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July 23, 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 two hard copies of Horizon Utilities’ Redacted Reply Argument in this proceeding, together with a disk containing an electronic version of the document. The redactions pertain to material filed in confidence in this proceeding. Please note two typographical errors in the document: The repeated sentence in paragraph 4 should be disregarded, as should the numeral “4” in the first bullet of paragraph 157.

As all parties are aware, this has been a lengthy process. Horizon Utilities has diligently pursued its Application, and has complied with the Board’s requirements with respect to interrogatory responses in January of this year; and with respect to participation in the settlement conference (including responding to the additional information requests delivered at the commencement of the settlement conference) and the oral hearing, added to this proceeding which the Board had initially (and throughout the period prior to April of this year, when the Board determined that it would conduct an oral hearing) determined would be the subject of a written hearing. Horizon Utilities looks forward to the issuance of the Board’s Decision in this proceeding, and to the implementation of its 2008 electricity distribution rates effective May 1, 2008. As indicated in the submission, Horizon Utilities has requested that the Board find that the new rates shall be set so as to recover the annualized revenue requirement over the remaining period of the 2008 rate year. CCC and Schools support the recovery of Horizon Utilities’ revenue requirement as of May 1, 2008. CCC proposed, and Schools has agreed, that “rates be set assuming recovery over the full twelve month period. The shortfall should be recovered through a rate rider”. Horizon Utilities supports this method of recovering the shortfall in its

Vancouver
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Toronto
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Ottawa
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Montréal
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Calgary



revenue requirement for the period May 1, 2008 to the date the 2008 rates are implemented.

Should you have any questions or require further information in this regard, please do not hesitate to contact me. Please note that I am away from the office this week. This letter is being signed by my assistant, Diana Pereira, in my absence.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original Signed by Diana Pereira for James C. Sidlofsky

James C. Sidlofsky

JCS/dp

Encls.

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

AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2008.

HORIZON UTILITIES CORPORATION

**2008 ELECTRICITY DISTRIBUTION RATE APPLICATION
REPLY ARGUMENT**

FILED: JULY 16, 2008

REDACTED VERSION

Applicant

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HORIZON UTILITIES CORPORATION
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AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2008.

REPLY ARGUMENT OF HORIZON UTILITIES CORPORATION

DELIVERED JULY 16, 2008

A. INTRODUCTION

1. On October 22, 2007 Horizon Utilities Corporation ("Horizon Utilities") submitted an Application to the Ontario Energy Board ("OEB") seeking an order approving just and reasonable distribution rates and other charges for electricity distribution to be effective May 1, 2008.
2. Horizon Utilities' Application, before the OEB for approval, will provide the revenue requirement necessary to sustain its capital, operating and maintenance programs in a manner that continues to provide safe and reliable distribution of electricity in the city of Hamilton and the city of St. Catharines.
3. Horizon Utilities filed its Argument-in-Chief on June 23, 2008 addressing the OEB Issues List that accompanied the OEB's Procedural No. 4. OEB staff and the Intervenor (CCC, Energy Probe, Schools and VECC) delivered their submissions on June 30, 2008 (OEB Staff) and July 2nd and 3rd.
4. Horizon Utilities repeats and relies upon its submissions in its Argument-in-Chief, subject to any modifications set out in this reply. Horizon Utilities repeats and relies upon its submissions in its Argument-in-Chief, subject to any modifications set out in this reply. Horizon Utilities submits that its proposed revenue requirement, subject to certain adjustments set out in this reply submission, has

been determined appropriately; that its proposed capital and OM&A programs for the 2008 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are just and reasonable. Horizon Utilities submits that in approving this Application, the OEB will have met its objective, set out in section 1 of the *Ontario Energy Board Act, 1998*, as amended, “to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.”

Horizon Utilities’ Concerns with the Schools Approach to Final Argument

5. Horizon Utilities submitted the Application in accordance with Board requirements with full intent to provide clear and transparent evidence supporting its calculation of its proposed revenue requirement and 2008 distribution rates. Since that time, and to the best of its knowledge and belief, Horizon Utilities has fully complied with all Procedural Orders, rules, policies, and guidelines issued by the Board with respect to its Application including satisfying all requests for additional information from the Board and intervenors.
6. Horizon Utilities recognizes the iterative nature of this rate application process, through such means as written interrogatories, settlement conferences, oral hearings, and this final process of responding to final arguments and submissions. The nature of such process provides a means for all to benefit from greater clarity and understanding of specific matters underlying the Application. At no time has Horizon Utilities had any intention other than to comply with both the letter and spirit of the Board’s requirements with regard to this matter.
7. Horizon Utilities is very concerned with the tone and frequently misleading content of the Final Argument submitted by Schools (the “Schools Argument”) and takes great exception to accusations by Schools that suggest Horizon Utilities willfully intended to mislead the Board for the purpose of recovering from its customers amounts in excess of those which are either reasonable or

permissible pursuant to Board regulations, policies, and administrative practices. Parties may (and do) disagree with Horizon Utilities' requests in this Application, including with respect to debt costs, and that is entirely legitimate. However, to attempt, as Schools has done, to create a case using hyperbole, conspiracy theory and imagined conversations (for example, see Schools paragraphs 2.2.15 and 2.2.35) that Horizon Utilities has engaged in deliberate wrongdoing and in misleading the Board in order to over-recover from rate payers in breach of the Board's policies, is completely inappropriate and without foundation. Horizon Utilities adamantly denies all such accusations, and urges the Board to reject them. Horizon Utilities strongly rejects any such inflammatory allegations by Schools within the Schools Argument and does not believe Schools has provided any evidence to support them. On this basis, Horizon Utilities respectfully requests that the Board disregard such baseless allegations as unsubstantiated and nothing other than inappropriate speculation by Schools in support of its effort to reduce the revenue requirement within the Application without regard for adverse implications for Horizon Utilities' customers or the safe, reliable, sustainable operation of, and sustainable investment in, its distribution system.

8. The following represents two examples of unsubstantiated accusations against Horizon Utilities in the Schools Argument:

0.2.4 "we believe the Applicant deliberately engaged in a process to over-recover from rate-payers due to a misguided sense of entitlement";

2.2.19 "this Applicant engaged in a callous plan to increase its recovery from ratepayers in a manner contrary to the Board's policies and contrary to fair ratemaking"

Several other examples may be found within 0.2.1, 0.2.5, 0.2.9, 2.2.18, and 2.2.19 of the Schools Argument.

9. In addition to the above, there are several misstatements of fact in the Schools Argument, including the following:

- At paragraph 2.2.13, Schools implies that Borden Ladner Gervais LLP (“BLG”) acted for both Hamilton and St. Catharines in the merger of Hamilton Hydro and St. Catharines Hydro that was completed in 2005 without either party having independent counsel. This is untrue. Both Hamilton and St. Catharines were represented by independent counsel.
- Similarly, at paragraph 2.2.40 of the Schools Argument, Schools states that “St. Catharines and Hamilton shared the same counsel in the merger. Even if St. Catharines was aware of the terms of the 2005 Note, and had a view on those terms, none of which has been shown in the evidence, any view would be without independent expert legal advice, and therefore should reasonably be discounted.” Once again, this is untrue, as both Hamilton and St. Catharines were represented by independent counsel and financial advisors.
- At paragraph 2.2.19, Schools alleges that Horizon Utilities misled the Board with respect to the statement (at Ex. F/1/3/p.3) that the affiliate debt is the 2002 Hamilton Hydro Inc. Promissory Note, and with respect to amendments to that note. This is untrue. First, the 2005 Promissory Note represents further amendments to the original 2000 Note, which was also amended in 2001 and 2002, as is clear from page 1 of the 2005 Note, included in the Application at Ex. F/1/3/Appendix A. Second, Horizon Utilities has not hidden its debt instruments from the Board or any party to this proceeding. All of the Hamilton Hydro/Horizon Utilities notes dating back to original note issued in July of 2000 were provided to the Board and intervenors in the body of the Application, as part of the Cost of Debt section of the Application.
- At paragraph 0.3.15, Schools suggests that the Horizon/Guelph Hydro merger “is weeks away from closing”. This is not true. No municipal council has yet approved the merger, no binding agreements have been signed no

application for approval of the merger has been filed with the OEB, and no closing date has been determined. Apart from the untruth of the statement, Horizon Utilities is also concerned about another aspect of that paragraph, which raises a broader concern than simply the appropriate debt rate: Despite the absence of a binding agreement to proceed with the merger or municipal (let alone Board) approval for the merger, and despite Schools' claim to accept the notion that merger benefits should flow to shareholders, Schools goes on to suggest that the Board can take comfort in making the reductions in Horizon Utilities' revenue requirement as desired by Schools, because Horizon Utilities will have merger benefits, so that there will be no financial hardship to the utility. This suggestion is completely contrary to Board policy – a policy which, as acknowledged by Schools, “promotes the sensible rationalization of the industry.” What this suggests is that Schools is deliberately attempting to undercut Horizon Utilities' legitimate requirements for the safe and reliable operation and maintenance of its distribution system, and force Horizon Utilities to rely on the possibility of future merger savings (which, according to the evidence [Tr. Vol.1, p.96, lines 7-9], will be non-existent in 2008 in any event) to fund its operations. This is simply inappropriate and unequivocally contrary to Board policy, and cannot be considered a justification for arbitrary reductions in the proposed revenue requirement.

10. Schools raises concerns in paragraph 0.2.6 about “document integrity” in respect of the documents provided by Horizon Utilities in response to Undertaking JX1.3, and questions whether the documents “are what they purport to be”. These concerns are baseless. The request from which Undertaking JX1.3 arose was a request for a copy of Horizon Utilities' Initial Business Plan. In response to that confidential undertaking, Horizon Utilities delivered two volumes in confidence – the Initial Business Plan, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Horizon Utilities confirms that the Initial Business Plan as delivered in response to Confidential Undertaking JX1.3 was not subsequently updated by the parties and was the document utilized by the parties. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Horizon Utilities has properly responded to Confidential Undertaking JX1.13. Horizon Utilities notes that the references throughout the Schools submission to [REDACTED] as Horizon Utilities' response to Undertaking JX1.13 are incorrect. As shown in Volume 1 of the Transcript, Undertaking JX1.13 related to the valuation memorandum in respect of the Hamilton Hydro/St. Catharines Hydro merger. That document was provided in confidence on the second day of the hearing.

11. The submission of Schools in 2.2.39 and 2.2.40, that St. Catharines was not aware of amendments to the HHI Promissory Note, is unsubstantiated conjecture. The uncontroverted evidence of Mr. Basilio, who as the Board and parties know was a key participant throughout all of the HHI/SCHUSI merger negotiations, was that "...certainly, St. Catharines had the clear understanding that the promissory note that was being accepted by the newly-merged entity was a note that was – that had terms that were back-to-back with the HUC debenture and had been applied since the time of that issuance and that they would, you know, and that this was the note they were accepting as part of the new merged entity. They had that clear understanding." [Transcript Volume 2, page 44, line 24]

12. Horizon Utilities submits that there is no evidence to suggest that St. Catharines was not aware of HHI's intention to amend the Note.
13. Finally, Horizon Utilities notes that in several sections of the Schools Argument, Schools has not faithfully represented the full context or intent of many remarks made by Horizon Utilities during both the written and oral component of the rate proceeding. Please refer to Horizon Utilities' rebuttals to Schools' arguments in paragraphs 42, 71, 95, 116, 210, 211, 219, and 273.
14. Horizon Utilities urges the Board to refrain from participating in Schools' attempt to damage its reputation and arbitrarily underfund the utility.

B. RELIEF SOUGHT

The relief sought by Horizon Utilities will result in just and reasonable rates effective May 1, 2008.

15. Horizon Utilities filed an Application for just and reasonable rates to be effective on May 1, 2008. The relief requested in the Application was summarized at paragraph 7 of its Argument-in-Chief. The following table summarizes the adjustments to the requested relief arising out of the final submission process. These adjustments are close approximations and will be finalized and reflected in the draft rate order that Horizon Utilities anticipates the OEB will direct it to prepare. As can be seen in the table, Horizon Utilities is proposing a total reduction of approximately \$4.7 million in its proposed Service Revenue Requirement, for a revised 2008 Service Revenue Requirement of \$96,850,709 and a revised Base Revenue Requirement of \$90,326,228.

