to the Ontario Energy Board (OEB) to adjust the amount we charge for electricity for each year from 2015 to 2019.

The 2015 Cost of Service application will allow us to address the need to make important investments to renew our distribution system's aging infrastructure, upgrade our facilities and finance increasing capital and operating costs while ensuring the safe and reliable delivery of electricity to our customers.

On May 21, Horizon Utilities posted a Notice of Application and Hearing for its CoS application on its website. Details are available on the Regulatory Affairs page of our website.

We also placed ads in the May 21st editions of the St. Catharines Standard, the Hamilton Spectator, and in French in Le Régional Hamilton-Niagara.

The ads inform our customers that the OEB will hold a public hearing to consider Horizon Utilities' CoS application. The OEB will consider written submissions and hear arguments from individuals and from groups that represent Horizon Utilities' customers in order to inform its decision on the CoS application. Members of the public should know that they have the right to become an active participant (called an intervenor) in these proceedings but they must apply to do so by May 31, 2014.

Again, I'd like to recognize the efforts of the many individuals from across the company who have worked so hard on the application. You have produced a comprehensive document that explains where we want to go together in a compelling way. Thank you.

We will provide further updates as the CoS process progresses.

Max Cananzi
President & CEO

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1-CCC-2_Attch 2_2014-18 Business Planning Process

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2014-18 Business Planning Process

Kickoff Meeting
25 April, 2013

Agenda

- Opening Remarks
- Business Planning Overview and Timelines
- Business Planning Template and Tookit
- Budgeting Process Changes with Cognos Software
- Q&A / Next Steps

Business Planning Overview and Timelines

Current State of Business Planning Process

	Executive / Management Team	CoS	Finance
April		2012 Actuals	
May			Budget Parameters issued Resourcing templates issued
June	Resource Availability submitted Initiative Resource Plans submitted		Business Plan templates issued Budget input templates issued
July	Initial Budget submissions		Support for Budget inputs / Bus. Plans Budget Review charts issued
August	Final Budget changes submitted Business Plan Submissions	2013 Frcst, 2014-15 Budget	Business Plan charts issued Business Plan reviews (w/ Regulatory) Budget reviews and Processing
September	Business Plan revisions Inputs to Corporate Five-Year Plans		1st Draft Budget / 5 Yr Plan Presentation Final Budget changes
October			Final Draft Corporate Five-Year Plans
November			Initial Board/ARM Committee review
December			Final Board review and approval Department Budget files distributed

Improvement Opportunities

- Alignment of budget submissions with corporate strategy and financial capacity
- Coincident efforts on budgeting and business plans in July/August:
  - Limited time to focus on quality and analysis vs prior plan
  - Compressed period for key decision-making
  - Changes to business plans may have significant impacts to detailed budgets
- Detailed budgets not visible to all management after July budget submission until final budget files distributed in December:
  - Constrains management's ability to prepare for the upcoming year
- Challenges with Resource Planning:
  - Resourcing template inputs redundant with budget inputs and may be inconsistent
  - Time-consuming iterations with IST Project Manager
  - Instances of resource over-allocations outstanding at end of process
- Budget input templates:
  - Time-consuming to complete
  - Error risks: incorrect inputs, manual migration of data in Excel
  - Absence of real-time rollup reporting; Directors and VPs dependent on Finance to report consolidated inputs

New Considerations for 2014-18 Plan

- 2015 Cost of Service Application
  - The regulated utility's 2014-15 Budget forms the basis of the Application
  - Inputs from across the organization will be required; major efforts to begin in August when draft departmental budgets are ready
  - Consistency of budget data and related explanations across the Application are critical
- New Budgeting Solution (Cognos) to be implemented in June 2013
  - Opportunity to leverage functionality of a formal planning platform
  - An integrated solution with centralized data, not a collection of Excel files
  - End-user training: initiative resource plan includes one full day in June for all budget primes; "working session approach" (users start their real budget inputs and generate related reports in the training session)
  - Process efficiencies for both end-users and Finance are expected to be achieved, but are not being relied upon to compress timelines in this first budgeting cycle following implementation

Key Process Changes

- Departmental Business Plans
  - Customized “Toolkit” files (Excel) to enable preliminary financial projections based on changes to prior (2013-17) plan
  - Revised business plan template; content to be formally approved by EMT member
  - Timeline advanced to enable EMT presentations to CEO in June
    - CEO feedback will facilitate alignment of budget submissions (including resource plans) with expectations
- 2014-15 Budget using IBM Cognos Express
  - Integrated Resource Planning for Corporate Initiatives
  - Workflow Approvals
  - Access to Budget data post-submission

Departmental Business Plans

- Finance issues Business Planning Toolkit, which includes standard business plan template (similar to existing template) and a customized Excel planning file for each Business Plan owner, with data for their business unit (2012 Actual results, 2013 Budget and Q1 Forecast, and 2014-2015 budget) per prior plan:
  - Users enter significant $ changes from prior plan expected in the 2014-15 Budget
  - Automated standard tables for users to copy/paste into Business Plan document
- Preliminary business plans to be submitted in late May
- Proposals summarized, with opex/capex impacts relative to prior plan, in unifying document and presentations delivered by VPs to CEO /CFO in June
- Key Benefits:
  - Preliminary financial projections available and managed by the plan's originator
  - Management can focus on the quality of business plan documentation before detailed budgeting occurs
  - Less extensive business plan revisions should be required in September to align with the draft 2014-15 Budget

New State Timeline

	Executive / Management Team	CoS	Finance
April		2012 Actuals	Business Planning toolkits issued
May	Proposed business plans submitted		Support for business plan preparation
June	Proposed business plan revisions End-user training on budgeting solution		Proposed Plan reviews (w/ Regulatory) Deliver end-user training on budgeting solution
July	Budget and Resource Plan submissions Director & VP approvals completed		Support for Budget/Resourcing inputs and approvals
August	Inputs to Corporate Five-Year Plans	2013 Frcst, 2014-15 Budget	Budget reviews and processing (input validation, resource balancing, burden rates, allocations, depreciation, etc.)
September	Final Business Plan revisions		1st Draft Budget / 5 Yr Plan Presentation Final Budget changes
October			Final Draft Corporate Five-Year Plans
November			Initial Board/ARM Committee review
December			Final Board review and approval

Key Milestone Dates (April to June)

Deliverable	Preparer / Reviewer	Approver	Due Date
Business Planning Toolkit (Word template & Excel data file)	Finance (with EMT input)	VP Finance	April 25
Proposed Departmental Business Plans: Sent to CEO's direct reports Approved and posted to V: drive	Managers / Directors	Director / VP CEO direct reports	 May 24 May 31
Divisional plans sent to Finance (incorporating departmental business plans, including opex/capex impacts relative to prior plan by business unit)	CEO direct reports		June 7
Divisional plans delivered to CEO	Finance		June 8
Presentations to CEO	CEO direct reports	CEO	June 15-22
Feedback on proposed plans	CEO / CFO Finance, Regulatory		June 28

Key Milestone Dates (July to December)

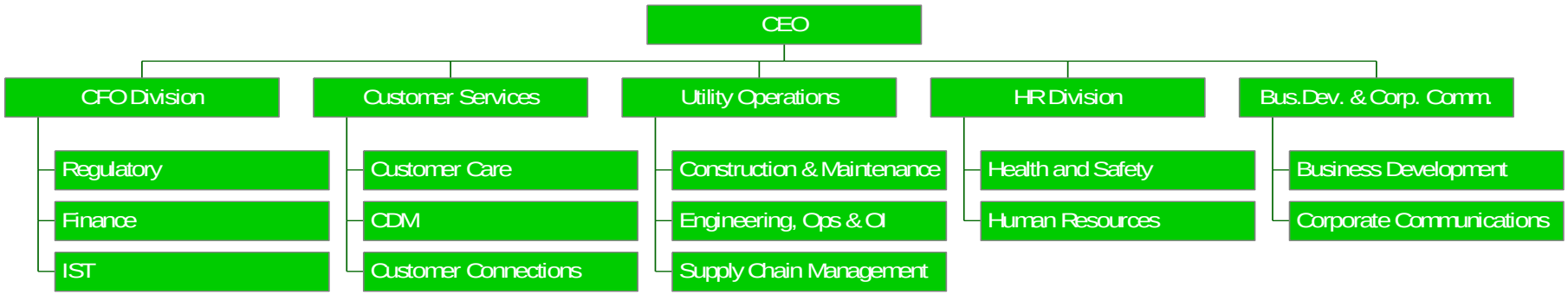
Deliverable	Preparer / Reviewer	Approver	Due Date
Budget submissions (including resource plans)	Managers / Directors	Director VP	July 19 July 26
Revisions to proposed plans	Managers / Directors	VP	July 26
5 Yr Plan content inputs	VPs / Directors	VP	August 16
1st Draft budget & 5Yr Plan presented to EMT	Finance	VP Finance	Sep 4 (materials) Sep 11 (pres'n)
Draft budget changes	EMT	VP Finance	Sep 18
Final business plans (note: each Approver to meet with CEO to review final changes)	Managers / Directors	CEO direct reports	Sep 30
Final draft budget	Finance	CFO	Sep 30
Final draft 5Yr Plan	Finance	CFO CEO	Oct 18 Oct 24
Initial ARM/Board Distribution	Finance	CFO / CEO	Oct 31
Revisions as necessary	Finance	CFO / CEO	November
Final Board Distribution	Finance	CFO / CEO	Dec 5

Business Planning Template and Tools

Business Planning Toolkit

- A new Excel tool to enable preliminary financial projections on the basis of changes to the prior (2013-17) plan
- Customized files to be delivered via secure network folders (files are large and include confidential payroll data)
- End-users input changes to the following costs groupings:
  - Headcount / Payroll (additions and removals)
  - Time Costing (net effect of charging to capital or recoverable projects)
  - Incremental initiatives
  - Core operating costs (excluding allocated costs)
  - Capital Expenditures
- James Cochrane / Igor Rusic will provide 1:1 support to facilitate completing the required inputs
- Summary tables are automatically generated, to be copied/pasted into the departmental business plan (Business Analysis will update for changes during the budget process)

Business Planning Toolkit



- ***EMT members will present "Divisional Plan" (highlights of departmental business plans and aggregated plan data) to CEO in June (note: specific presentation requirements under development)***
- ***Business Analysis team will prepare rollup of all plans for CEO review***

Business Planning Toolkit

Folder: V:\Business Plans\2014 Business Planning Process

Sub-Folder	Read/Write Access
\CFO	John Basilio, Grace Rafter
\CFO\Finance	+ Peter Vallieres
\CFO\IST	+ Mario Cangemi
\CFO\Regulatory	+ Indy Butany-DeSouza, Jamie Gribbon, Christine Dade
\CS	Eileen Campbell, Anita Trott
\CS\Customer Care	+ Shelley Parker
\CS\CDM	+ Brian Smith, Tim Hasoulas
\CS\Customer Connections	+ Jim Patterson
\UtilityOps	Kathy Lerette, Anita Trott
\UtilityOps\Construction	+ Glen Winn
\UtilityOps\EOOI	+ Jim Butler
\UtilityOps\SCM	+ Joseph Almeida
\HR	Brenda Schacht, Grace Rafter
\HR\Health & Safety	+ Bill Shewan
\HR\HR	+ Peg Zahtila, Dee Candlish
\BusDevCorpComm	Neil Freeman
\BusDevCorpComm\BusDev	
\BusDevCorpComm\CorpComm	

For All Sub-Folders:

Read/Write Access	Read-only Access
Business Analysis Team	CEO + EA
	CFO + EA
	VP Finance, VP Regulatory + EA

Business Planning Toolkit

Demo

Business Plan Template – Changes

- Automated *Table of Contents*
- Combined certain headings for *Business Requirements* (initiatives) and *New Positions Proposed*, to reduce redundancy
- For *Department Objectives* and *Business Requirements*, enabled selection of one or more "Strategic Business Objectives":
  - Financial – Grow our Business Profitably
  - Customer – Be Easy to Do Business With
  - Operational Excellence – Be the Best Performing Utility
  - Learning and Growth – Be a Great Place to Work
- Order of sections: *Five-Year Plan* now precedes *2014-15 Budget;* all *Business Requirements* in last section
- For *Business Requirements*, added requirement to include estimate of hours required by year, by division
- Alignment with branding standards and editorial/formatting enhancements

Business Requirements Prefixes

Department	Prefix
Business Development	BD
Conservation & Demand Management	CDM
Construction & Maintenance Services	CMS
Corporate Communications	COM
Customer Care	CC
Customer Connections	CON
Engineering, Operations & Operational Improvement	EOI
Finance	FIN
Healthy Workplace & Safety	HWS
Human Resources	HR
Information Systems & Technology	IST
Regulatory	REG
Supply Chain Management	SCM

Example: ***The Finance departmental Business Plan has one Business Requirement starting in 2014 and two which start in 2015. The Business Requirements which start in 2015 would be coded FIN-2015-01 and FIN-2015-02.***

