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June 16, 2008

Delivered by E-mail and Courier

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

Dear Ms. Walli:

Re: EB-2007-0697
Horizon Utilities Corporation
Application to the Ontario Energy Board (the "OEB") for Electricity
Distribution Rates and Charges as of May 1, 2008

We are counsel to Horizon Utilities Corporation ("Horizon Utilities") with respect to the above-captioned matter. Please find accompanying this letter Horizon Utilities' responses to Undertakings J1.1, J1.2, J1.4, J1.5, J1.7, J1.9, J1.10, J1.11 and J1.12, given at the oral hearing. Responses to confidential Undertakings JX1.13, JX1.14 and JX1.15 were provided on the second day of the hearing, on Friday, June 6, 2008.

Horizon Utilities' responses to Undertaking J1.8 will be delivered by e-mail and courier to the Board, and by e-mail to intervenors, shortly. Responses to Confidential Undertaking JX1.3, Undertaking J1.6 (also being delivered in confidence) and the Undertakings given during the confidential portion of the hearing on Friday, June 6, 2008 will be delivered by courier to the Board and parties that have executed the Board's form of Declaration and Undertaking pursuant to its *Practice Direction on Confidential Filings*. To our knowledge, counsel to Schools and Energy Probe's consultant have executed those forms to date.

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky
JCS/dp

Encls.

Vancouver
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Toronto
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Ottawa
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Montréal
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Calgary



cc: Maureen Helt, OEB
Khalil Viraney, OEB
Theodore Antonopoulos, OEB
Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
Cameron McKenzie, Horizon Utilities Corporation
Intervenors of Record

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UNDERTAKING J1.1

To provide 2006, 2007, 2008 forecast and actual regulatory expenses for internal costs, OEB assessment costs, and external costs, lawyers and consultants.

Response:

Horizon Utilities has provided the 2006 Actual, 2007 Forecast and Actual and the 2008 Test Year Regulatory Services department expenses broken out into internal costs; external costs being wholesale/retail settlement and temporary employment services; lawyers and consultants; and OEB assessment costs.

The following provides a brief description of costs included in each category:

Internal Regulatory Department Cost – includes wages and benefits, overtime (union only), staff training and development, PC support and other office expenses.

Legal included in USoA 5630 – expected expenditures for legal advice and assistance to Horizon Utilities in participating in ongoing OEB proceedings as outlined in the OEB business plans for 2008 to 2010. Horizon Utilities would note that there are no legal or consulting costs related to the 2008 EDR Application included in the 2008 Test Year.

Consultants included in USoA 5630 - expected expenditures for consultant advice and assistance to Horizon Utilities in participating in ongoing OEB proceedings as outlined in the OEB business plans for 2008 to 2010.

OEB Assessment Costs & Intervenor Costs - Horizon Utilities' annual assessment fees and expected expenditures allocated to Horizon Utilities for payment of intervenor costs as they relate to the ongoing OEB proceedings as outlined in the OEB business plans for 2008 to 2010. Horizon Utilities would note, in reviewing the 2008 OEB Assessment costs, that an amount of \$206,000 for intervenor costs, related to the 2008 EDR Application, is included in the 2008 Test Year amount of \$1,007,510. Horizon Utilities submits that these costs are ongoing and are representative of costs of future rate applications, including the expected intervention on the 3rd Generation IRM applications and the Capital Investment Adders and the continuing proceedings on smart meter investments well after 2010.

Wholesale Settlement & energy statistics programs – includes the costs associated with the licensing and 3rd party support for Horizon Utilities' wholesale settlement system and programming support for compilation of energy and demand statistics for settlement with the Independent Electricity System Operator and Hydro One Networks Inc. including regulated changes in electricity pricing and settlement expected over the next three to five years.