Revenue Requirement						
	2006 Board Approved	2006 Actual	2007 Bridge Year	2008 Test Year Filed	Adjustments per Reply Argument	2008 Test Year Adjusted per Reply Argument
Operation, Maintenance, and Administration	34,383,894	33,992,627	39,792,078	42,116,544	(1,557,494)	40,559,050
Amorization Expense	18,973,872	19,729,625	21,275,590	23,727,691	(886,806)	22,840,885
Property Taxes	139,754	443,632	557,956	574,689	0	574,689
Interest Expense	13,736,395	13,800,180	14,510,027	14,919,835	(706,977)	14,212,857
PILs Taxes	9,481,282	9,322,255	8,459,387	7,379,422	(603,009.35)	6,776,413
Return On Equity	11,794,212	11,828,726	12,437,166	12,862,677	(975,862.92)	11,886,815
Service Revenue Requirement	88,509,409	89,117,045	97,032,204	101,580,859	- 4,730,150	96,850,709
Less Revenue Offsets	5,303,694	7,145,654	7,513,186	6,524,481	-	6,524,481
Base Revenue Requirement	83,205,715	81,971,391	89,519,019	95,056,378	- 4,730,150	90,326,228

16. Horizon Utilities again notes that it intends to complete all of its planned 2008 capital projects, and its OM&A expenditures for the 2008 rate year are expected to be as set out in the Application, notwithstanding that Horizon Utilities has not had its rate order approved as of May 1st. [Transcript Volume 1, page 23, lines 8 to 19]. Horizon Utilities filed the Application on October 22, 2007, for rates

effective May 1st, 2008. As Horizon Utilities' current rates were declared interim as of May 1, 2008, there will be a difference between the revenue collected under the existing rates and the revenue that would have been collected if the new rates were implemented May 1, 2008. Horizon Utilities requests that the Board find that the new rates shall be set so as to recover the annualized revenue requirement over the remaining period of the 2008 rate year. Horizon Utilities would note that, in their Final Argument, CCC and Schools support the recovery of its revenue requirement as of May 1, 2008. CCC proposes and Schools support, that "rates be set assuming recovery over the full twelve month period. The shortfall should be recovered through a rate rider". Horizon Utilities supports this method of recovering the shortfall in its revenue requirement for the period May 1, 2008 and the date the rates are implemented.

C. SUMMARY OF EVIDENCE AND ISSUES

17. As with the Argument-in-Chief, Horizon Utilities' Reply Argument follows the main categories of issues:
 1. Revenues
 2. Cost of Capital / Debt
 3. Cost of Service
 4. Rate Base
 5. Revenue Requirement
 6. Cost Allocation and Rate Design
 7. Smart Meters
 8. CDM
18. The submissions that follow have been organized according to these categories, and two additional ones – Deferral and Variance Accounts; and Other Matters – and contain discussions of the OEB staff and intervenor submissions as they relate to each of these categories of issues.

REVENUES

- **Customer forecast:**

OEB Staff submission:

Reference page 3 – OEB Staff are questioning what they perceive to be a decrease in the General Service > 50 to 5,000 kW class customers and the impact on forecasted load.

Schools submission:

Reference 1.2.1 – Schools have agreed with the OEB Staff understanding and want the customer count for the General Service >50 KW customer class increased.

Response:

19. The OEB Staff submission, at page 3, suggests that the number of customers in the General Service > 50 kW customer class for the 2008 Test Year has been reduced by 30 customers. Schools has relied on the OEB staff submission in its suggestion that the General Service > 50 kW customer class count be increased by 22 for the 2008 Test Year. Horizon Utilities submits that the Staff suggestion is incorrect. The following excerpt from Exhibit C/Tab 2/Schedule 1/Table 1 confirms that the customer count for the General Service > 50 kW customer class has not only realized growth in the years of Actual data but has also been increased in the 2008 Test Year by 43 customers. Any reduction in the General Service classes has been in the < 50 kW customer class which is consistent in each of the years 2002 to 2006. Horizon Utilities submits that no adjustment is required to the number of customers in the General Service > 50 kW customer class.

		Historical Actual 2002	Historical Actual 2003	Historical Actual 2004	Historical Actual 2005	Historical Actual 2006	Bridge Year Forecast 2007	Test Year Normalized 2008
Year								
Customer Class								
GS < 50 kW	#	18,368	18,317	18,214	18,124	18,073	18,000	17,927
GS >50 kW	#	1,864	1,901	2,075	2,083	2,127	2,170	2,213
Total GS customers		20,232	20,218	20,289	20,207	20,200	20,170	20,140

20. Horizon Utilities' forecast customer growth from 2006 to 2008 is virtually identical to the average growth experienced in the years 2002 to 2006. Horizon Utilities submits its forecast customer growth is representative of past and future expectations.

- **kWh volume forecast:**

OEB Staff submission

Reference page 4 – Board Staff is concerned that the selected methodology utilizes only a single year of weather-normalized historical load to determine the future load.

Response:

21. Horizon Utilities contracted with Hydro One to prepare weather normalized data as part of its Cost Allocation filing in March of this year. The Hydro One model takes into consideration thirty years of weather related data and translates this into current year normalized data as an annual consumption per customer. The Hydro One model normalized Horizon Utilities actual wholesale data for 2004. By using the latest Hydro One forecast that is specific to Horizon Utilities, the 2004 weather normalized data has been used to forecast the required information for the 2007 Bridge Year and 2008 Test Year. [Exhibit C/Tab 2/Schedule 2]. Hydro One was very active during the Cost of Service working groups convened by the OEB and provided weather normalization calculations for a number of LDC's. Horizon Utilities does not have the details behind Hydro One's weather normalizing software, but would note that the results of the Hydro One weather normalization, albeit for the one year of data, 2004, was determined

by the OEB to be sufficient for the preparation of the cost of service studies. Horizon Utilities submits that, in the absence of an alternative weather normalization methodology, its kWh forecast is representative of Horizon Utilities expected growth.

22. Horizon Utilities has not adjusted its load forecast for Conservation and Demand Management initiatives and will rely on filing LRAM and SSM applications in order to recover lost revenues due to CDM.
23. Horizon Utilities is unaware of a more refined methodology that has demonstrated greater forecasting accuracy. In the absence of such Horizon Utilities submits that the load forecast methodology adopted by Hydro One and utilized by Horizon Utilities is appropriate for this Application. Horizon Utilities understands that those intervenors that have commented on this matter reached similar conclusions.

- **kW load forecast:**

OEB Staff submission

Reference page 4 – OEB Staff state that no rationale is presented for the determination of the kW forecasts.

Response:

24. Horizon Utilities refers the OEB to Exhibit C/Tab 2/Schedule 2 /pp. 4–5. In that portion of the Application, Horizon Utilities states that the kWhs for the Large Use class, Unmetered/Scattered Load and Sentinel Lighting are not weather sensitive and are not expected to differ significantly in 2007 or 2008. Street Lighting and Sentinel Lighting loads are photocell controlled and therefore are not weather sensitive. Street Lighting kWh were estimated using the forecast number of connections for the 2007 Bridge Year and 2008 Test Year multiplied by the use per connection. The General Service > 50 kW, Large Use, Sentinel Lighting and

Street Lighting customer classes are billed based on demand charges and therefore require an estimate of billed kW. Horizon Utilities has determined 2007 Bridge Year and 2008 Test Year kW demand based on the normalized forecast for kWh and the ratio of historical billed retail kW to historical billed retail kWh, by class. The demand kW forecast was based on forecasted kWh and the ratio of billed kW to kWh. Accordingly, Horizon Utilities submits that it has provided in its Application an adequate rationale for the determination of its kW forecasts.

- **Other Revenues**

CCC submission

Reference paragraph 13 – CCC claims that Horizon Utilities has had windfalls in revenue of \$4.4 million in the period of 2006 to 2007 and recommends increasing other revenues by \$555,000.

Schools submission

Reference 1.3 – Schools submits that there is no evidence to reduce other revenues from the 2007 level and recommends an increase of \$1 million to other revenues.

Response:

25. Horizon Utilities submits that CCC has miscalculated the changes in Horizon Utilities' other revenues. Horizon Utilities' calculation of other revenues can be found at Exhibit C/Tab 3/Schedule 1 to the Application. There is nothing in the evidence in this proceeding to support the CCC suggestion of a \$4.4 million change in other revenue between 2006 Board Approved and the 2007 Bridge Year. Horizon Utilities believes that the reference to \$4.4 million may be a typographical error and that CCC intended to suggest a \$2.4 million change, but even that is incorrect. What CCC appears to have done is taken the total variance between 2006 Board Approved and 2006 Actual (that is, \$1.8 million) shown in Table 1 to that Schedule; selected one item from the column illustrating

the variance between 2006 Actual and 2007 Bridge (the \$690,000 [all figures rounded] attributable to miscellaneous service revenue); and arrived at a \$2.4 million (\$4.4 million, in CCC's submission) "windfall". Horizon Utilities submits that this approach is highly selective, misleading, and ignores other changes in Horizon Utilities' other revenues. The correct value of the variance between 2006 Actual and the 2007 Bridge Year is \$368,000, as shown in Table 1, and not the \$690,000 suggested by CCC.

26. Horizon Utilities has identified revenues from one time occurrences such as the sale of trucks and scrap, a reduction in management fees with the sale of FibreWired and a reduction in interest primarily due to lower cash balances as a result of the capital spending required for smart meters and ERP for a total reduction of \$1.0 million. [Exhibit C/Tab 3/Schedule 2/p 2 - 3].
27. Contrary to Schools' comments, Horizon Utilities has provided an explanation for the reduction in other revenues. [Exhibit C/Tab 3/Schedules 1 and 2]. In addition, Schools has not provided any justification for arbitrarily assuming that the one-time occurrences will in fact continue year after year through an IRM period. The occurrences identified by Horizon Utilities are quite properly considered one-time. Horizon Utilities submits that if these one-time revenues are arbitrarily included as offsets to its revenue requirement on the unsupported assumption that they will continue, Horizon Utilities bears the risk of the revenue deficiency. In short, Horizon Utilities has reasonably identified and justified in Exhibit C/Tab 3/Schedules 1 and 2 those revenue offsets that will continue through the Test Year and those that will not, and there is no basis for the increases in other revenues proposed by CCC and Schools.

COST OF CAPITAL/DEBT

- **Capital Structure (Issue 2.1)**

28. As noted in its Argument-in-Chief, Horizon Utilities' capital structure is the OEB-approved capital structure of 60% debt and 40% equity as determined by the OEB in its December 20, 2006 Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Cost of Capital Report").
29. All parties appear to have accepted Horizon Utilities' commitment to adjust the ROE used in the Application to the OEB-approved ROE of 8.57% at the time of preparing the draft rate order that will follow the Decision.

- **Horizon Utilities' Approach to Cost of Capital**

30. Horizon Utilities has been guided by the following for matters related to Cost of Capital within its Application:
- *Filing Requirements For Transmission And Distribution Applications* issued by the Board in November of 2006 (EB 2006-0170) and providing requirements for forward test year re-basing applications (the "Filing Requirements");
 - The *Cost of Capital Report*;
 - The form, content, and intentions with regard to the affiliate debt instruments between Hamilton Utilities Corporation and Horizon Utilities, including its predecessors.
31. Horizon Utilities has noted specifically in its Evidence [Tr. Vol.1, p.202] that, at Chapter 2.7, Section 3 of the Filing Requirements, the Board advised that Cost of Capital will be developed and brought into effect through the Board initiated Cost of Capital and 2nd Generation Incentive Regulation Mechanism. Horizon Utilities reasonably understood this to mean that it should use the Board's Cost of Capital

Report “as the guidelines for distributors in preparing their rate applications” (see Section 1 of the Report).

32. The Cost of Capital Report specifically provides the following:

- (i) *The Board will deem a single capital structure for all distributors for rate-making purposes. (page 5);*
- (ii) *The Board has determined that a split of 60% debt, 40% equity is appropriate for all distributors. (page 5);*
- (iii) *The short-term debt amount will be fixed at 4% of rate base. (page 9);*
- (iv) *Long-term debt is a major component of a distributor's capital structure. As noted previously, for ratemaking purposes the term of the debt should be assumed to be compatible with the life of the asset. With electricity distributors, the asset life can extend beyond 30 years. Typically, debt is incurred at the time when assets are put in service and the cost of that debt is at the prevailing market rate. This means that a distributor may be holding long-term debt at rates that differ according to when the debt was incurred. This is often called “embedded debt.” (pages 12-13);*
- (v) *The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt. (page 13).*

33. Horizon Utilities has adopted a capital structure within its application that is entirely consistent with the Cost of Capital Report and, specifically, with items i), ii), and iii) above. Such structure appears to be generally accepted in this proceeding, subject to the Schools Argument with respect to Customer Deposits (at paragraphs 2.1.2 to 2.1.6 of the Schools Argument). This will be discussed below, in the context of Issue 2.2.