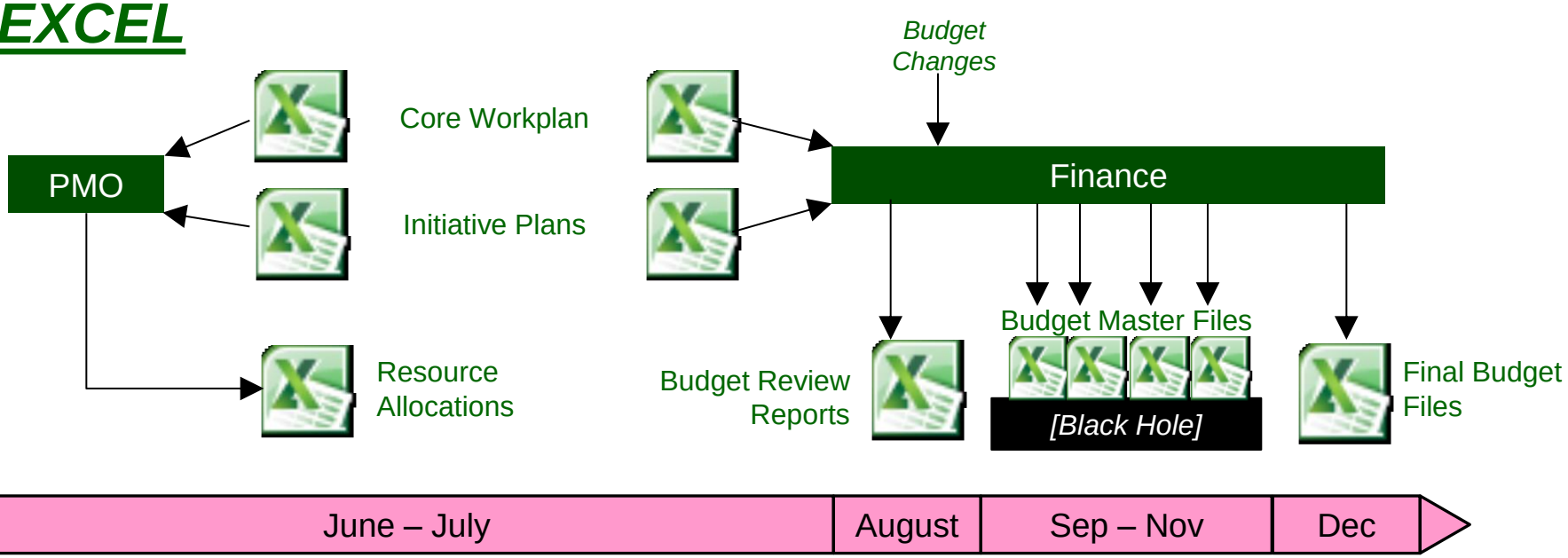
Business Plan Template – Changes

Template Review

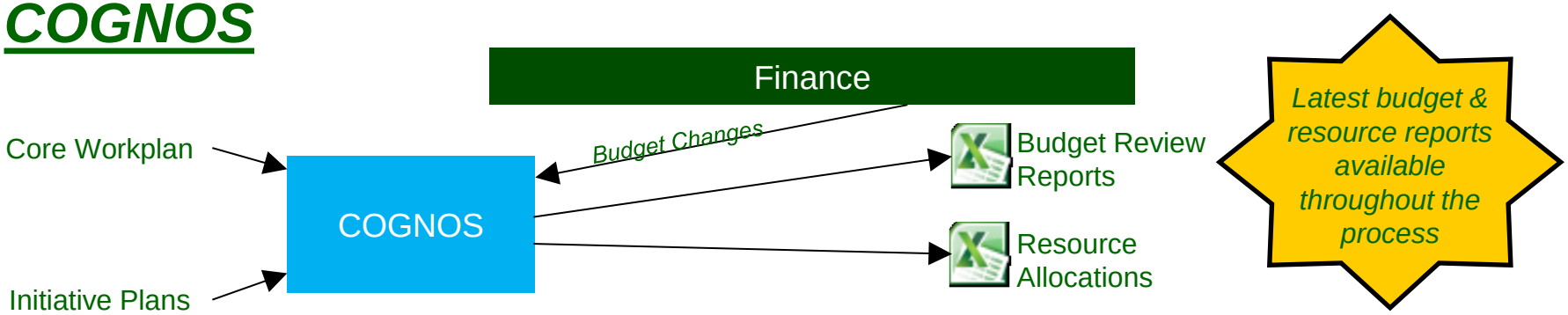
Budget Process Changes with Cognos Software

User experience: Cognos vs Excel

EXCEL



COGNOS



Benefits of Cognos solution

(A) Integrated Resource Planning Eliminate duplicate efforts More collaborative, less time-consuming Automated resource reports available to all Earlier identification of resource gaps Eliminate outstanding resource over-allocations	***(B) Workflow Approvals*** VPs & Directors see aggregated budget data Enhanced accountability Reduce need to rework detailed budget data
(C) Access to budget data post-submission Improved transparency Facilitated consistency of budget data Enhanced management ability to prepare for new year	***(D) Budget data processing*** Superior input validation Lower risk of errors Audit trail of changes Fully dynamic integration Automated self-serve reporting

Process Changes with Cognos

Integrated Resource Planning and Budgeting

- Each owner of a corporate initiative enters their proposed resource plan in Cognos
- Stakeholders in other departments approve or reject proposed utilization of their respective resources
  - Once approved, resource hours are “locked” in the budget and those hours are no longer available for the stakeholder to budget as core job activities
- Key Benefits:
  - Eliminate duplicate efforts on resource planning and budgeting
  - Less time-consuming than current process
  - Ability to produce automated resource-balancing reports at any time
  - More timely identification of resource gaps and required actions e.g. revision to resource plan, additional resources, etc.
  - Eliminate outstanding resource over-allocations at end of process

Process Changes with Cognos

Workflow approval of budget submissions

- Each cost centre manager submits their departmental budget in Cognos to their immediate superior i.e. VP or Director
- Automated reports in Cognos provide the VP/Director with aggregated budget data (with drill-down capability)
  - Reports can be compared to preliminary business plans to ensure spending levels are generally consistent with expectations
- Budget submission is completed when VP approves all department budgets in their area
- Key Benefits:
  - VP/Director can review aggregated budget submissions at any time
  - Enhanced accountability for Senior Leadership Team members
  - Reduce need to rework detailed budget data at the back-end of the process

Process Changes with Cognos

Open access to budget data after submissions

- Finance will perform any revisions to budget data following VP approval of submissions for their respective areas (same as current process)
- Finance will communicate any new budget 'versions' to all management with a summary of key changes made
- Management retains 'Read' access to budget data at all times
- Key Benefits:
  - All management retain visibility into changes to their budget data throughout the entire process (no "black hole" between July and December)
  - Ensure consistent budget data is used to complete final business plan revisions, draft narratives for Five-Year Plans and the 2015 Cost of Service Application
  - Enhanced ability for management to prepare for the upcoming year

2014-15 Business Planning Process

Q&A / Next Steps

2014-15 Business Planning Process

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1-CCC-3

Does Horizon consider its application to be for a "Custom Incentive Regulation" plan or a five-year cost of service plan? What elements of Horizon's plan provide incentives for productivity improvements and efficiencies?

Response:

The first part of this interrogatory refers to whether this is a "Custom Incentive Regulation" plan or a five-year cost of service plan. With respect to this first part, please see Horizon Utilities' response to the following interrogatories:

- BOMA-7 c)
- 1-EP-1
- 1-SEC-1

The second part of this interrogatory refers to the elements of Horizon Utilities' plan that provide incentives for productivity improvements and efficiencies. With respect to the second part of the interrogatory, please refer to Horizon Utilities responses to the following interrogatories:

- 1-Staff-4
- 1-Staff-9
- 1-Staff-15
- 1-SIA-6

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1-CCC-4

In the RRFE Report the Board indicates that under the Custom IR method the allowed rate of change in the rates over the term of the plan will be determined by the Board on a case-by-case basis informed by empirical evidence including:

- **The distributor's forecasts (revenues and costs, including inflation and productivity);**
- **The Board's inflation and productivity analyses; and**
- **Benchmarking to assess the reasonableness of distributor forecasts.**

Response:

There is no question to which Horizon Utilities can respond. Please see Horizon Utilities' response to Interrogatory 1-CCC-5.

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1-CCC-5

Please indicate how Horizon's application is consistent with the Board's requirements set out in the RRFE Report.

Response:

The RRFE Report provides outcomes that the Board believes are appropriate for the distributors. The four outcomes are Customer Focus: services are provided in a manner that responds to identified customer preferences; Operational Effectiveness: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives; Public Policy Responsiveness: utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and Financial Performance: financial viability is maintained.

Horizon Utilities has included extensive evidence on the alignment of this Application to these four outcomes in the RRFE. That evidence can be found in Exhibit 1, Tab 2, Schedule 2, pages 12 of the Application.

The Board also defined policies to facilitate the achievement of these performance outcomes in the RRFE. The three policies flowing from the RRFE are: rate-setting on a 4th Generation Incentive Rate-setting, Custom Incentive Rate-setting ("Custom IR") or Annual Incentive Rate-setting Index basis; planning and the requirement for distributors to file 5-year capital plans to support rate applications; and measuring performance through a scorecard approach.

This Application is a Custom IR application, as identified in Exhibit 1, Tab 2, Schedule 6, and as provided in response to BOMA-7 c). Horizon Utilities has included its 5-year capital plan as part of this Application. The Distribution System Plan can be found in Exhibit 2, Tab 6, Appendix 2-4. The Board has issued Horizon Utilities' draft scorecard and it is included in the Application in Exhibit 1, Tab 2, Schedule 6, page 13.

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1-CCC-6 (Ex.1/T2/S2/p. 1)

Please provide the 2011 and 2012 completed annual Customer Satisfaction Surveys. Please provide evidence to support the statement that "The three top priorities of Horizon Utilities' customers are: ensuring that the distribution system provides reliable electricity supply to their homes and businesses; that Horizon Utilities is accessible to its customers; and maintaining distribution costs as low as practical."

Response:

Horizon Utilities' 2011 and 2012 Customer Satisfaction Survey results are attached as 1-CCC-6_Attch_2011 Customer Satisfaction Survey and 1-CCC-6_Attch_2012 Customer Satisfaction Survey.

The three top priorities of Horizon Utilities' customers are noted in Exhibit 1, Tab 2, Schedule 2, page 1. They have been determined through the themes provided to Horizon Utilities through: many years of qualitative and quantitative customer satisfaction research; the 2013 customer consultation process for the Distribution System Plan (the "DSP"); and analysis and on-going discussions with its customers.

During the Customer Consultation process as referenced in Horizon Utilities' DSP in Appendix D ("Innovative Report") on page 14, almost all residential respondents (92%) indicated that they are satisfied with the job Horizon Utilities is doing running the local distribution company. When asked about improvements, the customers' main suggestions concerned reducing the price and improving reliability of service. During the consultation process, it was confirmed that system reliability is important to all customers.

The importance of system reliability was further emphasized by General Service customers, as noted on page 7 of the Innovative Report, who provided practical consequences and impacts to their businesses as examples.

During the one-on-one interviews with the Key Accounts, Horizon Utilities received direct feedback and examples of the disruptions and impacts caused by both the frequency and the duration of power outages. These customers communicated that power quality and reliability are top priorities to avoiding business disruptions.

As noted in Exhibit 4, Tab 3, Appendix 4-1, 15th Annual Electrical Utility Customer Satisfaction Survey dated June 2013, page 28 and 29: customers have rational needs to which they hold the

utility accountable. As provided, the rational needs are; provides consistent reliable energy, quickly handles outages, accurate billing, provides good value for money, is "easy to do business with" and operates a cost effective hydro-electric system.

The customer feedback presented in the Horizon Utilities 14th Annual Electric Utility Customer Satisfaction Survey dated June 2012, Page 10 indicates that customers want to be treated with "CARE" in the following areas; customer-centricity, affordability, reliability and empathy. Horizon Utilities defines the term CARE as "Customers Are the Reason we Exist."

Horizon Utilities' customers have clearly articulated that reliability, affordable bills and access to problem resolution are the consistent priorities.

1-CCC-6_Attch_2011 Customer Satisfaction Survey

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Horizon Utilities

June 2011

13th Annual Electric Utility Customer Satisfaction Survey

The purpose of this report is to profile the connection between Horizon Utilities and its customers.

The primary objective of the Electric Utility Customer Satisfaction Survey is to provide information that will support discussions about improving customer care at every level in your utility.

The UtilityPULSE Report Card® and survey analysis contained in this report do not merely capture state of mind or perceptions about your customers' needs and wants - the information contained in this survey provides actionable and measurable feedback from your customers.

All comments and questions should be addressed to:

Sid Ridgley, Simul Corporation

Toll free: 1-888-291-7892 or Local: 905-895-7900

Email: sridgley@simulcorp.com

Executive summary

The Ontario customer is becoming irritated!

The Ontario customer is becoming fatigued!

There are more irritated and fatigued customers today than there were 1 year ago!

Horizon has achieved excellent scores as it relates to being a solid company – one that the vast majority of your customers respect and trust. For the second year in a row Ontario customers are showing a negative trend towards the actual process of customer care – which, in our view, is how the customer is demonstrating their frustration. For example, scores for attributes such as "good value" or "customer-focused" have deteriorated while attributes such as "reliable energy" and "quickly handling outages" remains as strong as they ever have. In short, just about everything to do with "customer care" has taken a hit in 2011, while anything to do with utility operations continues to garner top marks.

For most utilities in Canada, the results are growth in the number of "secure" customers and "at risk" customers. The growth in "at risk" customers after years of decline is proof that the customer is irritated and frustrated. Why is this so?

First of all it is important to recognize that there are a lot of macro uncertainties in the economy right now. Customers are hearing that the economy is getting better but they are not seeing tangible proof that it really is. Gasoline prices occupy a disproportionate amount of mind share as the fluctuations in price confound most people—prices that immediately affect their pocketbook. When people get confused they also get cynical and negative. The federal government reinforced that negativity by inviting oil industry executives to provide clarity on pricing. In addition, the mantra of "reduce the cost of government" changed the face of many municipal governments over this past year.

In an era where wage growth remains low and the prospect of wage growth remaining low is real, the customer's attention logically goes to costs—the costs of everything.

Messaging in the electricity industry from various players has done little to build the confidence in customers that the industry is well managed. For example, customers are hearing "we need more alternative green energy sources" and "Ontario Tories vow to scrap the $6.6 billion dollar Samsung deal". *[82% of Ontario respondents thought that it was "very" or "somewhat" important for the Ontario Government to encourage the development of green energy. 39% of respondents said they would pay a premium for solar power, while 51% said there should be no premium.]*

"Conserve electricity" and "Ontario pays others to take excess power". In Ontario the cost of electricity went up – July 1, 2010 HST was implemented and May 1, 2011 with a rate increase. *[43% of Horizon Utilities' respondents with Smart meters who thought they were on Time-of-use rates*

believe that they were paying more, 7% believe they were paying less. In 2010, 29% of all Ontario respondents believed they were paying more and 12% believed they were paying less.]

Over the past 2 years we've seen a shift from 70% to 63% of all Ontario respondents who said that "paying for electricity is not really a worry" and an increase from 5% to 9% saying that "paying for electricity is often a major problem". Concerns about costs are diminishing improvements made by electric utilities in customer care competencies and processes.

Every UtilityPULSE survey conducted over the past 13 years shows a correlation between ability to pay and satisfaction. For example, at the gas pumps, it is difficult for customers to see that an organization is doing an excellent job when they are paying $1.35 or more for a litre of gasoline.

One thing we believe about human nature is this: "where understanding stops; irritation, frustration, anger and conflict begin." We believe that the macro-economic factors that are negatively impacting customers coupled with polarized messaging in the electricity industry and an increased concern about paying for electricity are creating a real need for electric utilities to leverage their relationship with customers as a trusted and respected enterprise.

Negative factors in the economy and the electricity industry certainly are having their impact on electric utility customers and by default on the electric utility. One strategy is to do nothing and simply ride the ebbs and flows of customer sentiment. The other, and one that we recommend, is to

continue to earn the confidence of customers through excellence in service and advocacy for the customer.

Horizon's UtilityPULSE Report Card®

Part 1: Importance to Customers

	CATEGORY	Horizon	National	Ontario
1	**Customer Care**	**17%**	**15%**	**15%**
	Price and Value	4%	4%	4%
	Customer Service	13%	11%	11%
2	**Company Image**	**33%**	**33%**	**32%**
	Company Leadership	17%	16%	16%
	Corporate Stewardship	16%	16%	16%
3	**Management Operations**	**50%**	**53%**	**53%**
	Operational Effectiveness	21%	23%	25%
	Power Quality and Reliability	29%	30%	29%
	Total	**100%**	**100%**	**100%**

Shares may not add exactly to 100% due to rounding.