Description	2006 Actual	2007 Forecast	2007 Actual	2008 Test Year
Internal Regulatory Department Costs	717,193	668,032	700,408	750,714
Legal included in USoA 5630	4,295	326,500	495,273	99,900
Consultants included in USoA 5630	55,620	328,604	205,929	189,000
Sub Total	777,108	1,323,136	1,401,609	1,039,614
OEB Assessment Costs & Intervenor Costs	683,437	648,984	620,507	1,007,510
Wholesale settlement & energy statistics programs	66,857	176,268	37,436	106,503
Regulatory Expense USoA 5655 as filed	750,294	825,252	657,943	1,114,013
Total Regulatory Services Department	1,527,402	2,148,388	2,059,552	2,153,627

UNDERTAKING J1.2

To provide First Quarter 2008 Forecasts

Response:

Horizon Utilities has provided the First Quarter 2008 Forecast, which includes the regulated and non-regulated businesses and is prepared on a basis consistent with the 2008 business plan.

				
Group of Companies				
Consolidated Results of Operations				
(000s)				
		Year Ending		
		2008		
		Forecast	Budget	Variance
Electricity distribution		91,434	93,224	(1,790)
Billing and energy services		4,169	4,169	-
Other regulated		4,946	4,946	-
Total revenue		100,549	102,339	(1,790)
Expenses:				
Operating expenses		44,342	44,915	(574)
Depreciation and amortization		24,128	24,127	-
Capital tax		725	832	(107)
Total expenses		69,195	69,874	(681)
Income from operating activities		31,354	32,465	(1,109)
(Loss) gain on sale of assets		-	-	-
Interest income		197	198	-
Interest expense		(9,765)	(9,966)	200
Income before taxes		21,786	22,697	(909)
Income and Large Corporations taxes		(6,600)	(7,304)	705
Net income		15,186	15,393	(204)

UNDERTAKING J1. 4

To provide forecast of regulated return for 2009 and 2010

Response:

Horizon Utilities would refer to its response to Consumers Council of Canada, Attachment A2, and in particular the table labeled Profitability/Return Trend. The Return on Equity section of this table provides the estimated regulated return on equity forecast for 2009 and 2010 at 8.86%, being the return on equity Horizon Utilities included in its Application, pending the release of the OEB approved ROE in February 2008. With the Board's adoption of a regulated return on equity of 8.57%, the forecast shown in the Profitability/Return Trend table would be reduced to 8.57%.

Horizon Utilities reiterates that the 2008 Budget and Three Year Plan provided in Attachment A2 reflects the business operations of both the regulated and non-regulated entities.

UNDERTAKING J1.5

To provide costs per customer for 2002, 2003 and 2004.

Response:

Horizon Utilities has provided the controllable cost per customer for the years 2002, 2003 and 2004 in the following table. It is important to note that the controllable costs per customer provided in the table below are not comparable to the 2008 Test Year controllable costs per customer in that they do not include costs associated with four years of inflation and wage increases, smart meters or Horizon Utilities' ERP solution included in its 2008 EDR Application. Smart meters and ERP alone are expected to add approximately \$11.50 to the controllable costs per customer in 2007 and 2008.

		2002	2003	2004
Controllable Costs per Customer Adjusted for LU CCAA				
Total Customers @ year-end		\$ 147.93	\$ 150.71	\$ 145.66
Average Customers for the year		\$ 148.42	\$ 151.00	\$ 146.25

UNDERTAKING J1. 7

To provide a breakdown of General and Administrative compensation into its components for 2006, 2007 and 2008.

Response:

Horizon Utilities has provided a breakdown of OEB Account 5605 Executive Salaries and Expenses, Account 5610 Management Salaries and Expenses, and Account 5615 General Administrative Salaries and Expenses into their components for 2006 Actual, 2007 Bridge and 2008 Test Year as follows:

Account 5605 Executive Salaries and Expenses

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Salaries & Benefits (A/C 5605)			
Salaries and Wages	609,389	776,012	926,551
Benefits	12,815	14,622	14,990
EHT	15,986	19,970	23,408
OMERS	71,390	87,081	108,497
Great West Life	13,033	18,720	25,560
Life insurance	2,246	3,000	3,852
Long term disability	5,136	7,000	8,676
Bonus	180,428	194,125	244,877
WSIB	3,300	2,900	3,625
Vacation payout	22,584	-	28,571
Total Benefits	326,918	347,418	462,056
Total Salaries and Benefits	\$ 936,307	\$1,123,430	\$ 1,388,607
Other Expenditures			
I/C - mgmt fee - expense	218,318	329,448	-
Board of Directors fees and expenses	183,025	290,504	302,000
Subscriptions and memberships	152,723	151,056	181,600
Meals, Entertainment and Travel	18,950	14,920	30,600
Sponsorships	6,830	12,000	12,000
Training and development	6,738	17,000	34,504
IT Support	5,234	18,228	31,619
Other miscellaneous (Courier, Cellular, Office supplies)	9,610	35,700	26,400
	601,428	868,856	618,723
Total Account 5605 Executive Salaries and Expenses	1,537,735	1,992,286	2,007,330