- **Cost of Debt (Issue 2.2)**

Introduction:

34. Horizon Utilities' deemed debt includes 4% of short term and 56% of long term debt in accordance with the December 20, 2006 Cost of Capital Report, and more particularly Section 2.1.1 – Debt Component.
35. All parties appear to have accepted Horizon Utilities' commitment to adjust the short term debt rate of 4.77% used in the Application, to the OEB-approved short term debt rate of 4.47% at the time of preparing the draft rate order that will follow the Decision, again subject to certain comments by Schools in respect of customer deposits, which will be discussed below.

OEB Staff and Intervenor Submissions

36. Horizon Utilities has received and reviewed the final submissions and arguments of OEB staff and intervenors with respect to long-term debt. Staff conclude their submission (at p.14) by advising that "The Board must consider what long-term debt rate it should approve for Horizon's 2008 revenue requirement and distribution rates in light of the evidence and the Board's policies, particularly as documented in the 2006 Distribution Rate Handbook and now in the Board Report. Parties are invited to comment on this matter."
37. All of the intervenors (CCC, Energy Probe, Schools and VECC) made submissions in respect of Horizon Utilities' long-term debt rate. All of the intervenors have submitted that the appropriate rate for Horizon Utilities' long-term debt should be 5.26%, in light of the February 28, 2005 amendments ("2005 Note") to the original July 1, 2000 Promissory Note obligation of the former HHI ("2000 Note"), now continuing in Horizon Utilities to its parent, Hamilton Utilities Corporation. Horizon Utilities submission that the 2005 Note is an amended note is consistent with the document itself (see the first page of the document, at Ex.

F/1/3/Appendix A). Certain parties, such as CCC (para. 24 of the CCC submission) suggest that it is a new note.

Response:

38. Horizon Utilities reiterates its submission that the appropriate long-term debt rate is 7% for the debt held by HUC, and respectfully disagrees with the intervenors' submissions that it be reduced.

Customer Deposits

39. Schools objects in sections 2.1.2 to 2.1.6 to the amount of, and rate requested on, short-term debt within the Application as a result of the impact of Customer Deposits. For the reasons set out below, Horizon Utilities rejects Schools' proposed use of customer deposits as a component of its debt, but in any event, if there is an issue here, this is not an issue specific to Horizon Utilities. If the OEB wishes to consider this matter, it should do so in the context of a consultative process and not in the context of a single utility's distribution rate application.
40. Customer Deposits represent security for the payment of accounts receivable to mitigate bad debt expense. Deposits cannot be construed as a reliable or typical source of financing, in either a short or long-term context, for the following reasons:
- a) The amount of prepayment or "principal" cannot be relied upon as a source of financial capital given the risk and general likelihood that Deposits will be applied against bad debts or refunded rather than supporting capital investment;
 - b) Unlike short or long-term debt facilities or instruments, Horizon Utilities and other electricity distributors are unable to control the amount of such deposits directly, and only indirectly through changes to credit policy; and

- c) Horizon Utilities has no practical means of effectively managing or hedging cash flow risk created by customer deposits so that it could otherwise create a synthetic debt instrument or debt instruments similar to short or long-term instruments that would be useful in its capital structure.
41. For the above reasons, it is appropriate for the Board to exclude Customer Deposits as a specific issued or embedded debt instrument, of either a short-term or long-term nature, for purposes of determining Cost of Capital for electricity distributors. Horizon Utilities notes that the Board has not adopted a practice of including Customer Deposits in debt in its other past rate orders.
42. Horizon Utilities notes an error or, at least, omission in the Schools Argument with respect to the regulated amount of interest compensated on Customer Deposits. Such interest is variable at a rate of prime less 2.00% [Distribution System Code 2.4.21] rather than the fixed rate of 1.75% asserted by Schools in section 2.1.3 of the Schools Argument.

Long-term debt

43. Schools provides its submissions regarding Debt Costs in section 2.2 of the Schools Argument. Other intervenors and Board Staff have also identified issues with the Long-Term Debt Rate requested by Horizon Utilities in its Application.
44. Horizon Utilities would agree, in part, with Schools that one basic issue is whether the Long-Term Debt Rate underlying the Application is compliant with Board policy for "Embedded Debt". The other issue is the appropriate Long-Term Debt Rate applied to the deemed Long-Term Debt Amount that exceeds the amount of long-term embedded debt. Horizon Utilities submits that these are separate considerations for the Board, and will address them separately below.
45. Horizon Utilities has assumed in its Application that the Long-Term Debt Amount would be computed as 60% of rate base less the amount of Short-Term Debt

Amount provided for in the Report on Cost of Capital at 4% of rate base, or 56% of rate base.

The Horizon Utilities Promissory Note – Long-Term Debt Rate

46. Horizon Utilities will address the arguments with respect to the Long-Term Debt Rate on its Promissory Note in the context of the rules, policies, and guidelines of the Board supported by the form, substance, and intent of related debt instruments.
47. It has been the continuous intention of Horizon Utilities to follow the rules, policies, and guidelines of the Board in preparing the Application and Evidence. Horizon reiterates its understanding of such below with respect to its approach to asserting an appropriate Long-Term Debt Rate in its Application.

- **The Board's Filing Requirements**

48. Section 2.7 of the Board's Filing Requirements applicable to the Application provide as follows:

3. Calculation of Return on Equity and Debt

"The requirements for cost of capital will be developed and brought into effect through the Board initiated Cost of Capital (EB-2006-0088), 2nd Generation Incentive Regulation Mechanism (EB-2006-0089)."

49. It appeared clear to Horizon Utilities that the Filing Requirements employed the rules in Chapter 5 of the 2006 Electricity Distribution Rate Handbook ("2006EDRH") along with the then pending Report on Cost of Capital, which is a "policy report" of the Board (page 1 of Report on Cost of Capital).

- **The Board's Cost of Capital Report**

50. Horizon Utilities has referenced the sections it relied on as Board policy in its Cost of Capital Report in paragraph 32, i) through v) above.

51. It is the clear intention of the Board that “*for ratemaking purposes the term of the debt should be assumed to be compatible with the life of the asset*” (Report pp. 12-13) in setting the context of its definition of “Embedded Debt”. Such statement references an assumption with respect to debt term that directly links to the life of assets supported by such debt. As such, Horizon Utilities submits that the Board should assume the intended life of debt instruments, in the absence of clear terms otherwise, is based on the life of assets supported by such debt. It logically follows that an appropriate interest rate reflects the duration of the assets supported by such debt as a proxy for an appropriate term. The corresponding market rate of interest at the time of issuance would be assumed to be the market rate, at that time, for an instrument of duration matching the duration of the assets so financed.
52. Generally speaking, the regulated cash flows generated on rate base assets have a duration of approximately 10-15 years for purposes of matching against a fixed-term, fixed-principal debt instrument. It follows that an appropriate debt rate should be based on a debt instrument of this nature at the time that such assets require debt financing.
53. Horizon Utilities has submitted that its current \$116MM promissory note payable to Hamilton Utilities Corporation (“HUC”) represents Embedded Debt and that such note also represents a continuation, subject to amendment, of the 200 Note which is an original note issued July 1, 2000 by its predecessor Hamilton Hydro Inc (“HHI”). The 2000 Note had an initial principal amount of \$142MM and was issued pursuant to, and in partial consideration of, a municipal transfer by-law providing for the transfer of regulated electricity distribution assets to HHI in accordance with the *Electricity Act, 1998*.
54. The debt rate has continuously remained at 7% from the 2000 Note to the 2005 Note. HHI repaid \$26MM of the original principal in July of 2002. The debt rate was set at a fixed rate of 7% in the 2000 Note based on the OEB’s approved rate

at the time of its issuance. [REDACTED]

[REDACTED]

[REDACTED].

Horizon Utilities, and Hamilton Hydro Inc. before it, have understood that such rate was determined by the OEB, at such time, with reference to the market rate for long-term debt instruments corresponding to the conceptual creditworthiness for electricity distributors generating cash flows consistent with the full maximum allowable rate of return on deemed equity.

55. The interest rate in the 2000 Note was fixed at 7% subject to changes that the Board might effect with respect to recovery for rate making purposes. The Original Note provided such rate accommodation to HHI by HUC as it was not known at the time, and for some time thereafter, whether the Board would continue to support a fixed debt rate embedded in an issued debt instrument of a fixed-term nature. It had always been the intentions of HUC and HHI to establish the rate based on the market rate for a long-term debt instrument that was, at the time of issuance, compatible with the life of the HHI distribution assets received on transfer from the City of Hamilton in July 2000.[Tr. Vol.1, p.214, lines 11-22 and 24-p.215, line 10]. Such rate at that time was 7%.
56. Horizon Utilities submits that it is undeniable that the \$116MM outstanding under the amended 2005 Note is a continuation, in part, of the original principal amount of the 2000 Note, net of the partial repayment referred to earlier. This is consistent with the original intentions of Horizon Utilities/HHI and HUC that such Note represent fixed-term debt consistent with prudent financing of long-term utility assets. It is also consistent with the operation of this promissory note between Horizon Utilities/HHI and HUC since its original issuance.
57. As such, Horizon Utilities submits that it is reasonable for the Board to assume, in a manner consistent with the Board's context for Embedded Debt, that the debt term related to the 2005 Note commences at the time of the issuance of the

2000 Note. Such assumption reflects the prudent financing of related assets, which was the original and continued intention of HUC and HHI, as articulated in paragraph 51 and 52 above. Horizon Utilities also asserts that the maturity date provided in the 2005 Note, of July 30, 2012, reflects a term, relative to the issuance date of the Original Note, which is compatible with the life of assets financed as of the date of issuance of the Original Note. This is entirely consistent with the context of Embedded Debt provided by the Board.

58. Horizon Utilities acknowledges the importance of the legal form of debt instruments in substantiating related commercial business transactions and has articulated pragmatic considerations underlying both the form of and amendments to the original July 1, 2000 Note through to the February 28, 2005 Note in its Evidence. Horizon Utilities reiterates that, for some time since July 1, 2000 and certainly beyond 2002 (e.g., Bill 210), electricity distributors were evolving into commercial entities in a largely volatile environment for energy policy in Ontario and that, during such time, there has been some lack of clarity with regard to the rules of the Board for cost of capital. This uncertainty has resulted in certain accommodations in the legal form of debt instruments, particularly as such relates to repayment, to provide some flexibility for the benefit of both HHI/ Horizon and HUC [Tr. Vol.1, p.212, line 19-p.213, line 18] in the event that energy policy or related regulation created undue strain on the ability of the regulated distribution entity to continue supporting a fixed rate, fixed term debt instrument as representing the prudent financing of distribution assets.
59. Horizon Utilities submits that the intentions and substance with respect to the original 2000 Note, and amendments through to the current 2005 Note, are also material considerations for the Board, in addition to the legal form of the notes, in its determination of the appropriate Long-Term Debt Rate for Horizon Utilities Embedded Debt.

60. Horizon Utilities also reiterates that all amendments between the 2000 Note and 2005 Note were not sufficiently substantive to result in a disposition and re-issuance of a debt obligation at law, for financial reporting purposes, or for tax purposes. [Tr. Vol. 1, page 201, line 21 to page 202, line 2 and Tr. Vol. 2, page 39, lines 8 – 11] As such, Horizon Utilities submits that the current 2005 Note is a continuation, through amendment, of the original 2000 Note.

- **Board Determination of Debt-Rate on Embedded Debt**

61. The Report on Cost of Capital also clearly provides for the determination of the debt rate on Embedded Debt with reference to the rate approved in prior Board decisions, unless a new rate is negotiated, and that such rate will be maintained for the life of each active instrument. It is noteworthy that the determination of the debt rate does not reference the approval of a debt instrument in prior Board decisions. (see page 13 of the Board's Report)

62. In their submission, Board Staff state:

"With the Report of the Board and the 2006 Electricity Distribution Rate Handbook, both issued May 11, 2005, the Board established guidelines that took into account the actual or embedded debt that distributors had incurred since incorporation." (page 7)

"Board staff submits that Horizon's cost of debt has been reviewed twice since Bill 35; in 2006 and in this current Application." (page 8)

"In its 2006 EDR application, Horizon documented the 2002 version of the Promissory Note, even though the 2005 update was in place at the time of filing and should have been used in its 2006 EDR application." (page 8)

"In the 2006 EDR application, documentation of Hamilton Hydro's debt as contained in the notes to its audited financial statements would have been used as a check against schedules in the application. Any discrepancies or issues would have been pursued through interrogatories, as was done in

Horizon's 2006 EDR application on its long-term debt, but the notes were not sought. There was no need to, as the evidence referencing a 2002 debt instrument was consistent with the notes in the 2004 Audited Financial Statements filed in that application. There was no reference to the 2005 note and the Board, staff and intervenors would not have been aware of that note."
(page 9)

63. The most recent prior Board decision of relevance to the determination of the debt rate on Horizon Utilities' Embedded Debt would be its decision on the 2006 EDR application of Horizon Utilities.
64. Page 34 of the 2006EDRH provided for a Schedule 5-1: Weighted Debt Cost. Horizon Utilities acknowledges that the Schedule 5-1 filed in the 2006 EDR Application did not refer to the 2005 amendment, and regrets that omission. However, Horizon Utilities submits that this information would not have had any practical implication on the related rate order based on the rules of the Board provided within Chapter 5 of the 2006EDRH for the determination of "deemed debt rate". Had Horizon Utilities referenced the 2005 Note, it would have included the following corrected information for such note within Schedule 5-1 (original submitted information in brackets):

Description Debt: Promissory Note Payable (no change)

Holder: Shareholder (no change)

Is Debt Holder Affiliated? (Y/N): Y ("N" used in error in application but this was clarified in response to a Board staff interrogatory)

Date of Issuance: July 1, 2000 as amended February 28, 2005 ("1-Oct-02" provided in error)

Principal: \$116MM outstanding (no change)

Term (Years): 12 years expiring July 30, 2012 (none provided)

Actual Rate: 7.00% (no change)

Debt rate used for weighted debt rate cost: 7.00% (no change)

65. The principal amount (\$116 million) and the rate (7.00%) shown in the schedule filed in the 2006EDR application would not have changed.