Horizon's UtilityPULSE Report Card®

Part 2: Performance

	CATEGORY	Horizon	National	Ontario
1	**Customer Care**	**B+**	**B+**	**B**
	Price and Value	C	C+	D+
	Customer Service	A	A	B+
2	**Company Image**	**A**	**A**	**B+**
	Company Leadership	A	A	B+
	Corporate Stewardship	A	A	B+
3	**Management Operations**	A	**A**	**A**
	Operational Effectiveness	A	A	A
	Power Quality and Reliability	A+	A+	A
	OVERALL	**A**	**A**	**B+**

* Weightings are based on pulse figures shown in Part 1 of the UtilityPULSE Report Card®

Marketing communications remains an important area of investment for electric utilities, for 2011-2012 articulating Price and Value should be a priority.

SATISFACTION SCORES – Electricity customers' satisfaction			
Top 2 Boxes: 'very + fairly satisfied'	**Horizon**	**National**	**Ontario**
Initially	83%	89%	84%
End of Interview	90%	90%	86%

Base: total respondents

End of Interview: Electricity bill payers who are 'very or fairly' satisfied with…				
	2011	**2010**	**2009**	**2008**
Horizon	90%	92%	94%	91%
National	90%	92%	91%	91%
Ontario	86%	89%	89%	91%

Base: total respondents

For most utilities satisfaction levels have dropped to levels experienced in 2007 – essentially 4 years of steady gains have been wiped out. Macro-economic concerns coupled with heightened worries about electricity cost are taking their toll.

Confidence in an organization's brand is demonstrated when customers agree strongly with the attributes; "keeps its promises to customers and the community" and "is a trusted and trustworthy company."

Attributes strongly linked to a hydro utility's image			
	Horizon	National	Ontario
Is a respected company in the community	86%	85%	81%
Maintains high standards of business ethics	82%	84%	80%
A leader in promoting energy conservation	82%	81%	77%
Keeps its promises to customers and the community	80%	80%	77%
Beyond providing jobs and paying taxes, is socially responsible	82%	81%	78%
Is a trusted and trustworthy company	84%	83%	79%

Base: total respondents with an opinion

Trust is a word that we use all the time, but is one of the most over-used and under-practiced words of our time. Corporate credibility refers to customer and other stakeholder perceptions of an organization's trustworthiness and expertise, that is, the believability of its intentions and communications at a particular moment in time. Corporate credibility is whether a company can be relied on to do what it says it will do. Our research shows that the under-pinning components that lead a person to believe that an organization has credibility and can be trusted are: Knowledge, Integrity, Involvement and Trust. Your customers give you an "**A**" overall for demonstrating credibility and trust.

In an environment of increased customer irritation and frustration attributes relating to customer care have, for the most part been impacted. These deteriorated perceptions further manifest themselves in lower scores for actual service, and higher belief that there are billing errors. For most utilities, the

data would suggest that calls regarding bills have increased almost 20% from 1 year ago. Data from this year's survey also indicated that 50% of the calls are for "high bills" and a further 18% about "rates or charges". This means that about every 2 out of 3 calls regarding bills revolves around the issue of cost or rate. Utilities, particularly in Ontario, are unable to solve the high bill or rate cost concerns of the customer – resulting in lower scores in customer care delivery.

Percentage of Respondents indicating that they had a Billing problem in the last 12 months			
	Horizon	**National**	**Ontario**
2011	12%	10%	16%
2010	7%	10%	12%
2009	7%	9%	10%
2008	6%	8%	8%

Base: total respondents

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Horizon	**National**	**Ontario**
2011	18%	43%	43%
2010	27%	45%	41%
2009	27%	50%	46%
2008	16%	49%	41%

Base: total respondents

The following table illustrates some of the important attributes which help shape a customer's perception about quality service and customer care.

Attributes describing the local electricity utility			
	Horizon	**National**	**Ontario**
Deals professionally with customers' problems	84%	84%	81%
Customer-focused and treats customers as if they're valued	77%	75%	72%
Provides good value for money	66%	69%	59%
Works with customers to keep their electricity costs affordable	61%	64%	57%
Is pro-active in communicating changes and issues which may affect customers	78%	77%	76%
The cost of electricity is reasonable when compared to other utilities	58%	65%	55%

Base: total respondents with an opinion

Utility customers want:

- access to the utility and to customer service
- accurate, timely billing and problem resolution
- communication about service outages, interruptions
- communication and transparency about regulatory changes
- easy access to information about cost and energy conservation

Customer Care - Secure vs At Risk Customers	Secure	At Risk
The time it took someone to answer the phone	86%	53%
The time it took someone to deal with your problem	95%	35%
The helpfulness of the staff who dealt with you	97%	49%
The knowledge of the staff who dealt with you	96%	46%
The level of courtesy of the staff who dealt with you	97%	64%
The quality of information provided by the staff who dealt with you	95%	36%

Base: data from the full 2011 database

For 2011 we asked those who contacted other utilities to compare their experience with that of their electric utility.

Comparison of Other Utility services vs Local Hydro Utility Experience			
	Gas	**Cable**	**Telephone**
Much Better	14%	8%	19%
Better	10%	11%	16%
About the same	58%	54%	35%
Slightly worse	3%	5%	4%
Much worse	1%	2%	7%

Base: total respondents that in the past year have contacted a gas, cable or telephone company

When customers contact companies for service, they care most about two things – is the frontline employee knowledgeable? And is the problem resolved on the first call? 65% of respondents who contacted Horizon in the last 12 months said that the problem was resolved; Ontario 64% and National 74%.

The old days of a single price for all the power you consumed in a month are gone. With smart meters and time-of-use rates, Ontarians are becoming more sensitive to the concept that electricity rates can vary at different times of the day. Smart meters was supposed to have a major impact on concerns about billing, at this point smart meters are certainly not living up to their implied value. For 2011, 13% of all suggestions for improvement received from all Ontario respondents were about "eliminating smart meters".

Smart meters might have the potential to help cut power consumption and energy bills considerably … but only if customers accept them and use them as intended.

Respondents who said that they have a smart meter:
Horizon 71%; Ontario 66%

Respondents who said that they were aware that the Ontario government intends to ensure that electricity bills are calculated based on Time-of-Use rates?
Horizon 87%; Ontario 84%

Respondents who thought they were already on TOU.
Horizon 73%; Ontario 48%

There is a direct correlation between customer familiarity with smart meters and their favorable views toward the technology. Most customers in our survey still don't understand what smart meters are all about, and this lack of knowledge is a real barrier to ultimate acceptance.

Media reports have cited many customers have been less than impressed with smart meters so far. Some have complained that their bills are much higher, even when they try to adjust their usage. Opposition politicians have jumped on the critical bandwagon, going so far as to say that the program should be scrapped.

For those that are on TOU what is the affect on the bill?		
	Horizon	**Ontario**
Paying more	43%	38%
Paying less	7%	9%
Paying about the same	37%	37%
Don't Know	13%	16%

Base: 75% of RESIDENTIAL respondents

While most Canadians are clearly "greener" than they used to be in terms of energy consumption, we still have plenty of room for improvement. Many Canadians have already begun to change. They are finding ways to live healthy, comfortable lifestyles while also reducing their energy use.

Steps to be taken over the next 12 months in an effort to conserve energy				
Horizon	**Yes**	**No**	**Already Done**	**Don`t Know**
Install energy-efficient light bulbs or lighting equipment	21%	11%	65%	2%
Install timers on lights	14%	50%	32%	4%
Shift use of electricity to lower demand periods	29%	16%	49%	7%
Install window blinds or awnings	14%	29%	54%	3%
Install a programmable thermostat	12%	30%	55%	3%
Have an energy expert conduct an energy audit	7%	73%	15%	5%
Purchase solar powered products	12%	76%	8%	5%
Purchase 1 or more ENERGY STAR appliances	21%	29%	46%	4%

Base: 75% of RESIDENTIAL respondents

Steps to be taken over the next 12 months in an effort to conserve energy				
Horizon	**Yes**	**No**	**Already Done**	**Don`t know**
Participate in the save-on-energy Retrofit Program which provides incentives for installing control systems and/or replacing existing equipment with high efficiency equipment	33%	32%	15%	21%
Participate in the small business lighting program, where eligible small business customers can receive the free installation of up to $1,000 in energy efficiency products	24%	25%	16%	35%

Base: 75% of COMMERCIAL respondents

Steps to be taken over the next 12 months in an effort to conserve energy				
Horizon	**Yes**	**No**	**Already Done**	**Don`t know**
Take advantage of the save-on-energy fridge/freezer pick-up program	17%	49%	31%	3%
Join the peaksaver™ program	19%	49%	13%	19%
Use save-on-energy incentive to replace furnace/air-conditioner	12%	36%	48%	4%
Use a coupon on the purchase of energy savings products	40%	35%	21%	4%
Do laundry in off-peak hours or on weekends	24%	16%	58%	3%

Base: 75% of RESIDENTIAL respondents

Horizon participated in a provincial endeavor to find out what Ontarians think about green energy, solar and conservation.

82% of Ontario respondents said that the Government of Ontario should pursue the development of green energy as very or somewhat important.

The average Canadian would probably switch to solar power tomorrow if it were available and made financial sense to their wallet. If there's one reason environmentally inclined citizens don't get solar panels, it's the cost, which can run into the thousands of dollars for the average homeowner.

19% of Ontario respondents indicated that they were considering the installation of solar panels.

Residents were asked how much of a premium they would be willing to pay on their hydro bill to ensure that solar power is used.

How much of a premium would you pay to ensure that solar power is used?	
	Ontario
More than 20%	2%
10% to 20%	9%
5% to 10%	15%
1% to 5%	13%
No premium should be paid	51%
Depends	3%
Don't know	7%

Base: An aggregate of respondents from all 2011 participating utilities

Electric cars have been around for decades, but never in enough numbers that they would affect the grid, or require mass rollouts of charging equipment. Regardless of the arguments for or against, 37% of Ontario respondents indicated that they are very or somewhat interested in purchasing a fully electric vehicle.

We've been hearing about the smart meters, smart grids and smart homes for years now, but are customers willing to use all this “smart” ware to save energy and lower their energy bills? If it is obvious that conserving energy helps save the environment and helps save us money, then what are the barriers which prohibit most from taking a pro-active approach to energy conservation?

What are the 1 or 2 barriers to energy conservation experienced by Ontarians?	
	Ontario
Cost involved in making equipment/appliance changes	21%
Not sure that the savings advertised are “real”	2%
Lack good information on where to save energy	5%
Lack of knowledge	6%
Already doing everything I can to save energy	1%
Not taking personal responsibility	5%
Waiting for new technology	2%
Not enough incentives	2%
Hydro bill is going up faster than I can reduce use of electricity, so why bother	3%

Base: An aggregate of respondents from all 2011 participating utilities

Respondents were also asked if anyone in their households and/or businesses did research into energy conservation and in ways in which to save energy. Sources that respondents said were used in the past 12 months:

Sources used in the past 12 months for information on energy conservation	
	Ontario
Websites	66%
Newspaper	13%
Company brochures	12%
Hydro newsletters	11%
Television	9%
Hydro bill inserts	7%
Neighbours and friends	6%
Radio	5%
Don't know	4%
Contacted local hydro utility	2%
Twitter, Facebook or other social media	1%

Base: An aggregate of respondents from all 2011 participating utilities

86% of all Ontario respondents indicated that it is very or somewhat important to have a central source of information about ideas, products, incentives and services that help them reduce electricity use.

We must be concerned with the public's understanding of the energy problem because customers will not conserve unless they know how and why they should. Making it easier and simpler for people to access information is half the battle in getting them informed and educated. As we have stated to many in our training programs, seminars and workshops: “the confused mind will always say no”.

Respondents were told that there has been a website designed to be a central source of information about ideas, products, incentives and services that help you reduce your use of electricity. Respondents were told this website was called “saveonenergy.ca”. Only 17% of Ontario respondents said that they were very or somewhat familiar with the website – despite heavy television advertising during the field research period.

Regardless of the environment or the issues which the utility faces, its primary job is to provide safe, reliable energy to each customer—and it must live up to the expectations of its customers and its owners.

Better prices has been the number 1 suggestion for the 13 years that UtilityPULSE has been conducting the survey, unfortunately more people are making this suggestion.

Pricing or cost is an issue with customers. Whether it's the result of the HST introduced to Ontarians in July 2010, mis-information about the new time-of-use metering system, or the latest green energy initiatives, many Ontarians have seen their electricity bills get bigger making life less affordable for some.

And we are interested in knowing what you think are the one or two most important things 'your local utility' could do or fix to improve service to their customers?

Horizon	% of all suggestions
Better prices/lower rates	64%
Improve power reliability	5%
Eliminate smart meters	21%
Better communication with customers	2%
Improve billing	4%
Be more environmentally friendly	6%
More knowledgeable staff	2%
Information & incentives on energy conservation	5%
Don't charge for previous debt	6%
Be more efficient	4%

Base: total respondents with a suggestion

Ontario seniors, especially those on fixed incomes, are finding it more and more difficult to manage household budgets. Both the harmonized sales tax (HST) and time-of-use pricing have a huge impact on seniors and families with young children who are at home during the day. Many households are limited in their ability to change their electricity consumption pattern. It's particularly difficult to change usage for those who work at home or are home during the day. None-the-less, when under pressure the Ontario government introduced an energy tax benefit program for lower income households.

Is paying for electricity a worry or major problem…			
	Horizon	**National**	**Ontario**
Not really a worry	59%	63%	52%
Sometimes I worry	26%	25%	31%
Often it is a major problem	11%	8%	13%
Depends	2%	2%	3%

Base: total respondents

Your utility is operating in what we would call a "testy" environment – with a real concern that the political rhetoric of the summer and fall of 2011 could turn the customer into a very negative group. The following actions are important for your utility to do:

1- Continuing the utility's diligence in delivering high quality service with the aim of creating more "secure" customers [Secure customers are those who are advocates for you.]
2- Being seen as a pro-active communicator on issues or opportunities which affect customers.
3- Maintaining the integrity of your brand image.
4- Dealing effectively with mis-information about issues.
5- Profiling testimonials from real people about the value of conservation.

Customer Loyalty Groups				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Horizon				
2011	23%	9%	57%	11%
2010	20%	15%	57%	9%
2009	22%	16%	53%	9%
2008	20%	15%	59%	7%

Base: total respondents

The UtilityPULSE survey asks about satisfaction in the beginning of the survey and then towards the end of the survey. The average increase in post-satisfaction was 4-5 points higher than the initial customer response. For example, if the initial customer satisfaction level was 88% then the post-satisfaction level would be 92 or 93%. For 2011 the differential fell to an average of 2%.

We view this low rate of up-tick as significant variance from previous years. We believe that any up-tick is actually good news because, irritated people are typically more entrenched in their beliefs about companies and what is going on. Clearly, customers need more credible information about the value and value proposition that your utility brings to them.

This past year has been a challenging year for most utilities and we believe that the next 12 months will be no different. The reality is there are things that you can control and there are things that you cannot control. As trite as it sounds, work hard at controlling the things that you can – and work harder at influencing others in the industry to understand the impact of their decisions and messaging to your customers.