UNDERTAKING J1. 7

Account 5610 Management Salaries and Expenses

	2006	2007	2008
Salaries & Benefits (A/C 5610)			
Salaries and Wages	2,117,334	2,486,925	2,740,231
Overtime/Vacation Payout	71,576	6,780	27,903
Benefits	67,954	85,823	89,940
EHT	47,896	54,871	60,185
OMERS	205,585	232,359	256,250
Great West Life	83,577	130,620	149,496
Life insurance	8,664	10,236	12,066
Long term disability	20,806	27,942	30,330
Bonus	375,442	236,452	329,882
WSIB	19,538	6,780	21,735
Total Benefits	901,038	791,863	977,787
Total Salaries and Benefits	3,018,372	3,278,788	3,718,018
Other Expenditures			
Temporary employment agencies	18,699	125,000	-
Employee recruitment costs	71,010	70,000	-
Subscriptions and memberships	14,831	18,704	36,792
Meals, Entertainment and Travel	20,381	38,800	50,160
Training and development	31,327	47,798	73,046
Health & Wellness costs	12,163	47,800	48,640
IT Support	184,063	132,192	269,759
Other miscellaneous (Cellular, Courier, Allocated Service Costs)	69,460	2,494	140,508
	421,934	482,788	618,905
Other Adjustments			
Regulatory adjustments	(567,551)	-	-
Group benefit premium refund for 2005 - received in 2006	(195,081)		
Total Account 5610 Management Salaries and Expenses	2,677,674	3,761,576	4,336,923

UNDERTAKING J1. 7

Account 5615 General Administrative Salaries and Expenses

	2006	2007	2008
Salaries & Benefits (A/C 5615)			
Salaries and Wages	1,288,308	1,589,620	1,764,759
Overtime/Vacation payout	84,272	40,308	63,011
Benefits	67,414	78,333	88,352
EHT	53,804	32,319	36,871
OMERS	94,459	122,099	140,308
Great West Life	72,242	98,820	127,992
Life insurance	3,897	4,842	5,739
Long term disability	7,919	11,478	11,526
Bonus	71,920	69,656	73,213
WSIB	14,371	15,884	18,056
Total Benefits	470,298	473,739	565,068
Total Salaries and Benefits	\$ 1,758,606	\$ 2,063,359	\$ 2,329,827
Other Expenditures			
Temporary employment agencies	153,205	96,550	159,996
ERP project expenditures (excl. salaries and benefits)	-	-	146,525
Employee recruitment costs	95,073	90,000	90,000
Advertising	8,699	19,000	33,000
Employee promotions/rewards/recognition	41,344	74,300	90,200
Meals, Entertainment and Travel	16,251	44,003	47,004
Cellular and pagers	60,916	69,355	69,848
Training and development	36,115	88,005	194,541
Employee survey	-	20,000	18,000
IT Support/Programming Cost Allocations	521,922	478,572	708,436
Other miscellaneous (Courier, Office supplies, Mileage)	60,641	100,617	59,716
	994,166	1,080,402	1,617,266
Other Adjustments			
PC Support Services coded to A/C 5615			289,712
Head Office Cost Distribution to A/C 5615 s/b A/C 5675		349,692	766,223
Total Account 5615 General Administrative Salaries and Expenses	2,752,772	3,493,453	5,003,028

UNDERTAKING J1.9

To allocate the \$3.9 million in merger savings between the categories of OM&A.

Response:

Horizon Utilities has provided the breakdown of the \$3.9 million of merger savings among the following categories:

	<u>\$000's</u>
Operations and Maintenance	1,000
Billing and Collections	900
Administrative and General	2,000
Total	\$3,900

UNDERTAKING J1. 10

To provide how many of the 334 wood pole replacements are deferrals from 2006.