66. As a historical year filer for its 2006EDR application, the guidelines set out in the 2006EDRH applied to Horizon Utilities. As such, Horizon Utilities should have been able to rely on such guidelines. Section 3.1 of the 2006EDRH¹ provided that

“3.1 Historical Test Year versus Future Test Year

The applicant may choose from four filing options:

Option 1: 2004 year with **no** adjustments.

Option 2: 2004 year with all applicable Tier 1 adjustments.

Option 3: 2004 year with all applicable Tier 1 adjustments, and Tier 2 adjustments, if the applicant meets the criteria specified for hardship.

Option 4: Forward test year with full supporting documentation commensurate with the nature of the application.

The guidelines provided in the 2006 Handbook relate to historical year filings as outlined in Options 1, 2 and 3 above.”

67. Among those guidelines was section 5.2, which included the following provision (at page 32):

“For debt held by a third party, the actual debt rate for that debt is used. For debt held by an affiliate (e.g. municipal shareholder, holding company), the debt rate used is the lower of the actual debt rate and the deemed debt rate at the time of issuance. The debt rate should include all costs of issuance.

For debt issued between March of 2000 and May 12, 2005, the deemed debt rate is that shown in Table 3-1 of the first generation PBR Distribution Rate Handbook (released in March, 2000), given the distributor’s size. The updated deemed debt rates shown in Table 5.1 if this 2006 Handbook are used for debt issued on May 13, 2005 or later. For debt issued before March, 2000, the actual debt rate is used. The applicant may have to demonstrate that the debt rate was at or below then current market rates.”

¹ available at http://www.oeb.gov.on.ca/documents/edr_final_ratehandbook_110505.pdf

68. The Board made no distinction between variable and fixed rate debt in the 2006EDRH or in its Report thereon. Irrespective of whether the 2005 Note was perceived as issued debt or amended debt, the dates of the original 2000 Note and amended 2005 Note both fall after March of 2000 and before May 12, 2005. The amendments within the 2005 Note were both authorized and executed as of its February 28, 2005 effective date. The 7% rate would not have been adjusted, as it was equal to the deemed debt rate in Table 3-1 of the first generation (2000) EDR Handbook for a distributor of the size of HHI.

- **Summary – what should the Board do?**

69. Based on the foregoing analysis of the Filing Requirements and the Cost of Capital Report, Horizon Utilities submits that the appropriate debt rate for its Embedded Debt, the terms of which are represented in the amended 2005 Note, should be 7% through to its maturity date of July 30, 2012 as such rate is consistent with the OEB's First Generation EDR Handbook; the 2006EDRH for historical year filers, and the OEB's Report thereon; the OEB's Cost of Capital Report and 2nd Generation IRM; and the Filing Requirements.

70. Schools states in paragraph 2.2.30 of its submission that "This was not a back to back arrangement. The Applicant's witnesses took great pains to point out that HUC's decisions in this regard were made independently and for its own purposes [Tr.1:201,206]. It was nothing to do with the utility, and in fact the utility was not getting any benefit in the transaction. Prior to that time, the utility was borrowing from HUC, but HUC in turn owed the money to the City of Hamilton. Thus, the debentures were not in fact a back to back arrangement to fund the utility. They were, in fact, a "refinancing of its [HUC's] debt obligations outside of Horizon considerations" [Tr.1:206]. There is no reason to tie the interest rate on the debentures, or any other debenture terms, to the utility."

71. Horizon Utilities acknowledges the affiliated nature of its Promissory Note. Horizon Utilities further acknowledged its assertion (although not "pained") that

HUC undertook its refinancing independently of Horizon Utilities, but observes that Schools fails to provide at paragraph 2.2.30 the context for that assertion, in which Horizon Utilities outlined an independent need of HUC for financial liquidity: "Hamilton Utilities undertook a refinancing of its debt obligations outside of Horizon considerations. Its purpose was to create corporate liquidity with third parties, to permit it to engage in other strategic investment opportunities at that time, such as water and waste water. It had ambition for large co-gen projects and other similar energy related projects, was looking to create a name in the market, and this is what precipitated this initial and small issuance." [Tr. Vol.1, p.206, lines 16-24]. Horizon Utilities submits that the full context of its remarks regarding "HUC independence" does not substantiate the Schools submission in its paragraph 2.2.30 with respect to debt rate or the relationship between the HUC debentures and the Horizon Utilities promissory note.

72. As noted previously, Schools has failed to provide context for the comments it attributes to Horizon Utilities' witnesses. Schools has distorted the testimony of a key Horizon Utilities witness when it disrespectfully and inaccurately refers to such testimony [at Transcript Volume 1: pp. 217-219 as follows]:

"We do not believe it is necessary to go through that whole dissertation here, but we note that Mr. Basilio seems to place great emphasis on the 'unjust enrichment' of the City of Toronto due to an 'unusual dividend'."
(Schools Argument 2.2.42)

73. The related and relevant excerpt providing oral testimony of Horizon Utilities (J. Basilio) at Tr.1: pp. 218 Lines 9-16 plainly reads:

"I mean I have read the case and I have read the Board's ruling on it. There was a feeling that the city is dictating the terms of this note. I also note there is some context around the Toronto case, and you know we watched it closely and were somewhat concerned. They paid an unusual

dividend. There was a feeling about unjust enrichment of a shareholder. I mean those obligations continue to point straight to the city.

- [illegible]

- [REDACTED]
- [REDACTED]
77. The difference between the \$32MM referred to by Schools in 2.2.42 and the [REDACTED] provided above represents regular dividends paid in respect of Horizon Utilities earnings for the ten months ended December 31, 2005, in accordance with its dividend policy.
78. The [REDACTED] represented surplus earnings that were neither productive in generating business income nor required to support the regulated electricity distribution operations of Horizon Utilities. As such, it was determined that such surplus be returned to shareholders. Based on this analysis, Horizon Utilities submits that there was no “unjust enrichment” of its shareholders resulting from [REDACTED] at the expense of ratepayers, which is the clear implication asserted by Schools in its argument at 2.2.42.
79. Horizon Utilities also acknowledges that it monetized the \$29.1MM promissory note obligation of the former SCHUSI (“SCHUSI Note”). The interest obligation of the SCHUSI Note was the rate established by the OEB, which was 7.25% at the time, although such rate could otherwise be designated by SCHI. SCHI had designated the rate at 4.83%, which represented 2/3 of the OEB deemed rate at the time. The rationale for SCHI setting the rate at 2/3 of the deemed rate was consistent with the persisting impacts of Bill 210, which froze the regulated rate of return at 2/3 of the maximum allowable rate. As a condition of the merger, Horizon Utilities was required to pay the full deemed rate on the SCHUSI Note of 7.25%. As such, and in the context of the merger and Horizon Utilities as the continuing obligor of the SCHUSI Note, which is the context offered by Schools in 2.2.42 of the Schools Argument, the SCHUSI Note was not “low interest debt” to SCHI as submitted by Schools.
80. Horizon Utilities applied surplus cash balances to the monetization of the SCHUSI Note. The application of such reduced the negative interest carry on

the difference between interest income on cash balances and the interest rate that would have been incurred on the SCHUSI Note. This was determined by Horizon Utilities to be a prudent course of action. [refer to oral testimony of Horizon Utilities (J. Basilio) at Tr. 2, p.75, lines 21-26]

81. Horizon Utilities submits that no “unjust enrichment” of a shareholder, at the expense of ratepayers, occurred as a result of the monetization of the SCHUSI Note, which, again, is the clear implication asserted by Schools in its argument at 2.2.42.
82. Based on the above, Horizon Utilities submits that the Horizon Utilities dividends and monetization of the SCHUSI Note referred to in Schools Argument 2.2.42 do not support the apparent argument of Schools that there is no distinction between the “HUC \$116 Million note from the similar situation of Toronto Hydro in its 2006 rate case”. As such, and as a corollary to this submission, Schools has not offered any argument to draw similarities between the 2006 THESL and 2008 Horizon Utilities rate cases.
83. Horizon Utilities submits that the Schools argument in 2.2.42 serves no purpose and should be dismissed by the OEB.
84. As Horizon Utilities further submitted at Tr. Vol.1, p.217, lines 14-15, “[HUC] gave it access to liquidity that it didn't otherwise have at the time.” In its response to Schools Interrogatory 16(c) (p.49 of 56 of the responses to Schools), which requested confirmation that the Promissory Note of Horizon Utilities to HUC was a “back to back” arrangement supporting the HUC debentures, Horizon Utilities responded that “The terms, other than the interest rate, of the Promissory Note of Horizon are substantially consistent with the terms of the 6.25% Senior Unsecured Debentures issued by the parent. The Promissory Note matures on the same date as the 6.25% Senior Unsecured Debentures.” Horizon Utilities therefore did have, in all substantial respects with the exception of interest rate, a back to back arrangement with HUC, and in meeting HUC’s obligations under the

debenture, which as the parties are aware was issued to unaffiliated third parties, HUC must naturally and logically rely on Horizon Utilities' ongoing fulfillment of its debt obligations to HUC. Horizon Utilities' uncontroverted evidence [Tr. Vol.1, p.221 line 13- p.222 line 1 as such remarks were relative to the HUC debenture] was that any financing arranged by HHI would have been at rates similar to those obtained by HUC. Accordingly, if the Board is not prepared to maintain the 7% debt rate provided for in the Current Note and contemplated in the Cost of Capital Report, Horizon Utilities submits that the appropriate alternative is 6.25% plus 0.37% in issuance costs (the issuance costs have been substantiated in [REDACTED], for a total of 6.62%, which would have been the interest rate achieved by Horizon Utilities had it undertaken its own third-party debenture financing at that time (July 2002).

85. While Horizon Utilities has submitted that there is no basis for reducing its long term debt rate of 7%, Horizon Utilities further submits that even if the OEB were to adjust that rate, there is no basis for revisiting 2006 and 2007 interest rates as suggested by Schools (para.2.2.25), nor has Schools provided any. The rate allowed by the Board was consistent with the 2006EDRH; the 2006EDRH was applicable to Horizon Utilities as a historical year filer; and the Application before the Board is in respect of 2008 distribution rates. Where the Board reduced the permitted interest rate in the case of Toronto Hydro's 2006 EDR application (EB-2005-0421), the reduction was made on a prospective basis for the test year that was the subject of the application (2006), and the Board did not make retroactive adjustments to previous years' rates or revenues notwithstanding that the Toronto Hydro promissory note changed in 2003. Horizon Utilities submits that such an adjustment would be inappropriate in this case.

2.5.2 Debt Rate on Amount of Deemed Long-Term Debt Not Embedded

86. The OEB's Cost of Capital Report does not specifically address the appropriate debt rate for the amount of deemed long-term debt that is not supported by an issued debt instrument.
87. The 2006EDRH provided for a weighted debt cost based on a dollar weighted average of the lesser of the actual and deemed debt rates of specific issued debt instruments (Chapter 5.2 of the 2006EDRH). This calculation was irrespective of the amount of deemed debt such that electricity distributors often had less issued debt than deemed debt.
88. Horizon Utilities suggests two possible alternatives for the Board in its determination of the appropriate debt rate for this classification of deemed debt:
89. First, the Board could assume a deemed term for such debt consistent with its assumption for ratemaking purposes that the term of the debt should be assumed to be compatible with the life of the asset. The commencement of such term would be consistent with the time at which a shareholder made available its support for the amount of deemed long-term debt that is not represented by issued debt.
90. With respect to Horizon Utilities, the commencement date would effectively be the dates that assets were transferred to its predecessors, HHI and SCHUSI, in July and August of 2000, respectively. The amount of deemed long-term debt that is not represented by issued debt has continuously been available since such date. The Board approved rate on long-term debt at such commencement was 7%.
91. Second, the Board could assume such debt to be "new" debt as it is conceivable that an electricity distributor is in a position to issue debt in such amount at any point in the future and recover the lesser of the market rate on such debt or the most current deemed rate. As such debt has not been issued, the only reference point for debt rate would be the most current deemed rate which, at the time of

this response, is 6.1% pursuant to the March 7, 2008 letter of the Board providing for Cost of Capital Parameter Updates for 2008 Cost of Service Applications.