Pro-active communications about issues and opportunities that affect customers is key to securing longer-term support from your customers. So is demonstrating empathy and compassion coupled with professional excellence when customers have problems.

We encourage you to use the data in your survey to have meaningful conversations with everyone about customers'—satisfaction, concerns, suggestions, etc. Utilities with a constructive employee culture with high levels of employee engagement will have an easier time navigating the choppy waters of the current environment. The reason is simple, everything you do and everyone in your utility represents the brand – hence its perceived value.

Sid Ridgley

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June, 2011

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Good things happen when work places work. You'll receive both strategic and pragmatic guidance about how to improve Customer & Employee satisfaction with leaders that lead and a front-line that is inspired. We provide: training, consulting, surveys, diagnostic tools and keynotes. The electric utility industry is a market segment that we specialize in. We've done work for the Ontario Electrical League, the Ontario Energy Network, and both large and small utilities. For thirteen years we have been talking to 1000's of utility customers in Ontario and across Canada and we have expertise that is beneficial to every utility.

Culture, Leadership & Performance – Organizational Development	**Focus Groups, Surveys, Polls, Diagnostics**	**Customer Service Excellence**
Leadership development	Diagnostics ie. Change Readiness, Leadership Effectiveness, Managerial Competencies	Service Excellence Leadership
Strategic Planning	Surveys & Polls	Telephone Skills
Teambuilding	Customer & Employee Focus Groups	Customer Care
Organizational Culture	Customer Satisfaction and Loyalty Benchmarking Surveys	Dealing with Difficult Customers

Benefit from our expertise in Customer Satisfaction, Leadership development, Strategy development or review, and Front-line & Top-line driven-change. We're experts in helping you assess and then transform your organization's culture to one where achieving goals while creating higher levels of customer satisfaction is important. Call us when creating an organization where more employees satisfy more customers more often, is important.

Your personal contact is:

Sid Ridgley, CSP, MBA

Phone: (905) 895-7900 Fax: (905) 895-7970 E-mail: sridgley@simulcorp.com

1-CCC-6_Attch_2012 Customer Satisfaction Survey

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Horizon Utilities Corporation

14th Annual Electric Utility Customer Satisfaction Survey

The purpose of this report is to profile the connection between Horizon Utilities Corporation (Horizon) and its customers.

The primary objective of the Electric Utility Customer Satisfaction Survey is to provide information that will support discussions about improving customer care at every level in your utility.

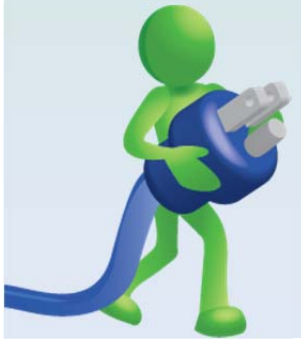
The UtilityPULSE Report Card® and survey analysis contained in this report do not merely capture state of mind or perceptions about your customers' needs and wants - the information contained in this survey provides actionable and measurable feedback from your customers.

All comments and questions should be addressed to:

Sid Ridgley, UtilityPULSE division, Simul Corporation

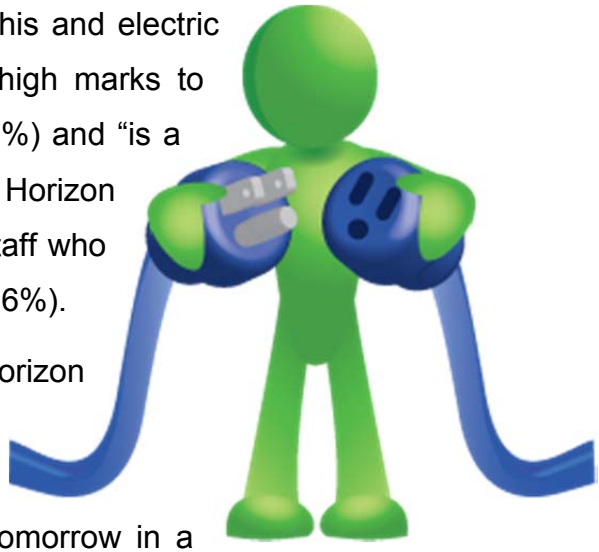
Toll free: 1-888-291-7892 or Local: 905-895-7900

Email: sidridgley@utilitypulse.com or sridgley@simulcorp.com



Executive summary

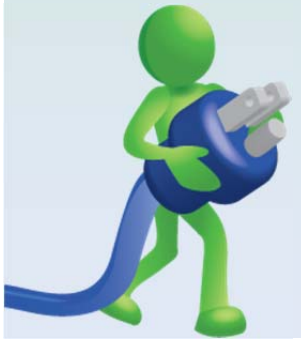
One of the challenges for utilities today, in the midst of finalizing the SMART meter roll-out and migration to Time-Of-Use (TOU) pricing, is how to educate, empower and really connect with their residential and small business customers. The goal for utilities being, to cut through the fog of fear, misinformation and confusion that exists amongst its customers regarding a myriad of subjects (e.g., electricity contracts, TOU, SMART meters, and more) while retaining a very high level of trust, respect and credibility.



The heart of the word customer is “custom”. Excellent companies know this and electric utilities are recognizing a need for more “custom”. Respondents gave high marks to Horizon Utilities as it relates to “respected company in the community” (87%) and “is a trusted and trustworthy company” (86%). When customers contacted Horizon Utilities about a problem they gave top marks for “The helpfulness of the staff who dealt with you” (79%) and “The knowledge of the staff who dealt with you” (76%).

While the pace of change quickens, a major challenge is to ensure that Horizon remains relevant to all of its stakeholders. For businesses in a regulated environment it is difficult for leaders to make workplace, people and process changes in order to be successful today and successful again tomorrow in a changed world. The stakes are very high, and the more successful organizations will be those that

become customer-centric, incorporating the customer's perspective, values and needs into their business and operations strategy, capability development, and execution prowess.



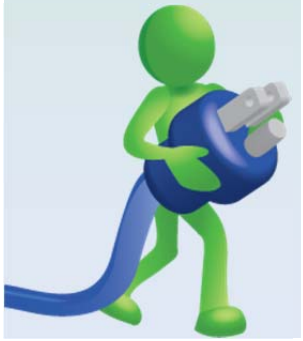
Horizon Utilities' UtilityPULSE Report Card®

Performance

	CATEGORY	Horizon	National	Ontario
1	**Customer Care**	A	**B+**	**B+**
	Price and Value	A	B+	B+
	Customer Service	A	B+	B+
2	**Company Image**	**A**	**A**	**B+**
	Company Leadership	A	A	B+
	Corporate Stewardship	A	A	B+
3	**Management Operations**	**A**	**A**	**A**
	Operational Effectiveness	A	A	A
	Power Quality and Reliability	A+	A+	A
	OVERALL	**A**	**A**	**B+**

* Weightings are based on pulse figures shown in the UtilityPULSE Report Card®

UtilityPULSE, in the conducting of your survey, measures respondents' feedback from over 20+ attributes that a customer could use to describe their thinking about how satisfied and loyal they might be towards their utility. While customer perceptions always add up to 100%, the attributes or factors that customers use to assess their satisfaction and relationship with Horizon are not equally weighted. Adverse publicity or negative factors in the economy, or polarized messaging in the industry create shifts as to what is important to the customer. For example, if an electric utility were to experience 3X as many outages as they have had in the past, then the category "Management Operations" would play a strong role in assisting customers in making a judgment about their electric utility.



Horizon Utilities' UtilityPULSE Report Card®

Importance to Customers

	CATEGORY	Horizon	National	Ontario
1	Customer Care	19%	19%	21%
2	Company Image	34%	34%	32%
3	Management Operations	47%	47%	47%
	Total	100%	100%	100%

Shares may not add exactly to 100% due to rounding.

While there are shifts year to year, there are also some longer term shifts as well. For example, Company Image was rated in the low 20's for most utilities in 2007, now it is firmly entrenched in the 30 percent range.

Marketing communications remains an important area of investment for electric utilities, for 2012-2013 articulating Price and Value should be a priority.

SATISFACTION SCORES – Electricity customers' satisfaction			
	Horizon	**National**	**Ontario**
Top 2 Boxes: 'very + fairly satisfied'	93%	89%	88%

Base: total respondents

Electricity bill payers who are 'very or fairly' satisfied with…				
	2012	**2011**	**2010**	**2009**
Horizon	93%	90%	92%	94%
National	89%	90%	92%	92%
Ontario	88%	86%	89%	89%

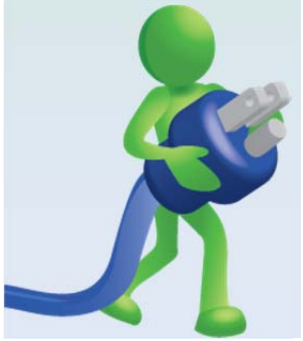
Base: total respondents

Confidence in an organization's brand is demonstrated when customers agree strongly with the attributes; "keeps its promises to customers and the community" and "is a trusted and trustworthy company."

Attributes strongly linked to a hydro utility's image			
	Horizon	National	Ontario
Is a respected company in the community	87%	85%	82%
Maintains high standards of business ethics	86%	82%	80%
A leader in promoting energy conservation	83%	81%	79%
Keeps its promises to customers and the community	83%	81%	79%
Beyond providing jobs and paying taxes, is socially responsible	84%	80%	77%
Is a trusted and trustworthy company	86%	83%	80%

Base: total respondents with an opinion

Trust is a word that we use all the time, yet it is one of the most over-used and under-practiced words of our time. Corporate credibility refers to customer and other stakeholder perceptions of an organization's trustworthiness and expertise. That is, the believability of its intentions and communications at a particular moment in time. Corporate credibility is whether a company can be relied on to do what it says it will do. Our research shows that the under-pinning components that lead a person to believe that an organization has credibility and can be trusted are: Knowledge, Integrity, Involvement and Trust. Your customers give you an "**A**" overall for demonstrating credibility and trust.



The Killer B's (Blackouts and Bills)

It is inevitable that there will be blackouts/power outages – the key is how a utility anticipates outages and deals with them.

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Horizon	National	Ontario
2012	19%	44%	46%
2011	18%	43%	43%
2010	27%	45%	41%
2009	27%	50%	46%

Base: total respondents

There is a disconnect between what a utility might call a "billing problem" and what a customer defines as a "billing problem". Though both viewpoints are valid, employees need to be trained to answer those that cause the most concern with customers.

Percentage of Respondents indicating that they had a Billing problem in the last 12 months			
	Horizon	National	Ontario
2012	8%	12%	13%
2011	12%	10%	16%
2010	7%	10%	12%
2009	7%	9%	10%

Base: total respondents

Types of Billing Problems			
	Horizon	National	Ontario
The amount owed was too high	41%	60%	62%
Complaint about rates or charges	26%	20%	19%
The bill was difficult to understand	2%	3%	3%

Base: total respondents

For those respondents who indicated during the interview that they did have a problem, we also asked whether they had contacted their utility about the problem. High affinity customers call in less and state more frequently that their problem was "solved."

The following table illustrates some of the important attributes which help shape a customer's perception about quality service and customer care when they contact the utility.

Customer Service – Top 2 Boxes	Horizon	National	Ontario
The time it took someone to answer the phone	76%	69%	69%
The time it took someone to deal with your problem	72%	72%	75%
The helpfulness of the staff who dealt with you	79%	75%	76%
The knowledge of the staff who dealt with you	76%	76%	73%
The level of courtesy of the staff who dealt with you	83%	83%	85%
The quality of information provided by the staff who dealt with you	76%	77%	74%

Base: total respondents

There is a difference between Customer Service and Customer Care. Customer Service is a series of processes/activities designed to ensure that Customers are getting what they expected while, simultaneously, enhancing the level of customer satisfaction. Customer Care is a larger body of work, activities and processes that enable the customer to fulfill a need or solve a problem.

Attributes describing the local electricity utility			
	Horizon	National	Ontario
Deals professionally with customers' problems	86%	83%	83%
Customer-focused and treats customers as if they're valued	80%	75%	75%
Provides good value for money	70%	70%	65%
Works with customers to keep their electricity costs affordable	64%	62%	60%
Is pro-active in communicating changes and issues which may affect customers	80%	75%	76%
Adapts well to changes in customer expectations	76%	73%	70%
The cost of electricity is reasonable when compared to other utilities	61%	65%	57%

Base: total respondents with an opinion

This year's survey indicates that customers really want **CARE**:

- Customer-centricity
- Affordability
- Reliability
- Empathy

What do customers think about electricity costs?

There is a correlation between ability to pay and satisfaction with higher earners reporting the highest levels of initial satisfaction with their utility. It is also true that emotional connectivity, i.e. loyalty, also plays a role about what customers think about costs. Out of all the Ontario survey respondents this year, 18% of Secure customers vs 49% of At Risk customers report that they sometimes or often worry about paying their electricity bill.

Is paying for electricity a worry or major problem…			
	Horizon	**National**	**Ontario**
Not really a worry	66%	67%	59%
Sometimes I worry	23%	22%	27%
Often it is a major problem	8%	8%	11%
Depends	1%	2%	2%

Base: total respondents

Renewable Energy

55% of survey respondents in the Ontario survey indicated that it was very important or somewhat important that the Government of Ontario continue to encourage the development of green energy.

Solar power is a renewable energy source of interest for many residential customers. However, when asked, how soon a respondent might act on their "interest", the vast majority of respondents state 12 months or more.

Purchasing an Electric Vehicle

Electric cars are currently priced thousands of dollars more than equivalent gasoline-fuelled models, and they currently have limited range; customers are very much concerned over recharging time, availability of charging stations and battery replacement cost. The challenge becomes building a better lithium-ion battery, one that improves range, has longer battery life, is quick charging and can be obtained at low-cost

While consumers, en masse, are not ready to sacrifice financially to make the shift to EVs, 4 out of 10 Canadians – 44% – responded they would have interest in purchasing an electric vehicle. However, 13% of those are actually considering making the purchase over the course of the next 24 months.

Conservation, Smart Meters & TOU

SMART meter implementation hinges on the idea that consumers actually understand their electricity use. It's not news that SMART meter customers don't yet care enough to obsessively track their electricity use but a lack of interest isn't the problem; it's a lack of understanding. There is a direct correlation between customer familiarity with SMART meters and their favourable views toward the

technology. Most customers in our survey still don't understand what SMART meters are all about, and this lack of knowledge is a real barrier to ultimate acceptance.

For 2012 there is a drop in the number of respondents who said that they were paying more as a result of TOU – time and experience have a way of allaying fears that many might have had caused by negative press. [2012:28% - 2011:38%]

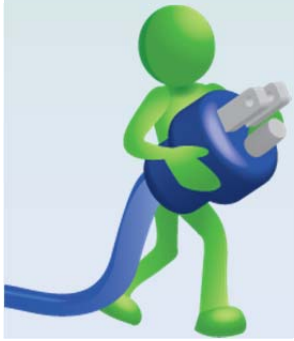
Clearly, the only way to help Ontarians cope with rising electricity rates over the long term is to push for deep energy conservation in households. Achieving energy conservation is a twofold challenge, partly technical and partly human. The development of energy-conserving technologies is a necessary but insufficient step toward reduced energy consumption. Unless adopted by a significant segment of customers, the impact of technical innovations will be negligible.