Response:

Each year 20% of Horizon Utilities wood poles older than 25 years are tested and rated to determine when they should be replaced or retested. Those poles identified as requiring replacement within one year, are planned for replacement in the following year. In addition, there are wood poles that are identified as requiring immediate replacement as well as wood poles damaged in hit and run accidents where cost recovery is not possible. In 2006 there were 400 poles identified as requiring replacement. Of the 400 poles requiring replacement, 372 were replaced and the remaining 28 poles, planned for replacement in 2006, were deferred to the 2007 replacement program as a result of constraints or urgent work priorities. Horizon Utilities would note, for the record, that the correct number of poles identified as requiring replacement in 2007 was 350 plus the 28 poles deferred from 2006 for a total of 378 poles rather than the 334 referred to in the oral proceeding and this undertaking. No poles being replaced in the 2008 Test Year have been deferred from the 2007 Bridge Year.

UNDERTAKING J1. 11

To provide table of quantity of poles tested, recommended for replacement and actually replaced in a given budget year and budgeted amount.

Response:

Horizon Utilities has provided the above requested information in the table below. As can be seen in the table, and as mentioned in Horizon Utilities' response to Undertaking J1.10, no poles being replaced in the 2008 Test Year have been deferred from the 2007 Bridge Year.

Horizon Utilities notes, as discussed in its response to OEB staff IR No.9, that the costs of pole replacement vary, and the example provided in that interrogatory response related to the replacement of poles in back yards in the St. Catharines service area. Other factors that affect individual pole replacement costs are pole height; number of conductors or circuits attached to the pole; number of transformers attached to the pole, if any; and the location and terrain where the required replacement is to take place.

Description	2006 Actual	2007 Bridge Year	2008 Test Year
Poles tested	6,288	4,641	5,000
Poles visually inspected	19,878	18,858	18,000
Poles requiring replacement	400	350+28	340
Poles replaced	372	390	N/A
Poles deferred to next year	28	-	-
Budget for replacement	\$1,458,473	\$2,092,000	\$2,094,000

UNDERTAKING J1.12

To provide gross billing information for 2006 and 2007.

Response:

Horizon Utilities has provided the gross billings for 2006 and 2007 in the table below. In addition, Horizon Utilities has provided the actual net bad debts for the same years and the percent of net bad debts to gross billings in response to Mr. Buonaguro's question of June 5, 2008, at page 184 lines 23 to 26, "I need to know what the total gross billings were for those years, so I can compare them to the bad debt expense that was experienced in those years, to see how close they are to 0.2 percent." Net bad debt expense represents Horizon Utilities' total bad debt expense less recoveries through normal collection mechanisms. The 2006 Actual bad debt expense has been adjusted for a one time recovery of the Ontario Price Credit ("OPC"). The OPC was paid to distributors by the IESO under O. Reg. 48/05 and distributors were required to pay the OPC to low-volume or designated consumers and retailers. Horizon Utilities paid the OPC credit to its customers and also applied the OPC to the account of those customers that had moved out of Horizon Utilities' service area and left a balance outstanding that was subsequently written off. The OPC was a one time non-recurring provincial electricity price adjustment paid directly to customers that resulted in a one time non-recurring adjustment to Horizon Utilities' 2006 net bad debt expense. As such, the OPC has been added back to the 2006 net bad debt expense in order to properly calculate the actual net bad debt exposure experienced by Horizon Utilities. The 2007 net bad debt amount shown in the table below is the actual 2007 expense of \$1,362,550 as compared to the 2007 Bridge Year amount of \$759,004, shown in Exhibit D/Tab 2/Schedule 2 of the Application.

	2006 Actual	2007 Actual	2008 Test Year
Gross Billings	479,011,474	478,733,614	515,306,500
Net Bad Debt Expense	716,148	1,362,550	1,050,000
Add Back One Time Recovery of OPC Credits	213,724		
Total Actual Net Bad Debt Expense	929,871	1,362,550	1,050,000
Net Bad Debt % of Gross Billings	0.19%	0.28%	0.20%