92. Horizon Utilities' Application uses a debt rate of 7% on all of its deemed long-term debt – both the \$116 million that is the subject of the Promissory Note and the balance of its deemed long-term debt, that is not supported by an issued debt instrument. Horizon Utilities has since observed that Board orders for recent 2008 forward test year applications appear to adopt the approach outlined in the second alternative (that is, 6.1%) in respect of deemed long-term debt not supported by an issued debt instrument. Using the rate of 7.00% on \$116 million and 6.1% on the remaining \$87,247,725 would result in a combined rate of 6.6137% for Horizon Utilities' long term debt.

COST OF SERVICE

- **Operating Expenses**

OEB Staff submission

Reference page 16 – staff note that Horizon Utilities did not include smart meter costs, as identified in its response to VECC IR 26, as a component of the driver table for cost increases prepared in response to Staff IR 23, and invite Horizon Utilities to clarify why they are not incorporated in that table as an incremental OM&A change factor.

Response

93. Horizon Utilities submits that it has included these costs in the driver table provided in response to Staff IR 23. In Horizon Utilities' response to VECC IR 26, the total smart meter cost for 2008 is \$1,372,399. In IR 26, VECC had requested Horizon Utilities to reformat its costs, based on the narratives provided in Exhibit D/Tab 2/Schedule 1/pages 1-22, into the cost categories described in Exhibit D/Tab 1/Schedule 1/Table 1. Horizon Utilities has summarized that portion of its response to VECC IR 26 as it related to smart meters in the table below.

	2006	2007	2008
Description	Smart Meters	Smart Meters	Smart Meters
Operations		285,805	369,719
Maintenance		78,399	188,748
Billing & Collecting		3	147,600
Community Relations		125,000	225,000
Admin G&A	0	495,425	441,332
Total	0	984,632	1,372,399

Horizon Utilities submits that the components of the smart meter costs as requested in the above breakout for VECC are in fact included in the drivers table prepared for the OEB Staff, but not as a single line item for smart meters. As can

be seen from the breakout table above, smart meter costs cross a number of Horizon Utilities' departments and distribution activities.

- **Vegetation Management**

OEB Staff submission

Reference Issue 3.2 page 16 – 17 – has Horizon Utilities provided adequate justification to support its cost increase.

Schools submission

Reference 3.2 – Schools proposes to reduce Horizon Utilities' revenue requirement by \$900,000 to remove "out of period" amounts.

Response:

94. Horizon Utilities will respond to the Schools submission, and believes that that response should address the OEB Staff concerns. No comments were received from the other Intervenor in this regard.

95. Schools makes reference to part of the response to Confidential Undertaking JX1.3, referred to as a [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] As noted previously, Schools' references throughout its submission to [REDACTED] as the response to Confidential Undertaking JX1.13 are incorrect. Horizon Utilities submits that the Schools submissions with respect to [REDACTED] mischaracterize its purpose. It was a report prepared for the parties to the merger negotiations advising as to [REDACTED] The report was not prepared for either utility with the intent of [REDACTED]

[REDACTED]

96. Schools, at paragraph 3.2.7 of its submission, refers to a section of the 2004 report, in which [REDACTED]
[REDACTED] Had Schools continued with this line of reporting they would also have stated that [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
97. Horizon Utilities prepared its 2007 OM&A budget in the fall of 2006 and at a time when its revenue requirement was determined on a rebasing of 2004 costs, which at the time would not have reflected the additional tree trimming required to catch up on the work not performed by the city. In addition, Horizon Utilities' 2007 rates were subject to an IRM adjustment only. As provided in Horizon Utilities' response to VECC IR 27, when Horizon Utilities went out to tender for the required tree trimming the contractors' costs per grid exceeded Horizon Utilities 2007 budget. This is further confirmed during cross examination: "in 2007, we were unable to complete our planned program due to the increase in costs that we received from contractors. And a lot of that is to do with rising fuel prices, but also has to do with the increased trimming they have, because they're in an area where they're trimming sections of the city that have not been trimmed in up to seven years. So we found that when we finished the tendering process for 2007, our budget would not accommodate these increasing costs, and that's how we came to the carryover." [Transcript Volume 1, page 189, lines 5 to 14].
98. As such, in 2007, Horizon Utilities identified the amount of work that was behind and provided \$1.1 million spread over three years, in order to complete the required tree trimming, as explained in Horizon Utilities' response to Schools IR 13 h).
99. The \$900,000 Schools is requesting that the OEB remove from the revenue requirement is not an out of period amount – Horizon Utilities spent its vegetation

management budget in 2007 and is not moving vegetation management expenses incurred in 2007 into the Test Year. There is no evidence to suggest that Horizon Utilities has underspent on tree trimming in non-rebasing years, and Horizon Utilities adamantly denies Schools' suggestion [at para. 3.2.3] that "the sole reason for the move is so that it will generate incremental rate revenue". Not only is it not the sole reason for the move, but it is not a reason at all.

100. Horizon Utilities reiterates the importance of public safety and reliability in its decision to move to a three year tree trim cycle across its entire service area. The three year cycle is responsible; reflects accepted industry practice; and is consistent with the utility practice of numerous other Ontario electricity distributors [Tr. Vol. 1, p.187, line 25 to p.188, line 2], and Horizon Utilities submits that it is appropriate that the OEB approve a revenue requirement that will enable Horizon Utilities to implement that cycle.

- **Regulatory Costs**

OEB Staff submission

Reference page 17 to 19 – OEB Staff invite Horizon Utilities to clarify all costs included in its regulatory costs as well as the approach for recovery. Also, the 2007 and 2008 difference in totals taken from the table provided in Undertaking J1.1 does not match the amount provided in the cost driver table.

Schools submission

Reference 3.3.5 – 2008 regulatory costs of \$625,000 should be spread over six years.

CCC submission

Reference paragraph 44 to 46 - 2008 regulatory costs, once determined, should be spread over three years. CCC requested a breakout of all costs directly attributable to this proceeding embedded in the 2008 budget, and a reconciliation with the costs set out in Exhibit B/T1/S1/Appendix B (p.837 of 1557) and Exhibit J1.1.

VECC submission

Reference paragraph 4.8 to 4.9 - 2008 regulatory costs of \$300,000 should be spread over three years.

Response:

101. Horizon Utilities stated, several times during the Oral Proceeding, that there were no costs for outside services for legal and consulting that relate to the preparation of its 2008 Application, included in the 2008 Test Year. [Tr. Vol. 1, page 190, line 8 to page 191, line 7]. This was reiterated in Horizon Utilities' response to Undertaking J1.1 – while the table included in that response does show 2008 amounts for legal and consulting services in 2008, they do not relate to this Application. The following legal and consulting table provides the first part of the requested reconciliation to the costs set out in Exhibit B/T1/S1/Appendix B (p.837 of 1557) and Exhibit J1.1. It is clear that there is no carry over from 2007 for the 2008 rate rebasing application nor are there any costs budgeted for the 2008 Forward Test Year Rate Application. All legal and consulting costs relate to other OEB proceedings currently underway or identified as being undertaken in 2008 in the OEB's business plans.

Legal & consulting budgets		2008	
		Legal	Consulting
Carry over from 2007 for 2008 rate rebasing application		0	0
OEB proceedings			
2007 proceedings continued			
	OEB Rate Design proceeding	25,000	16,000
2008 Forward Test Year Rate Application		0	0
2008 proceedings expected			
	3rd Generation IRM London Economic		16,000
	3rd Generation IRM BLG	25,500	
OEB business plan			
	OEB Depreciation study	12,500	8,000
	Service Quality regulation	12,500	8,000
	Benchmarking distribution costs	12,000	8,000
	Weather normalization study	12,500	8,000
	Retain Consultant for 2008		125000
2008 Costs		100,000	189,000
Total		100,000	189,000

102. Horizon Utilities would note that based on the previous Decisions of the OEB, one-third of regulatory costs associated with legal and consulting expenses incurred in the preparation and support of 2008 forward test year application have been approved for recovery in the 2008 Test Year. Horizon Utilities would submit that it should be permitted to recover one-third of its legal and consulting expenditures relating to its 2008 Application. This would amount to approximately \$208,000 being one third of Horizon Utilities estimated costs of \$625,000, as provided in the oral proceeding [Transcript Volume 1, page 190, lines 3 – 5]. Horizon Utilities will update this amount for actual expenditures at the time of preparing its Draft Rate Order.
103. The second part of the requested reconciliation to Exhibit B/T1/S1/Appendix B (p.837 of 1557) and Exhibit J1.1 relates to the OEB costs and assessments included in Horizon Utilities' regulatory costs. These pertain to Horizon Utilities'

annual OEB fee assessment and intervenor costs expected to be passed on to Horizon Utilities as part of their participation in various 2008 OEB proceedings. As identified in Undertaking J1.1, Horizon Utilities has included \$206,000 for intervenor costs related to its 2008 Application and as shown in the spreadsheet below.

OEB Costs and Assessments							
							2008
Jan to Mar		last installment 2007/2008					158,245
April to June		first installment 2008/2009					165,234
July to Sept		second installment 2008/2009					165,234
Oct to Dec		third installment 2008/2009					165,234
Total							653,900
Annual licence fee							800
Intervenor costs 2008							
est balance 2007							
	SM, ARC, Rate design, CDM 20 days 3/4 in 2008 at \$210/hr 6 intervenors plus the OEB						52,800
	2008 rate rebasing hearing allow 20 days for 6 intervenors plus OEB						206,000
	2008 proceedings						94,000
							1,007,500

104. Each of the costs in the tables above is identified specifically in Exhibit B/Tab 1/Schedule 1/Appendix B and Undertaking J1.1 as requested by CCC.
105. Horizon Utilities acknowledges that the OEB, in previous decisions, has allocated costs related to 2008 Applications, over a three year period for recovery and as such and at the OEB's direction, Horizon Utilities will adjust its regulatory costs to include one third of the \$206,000 (\$68,700) in intervenor costs specific to its 2008 Application. The total of \$1,007,500, in the table above, would become \$870,200. In addition, Horizon Utilities submits that there is no evidentiary basis to support Schools' assertion that regulatory costs related to Horizon Utilities' 2008 Application are \$650,000 nor any justification to support the OEB deviating from what it has already established as a mechanism to average 2008 Rate Application related costs over three years.

106. Furthermore, Horizon Utilities notes that OEB Staff appear to be attempting to reconcile numbers from different IRs which were prepared for different purposes. Horizon Utilities prepared the driver table included in the OEB Staff submissions, which includes an amount of \$289,000 in regulatory costs being the difference between the 2007 Bridge Year and the 2008 Test Year. OEB staff are trying to compare this amount with the table provided in Undertaking J1.1 which is based on 2007 Actual costs as opposed to 2007 Bridge Year costs. It is not possible to compare forecast numbers to actual numbers and achieve the same difference year over year.
107. OEB Staff have commented on the amount of Horizon Utilities' 2008 regulatory cost being slightly higher than the 2007 costs. Horizon Utilities would note that regulatory requirements are becoming increasingly demanding and the costs of participating and hiring expert witnesses will increase not only for Horizon Utilities but for the intervenors as well, whose costs are passed on to distributors. As stated in the Oral Proceeding [Transcript Volume 1, page 47 line 16 to page 48 line 13], regulatory costs are going up and the burden is increasing for utilities. Horizon Utilities' regulatory department is small and will be relying on outside services to augment its staffing requirements to meet its regulatory commitments.
108. Horizon Utilities submits that its regulatory costs, except for the smoothing of the intervenor costs related to Horizon Utilities' 2008 Application discussed above, should be approved by the OEB.

- **Miscellaneous General Expense**

- Schools submission**

Reference 3.3.1 – Horizon Utilities has no explanation for \$200,000 of miscellaneous cost increases.