32% of respondents in the Ontario survey indicated that the primary reason for conserving electricity was "to protect the environment" and 24% said "to save money". However 36% of Ontarians certainly like the idea of using coupons to help them make purchases of qualified products.

"It's too expensive or I cannot afford it" are the most frequently given reasons for not taking energy efficiency actions, according to this year's survey results. This is closely followed by time required and a lack of knowledge or understanding about energy conservation issues.

What are the 1 or 2 barriers to energy conservation experienced by Ontarians?	
	Ontario
Cost involved in making equipment/appliance changes	18%
Time required to implement some of the measures	8%
Lack of interest or personal responsibility	7%
Lack of knowledge	6%
Lack good information on where to save energy	4%
Hydro bill is going up faster than I can reduce use of electricity, so why bother	4%
Have an issue with Government policies	3%
Not enough incentives	2%
Not sure that the savings advertised are "real"	1%
Don't know	54%

Base: total respondents from 2012 Ontario benchmark survey



Keeping education on conservation simple is an important key to changing customer behaviour. There are just three basic questions that people need to answer in order to engage in energy conservation:

1. What – What is the specific action that I can take?
2. Why - Why is this action important to me?
3. How - How can I implement this action in the most effective and non-obtrusive way?

It may be necessary to start with the “why" because people don't want to invest any time in learning until they understand what the potential benefits are. So what does this all mean? People need to be educated about the financial and environmental implications of their actions. Very few people are willing to change their behaviours just because someone tells them to do it. People want to know the specifics of what they can do and clearly see how it can save them money and make an impact.

E-billing, E-care and Social Media

Research shows the growing importance of customer care and the role that the internet now plays. Canadians are making greater and more diverse use of the internet, however, there still exists a gap in the rate of internet use among certain groups of Canadians on the basis of income, education and age. Surprisingly 14% of all Ontario survey respondents indicated that they do not have access to the internet. Of those that do have access, 78% said they had visited their utility’s website in the last 6 months.

The internet is starting to change the way utilities interact with their customers. The mandate-besides cutting costs-is to provide a richer, more productive experience than telephone communications for many customer activities. In addition, the proliferation of smart phones and mobile devices will

continue to change how customers choose to interact with their utility. Utilities will need to be prepared to support multiple platforms of interaction.

Likelihood of using the internet for future customer care needs for things such as:		
Top 2 Boxes: 'very + somewhat likely'	**Ontario LDCs**	**Horizon**
Setting up a new account	37%	28%
Arranging a move	44%	39%
Accessing information about your bill	56%	47%
Accessing information about your electricity usage	57%	46%
Accessing energy saving tips and advice	50%	41%
Learning more about SMART meters	52%	43%
Registering a complaint	40%	35%
Registering a compliment	47%	43%
Accessing information about Time Of Use rates	57%	49%
Maintaining information about your account or preferences	54%	43%
Paying your bill through the utility's website	33%	26%
Paying your bill using smart phone applications	23%	16%

Base: An aggregate of respondents from 2012 participating LDCs / 90% of total respondents from the local utility

You can't ignore that using electronic means to deliver and pay for bills is on the rise. Ten years ago marked the advent of electronic billing. Today, it's become the norm for internet users to receive bills via email or collect them from a website.

Respondents of this year's survey were asked *"As it relates to using the internet for billing which of the following statements comes closest to your own feelings about electronic bill statements …"*

Using the internet for billing		
	Ontario LDCs	**Horizon**
I am already receiving my hydro bill electronically	7%	9%
I use on-line banking and will definitely be requesting that my bill be sent electronically	11%	7%
I use on-line banking but prefer to have paper statements	37%	27%
I prefer to have the paper copy of my bills	24%	30%
I don't use on-line banking	19%	25%

Base: An aggregate of respondents from 2012 participating LDCs / 90% of total respondents from the local utility

Not surprisingly, 28% of 18-34 year old respondents indicate that they are or will be requesting electronic billing, it was 14% for respondents aged 55+.

Cost savings is the most frequently cited benefit of internet-based service. The cost of customer support through a web-based support system is much lower compared to a voice-response unit or

human interaction. In theory, paperless billing makes a lot of sense for consumers and companies. Customers get their bills quicker and have less paper cluttering files on desks, while companies can save a lot of money by reducing their printing and mailing costs. The only problem is paperless billing has been embraced with a tepid enthusiasm.

Likelihood of the following to encourage customers to go paperless for billing purposes		
Top 2 Boxes: 'very + somewhat likely'	**Ontario LDCs**	**Horizon**
Providing a one-time financial incentive to switch	54%	44%
Being entered into a special draw for customers who make the switch	43%	35%
Charging more for paper bills	40%	35%
Learning more about the benefits to going green with paperless billing	47%	38%
A better understanding of the convenience of paperless billing	45%	36%

Base: An aggregate of respondents from 2012 participating LDCs / 90% of total respondents from the local utility

Utilities should concentrate their message on "what customers get" when they go paperless. We would also recommend that utilities think creatively about bundling paperless with other technologically assisted information i.e., electronic notification of high use, monthly billing (where bi-monthly currently exists), or even bi-weekly billing.

Internet forums, user communities, and social-networking sites are the new ways people are talking to each other and getting some of the answers they need. Twitter is fast becoming the go-to medium

for customer support. Have a question – tweet it – and wait sometimes less than an hour for a quick fix, recommended remedy, or information on where to go next.

Social media is evolving and it gives companies the opportunity to proactively identify customer issues which will help the utility address problems quickly thereby minimizing the impact on the broader customer base.

Respondents of this year's survey were asked *"how likely they would use social media such as twitter, facebook (and others) to get information"…*

Likelihood of using Social Media to gather information		
	Ontario LDCs	**Horizon**
Very likely	4%	4%
Somewhat likely	7%	5%
Not likely	18%	14%
Not likely at all	67%	72%
Don't have social media account	2%	4%
Don't know	1%	1%

Base: An aggregate of respondents from 2012 participating LDCs / 90% of total respondents from the local utility

In a world of uncertainty, customers want to be connected to an organization that is credible and trusted. With multiple channels for contact, the number of customer "touch points" and "moments of

truth" have grown exponentially. Fostering a culture of superior customer care will help ensure that those "touch points" result in a favourable impression.

Customer satisfaction is certainly nice to have, but it does not result in a secure customer. Satisfied customers may be pleased with a recent experience or the utility overall, but often they may not have an emotional connection with the utility.

As stated earlier, cutting through the fog of fear, misinformation and confusion that exists amongst customers is really quite a challenge. We recommend the following actions as important for your utility to do:

1- Continuing the utility's diligence in delivering high quality service with the aim of creating more "secure" customers [Secure customers are those who are advocates for you.]
2- Being seen as a pro-active communicator on issues or opportunities which affect customers.
3- Maintaining the integrity of your brand image.
4- Dealing effectively with mis-information about issues.
5- Profiling testimonials from real people about the value of conservation.

Customer Loyalty Groups				
	Secure	Favorable	Indifferent	At Risk
Horizon				
2012	27%	14%	51%	9%
2011	23%	9%	57%	11%
2010	20%	15%	57%	9%
2009	22%	16%	53%	9%

Base: total respondents

For Ontario utilities the top 5 factors most closely correlated with high satisfaction are: reliable energy, respected company, trusted company, accurate billing and electricity safety as a top priority. Doing the core job of the utility AND maintaining a positive brand image is important to your customers.

Recognizing that there are many “moments of truth” that add up to a customer experience then it is important that your utility:

- Demonstrate its knowledge about the things that matter to customers (reliability, safety, conservation).
- Ensure that every utility employee recognizes that every interaction with a customer is an opportunity to delight or disappoint, therefore always be helpful.
- Effectively communicate, in customer-friendly ways, about its energy conservation and billing programs.

- Leadership recognizes that organizational culture, leadership style and performance are tightly tied together.

The primary goal of really listening to customers and responding effectively to them is to create a higher level of affinity with your organization. With higher levels of affinity come higher levels of confidence that you and your people will handle their problems with speed and professionalism. This results in less stress on your call-centre. It also results in higher levels of acceptance of various communiqués and marketing messages which you send to the customer.

By effectively leveraging results from your 2012 customer survey derived from speaking with 604 Horizon customers [March 21 - March 29, 2012] you can have meaningful conversations with everyone about customers'—satisfaction, concerns, suggestions, etc. Utilities with a constructive employee culture with high levels of employee engagement will have an easier time navigating the choppy waters of the current environment. The reason is simple, everything you do and everyone in your utility represents the brand – hence its perceived value.

Sid Ridgley

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1-CCC-7 (Ex.1/T2/S2/p. 7)

Horizon's evidence is that it has implemented biennial employee surveys to measure and monitor employee engagement and satisfaction. Please provide the results of the last two surveys.

Response:

Horizon Utilities engages an independent external provider to administer a biennial Employee Survey. The survey is a tool to aid in enhancing organizational effectiveness by identifying opportunities for continued improvement. Survey results are presented to: the Executive Management Team; the Horizon Utilities Board of Directors; senior leaders; and subsequently cascaded to employees in all departments.

The last two surveys were conducted in the Fall of 2011 and 2013 with a response rate of 85% and 87% respectively. The survey is comprised of 8 major survey categories (employee engagement, satisfaction with work, compensation and benefits, supervision, learning/development/career opportunities, teamwork, communication, and confidence in leadership) and key indicators upon which an overall employee engagement and satisfaction score is derived.

Table 1 below shows the eight major survey areas and the overall satisfaction ratings for 2011 and 2013 as well as 2009 to demonstrate positive progress (on a 4 point scale):

Table 1: Employee Survey Results

	2013	2011	2009
Employee Engagement	3.2	3	2.9
Satisfaction with Work	3.1	3	3
Compensation and Benefits	3.1	2.9	2.9
Supervision	3	3	3
Learning, Development and Career Opportunities	3	2.9	2.9
Teamwork	3	2.9	2.9
Communication	2.9	2.8	2.8
Confidence in Leadership	2.9	2.7	2.6

Horizon Utilities realized a statistically significant improvement in survey results from an engagement and satisfaction score of 68% in 2011 to 75% in 2013.

Key areas of continued focus include: communication; learning and leadership development; performance management, attendance management, recruitment tools and practices (Exhibit 4, Tab, Schedule 3, p.13-15); and safety and wellness (Exhibit 4, Tab 3, Schedule 3, p.16).

As provided in Exhibit 1, Tab 2, Schedule 2, p.8:

"The feedback received from these surveys enables Horizon Utilities to implement programs and initiatives that increase employee engagement. Engaged employees are more likely to expend discretionary effort to go above and beyond normal job requirements to further the organization's interests and reputation with higher levels of performance, productivity and customer service."

1-CCC-8 (Ex. 1/T2/S2/p. 9)

Please provide the following consulting studies:

1. **Office Space and Utilization Study by Prism Partners Inc.;**
2. **CAPSYS Security Study;**
3. **MMM Group Limited study; and**
4. **Garland Canada Inc. roof assessment**

For each of these studies please provide the cost of the study and indicate how those costs are being recovered. In addition, please provide the cost of the Kinetrics ACA Report, the Kinetrics Useful Life of Assets Report and the KPMG Assurance Review of Kinetrics ACA. Please indicate how the costs of these reports are being recovered. Specifically, have they been expensed or capitalized?

Response:

The table below lists the requested studies and the associated costs. All costs related to the buildings studies and asset condition assessments have been expensed. The cost of the Kinectrics' Useful Life of Assets Report was recorded to Account 1508 Other Regulatory Assets – Sub Account IFRS Transition Costs Variance in accordance with the Ontario Energy Board's Accounting Procedures Handbook.

Studies	Consultant	Total Cost	Reference
Office Space and Utilization Study	Prism Partners Inc.	[redacted]	Appendix J in Exhibit 2, Tab 6, Appendix 2-4
John Street Roof Inspection Review	Garland Canada Limited	[redacted]	Appendix N in Exhibit 2, Tab 6, Appendix 2-4
Head Office Window Assessment	MMM Group	[redacted]	Appendix M in Exhibit 2, Tab 6, Appendix 2-4
Physical Security Report	CAPSYS Security	[redacted]	Appendix L in Exhibit 2, Tab 6, Appendix 2-4
Kinectrics' 2013 ACA	Kinectrics	[redacted]	Appendix B in Exhibit 2, Tab 6, Appendix 2-4
Kinectrics' Useful Life of Assets Report	Kinectrics	[redacted]	Appendix 4-9 in Exhibit 4, Tab 5
KPMG Assurance Review of Kinectrics ACA	KPMG	[redacted]	Appendix C in Exhibit 2, Tab 6, Appendix 2-4

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1-CCC-9

In the RRFE Report the Board indicated that it will monitor capital spending against the approved plan by reporting annually on actual amounts spent. Please indicate how Horizon intends to meet this reporting requirement. What specific type of reporting will Horizon undertake, and what will be the timing of that reporting?

Response:

Please see Horizon Utilities' response to Interrogatory 2-SIA-15 a).

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1-CCC-10 (Ex. 1/T2/S6/p. 1)

Horizon is seeking approval of 5 years of revenue requirements. To what extent has Horizon addressed the fact that Horizon and its customers will be subject to forecast risk? Does Horizon propose any ratepayer protection mechanisms to ensure that ratepayers are not subjected to an unacceptable level of risk throughout the plan term? If not, why not? If so, please indicate what those protection mechanisms are.

Response:

Ratepayer forecast risks result to the extent that Horizon Utilities: i) spends less on its programs than forecast in this Application and, as a consequence, ratepayers have provided more rate compensation than necessary to finance such programs; ii) spends more on its programs than forecast in this Application and, as a consequence, future rates beyond the plan term are higher than those had Horizon Utilities achieved its programs at the forecast cost.

Forecast risks arise from circumstances or events that are within management's control (internal risks) and those that are outside management's control (external risks).