Response:

109. Schools questioned the make up of \$400,000 in miscellaneous expenditures during the oral proceeding [Transcript Volume 1, page 170, lines 17 to 28 and page 171, lines 1 to 3]. This increase in miscellaneous expense is actually for the 2008 Test Year over 2006 Actual, or two years. Horizon Utilities responded that \$196,000 was LV charges but could not provide an immediate explanation for the remaining \$200,000 [Tr. Vol. 1, p.171, line 2].
110. Horizon Utilities has reviewed the Evidence and notes that in response to Schools IR 13 g), Horizon Utilities stated that the miscellaneous general expense also includes costs associated with an increase in apprenticeship programs. Therefore Horizon Utilities submits that it has explained the miscellaneous general expense and there is no basis for disallowing the \$200,000 from Horizon Utilities' OM&A costs.

- **Renumbering Costs – Switches**

Schools' submission

Reference 3.3.2 - Horizon Utilities admitted that \$150,000 for renumbering switches is a direct cost of the last merger.

Response:

111. Horizon Utilities agrees with Schools submission on the renumbering costs and is prepared to remove the \$150,000 from OM&A costs.

- **Other Non-HR Cost Increases**

Schools' submission

Reference 3.3.3 – Horizon Utilities has claimed that \$2.3 million of cost increases from 2006 to 2008 are the result of general/miscellaneous, and other non-related increases in OM&A (ie. the lines "increased Operating Expenses", "Increase Maintenance

Expenses”, and “Various other Miscellaneous Increases”). After accounting for \$350,000 the increase is more than 12 % and Schools believe that this increase should be limited to 5%.

Response:

112. Horizon Utilities has been unable to find the statement attributed to it by Schools in any narrative provided by Horizon Utilities in either its pre-filed evidence or IR responses including its response to the OEB Staff IR referred to in paragraph 3.3.3 of the Schools submission. Schools appears to have derived this claim from the revised driver table 2 prepared by Horizon Utilities in response to OEB Staff IR 23 e. For the OEB's reference , Horizon Utilities has summarized the information claimed by Schools in the table below, excerpted from the response to OEB Staff IR 23e.

Revised Table 2 - OEB Staff IR 23 e			
	2007	2008	
Incremental Changes in OM&A Expenses			
Increased Operating expenses	893,472	168,468	
Increased Maintenance expenses (excluding tree trimming)	532,837	259,575	
Various other miscellaneous increases (decreases)	628,245	(180,423)	
	2,054,554	247,620	2,302,174

113. Horizon Utilities is providing the following table, which is an excerpt from the OM&A Costs Table at Exhibit D/Tab 2/Schedule 2. This table provides a more detailed breakdown of the high level amounts provided by Schools.

114. Horizon Utilities has provided additional explanations to support the overall increase in operating and maintenance expenditure in its responses to VECC IR 25 and Schools IR 13 d and e.

	2007	2008
Operating Expense		
Load dispatching	247,354	
Station Buildings and Fixtures	159,784	
Overhead distribution – Operation supplies	140,158	97,533
Underground distribution Lines and Feeders - Supplies	-	86,863
Customer premises – Materials and expenses	108,170	
Miscellaneous distribution expenses	248,411	
Other increases (decreases)	-10,405	-15,908
	893,472	168,488
Maintenance Expense		
Maintenance of UG Conduit	109,342	
Maintenance of Conductors and Devices	105,928	120,696
Maintenance of Line transformers	119,156	105,511
Maintenance of meters	247,460	
Other increases (decreases)	-49,049	33,368
Total (excluding tree trimming)	532,837	259,575
Billing Collecting Community & Admin & Gen		
customer billing and bad debts	70,000	
Consulting fees		
Community relations (excl. energy conservation)	150,000	
Office supplies and expenses	104,163	
Low voltage charges	196,000	
Regulatory expense	75,000	
Other increases (decreases) Admin & Gen	33,082	-180,423
Total	628,245	-180,423
	2,054,554	247,640

115. In addition, it is important to note that increases in operation and maintenance expenditures are also driven by wage and benefit increases of the staff directly working on these activities, as well as inflationary increases year over year for materials and supplies. Under the Horizon Utilities Collective Agreement, wages for union staff have increased by 3% per year from 2006 to 2008. Operation and maintenance activities and expenditures will also vary from category to category, year over year based on planned maintenance programs, emergency repairs, corrective maintenance required, etc.
116. Horizon Utilities submits that it has provided adequate support for the amounts being claimed for 2008 in respect of these items, and that they should be approved by the OEB. Beyond this, however, Horizon Utilities submits that

Schools has misrepresented the increase in these amounts from 2006 Actual to the 2008 Test Year. Schools is comparing 2008 Test Year operations and maintenance costs, which include wages and benefits, to 2006 Actual costs from which Schools has removed the compensation component – as would be expected, this creates the appearance of greater increases from 2006 Actual to 2008 Test. When the comparison is performed properly (that is, when labour costs are restored to the 2006 Actual values), the percentage increase over the two years is approximately 5.7% (or approximately 2.81% annually). Horizon Utilities submits that this is a reasonable increase over a two year period, and that it is supported by the evidentiary record. There is no basis for Schools' arbitrary reduction of \$1.2 million proposed in paragraph 3.3.4 of its submission – that proposal is based on a miscalculation in any event.

- **Compensation and Merger Activities**

CCC; VECC; Energy Probe; and Schools submissions

Reference paragraphs 33 to 43; 4.2 to 4.5; 28 to 34; and 3.4, respectively - all intervenors argue that costs associated with a) the Business Development group and b) internal staff time, in particular executive time, spent on merger activities should not be provided for by ratepayers.

Response:

Overview

117. Horizon Utilities observes that all intervenors have argued that the Application inappropriately includes the recovery of certain merger-related costs (CCC Argument – paragraphs 33 through 43; VECC Argument – sections 4.2 to 4.5; Energy Probe Argument – paragraphs 28 through 34; Schools Argument – section 3.4). Such arguments centre on time devoted by internal Horizon Utilities staff to the following activities:

- a) Business strategy and analysis of potential consolidation targets and similar opportunities to create scale, for the benefit of the regulated electricity distribution business, undertaken within the newly created “Business Development” group, which comprises the Vice-President Business Development and Director Business Strategies (“Business Development Activities”); and
 - b) Development of consolidation transactions and related integration activities undertaken by other internal Horizon Utilities staff; principally undertaken by executives but as supported by other staff (“Other Staff Activities”). The costs attaching to such activities are limited to the employment costs of related staff.
118. In summary, all intervenors argue that costs associated with a) and b) should not be provided for by ratepayers.
119. Horizon Utilities submitted that such costs should appropriately be provided for by ratepayers during the oral component of the rate proceeding on June 5th [Transcript Volume 1, page 33 line 16 to page 40 line 21; page 84 – line 1 to page 96 – line 1; page 191 – line 19 to page 193 – line 10]. Horizon Utilities submits that such testimony is fair and reasonable and consistent with Board policy provided in the Report of the Board on *Rate-making Associated with Distributor Consolidation* (the “Consolidation Report”), dated July 23, 2007.
120. Horizon Utilities observes that the Board has defined “consolidation costs” in general terms as follows: “In general, consolidation costs may include out-of-pocket/transaction costs, acquisition premiums, and restructuring costs.” (Consolidation Report – Section 2.2.1 page 4)
121. Horizon Utilities submits its presumption that the Board has defined “consolidation costs” in general terms to support its business principle that:

"It is not the Board's intention to discourage distributors from pursuing transactions or arrangements that create scale" (Consolidation Report - Section 2.1 page 3)

122. The costs noted in a) and b) are clearly not acquisition premiums or restructuring costs. Such must be considered in the context of whether they are "out of pocket/transaction costs" which, Horizon submits, in order to qualify as "consolidation costs", must logically meet two criteria:
 - (i) the costs are "out-of-pocket" for the utility such that they give rise to a cash outlay; and
 - (ii) the costs relate to a transaction.
123. Horizon Utilities further submits that the criteria in (i) should be evaluated in the context of whether the cash outlay is incremental, such that it would not have been otherwise required to support regulated electricity distribution activities in the absence of the consolidation transaction.
124. Additionally, and beyond the Consolidation Report, Horizon Utilities submits that such costs, in a) and b), must demonstrate value to ratepayers to meet the Board's "just and reasonable" principle for inclusion in rates.
125. In its final argument (CCC Argument – paragraph 42) CCC refers to the Consolidation Report as a nonbinding guideline, and a policy which the hearing panel may consider but which does not bind the panel.
126. Horizon Utilities submits that such policies, codes, and guidelines of the Board should provide strong guidance to electricity distributors as to how the Board will interpret the fairness and reasonableness of their actions. At page one of the Consolidation Report itself, the Board confirms that "The purpose of the consultation was to assist the Board in developing a policy framework on relevant rate-making issues and to provide greater predictability for distributors and other stakeholders in relation to those issues." Later on the same page, the Board

writes that "This Report sets out the Board's policy on each of these rate-making issues in the context of certain transactions in the electricity distribution sector. Application of the policy will create a more predictable regulatory environment for distributors that are considering consolidation, thereby facilitating planning and decision-making and assisting distributors in determining the value of consolidation transactions." In this regard, as contemplated by the Board, electricity distributors do rely on these instruments in structuring their business affairs and Horizon Utilities trusts that the Board recognizes this reliance in applying other considerations to its "just and reasonable" principle.

127. Horizon Utilities submits that it has faithfully considered the fairness and reasonableness of including costs associated with a) and b) in the Application and has reasonably relied on the Consolidation Report.

Business Development Activities

128. Horizon Utilities (Mr. Basilio) clarified the nature of Business Development Activities, with respect to mergers, in its oral testimony as follows:

"These positions are focused on developing relationships, analyzing the landscape, and reviewing potential opportunities and determining whether such will or will not yield value for Horizon customers, and that's essentially -- and developing relationships to the extent that, you know, we find relationships where it makes some sense to pursue them further, these positions essentially try and bring those relationships to a point where the parties are going to start talking seriously about a transaction, to the point in time where I would say we potentially have a transaction." [Transcript Volume 1, page 35, lines 10 to 21]

"These positions are research and development of those opportunities. They bring mergers to the point of a transaction. At that point, they're handed off to a team, largely the senior executive team in the organization, not unlike a merger transaction in any sector, where a handful of senior execs, CFOs and

whatnot will work on the transaction, where then we will start to incur what I would say are real transaction costs, engaging consultants, lawyers, you know, and to facilitate stakeholdering and whatnot.

So these positions are research and development. This isn't ~~done like~~ unlike] our operations group investing in an asset management strategy, or our customer service group investing in a customer service strategy, on the prospect that we will develop processes and real tactical plans that will yield benefits for customers and ultimately will be shared with customers.

So what I would say is these are not transaction costs in the context of ratemaking associated with distributor consolidation in that report. And they should be borne by customers.

If we take these costs out of the LDC, that will be a real obstacle, I think, for consolidation, because this is work that has to be done. It's a relatively undeveloped merger landscape for LDCs, and work needs to be done to determine what are appropriate merger partners, which ones will yield value. At that point, I would say shareholders should be responsible for the costs from there." [Transcript Volume 1, page 36 line 3 to page 37 line 2 – note that the transcript is in error in line 14 of page 36: "done like" should have been captured as "unlike"]

129. Horizon Utilities also provided the following clarification of the need for new and focused personnel in support of Business Development Activities in response to a question from OEB counsel at Tr. Vol. 1, page 191 lines 25-26:

"Nobody, really. You know, the investigation of merger opportunities has not been undertaken well. That's the reason for adding a focussed competency in the organization.

You know, beyond what goes on in the normal course and discussion, this is really a very focussed and strategic position, looking at the landscape, you know, visiting, getting intelligence and municipalities, building relationships

and whatnot. There has been no single resource or even, you know, between the executive team, to the extent of this position, really, that competency did not exist in the organization, other than at a very superficial level.” [Transcript Volume 1, page 192, lines 2 to 14]

130. The purpose of this group is research, analysis, and relationship development to identify merger and related scale opportunities that will create value for ratepayers and, in the pursuit of such opportunities, have some reasonable likelihood of success. Such costs are not “out of pocket/transaction costs” in the context of Board policy in the Consolidation Report as these activities do not attach to a specific transaction but, rather, the development of strategy and tactics to study the feasibility of a broad basket of potential transaction targets.
131. As such, Business Development Activities, as defined above, are not unlike other corporate planning or strategy costs in support of the development of cost efficiency or effectiveness opportunities to improve quality and economical service to ratepayers. Electricity distributors routinely undertake strategic planning and analysis in areas such as, for example, customer service and asset management in pursuit of supporting the efficient and effective use of regulated distribution resources. Such activities are part of any normal business cycle and necessary to the creation of value for ratepayers. The costs of such activities have traditionally been provided for in electricity distribution rates. Horizon submits that such investigative costs in the interests of ratepayers should continue to be supported by ratepayers.
132. Horizon Utilities further submits that distributor consolidations are the single most likely opportunity to create meaningful economies of scale to mitigate ratepayer costs. Horizon Utilities offers its own experience of the HHI-SCHUSI merger and related financial benefits created by consolidations. In the absence of such merger and related savings [CCC IR 2], HHI and SCHUSI would, collectively, be seeking significant additional revenue from ratepayers. The exclusion of costs

related to these Business Development Activities from distribution rates will be an obstacle to meaningful and valuable merger activity.