Internal risks are controllable and are best managed through active prevention. Such risks can result in variability in capital and operating expenditures as compared to budget and consequently result in ratepayer forecast risks. Horizon Utilities has undertaken the following measures to manage and mitigate internal risks associated with capital and operating expenditures:

- Prepared a comprehensive Distribution System Plan ("DSP") over a twenty year planning horizon which identifies planned and necessary investments in the renewal of Horizon Utilities' distribution system;
- Performed detailed Asset Condition Assessments ("ACA") on distribution assets in the development of the above-mentioned DSP. The ACA provides essential insights into the state of the distribution system and building assets to support capital expenditures as provided in Appendix B of the DSP filed as Appendix 2-4 in Exhibit 2;
- Engaged Evans Consulting Services in 2013, a leading building assessment firm, to conduct a Building Condition Assessment ("BCA") (provided in Appendix K of the DSP filed as Appendix 2-4 in Exhibit 2) of the five main Horizon Utilities buildings and 28

substations to support a long-term plan for facilities renewal and maintenance and confirm required investment levels;

- Forecast capital expenditures with a high level of accuracy and specificity as identified in Horizon Utilities' response to Interrogatory 2-SIA-19;
- Provided extensive evidence in Exhibit 4 that provides details and support for Horizon Utilities' OM&A expenditures;
- Implemented a centralized Planning and Scheduling process as identified in Exhibit 4, Tab 2, Schedule 2, which included the creation of a new Project Controls Office department, to efficiently and effectively deploy labour, vehicles, tools and materials; and reduce variability in Operating and Maintenance expenditures;
- Prepared a Workforce Labour Strategy and Plan ("WLSP") filed as Appendix 4-3 of this Exhibit. The WLSP provides reasonable projections of retirements, attrition and hiring requirements for the 2015-2019 rate plan and enables Horizon Utilities to regularly assess the availability of resources and identify strategies to mitigate risk through workforce planning;
- Mitigated risks associated with collective bargaining by negotiating for terms that endeavour to control costs and mitigate forecast risk such as the current contract which was negotiated for a 4 year term ; and
- Implemented productivity initiatives and efficiency improvements to offset increasing expenditures and reduce the risk of spending more on its programs than forecast.

External risks arise from events outside Horizon Utilities and are beyond its influence or control. Such risks arise from but are not limited to significant fluctuations or changes in: the cost of power; weather; changes in government policy; industry rules and regulations; the economy; and labour and skills availability. In order to address external risks beyond management's control, Horizon Utilities is proposing annual adjustments and reopeners as discussed in Exhibit 1, Tab 12, Schedule 1.

Any rate setting methodology that is based on a future year or future years contains forecast risks. Horizon Utilities is confident the known risks have been adequately accounting for in the

forecast used to determine revenue requirements. There will always be risks beyond managements' control that cannot be forecasted and incorporated into the best of plans.

The Board has indicated in the RRFE that it may consider that capital expenditures variances from plan will be tracked in a variance account as needed which will also provide a level of protection against unacceptable forecast risk.

Horizon Utilities has provided substantial evidence describing and supporting its capital needs and cost and revenue forecasts for each year in the rate plan. This evidence is being tested in the proceeding. A major element of that testing is the reasonableness of Horizon Utilities' forecasts and, by association, the acceptability of risk to the ratepayers in light of the benefits that they would derive from the elements that support the rate plan. Such benefits have been articulated in both the pre-filed evidence and in Horizon Utilities' responses to interrogatories.

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1-CCC-11 (Ex. 1/T2/S6/p. 1)

Both Union Gas Limited and Enbridge Gas Distribution Inc. have implemented 5-year rate-setting mechanisms. Union's most recent plan was approved by the Board in 2013 for a five-year term. An integral part of Union's current plan is an earnings sharing mechanism ("ESM"). Would Horizon be amenable to including an ESM as a part of its five-year plan? If not, why not? If so, how would that mechanism be structured?

Response:

Horizon Utilities is not amenable to an earnings sharing mechanism ("ESM"). An ESM has been an established part of the rate setting regime for natural gas utilities in Ontario. By contrast, the Board's rate setting policies under the RRFE do not include an ESM for electric utilities. Contemplation of such a mechanism would, in Horizon Utilities' view, necessitate the need for a wholesale change, for the electricity distribution sector, in terms of the current rate setting options and the elements within those options. Such cannot be properly or fairly achieved or even contemplated within the confines of Horizon Utilities' current Application.

This notwithstanding, Horizon Utilities' Application has embedded savings for customers as identified in Horizon Utilities' response to 1-Staff-4.

Horizon Utilities has identified in its discussion of off-ramps to the rate term in Exhibit 1, Tab 12, Schedule 3 of the Application, that it would be subject to the Board's review, should its earnings be +300 basis points. Horizon Utilities therefore does not believe that an ESM is necessary.

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1-CCC-12.1 (the first of 2 questions numbered 12 in the original CCC IRs)
(Ex. 1/T2/S6/p. 11)

Kinetrics recommended that Horizon undertake a 5-year investment of $200 million. Horizon has proposed a "Renewal Investment" level of $147 million. Please provide the terms of reference for the Kinetrics Study. Please explain, in detail, the process that Horizon undertook to arrive at the $147 proposed amount.

Response:

The following information (numbered as sections 2 and 3 below), provided by Kinectrics, constitutes the objectives and scope of the Kinectrics' project and the statement of Kinectrics' work and deliverables:

"**2 OBJECTIVES AND SCOPE OF PROJECT**

Kinectrics brings to the table a demonstrated expertise and proven track record needed to perform ACA of Horizon's electrical distribution system assets.

The scope of ACA work includes the following for each of the asset categories specified in the Section 3, "Scope of Work and Deliverables":

- Developing Horizon-specific Health Index formulations and Condition Criteria
- Determining Health Index distribution
- Performing Risk Assessment to link Health Index with the corresponding Probability of Failure (POF)
- Prioritizing transformers and circuit breakers for replacement/refurbishment based on the Risk of failure that considers both unit's POF and criticality.
- Developing Optimal and Levelized Capital Replacement Plan based on the Health Index, assets criticality (for station transformers and breakers) and probability of failure related to IFRS-specified assets useful life for other asset categories
- Developing a prioritized risk-based replacement list for station transformers and circuit breakers
- Identifying data gaps and providing prioritized plan for closing them

3 STATEMENT OF WORK AND DELIVERABLES

Following are the work execution steps and deliverables for each project components, also indicating whose contribution will be required (Kinectrics and/or Horizon's):

1. *Kinectrics and Horizon* will agree on the "final list" of asset categories to be assessed starting with the initial list below:
    a. Station Transformers
    b. Stations Circuit Breakers
    c. Station Switchgear
    d. Pole-top Transformers
    e. Overhead Conductor
    f. Overhead Line Switches
    g. Poles
    h. Underground Cable
    i. Pad-mounted Transformers
    j. Pad-mounted Switchgear
    k. Vault Transformers
    l. Utility Chambers
    m. Pad-mounted Underground System Switchgear

The decision for the "final" list composition will depend on condition data/information availability, required granularity and number of assets. Also, it is possible that the "final" asset categories list may have some of the categories above subdivided in several separate categories, e.g. poles may be divided into wood poles and concrete poles categories, station circuit breakers may be divided into several categories based on their type, line switches may be divided into load break and fused, etc.

2. *Kinectrics* will provide Horizon with the required condition data for each of the asset categories on the "final" list.
3. *Kinectrics* will have a kick-off meeting with Horizon staff at the outset of the project to obtain their expert opinion needed to customize Health Index formulations.

4. *Horizon* will provide to Kinectrics the available condition data in electronic format set out by Kinectrics.
5. *Kinectrics* will arrange for a status update meeting once initial Health Indexing results are derived to assess their validity from Horizon's perspective and calibrate the results as needed.
6. *Kinectrics* will provide a draft report to Horizon for a review which will contain for each of the asset categories:
    a. Brief description of the methodologies used
    b. Health Index formulation used to derive Health Index
    c. Age distribution
    d. Health Index distribution based on the data provided by Horizon, interviews with Horizon staff and Kinectrics industry experience
    e. Capital replacement plans, both optimal and levelized
    f. Prioritized replacement plan for station transformers and circuit breakers
    g. Prioritized plan for closing identified condition data gaps
7. *Horizon* will review the draft report and will provide its comments to Kinectrics.
8. *Kinectrics* will produce a Final Report by incorporating Horizon's comments regarding the Draft Report"

With respect to the balance of the question, Horizon Utilities' proposed investment profile of approximately $147,000,000 represents the minimum renewal investment required to prevent the continued degradation of the Health Index distribution of Horizon Utilities' major asset categories through 2019. The process leading to the proposed investment of $147,000,000 is a result of the analyses set out in Horizon Utilities' Distribution System Plan ("DSP").

Horizon Utilities' assessment of the investment level of $200,000,000 was that this investment profile would result in an unfair rate impact on the customer base within a short period of time. The investment level proposed by Horizon Utilities allows for a graduated management of the cost implications for its customers.

Annual System Renewal capital expenditures for the rate plan term are discussed in further detail on pages 166-176 of the DSP filed as Appendix 2-4 of Exhibit 2, Tab 6; and on pages 1-27 of Exhibit 2, Tab 6, Schedule 1.

The proposed investment level of $147,000,000 is made of several system renewal Capital Investment Programs as identified in Table 1 of Appendix A of the DSP filed as Appendix 2-4 of Exhibit 2, Tab 6. The primary drivers of system renewal expenditures are the 4kV and 8kV Renewal Program and the XLPE Renewal Program contributing $66,614,000 and $36,014,000 respectively over the rate plan term.

The 4kV and 8kV Renewal Program investment level was determined by reviewing the following:

- asset health of the major overhead asset categories (wood poles, overhead primary conductor; and overhead transformers)
- substation health
- the level of redundancy and backup available between stations

An investment level was identified that would:

- prevent the Health Index distribution of the overhead distribution assets from degrading;
- allow for the renewal of the operating areas with substations assets in poor health; and
- address the operating areas with poor or limited feeder interdependency

For further details please reference pages 235-244 in Section 3.5.3 of the DSP filed as Appendix 2-4 of Exhibit 2; and Horizon Utilities' Interrogatory response to BOMA-2 parts b) to d).

The XLPE Renewal Program investment was determined by performing a sensitivity analysis of varying investment levels on the XLPE primary cable Health Index distribution. The proposed investment level in this Capital Investment Program represents the minimum investment that

would prevent the continued degradation of the Health Index distribution for this asset category. For further details please reference pages 245-252 in Section 3.5.3 of the DSP filed as Appendix 2-4 of Exhibit 2, Tab 6.

The determination of the investments levels for the remaining System Renewal Capital Investment Programs is provided in Appendix A of the DSP filed as Appendix 2-4 of Exhibit 2, Tab 6, as identified in Table 1 below.

Table 1

Renewal Program	Reference in Appendix A of the DSP
Reactive Renewal	page 25
Substation Infrastructure Renewal	page 27
Pole Residual Replacements	page 29
Load Break Disconnect Switch ("LBDS") Renewal	page 31
Proactive Transformer Replacements	page 32
Gage Transformer Egress Feeder Renewal	page 70
Rear Lot Conversion	page 34

Horizon Utilities proposed investment profile represents the minimum renewal investment required to prevent the continued degradation of the Health Index distribution of Horizon Utilities' major asset categories through 2019.

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1-CCC-12.2 (Ex. I/T7/S4/P.1)

Please explain how Horizon has calculated the "Distribution Bill Impacts" in Table 1-23. Please include all assumptions.

Response:

Horizon Utilities has calculated the Bill Impacts in Table 1-23 by comparing the prior year distribution rates to the proposed distribution rates at a consumption level of 800 kWh for Residential Customers and 2,000 kWh for GS < 50 customers.

Detailed bill impact calculations have been filed as Tables 8-40 through 8-72. These were also filed with the Board as a live excel file entitled EB-2014-0002 Horizon_Appendix 2-W_Bill Impacts_20140416.

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CCC.13 (Ex. 1/T12/S1/p. 1)

Horizon has set out a list of "annual adjustments for recurring events that are mechanical in nature." Is Horizon proposing that during the 5-year plan any annual adjustments will be limited to those on this list? If not, please indicate what other adjustments might be made. Please describe the process Horizon intends to follow in order to implement these adjustments.

Response:

Horizon Utilities has proposed annual adjustments for recurring events that are outside management's control. These are listed and discussed in Exhibit 1, Tab 12, Schedule 1 of the Application. For ease of reference the proposed adjustments are shown below as are references to specific exhibits:

1. changes in the cost of capital (Exhibit 5, Tab 1, Schedule1);
2. changes to working capital (Exhibit 2, Tab 4, Schedule 1);
3. changes in the tax rates (Exhibit 4, Tab 6, Schedule 2);
4. changes in other third party pass through charges (Exhibit 8);
5. CDM results that vary from plan (Exhibit 3, Tab 1, Schedule 2);
6. disposition of deferral and variance accounts (Exhibit 9); and
7. any additional annual adjustments as identified by the Board in developing the Custom IR Application process.

These are outside management's control and, as noted, can be categorized as recurring events. Unlike off-ramps, the main rate plan would continue with rate adjustments flowing from these recurring events being mechanistic in nature.

The list of adjustments includes known recurring adjustments and therefore may not be an all-inclusive list. For instance, the Smart Meter Entity ("SME") Charge is not listed. The current rate for the SME charge has a sunset date of October 31, 2018. Horizon Utilities anticipates the Board will provide a generic rate order to distributors following a determination on a new SME Charge, as it did in 2013. Horizon Utilities would include such a charge in its annual update.

Also, there may be other adjustments required annually that may stem from future Board policies.

Horizon Utilities has provided the process that it intends to follow for annual adjustments in its response to 1-EP-5.

1-CCC-14 (Ex. 1/T12/S2)

Horizon has set out a list of "adjustments outside of the normal course of business" for unexpected events that have a material impact on the operation of the utility that are outside of Management's control. Please describe the process Horizon intends to follow in order to implement these adjustments. Is Horizon proposing a materiality threshold regarding these adjustments? If not, why not? If so, what is that threshold?

Response:

Please see Horizon Utilities' response to 1-Staff-6.

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1-CCC-16 (Ex. 1/T12/S2)

If the Board moves forward with its intention to mandate 100% fixed charges how would Horizon propose to that these changes be implemented, in the context of its 5-year plan?

Response:

The Board released the Draft Report of the Board – *Fixed Rate Design for Electricity Distributors* on March 31, 2014 (the "Draft Report"). In the Draft Report, the Board has indicated its intent to pursue a fixed rate design solution to achieve revenue decoupling, starting with the residential and GS<50kW customers. The Draft Report included specific alternative proposals for fixed rate design options for the above-mentioned classes as part of the consultation. The Board has not made any determinations as a result of the consultation, at this point.

The Application, as filed, includes both annual adjustments and reopeners to the Application, as described in Exhibit 1, Tab 12, Schedule 1 and 2. A transition in the method of rate setting to a 100% fixed approach would not change the revenue requirement that the Board determines in this proceeding. Rather, it would change the revenue recovery design from the current fixed/variable method to fixed only.

A change from recovering the revenue requirement from a fixed/variable rate design to a fixed only design, would require testing of Horizon Utilities' billing system to assess what changes would be required to implement the new design. This has not been done as yet.

Depending on the timing of the direction by the Board to implement the new rate design, and the readiness of the required billing system changes, the new rate design may be implemented as part of the order flowing from this Application proceeding or through the annual adjustments provisions proposed by Horizon Utilities in the Application.

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2-CCC-17 (Ex. 2/T6/S1)

Please provide the current estimate of the in-service dates for the GIS (Geospatial Information System) and the OMS (Outage Management System).

Response:

The actual in-service date for the Geospatial Information System ("GIS") was July 21, 2014. The estimated in-service date for the first phase of the Outage Management System ("OMS") is October 20, 2014 and the estimated in-service date for the second phase of the OMS is May 25, 2015.

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2-CCC-18 (Ex. 1/T2/S6/p. 16)

Please provide actual rate base amounts for each year 2011- 2013 and 2014 (budget).