133. Lastly, the effective undertaking of the Business Development Activities requires focused and competent resources rather than the ad hoc approach resulting from diluting such activities across management that has other significant scope of accountability. This is the principal reason for adding the new positions of Vice-President Business Development and Director Business Strategies in Horizon Utilities.
134. Based on the foregoing analysis, Horizon Utilities submits that the costs related to the Business Development Activities are appropriate and requests that they be approved as provided in the Application.

Other Staff Activities

135. Horizon Utilities submits that it has adopted a fair approach in defining the point at which a “transaction” commences for the purposes of allocating transaction costs to the account of the shareholder. Horizon Utilities (Mr. Basilio) articulated such point in its oral testimony as follows:

“... since we signed the MOU [Memorandum of Understanding], we believe we have a transaction. That’s where I would say, you know, for the purposes of my view on what transaction costs are, is you have a live deal.” [Transcript Volume 1, page 85, lines 2 to 5)
136. The Memorandum of Understanding (“MOU”) is a non-binding letter of intent that outlines business principles, resolved by the parties thereto, that are the foundation for the development of the consolidation transaction. The MOU also outlines the process to be undertaken to further develop a consolidation transaction including the sharing of costs among the parties and timelines.
137. Generally speaking, several months may pass between the execution of an MOU and the execution of a definitive and binding consolidation agreement (the “Consolidation Agreement” and the “Interim Period”). Significant cost is generally

incurred during the Interim Period including legal, financial, communications, and other advisory and other costs (the "Interim Period Costs"). Following the execution of a Consolidation Agreement, shareholders will incur "Integration Costs" which are costs related to activities to integrate the consolidating utilities, in support of increasing efficiencies, such as systems integration costs, employee separation costs, and other similar costs.

138. Horizon Utilities has interpreted "out-of-pocket/transaction costs" to include both Interim Period Costs and Integration Costs. The risk of recovering Interim Period Costs is high since any party to the MOU may terminate work on the development of the consolidation transaction at any time prior to the execution of the Consolidation Agreement. In the event of such termination, there is no means for the shareholder to recover such costs.
139. The risk of recovering Integration Costs is linked to the quality and completeness of due diligence undertaken during the Interim Period. Such risk is generally lower than that related to the recovery of Interim Period costs since such costs are incurred forward from the execution of the Consolidation Agreement, which is based on a business case that provides for the recovery of both of the Interim Period Costs and Integration Costs plus a return to the shareholder.
140. A less favourable interpretation of "out-of-pocket/transaction costs" might only include Integration Costs since it is arguable that the execution of the Consolidation Agreement is the point at which a transaction commences and costs incurred from such point become "transaction costs". As such, Horizon Utilities submits that it has demonstrated a fair and reasonable approach, balancing risk between shareholders and ratepayers, in its adoption of the execution of the MOU as the point at which "out-of-pocket/transaction costs" are for the account of its shareholders.
141. Horizon Utilities also submitted its position, in oral testimony, on the nature of transaction costs that should be for the account of its shareholders:

“... incremental costs, costs that would not otherwise be incurred in the absence of such a [consolidation] transaction” [Transcript Volume 1, page 86, lines 19 to 20]

142. Horizon Utilities submits that this position is fair and reasonable in the context of its interpretation of transaction costs that represent “out-of-pocket” costs, relative to the absence of a consolidation transaction. Such interpretation faithfully reflects the economic requirements of supporting electricity distribution activities on a continuous basis.
143. Horizon Utilities made the above noted submission in its oral testimony in rebuttal to intervenors that argued, during oral testimony, that costs related to Other Staff Activities should not be borne by ratepayers. Horizon further elaborates its previous submissions related to Internal Staff Activities and related costs as follows:
 - the costs of internal staff that would otherwise support Other Staff Activities, in the event of a consolidation transaction, attach to staff that are required to support regulated electricity distribution activities, on a full-time basis, irrespective of consolidation transactions [Transcript Volume 1, page 38, lines 2 to 17; page 85, lines 12 to 17 and line 26 to page 86 line 3];
 - in all likelihood, consolidation transactions may not be occurring continuously during the rate period applicable to the Application. Additionally, any single consolidation transaction may terminate at any time in advance of, and without execution of, a Consolidation Agreement. It would be punitive and arbitrary to allocate a fixed percentage of internal staff costs, for those staff that would otherwise be utilized in Other Staff Activities, to the account of shareholders. Such staff are not discrete positions such that they would not be required in the absence of consolidation transactions, [Transcript Volume 1, page 86, lines 13 to 15] and those staff members will be required on a full-time basis through the Test Year and in following years. The allocation

requested by intervenors would result in the under-recovery of staff salary costs for several years; and

- Other Staff Activities result in related staff working considerable hours beyond a normal work day that is the basis for their compensation. The reason for such extended hours is that they must still attend to their normal duties in support of day-to-day electricity distribution activities. This point is submitted to re-emphasize the last sentence of the above point and that it is a false economy for ratepayers not to support the related full-time costs of these staff, as these are not discrete consolidation-support positions. [Transcript Volume 1, page 38, lines 18 to 23].

144. Based on the foregoing submissions, Horizon Utilities submits that the employment costs of internal staff attaching to “Other Staff Activities” do not result in any incremental cash outlay relative to cash required to support regulated electricity distribution operations in the absence of consolidation transactions. Horizon Utilities therefore requests that the OEB accept its compensation costs as proposed in the Application and reject the requests of the intervenors in this regard.

Transaction Costs for the Account of Shareholders

145. Horizon Utilities’ oral testimony at Transcript Volume 1, page 86, lines 19 to 20 articulates the nature of transaction costs that it submits should be for the account of its shareholders. Horizon Utilities oral testimony at Transcript Volume 1, page 85, lines 2 to 5 articulates the point in time at which it submits a transaction has commenced.

146. In summary, Horizon Utilities submits that out-of-pocket costs incurred forward from the negotiation of an MOU should be for the account of the shareholder. Such costs typically include, for example:

- External legal advisory services to facilitate the negotiation of the transaction, the development of agreements, and transaction due diligence;

- External financial advisory services to provide an independent valuation of the transaction, support for business case development, and financial due diligence;
- External engineering advisory services to provide an independent “condition of assets” assessment as part of the transaction due diligence process;
- Any part-time or contracted staff resources that would otherwise not be required to support electricity distribution activities such as, for example, communications support;
- Fees and development costs associated with filings in support of acquiring third-party approvals of the transaction, such as the MAADs application to the Board and approval of the Federal Competition Bureau;
- All Integration Costs including any part-time or contracted staff resources as noted above;
- Any other costs reasonably attaching to the transaction forward from the date of the MOU through to completion of all integration activities, other than internal staff costs that would otherwise be required to support electricity distribution activities in the absence of a consolidation transaction.

147. Such submissions are consistent with further oral testimony as follows:

“MR. KAISER: If [the transaction] fails, what are you going to do with the expense?

MR. BASILIO: If it fails, the expenses, again, those expenses that we have capitalized, which are legal, consulting, basically, you know, costs not otherwise incurred to support the utility, are for the account of the shareholder. The shareholder takes a hit. We will not be asking for them in a future rate application.” [Transcript Volume 1, page 86, lines 21 to 28]

148. Costs such as those set out in the preceding paragraph have not been incorporated into the Application.

149. For the reasons set out above, Horizon Utilities requests that the Board reject the intervenors' requests that its revenue requirement be reduced on account of merger-related activities. Horizon Utilities submits that its approaches to transaction costs and to employee salaries are reasonable and should be approved by the Board.

- **Operating Expenses**

OEB Staff submission

Reference Issue 3.1 – Are the overall levels of the 2008 Operation, Maintenance and Administration budgets appropriate?

Response:

150. Horizon Utilities confirms that the overall increase in controllable OM&A for the 2008 Test Year is \$9.5 million over the 2006 actual level and Horizon Utilities submits that this increase is justified and appropriate. Horizon Utilities provides the following drivers table as evidence of its required increase in OM&A. This table builds Horizon Utilities OM&A requirements for the four year period from 2004 Actual [Schools IR 13 c)] to the 2008 Test Year. The table is referenced to Horizon Utilities evidence as provided in its pre-filed evidence, responses to interrogatories and the oral proceeding. Horizon Utilities has removed smart meters from OM&A in order to re-establish its smart meter variance accounts as discussed at paragraph 300.

Description	\$(000)	Reference
2004 OM&A HHI + SCHUSI	32,500	Schools IR 13 c.
Merger savings	(3,900)	CCC IR 2.
	28,600	
Wage & Price Inflation	4,100	4 years at 3% = 1.126%
ERP Solution	1,295	Exhibit D/Tab 2/Schedule 1/p 20/Table 1
ERP Savings	(27)	Exhibit B/Tab 3/Schedule1/Appendix E/p 21
Tree Trimming	950	Exhibit D/Tab 2/Schedule 3/p 2
Mgmt vacancies - turnover	1,000	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10; OEB staff IR 23
Skilled/other Trades	700	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10
New positions and related expenses	900	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10; OEB staff IR 23
OMERS Pension	300	2006 EDR Exhibit B/Tab 3/Schedule 3-1 and 2008 EDR Exhibit D/Tab 2/Schedule 7/p 10
OEB Assessment	400	2006 EDR Exhibit B/Tab 3/Schedule 3-1 and 2008 EDR Exhibit D/Tab 2/Schedule 2
Bad Debt recovery 2004	1,000	Schools IR 13 c.
Regulatory Expenses	268	Exhibit D/Tab 2/Schedule2; Schools IR 13 c)
2008 Rate Costs Deferred to 2009/10	(137)	Undertaking J1.1 [\$206,000x2/3]
Asset Management Consulting	150	Exhibit B/Tab 1/Schedule 1/Appendix B/Network Planning and Operations
Increase in allocated costs re FibreWired	143	OEB IR #23(b)
Board of Director fees and expenses	119	OEB IR #23(b); Undertaking J1.7
Training	400	Undertaking J1.7; Tr Vol 1; P 20, Lines 27-28
Community Relations	446	SEC IR#13(c); Tr Vol 1; Lines 24-25
Maintenance - Low Voltage Charges	196	Exhibit I/Tab 1/Sched 1/p12; Tr. V1,p.170, L 23
Emergency Maintenance	150	SEC IR#13(e)
Other Maintenance	177	SEC IR#13(e)
Other USofA changes (rounding)	4	Exhibit D/Tab 2/Schedule 2; Schools IR 13 c.
Increase over 2004	12,534	
2008 OM&A as adjusted for SM & other misc	41,134	

- **2008 Human Resources**

OEB Staff submissions

Reference Issue 3.5 – Are the 2008 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate.

Response:

151. Horizon Utilities submits that the 2008 Human Resource related costs are appropriate. A significant amount of evidence has been filed to support the increases in salaries and benefits from the 2006 Historic to 2008 Test Year. In addition, third party evidence has been filed that supports Horizon Utilities' compensation levels [Exhibit D/Tab 2/Schedule 7/Appendix A].
152. OEB Staff provided Table 3 (page 20 of 53 of the OEB Staff Submission) indicating an increase in total compensation for the 2008 Test Year versus "2006 Historical" of \$4,161,710 and have also requested an explanation for the differential between the \$4,161,710 in Table 3 and the \$4,379,100 increase identified as part of Horizon Utilities' revised Table 2 in response to OEB Staff IR 23 on page 60 of 167.
153. The OEB Staff calculation provided in Table 3 does not accurately represent the total compensation included in the 2008 Test Year. OEB Staff prepared Table 3 using a calculation that involves taking the number of full-time equivalent employees for 2006 and 2008 and multiplying by the compensation and benefit figures provided by Horizon Utilities as part of Exhibit D/Tab 2/Schedule 7/p 8 of 10 and Interrogatory 23. In its pre-filed evidence, Horizon Utilities indicated that the total compensation, for the purposes of the table at Exhibit D/Tab 2/Schedule 7/p 8 of 10, was calculated as the total of the compensation components times the average number of employees in each classification. The table prepared by Staff for the Staff submission represents an average of compensation by employee group and an average number of employees and does not necessarily reflect the total compensation included as part of the rate Application. Therefore, Horizon Utilities does not agree that the compensation information provided in OEB Staff Table 3 is an accurate summary of the total compensation increase included in the 2008 Test Year. Horizon Utilities submits that OEB Staff Table 3 may provide a more limited validity or reasonability check supporting Horizon Utilities' more accurate calculation of the \$4,379,100.