Response:

Horizon Utilities' rate base amounts for the 2011-2013 actuals and the 2014 Bridge Year forecast are identified in Table 1 below. These amounts are consistent with those provided in Table 2-1 - Summary of Rate Base on page 3 of Exhibit 2, Tab 1, Schedule 1.

Table 1: Rate Base

Year	Rate Base $ (MIFRS)
2011 Actuals	$ 374,953,530
2012 Actuals	$ 409,914,730
2013 Actuals	$ 447,694,225
2014 Bridge Year	$ 469,235,115

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2-CCC-19 (Ex. 1/T2/S6/p. 17)

Please recast Table 1-8 – Board Approved Capital Expenditures vs. 2015 Test Year Capital Expenditures to include actual amounts for 2011, 2012, 2013 and 2014 (budget). In addition, please include the forecast amounts for 2016-2019.

Response:

Horizon Utilities' Capital Expenditure amounts for the 2011-2013 Actuals, the 2014 Bridge Year and the 2015-2019 Test Years are identified in the table below. These amounts are consistent with those provided in Table 2-63 - Appendix 2-AB Capital Expenditure Summary on page 2 of Exhibit 2, Tab 6, Schedule 3.

Table 1: Capital Expenditures 2011 - 2015

Category	2011 Actuals	2012 Actuals	2013 Actuals	2014 Bridge Year	2015 Test Year
System Access	$5,629,314	$6,602,316	$6,369,274	$7,539,601	$8,242,598
System Renewal	$17,170,921	$14,090,964	$18,424,977	$15,372,195	$18,070,329
System Service	$2,373,505	$2,885,476	$2,151,349	$4,101,053	$4,139,747
General Plant	$4,584,443	$8,747,623	$12,559,044	$10,760,465	$9,487,208
Smart Meter Implementation		$23,277,588			
Hydro One Contribution		$10,000,000			
Total	**$29,758,183**	**$65,603,967**	**$39,504,643**	**$37,773,314**	**$39,939,882**

Table 2: Capital Expenditures 2016 - 2019

Category	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year
System Access	$8,471,952	$7,896,202	$8,091,602	$8,273,338
System Renewal	$28,293,649	$33,167,877	$33,208,155	$34,706,031
System Service	$294,732	$535,135	$2,031,847	$2,057,209
General Plant	$5,887,200	$5,826,900	$5,610,900	$6,235,900
Smart Meter Implementation				
Hydro One Contribution				
Total	**$42,947,533**	**$47,426,114**	**$48,942,504**	**$51,272,477**

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2-CCC-20 (Ex. 1/T2/S6/p. 17)

Please provide a schedule in the same format as Table 1-8 that sets out In-Service Additions for each year 2011- 2013 actual and 2014-2019 forecast

Response:

Horizon Utilities is unable to provide a schedule in the same format as Table 1-8 that sets out In-Service Additions. Horizon Utilities did not track In-Service Additions by the three categories: System Access, System Renewal, System Service for the 2011 to 2013 actuals. Horizon Utilities is able to provide In-Service Additions for the 2011-2013 Actuals for total Distribution Plant (the sum of System Access, System Renewal and System Service) and General Plant as identified in the table below. In-Service Additions for the 2014-2019 forecast in the same format as Table 1-8, for which Horizon Utilities has the breakdown, are also identified in the table below.

Table 1: In-Service Additions

Category	2011 Actuals	2012 Actuals	2013 Actuals	2014 Bridge Year	2015 Test Year
System Access	n/a	n/a	n/a	$7,539,601	$8,242,598
System Renewal	n/a	n/a	n/a	$15,372,195	$18,070,329
System Service	n/a	n/a	n/a	$4,101,053	$4,139,747
Total Distribution Plant	$25,508,390	$29,477,399	$26,182,405	$27,012,849	$30,452,673
General Plant	$4,992,584	$7,502,644	$11,725,632	$12,779,201	$9,661,765
Smart Meter Implementation		$23,277,588			
Hydro One Contribution		$10,000,000			
Total	**$30,500,974**	**$70,257,631**	**$37,908,037**	**$39,792,050**	**$40,114,438**

Table 2: In-Service Additions

Category	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year
System Access	$8,471,952	$7,896,202	$8,091,602	$8,273,338
System Renewal	$28,293,649	$33,167,877	$33,208,155	$34,706,031
System Service	$294,732	$535,135	$2,031,847	$2,057,209
Total Distribution Plant	$37,060,333	$41,599,213	$43,331,604	$45,036,577
General Plant	$5,887,200	$5,826,900	$5,610,900	$6,235,900
Smart Meter Implementation				
Hydro One Contribution				
Total	**$42,947,533**	**$47,426,114**	**$48,942,504**	**$51,272,477**

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2-CCC-21 (Ex. 2/T1/S1/p. 15)

With respect to the Horizon's Information System Technology expenditures has Horizon undertaken any benchmarking studies to compare these expenditures to those of other LDCs? If so, please provide. If not, why not?

Response:

Horizon Utilities has not undertaken any benchmarking studies to compare the capital expenditures in Exhibit 2, Tab 1, Schedule 1, page 15 to those of other LDCs.

With respect to the IFS ERP Upgrade project, there is no other LDC to benchmark against as Horizon Utilities is the only LDC utilizing the IFS ERP system. In 2008, Horizon Utilities undertook a detailed evaluation and selection of the IFS ERP software through a competitive request for proposal process. At that time, IFS was selected as it met Horizon Utilities' business requirements and was significantly more cost effective than other ERP solutions providers such as Oracle and SAP. The Board accepted the original investment in the IFS ERP within its decision on Horizon Utilities' 2008 Cost of Service Application (EB-2007-0697).

With respect to the Enterprise Phone System Upgrade, benchmarking was not performed to compare this capital expenditure to those of other LDCs as the configuration and setup of the phone system is dictated by unique business requirements of each LDC such as: number of locations; number of upstream and downstream application systems integrated; the degree of application integration; and the integration required with third party services providers. For example, Horizon Utilities' phone system is tightly integrated with the Daffron Customer Information System ("CIS"). There are no other LDCs of comparable size using the Daffron CIS. In 2015, Horizon Utilities will utilize a competitive bidding process to select an integration partner to perform the enterprise phone system upgrade.

As part of the GIS/OMS system selection, Horizon Utilities conducted a competitive bid process based on its detailed business requirements. Horizon Utilities also performed site visits at other LDCs to benefit from directly relevant experience on: assessing application functionality based on actual scenarios; the implementation process; and to understand the ongoing operational requirements of the system.

Benchmarking to compare this capital expenditure to other LDCs was not performed as the configuration and setup of these systems is dictated by unique business requirements of each

LDC, such as: the former GIS/OMS application being replaced; the data migration requirements; other systems that require interfacing with the new system; and the specific process improvements/ new functionality being implemented.

3-CCC-22 (Ex. 3/T3/S1/p. 1)

Please provide an update for 2014 Other Revenues based on actuals to date. Please explain why there is not Interest and Dividend Income for 2015-2017

Response:

Please refer to Horizon Utilities' response to Interrogatory 3-Energy Probe-23 b) for year-to date actuals of 2014 Other Revenues.

Please see Horizon Utilities' response to Interrogatory 3-Staff-25 regarding Interest and Dividend Income for 2015-2017.

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3-CCC-23 (Ex. 3/T3/S1/p. 1)

Please explain why there has been a decline in Rent from Electric Property from 2013 to 2014.

Response:

Please refer to Horizon Utilities' response Interrogatory 3-Energy Probe-23 c) for the explanation of the decline in Rent from Electric Property from 2013 to 2014.

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4-CCC-24 (Ex. 4/T1/S1/p. 7)

For each year 2011-2015 please provide a detailed explanation as to how the "productivity savings" numbers were derived. Please include all assumptions.

Response:

Please refer to Horizon Utilities' response to Interrogatory BOMA-8 a).

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4-CCC-25 (Ex. 4/T1/S1/p. 7)

For each year 2016-2019 please provide a detailed explanation as to how the "productivity savings" numbers were derived.

Response:

Please refer to Horizon Utilities' response to Interrogatory BOMA-8a).

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4-CCC-26 (Ex.4/T2/S2)

Please explain, in detail, any initiatives Horizon is undertaking to reduce its overall compensation costs.

Response:

Please see Horizon Utilities' response to Vulnerable Energy Consumers Coalition (4.2-VECC-35).

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4-CCC-27 (Ex. 4/T2/S2/p. 5)

What would be the impact on the 2015 revenue requirement if the annual increase in salaries and wages would have been 2.1% rather than 3.1%? Please recast Table 4-13 assuming wages and salaries increase at 2% per year.

Response:

The impact on the 2015 revenue requirement if the annual increase in salaries and wages was reduced by one percentage point is $311,674.

The following table is a recast of Table 4-13 with a 2% percentage point annual increase in salaries, wage and benefit for 2015 to 2019:

Table 4-13.1 Recoverable OM&A Cost Driver Table: Salaries, Wages and Benefits (with 2 percentage point increase to annual wage inflation)

Table 1: Salaries, Wages, and Benefits

Salaries, Wages and Benefits	2012 Actual	2013 Actual	2014 Bridge Year	2015 Test Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year	2011 Actual to 2015 Test Year	2015 Test Year to 2019 Test Year
Opening Balance*	27,751,037	27,873,703	29,763,912	32,327,066	33,140,204	34,213,654	34,881,461	35,574,045	27,751,037	33,140,204
Base Salaries and Wages (1)	1,290,594	1,524,115	1,735,980	184,663	368,764	475,471	557,806	567,927	4,735,352	1,969,968
OMERS (1)	566,201	455,446	350,957	18,627	45,738	58,470	67,466	68,494	1,391,231	240,168
CPP, EI, EHT, WSIB (1)	91,560	254,218	(5,395)	(5,304)	27,904	35,595	49,918	45,160	335,079	158,578
Incentive Pay (1)	14,075	115,586	62,229	24,766	25,202	25,665	26,128	26,588	216,656	103,582
Overtime & Vac/OT Payouts (1)	(546,509)	757,160	(683,785)	(3,338)	(1,115)	20,446	33,659	49,278	(476,472)	102,269
Post-employment benefits (1)	373,541	18,825	28,057	38,832	41,970	45,558	48,697	-	459,255	136,225
Life, Health, LTD (1)	(371,539)	(491,749)	947,620	(9,854)	33,942	121,143	50,984	53,847	74,478	259,916
Contract Labour (1)	38,348	(11,027)	123,405	(26,081)	625	-	(5,995)	-	124,645	(5,370)
Other employee compensation (1)	(27,343)	(63,752)	55,875	(591)	486	515	837	828	(35,811)	2,666
Net Labour Allocation	(1,306,262)	(668,613)	(51,789)	591,417	529,934	(115,055)	(136,916)	(208,453)	(1,435,247)	69,511
Closing Balance	**27,873,703**	**29,763,912**	**32,327,066**	**33,140,204**	**34,213,654**	**34,881,461**	**35,574,045**	**36,177,715**	**33,140,204**	**36,177,715**
Increase to payroll costs (sum of (1) above)	1,428,928	2,558,822	2,614,943	221,721	543,516	782,862	829,500	812,122	6,824,414	2,968,000
Net change in labour allocation to OM&A	(1,306,262)	(668,613)	(51,789)	591,417	529,934	(115,055)	(136,916)	(208,453)	(1,435,247)	69,511
Net increase to OM&A	122,666	1,890,209	2,563,154	813,138	1,073,450	667,807	692,583	603,670	5,389,167	3,037,511

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4-CCC-28 (Ex. 4/T2/S2/p. 5)

In the Salaries, Wages and Benefits set out in Table 4-13 what has Horizon assumed for vacancies.

Response:

Please refer to Horizon Utilities response to Energy Probe (4-EP-29c).

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4-CCC-29 (Ex. 4/T2/S2/p. 9 Table 4-15)

Please indicate the nature of the expenditures included in "Other Operating Costs".

Response:

Other Operating Costs in Table 4-15 are other expenses incurred in the running of Horizon Utilities' operations and include:

- vehicle related costs such as fuel and mileage;
- communication costs such as cellular, pager and wireless;
- utility operations costs such as small tools, joint use, scrap and spoilage and cable locates;
- finance costs such as auditing fees, bank charges and collection agency charges;
- public relations and promotions costs;
- recruiting;
- general costs such as security service,
- general office supplies and donations.

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4-CCC-30 (Ex. 4/T2/S2/p. 9 – Table 4-15)

Please recast Table 4-15 setting out the total costs in each category for each year.

Response:

Horizon Utilities has provided a version of Table 4-15 that incorporates the total non-labour costs in each category for each year below. 2011 Actual costs have been restated on a MIFRS basis.

Non-Labour Expenses	2011 Actual	2012 Actual	2013 Actual	2014 Bridge Year	2015 Test Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year
Bad Debts	$ 1,576,563	$ 1,568,535	$ 872,246	$ 1,435,000	$ 1,451,913	$ 1,468,918	$ 1,489,350	$ 1,511,268	$ 1,531,413
Consulting	$ 1,398,555	$ 1,434,616	$ 1,536,980	$ 1,547,397	$ 1,533,744	$ 1,432,698	$ 1,537,188	$ 1,597,271	$ 1,591,753
Insurance - Property	$ 77,885	$ 85,608	$ 170,206	$ 212,250	$ 215,008	$ 217,807	$ 220,648	$ 223,533	$ 226,886
Insurance - General	$ 556,189	$ 470,399	$ 587,590	$ 571,607	$ 571,367	$ 571,124	$ 570,877	$ 570,626	$ 579,185
Internet Services	$ 234,328	$ 195,530	$ 333,680	$ 411,510	$ 417,683	$ 423,950	$ 430,306	$ 436,760	$ 443,311
Janitorial, Landscaping, HVAC and Service Agreement	$ 699,481	$ 678,113	$ 798,239	$ 994,900	$ 1,009,824	$ 1,024,970	$ 1,040,346	$ 1,055,950	$ 1,071,789
Legal Fees	$ 626,019	$ 428,941	$ 421,005	$ 388,796	$ 434,928	$ 441,451	$ 448,074	$ 454,795	$ 461,617
Outside Service Provider	$ 969,833	$ 1,296,106	$ 1,554,687	$ 1,419,000	$ 1,441,788	$ 1,463,412	$ 1,485,361	$ 1,509,143	$ 1,528,665
Property tax	$ 845,693	$ 558,277	$ 796,844	$ 796,844	$ 808,797	$ 820,929	$ 833,241	$ 845,739	$ 858,425
Regulatory Costs	$ 949,554	$ 626,888	$ 642,039	$ 700,000	$ 710,500	$ 721,157	$ 731,975	$ 706,750	$ 754,098
Repairs And Maintenance - Building	$ 280,776	$ 579,849	$ 737,740	$ 561,400	$ 569,821	$ 578,368	$ 587,044	$ 595,850	$ 604,788
Repairs And Maintenance - Equipment	$ 361,218	$ 306,864	$ 186,213	$ 814,633	$ 827,279	$ 1,145,891	$ 1,164,764	$ 1,183,923	$ 1,203,357
Safety	$ 461,820	$ 446,546	$ 388,151	$ 494,980	$ 502,406	$ 509,940	$ 517,590	$ 525,350	$ 533,230
Software and Hardware License And Maintenance	$ 1,533,685	$ 1,620,647	$ 1,634,436	$ 1,769,056	$ 2,008,717	$ 2,176,313	$ 2,235,040	$ 2,286,609	$ 2,279,620
Telephone	$ 285,399	$ 292,717	$ 273,863	$ 380,913	$ 386,627	$ 392,426	$ 398,312	$ 404,286	$ 410,350
Training And Development	$ 690,606	$ 634,547	$ 521,221	$ 707,500	$ 728,266	$ 744,768	$ 750,359	$ 761,611	$ 773,035
Travel And Accommodations	$ 90,854	$ 57,270	$ 79,265	$ 188,300	$ 195,695	$ 198,626	$ 201,607	$ 204,632	$ 207,701
Tree Trimming	$ 544,993	$ 606,328	$ 843,873	$ 850,000	$ 862,750	$ 875,691	$ 888,827	$ 902,158	$ 915,690
Utilities	$ 747,980	$ 721,985	$ 850,369	$ 880,803	$ 894,015	$ 907,425	$ 921,038	$ 934,853	$ 948,876
Vehicle	$ 740,354	$ 991,403	$ 846,715	$ 965,000	$ 979,475	$ 994,167	$ 1,009,080	$ 1,024,216	$ 1,039,580
Other Operating Costs	$ 5,608,802	$ 5,930,841	$ 5,973,172	$ 6,459,054	$ 6,650,527	$ 6,836,592	$ 7,035,757	$ 7,245,994	$ 7,450,816
Closing Balance	**$ 19,280,588**	**$ 19,532,010**	**$ 20,048,535**	**$ 22,548,942**	**$ 23,201,129**	**$ 23,946,622**	**$ 24,496,783**	**$ 24,981,316**	**$ 25,414,187**

4-CCC-31 (Ex. 4/T2/S2/p. 23)

Horizon is forecasting $100,000 for collective bargaining costs. What were the costs incurred when the current collective aggreement was being negotiated?

Response:

Horizon Utilities incurred costs of approximately $52,000 when the current collective agreement was negotiated in 2011. This included costs for meeting rooms and equipment, meals, parking, mileage, legal/consulting, training for management and union committees, and printing new collective agreements.

Please also see Horizon Utilities' response to Interrogatory VECC-30 a).

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4-CCC-32 (Ex. 4/T2/S2/p. 25)

Horizon is forecasting $2,759,704 in regulatory costs and plans to amortize those costs over the term of the plan. Please provide a detailed breakdown of this amount. Please set out a schedule setting out costs incurred to date. Please include all assumptions. Why should historical costs, those incurred in 2013, be recovered in future years?

Response:

Table 1 below shows the components of the Total Custom IR ("CIR") Budget and the amounts expended in 2013 and up to May 2014. For additional information please see Table 4-72 in Exhibit 4, Tab 4, Schedule 6.

Table 1: Custom IR Application Costs

Custom IR Application Costs	Total CIR Budget	2013 Expended	2014 Expended to May
Legal	$ 554,487	$ 154,487	$ 308,020
Consultants/Studies/Project Management	$ 1,570,217	$ 552,726	$ 217,903
Board Fees & Intervenors	$ 590,000		$ 180,000
Administration costs	$ 45,000		$ 29,400
Totals	$ 2,759,704	$ 707,213	$ 735,323

Please see Horizon Utilities' response to Interrogatory 4-SIA-30 d) regarding the appropriateness of recovery of regulatory costs incurred.

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4-CCC-33 (Ex. 4/T2/S3/p. 2)

Please explain how Horizon calculates the number of customers for the purposes of the OM&A per customer calculations.

Response:

Horizon Utilities calculates the number of customers for the purposes of the OM&A per customer calculations by summing the number of customers in each of the Residential, GS < 50 kW, GS > 50 kW, Large Use (1), Large Use (2), Unmetered Scattered Load, Sentinel Lighting and Street Lighting customer classes for each year. The number of customers in each class for the year is based on the average of the January and December month end customer counts. Additional details on the breakdown of customers within each class is provided in Tables 3-28 and 3-29 of Exhibit 3, Tab 2, Schedule 1.

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4-CCC-34 (Ex. 4/T3/S2/pp. 8-10)

Please explain the extent to which smart meters have reduced costs related to meter reading and billing. Please identify where in the OM&A numbers these reductions (if any) have been reflected.

Response:

Horizon Utilities has reduced its costs as they pertain to the reading of mechanical meters due to the implementation of Smart Meters. Please refer to Horizon Utilities' response to Interrogatory EP-35.

Horizon Utilities now reads and manages the billing of more than two billion Smart Meter reads annually, as compared to conventional meter reading of six bi-monthly reads per customer per year. As such, Horizon Utilities' overall costs related to its total meter reading and billing have not decreased due to: offsetting costs of electronic meter reading through the Advanced Metering Infrastructure ("AMI"); and increased administration related to interfaces with the provincial Meter Data Management Repository ("MDM/R"). This includes the daily management of meter read and billing data, and synchronization of Horizon Utilities' systems with the MDM/R.

As identified in Exhibit 4, Tab 3, Schedule 2, Page 10, Horizon Utilities has utilized the Smart Meter infrastructure to deliver operational efficiencies. This capacity has been utilized to meet the accountabilities associated with the daily data and system management related to the provincial MDM/R without increasing headcount.

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4-CCC-35 (Ex. 4/T4/S2/p. 3)

Please provide a detailed description of Horizon's incentive pay program. What is the total amount of incentive pay embedded in the 2015 forecast? How does Horizon forecast incentive pay?

Response:

Please refer to Horizon Utilities' response provided to AMPCO (4-AMPCO-21 (q) and (r) for a description of the incentive pay program and the 2015 incentive pay forecast. Horizon Utilities forecasts incentive pay based on the achievement of all objectives at target (100%).

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5-CCC-36 (Ex. 5/T1/S1)

For each year 2011-2013 please provide Horizon's actual normalized ROE.

Response:

It is unclear what is meant by "normalized ROE" however, Horizon Utilities is providing the regulated ROE previously filed with the Board based on deemed equity and actual results. The results for each of the years 2011, 2012 and 2013 on this basis are: 9.15%; 11.29%; and 9.72% respectively.

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5-CCC-37 (Ex. 5/T1/S1)

Horizon is proposing that the cost of capital parameters be subject to annual adjustments based on the Board's revisions to the parameters each year for cost of service applications. What process is Horizon proposing for such annual adjustments? Under Union Gas's approved plan the ROE in base rates is in place for the duration of the plan. Why should this approach not be applicable to Horizon?

Response:

Horizon Utilities has provided the process for annual adjustments which includes the cost of capital parameters in its response to 1-EP-5.

Horizon Utilities is not proposing to maintain the current ROE for the duration of the plan. Horizon Utilities has provided the rationale for this annual adjustment in Exhibit 5, Tab 1, Schedule 1, page 2 that is reproduced below for ease of reference.

> *"The rationale for these requests is to ensure that Horizon Utilities has a mechanism to adjust its rate-embedded recovery of cost of capital through each rebasing year of the Custom IR cycle that provides it with the means to prospectively attract and support its financial capital requirements on reasonable terms and conditions on an ongoing basis consistent with the Fair Return Standard. The cost of such capital is subject to market forces outside the control of a distributor and represents a real cost that must be recovered through revenues. On this basis, Horizon Utilities submits that its requests are fair and reasonable. Horizon Utilities observes that the Board has permitted such annual adjustments in the 2010/2011 Cost of Service application (EB-2009-0096) of Hydro One Networks Inc. ("Hydro One") and is consistent with the approach proposed by Hydro One in its current (2015-2019) Custom IR application (EB-14 2013-0416)."*

In the case of the Union Gas Application, the agreement not to update the ROE was part of a full settlement on all issues by the parties in the case.

In the recently released Decision of the Board in the Enbridge Custom IR Application (EB-2012-0459), in assessing proposals that the ROE solution in the Union Gas settlement also apply to Enbridge, the Board reiterated its long standing reluctance to accept a negotiated model on to a different company.

The Board noted that in accepting settlement agreements, it has made it clear that there is no precedential value in the individual components of a settlement agreement as all settlements contain trade-offs.

Specifically on ROE, the Board determined that the ROE (and for consistency the cost of long term debt), is to be updated through the annual adjustment process (Decision of the Board, Enbridge Custom IR, EB-2012-0459, p.55).

7-CCC-38 (Ex. 7/T1/S1)

Please provide a schedule setting out all of the changes recommended by Elenchus and the impacts of those changes on each of the rate classes.

Response:

The Elenchus evidence contained the recommendations provided in Table 1 below. The impacts of each recommendation by rate class are also provided expressed in terms of the change in the allocated costs.

Note that the combined impact of all recommendations is not the simple summation of the individual impacts due to the interactive effects of recommendations. The table below provides the 2015 Revenue Requirement impact of each recommendation assuming all other recommendations are accepted.

Replacing the LU class with the LU(1) and LU(2) classes has a small impact resulting from a small increase in the non-coincident peak allocators.

The impact of individual changes in the cost allocation model cannot be identified since rate impacts result from rate design which is undertaken on the basis of the final revenue to cost ratios relative to the OEB approved ranges.

Table 1: 2015 Revenue Requirement Impacts

Recommendation	Residential	GS <50	GS>50-Regular	LU (1)	LU (2)	Street Light	Sent	USL	Standby
Replace LU class with LU(1) and LU(2) classes	$ (72,765)	(31,718)	(81,129)		194,501*	0	0	(163)	(8,726)
Direct allocation to LU(2) class	2,114,016	922,044	2,360,724	304,173	(5,925,786)	(197)	(2)	4,741	253,452
Identification of secondary costs previously included in primary costs	863,171	373,743	(767,699)	(257,499)	0	1,284	13	2,016	(215,029)

* One combined value for Large Use is provided as the sum of the impacts to LU (1) and LU (2) given that there is only one class for comparison in this scenario.

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9-CCC-39 (Ex. 9/T7/S1)

Please provide a schedule setting out all of the smart meter costs (OM&A and Capital) that Horizon has incurred to date. Also, please include total recoveries of smart meter costs from Horizon's customers. Has Horizon compared the costs of its smart meter program to other like LDCs? If not, why not? If so, how do Horizon's costs on a per customer basis compare? What is Horizon's overall smart meter cost/customer? What is the current estimated useful life for the meters that have been put in place? Has Horizon done a cost/benefit analysis associated with its smart meter program? If not, why not?

Response:

Horizon Utilities' Smart Meter expenditures incurred to date are provided in Table 1. The expenditures include the 2011 audited actuals as submitted in Smart Meter Prudence Application (EB-2011-0417) ("SMPA") and expenditures incurred and forecasted in the years from 2012 to 2014 as provided in Exhibit 9, Tab 7, Schedule 1.

Table 1: Smart Meter Expenditures 2011 - 2014

Smart Meter Costs Incurred	EB-2011-0147 2006-2011 Actual	EB-2014-0002 2012 Actual	EB-2014-0002 2013 Actual	EB-2014-0002 2014 Forecast	TOTAL
OM&A	$ 5,153,485	$ -	$ -	$ -	$ 5,153,485
Capital	$ 27,440,059	$ 805,305	$ 995,588	$ 430,570	$ 29,671,522
TOTAL	**$ 32,593,544**	**$ 805,305**	**$ 995,588**	**$ 430,570**	**$ 34,825,007**

Smart Meter OM&A costs were not tracked separately for the years 2012 – 2014 and are excluded from the above table.

Horizon Utilities' customer recoveries of Smart Meter expenditures are provided in Table 2.

Table 2: Horizon Utilities Customer Recoveries

Revenue Recoveries	2006-2011 Actual	2012 Actual	2013 Actual	2014 Forecast	TOTAL
Smart Meter Funding Adder*	$ 17,609,067	$ 2,024,182	$ -	$ -	$ 19,633,249
Smart Meter Incremental Revenue Requirement - effective until next CoS Rate Order (SMIRR)		$ 3,168,573	$ 4,763,897	$ 4,799,192	$ 12,731,662
Disposition of Residual Historical Smart Meter Costs effective until April 30, 2013 (SMDR)		$ 244,395	$ 119,772	$ -	$ 364,167
TOTAL	**$ 17,609,067**	**$ 5,437,150**	**$ 4,883,669**	**$ 4,799,192**	**$ 32,729,078**

Horizon Utilities has not compared the costs of its Smart Meter program to any specific LDCs. As filed in the SMPA, Horizon Utilities' average installed capital cost per meter compares favourably to the sector average capital cost as derived from the "Sector Market Meter Audit Review Report" issued by the Regulatory Audit and Accounting group of the Board on March 31, 2010. As of the end of 2011, Horizon Utilities' capital expenditures per Smart Meter were $118.52 as compared to $186.76 for the sector.

As provided in Exhibit 9, Tab 7, Schedule 1, Page 3, Horizon Utilities forecasts the installation of 233,924 meters as of the end of the 2014 Bridge Year. Based upon the total Smart Meter expenditures incurred to date of $34,825,007, Horizon Utilities' Smart Meter costs per customer are $148.87 to the end of the 2014 Bridge Year.

Horizon Utilities' Smart Meters for residential and GS<50 customers are depreciated over 15 years.

On June 23, 2004, the Ontario government mandated that all Residential and GS<50 kW customer have a Smart Meter installed. The Board's Final Determination Under Section 1.2.1 of the Standard Supply Service Code to Mandate Time-of-Use for Regulated Price Plan Consumers (EB-2010-0218), details the use of Smart Meters for the purposes of billing Residential and GS < 50 kW customers. As the Smart Meter program was required in order to comply with regulation, Horizon Utilities has not performed a cost – benefit analysis.

9-CCC-40 (Ex. 9/T7/S1)

Does Horizon expect to incur OM&A and/or Capital costs in the years 2015-2019 related to smart meters? If so, please identify the annual costs associated with smart meters.

Response:

Horizon Utilities will incur OM&A and Capital costs related to its Smart Meter conversion for residential and small business customers in the years 2015 – 2019. However these costs are included in the total OM&A and Capital costs included in the Revenue Requirement. Horizon Utilities has not requested the deferral of any OM&A or capital expenditures related to the Smart Meter program over the 2015 to 2019 period in Account 1555.

As identified in Exhibit 9, Tab 7, Schedule 1, Page 2, Horizon Utilities is on schedule to have all residential and GS<50 meter locations converted to Smart Meters by the end of 2014. Horizon Utilities has 37 residential and 671 GS<50 kW meters remaining to convert to Smart Meters as of June 30, 2014.

Any exceptions including hard-to-reach ("HTR") meter locations remaining beyond 2014 will be addressed through normal meter replacement practices in 2015 and beyond.

Please also refer to Horizon Utilities' response to Interrogatory 4-SIA-21 for additional information regarding the installation of Smart Meters for customers in the GS >50kW class.