154. With respect to the increase of \$4,379,100 identified in the response to OEB Staff IR 23, Horizon Utilities notes that this increase reflects compensation increases, as well as increases in other expenditures that are included as part of USofA accounts 5605, 5610 and 5615. A full breakdown of the expenditures included in these categories was provided as part of Undertaking J1.7. The drivers contributing to the increased costs were also further explained in Responses to OEB Staff IR 23(b) on pages 54 and 55 of 157.
155. The tables prepared for Undertaking J1.7 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 direct compensation related components for 2006 Actual, 2007 Bridge and 2008 Test Year and have been provided below:

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

Account 5610 Management Salaries and Expenses

	<u>2006</u>	<u>2007</u>	<u>2008</u>
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

Account 5615 General Administrative Salaries and Expenses

	<u>2006</u>	<u>2007</u>	<u>2008</u>
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

156. The tables prepared in response to OEB Staff IR 23 b 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 all their components for 2006 Actual, 2007 Bridge and 2008 Test Year and have been provided below:

Executive OEB 5605 Salaries & Expenses

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

Management OEB 5610 Salaries & Expenses

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

Notes:

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

General Admin OEB 5615 Salaries & Expenses

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

Notes:

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

157. At pages 20-21 of the staff submission, OEB Staff also listed a number of factors described in the Evidence in Chief that appear to provide support for an increase in compensation of approximately \$4,500,000 as follows (references in parentheses are to Transcript Volume 1):

- 4(O&M) Skilled trades new hires - \$700,000 (p. 20, L5)
- (O&M) 3% inflation over 2 years - \$700,000 (p.20, L11)
- (G&A) New hires, benefit increases - \$2,000,000 (p.20, L15)
- (G&A) One-time 2006 OMERS Adjs - \$700,000 (p.20, L22)
- (G&A) Increased Training Costs - \$400,000 (p.20, L27)

158. Horizon Utilities has been asked to confirm these figures and to clarify the reasons with reference to information already in evidence for the differences between these numbers and the \$4,379,100 and \$4,161,710 noted above.

159. As previously noted, it is not accurate to compare the \$4,379,100 of increases in USofA accounts 5605, 5610 and 5615 to the Board Staff calculated average compensation increase of \$4,161,710. In addition, not all of the costs identified

above as part of the \$4,500,000 increase in OM&A are reflective of compensation increases.

160. Horizon Utilities confirms and/or provides references to previously filed evidence with respect to the factors noted above as follows:

161. Skilled Trades – New Hires \$700,000 -

Horizon Utilities would clarify that various Operations and Maintenance USofA accounts in the 2008 Test Year include labour and benefit costs of approximately \$700,000 related to the hiring of seven line maintainer apprentices and two network operators [Transcript Volume 1, page. 19, lines 14-16].

As part of its pre-filed evidence [Exhibit D/ Tab 2/Schedule 7/Page 1 of 10], Horizon Utilities provided a comprehensive overview of its employee demographics. In the next five years, 16.9% of Horizon Utilities' employees are eligible for retirement, and an additional 16.1% will be eligible within 10 years. Horizon Utilities notes that it takes approximately 7 to 10 years for skilled trades to become fully qualified for their positions. In light of the impending retirements, it is important that the apprentices be able to train alongside experienced employees prior to their retirement. [Transcript Volume 1, page 119, line 20] Horizon Utilities is being proactive and strategic in its approach to workforce planning. Using the demographic profile, including risks and gaps that had been identified by skills and trades [Exhibit D/Tab2/Schedule 7/page 2 of 10], Horizon Utilities identified a requirement to hire seven line maintainer apprentices and two network operators.

162. 3% Inflation - \$700,000

The amount of \$700,000 highlighted in the Evidence in Chief reflects a calculation provided by Horizon Utilities which represents increases in material costs, as well as labour costs [Transcript Volume 1, page 20, line 9]. The calculation is based on the Operations and Maintenance 2006 actual expenses multiplied by 3% per year for two years. This calculation estimates the increase

in costs over the period 2006 to 2008 based on an assumed inflation rate of 3%. The 3% has been applied to all Operations and Maintenance categories including labour, material and vehicle costs.

163. New Hires/Benefit Increases - \$2,000,000

Horizon Utilities confirms that the increase in general and administrative compensation for the 2008 Test Year compared to the 2006 Historical is approximately \$2,000,000 (rounded).

164. Horizon Utilities filed its response to Undertaking J1.7 that supports an increase of over \$1.7 million in salaries and benefits, broken out as follows:

General and Administrative Salaries and Benefits			
	<u>2006 Actual</u>	<u>2008 Test Year</u>	<u>Increase</u>
Account 5605 Executive	936,307	1,388,607	452,300
Account 5610 Management	3,018,372	3,718,018	699,646
Account 5615 General and administrative	1,758,606	2,329,827	571,221
	5,713,285	7,436,452	1,723,167

165. In addition, Exhibit D/Tab 2/Schedule 2 provides a summary of pension benefits that supports an additional increase of approximately \$0.2 million in employee retiree benefit costs.

166. Horizon Utilities has provided a significant amount of evidence to support the increases in salaries and benefits as it relates to General and Administrative expenses.

167. Horizon Utilities would also highlight the following key pieces of evidence filed to support the increased compensation included in Horizon Utilities' 2008 Rate Application:

Executive

- Total salaries for Executives increased by \$317,162 or 52% over the period 2006 to 2008 [Undertaking J1.7]. This increase is attributable to the addition of two new executive positions, including a Vice President Customer Services

and a Vice President Business Development, in the 2007 Bridge and 2008 Test Year. These new positions account for \$270,300 of the increase. In addition, 2006 executive salaries were lower due to a vacancy in the Vice President Utility Operations position, which was vacated following the appointment of the incumbent to the position of Chief Executive Officer. A new Vice-President Utility Operations was appointed in the second quarter of 2007. Taking into consideration the addition of the two new executive positions, but excluding the impact of the vacancy, executive salaries increased at a compounded annual growth rate of 3.78%. This result would be significantly lower considering the impact of the 2006 vacancy of Vice-President, Utility Operations.

Management

- Total salaries for Management increased by \$622,897 or 29% over the period 2006 to 2008 [Undertaking J1.7]. This increase is attributable to the addition of five management positions, including Project Management Lead; Commodity Manager; Manager Network Assets; Manager Human Resources and Supervisor Customer Services and one Director position, Director Business Strategies (included in Executive headcount for purposes of Exhibit D/Tab 2/Schedule 7/Table 3). These new positions account for approximately \$432,000 of the increase. Taking into consideration the impact of the new positions, Management salaries increased by a compounded annual growth rate of 4.4%. This result does not take into consideration three management vacancies through part of 2006, the impact of which would result in a lower compounded annual growth rate.

Union Staff

- Total general and administrative salaries increased by \$476,451 or 37% over the period 2006 to 2008 [Undertaking J1.7]. This increase is primarily attributable to the filling of vacant positions that existed in 2006 and increases in salaries associated with merit increases [Transcript Volume 1, Page 20,

Lines 16 and 17], including increases under the collective agreement for our union staff.

Full position descriptions and compensation were provided in response to OEB Staff IR 23 c.

168. Horizon Utilities has also provided a summary of cost drivers between 2006 Historical and 2008 Test Year in each of the three categories for general and administrative salaries and expenses (OEB Staff IR 23 b). The significant cost drivers for the increase in salaries and benefits included:

- o New hires;
- o Merit increases, year over year;
- o Wage increases in accordance with the Collective Agreement; and
- o Vacant positions in 2006 and 2007 to be filled in 2008.

169. Horizon Utilities has also filed evidence from an independent third party that supports the annual wage increases provided for in this Application. In fact, the evidence clearly indicates that Horizon Utilities' job rates have a shortfall in comparison to its competitive market - Ontario Utilities and the LDC market [Exhibit D/Tab 2/Schedule 7/Appendix A]. In most cases, Horizon Utilities' salaries are below those of the industrial sector, the broader public sector or the utility sector. This is in spite of Horizon Utilities' position as one of Ontario's largest electricity utilities [Transcript Volume 1, page 21, lines 19-23]

170. One-time OMERS Adjustment - \$700,000

Horizon Utilities confirms that OM&A expenditures in the 2008 Test Year, specifically USofA account 5610, have increased over 2006 as a result of one-time adjustment in 2006 that artificially lowered the 2006 expenditures. Horizon Utilities would like to clarify that the one-time adjustments were related to both an OMERS adjustment, as well as an adjustment to employee benefits [Transcript Volume 1. page 27, line 23]. These adjustments were highlighted as cost drivers

in response to OEB Staff IR 23 b, page 54 and 55 of 157 and described in notes 1 and 2 on page 54 of 157.

171. Increased Training Costs - \$400,000

Horizon Utilities confirms that training costs have increased by approximately \$400,000 from 2006 Historical to 2008 Test Year. Horizon Utilities would like to clarify that the increase in training is reflected in G&A expenditures, as well as certain Operations and Maintenance USofA accounts as part of the payroll burden.

The increase in training costs included in General and Administrative accounts 5605, 5610 and 5615 is \$227,911 as documented in Undertaking J1.7. The balance of training costs is included in USofA account 5630 Outside Services; account 5665 Miscellaneous Expenses; and as part of the payroll burden applied to various Operations and Maintenance accounts.

The increased training costs reflect Horizon Utilities' commitment to its Leadership Development program, described fully in the Human Resources 2008 Budget Plan [Exhibit B/Tab 1/Schedule 1/Appendix B]; ERP training and development, described fully in the ERP Business Case [Exhibit B/Tab 3/Schedule 1/Appendix E]; technical training for our Business Applications (IT) Group, described in the Business Applications 2008 Budget Plan [Exhibit B/Tab 1/Schedule 1/Appendix B]; and increased training related to the apprenticeship program [Schools IR 13g) and VECC IR 25a)].

172. Horizon Utilities submits that its compensation costs are reasonable and supported by its Application.

Capitalization of wages

173. With respect to the issue raised by OEB Staff in regard to the capitalization of wages, Horizon Utilities would like to provide the following points of clarification:

- Horizon Utilities has confirmed that it has not made any changes to its accounting policies in respect of capitalization of operating expenses, nor has Horizon Utilities made any significant changes to accounting estimates used in the allocation of costs between operations and capital expenses [OEB IR 22 Pg. 49 of 157];
- Horizon Utilities provided a detailed description of its capitalization policy with respect to overheads, including payroll burden, fleet burden and stores burden and confirmed that the methodology was in accordance with OEB Article 340 [VECC IR 18, Pg. 29].
- Horizon Utilities provided a detailed overview of the annual budgeting process, which provides for a “bottom up” approach by each functional area to prepare work plans that identify resources, including labour, vehicles, materials and third party costs that are required to execute the work plans – both capital and operating. This approach ensures that budgets are developed based on the actual work to be completed during the fiscal year, as opposed to a historical costing approach. [Exhibit D/Tab 1/Schedule 1/p 2 & 3; Exhibit B/Tab 3/Schedule 1/p 1]. Therefore, the total amount of wages that are capitalized versus included in Operations and Maintenance expenses are based on the work being performed for the year.
- The capitalization of labour is further detailed in response to Undertaking J1.8 whereby Horizon Utilities outlines the labour costs included in Operations, Maintenance and Capital for the 2007 Bridge and 2008 Test Year. The total amount of labour that is capitalized in a particular year is based on the actual time spent on capital projects as identified in its Capital and Maintenance Programs document. As noted in the Oral Proceeding, and as evidenced by Undertaking J1.8, it is important to note that the work sometimes does, in fact, fluctuate between operations and maintenance, based on the jobs and the specific type of work that needs to be done. Therefore there may be a shift

between operations and maintenance [Transcript Volume 1, page 116, lines 12 – 16 and line 27].

174. With respect to Table 3 prepared by OEB staff (page 20), the calculation of the percentage of labour capitalized vs. OM&A is based on a percentage of the compensation table calculated by OEB Staff. As noted previously, this calculation is comprised of the total of the compensation components times the average number of employees in each classification. Again, this table represents an average of compensation by employee group and an average number of employees and does not accurately reflect the total compensation included as part of the rate application. Therefore, Horizon Utilities does not agree that the compensation information provided in Board Staff Table 3 is an accurate summary of the total compensation increase included in the 2008 Test Year. As a result, the percentage of capitalized labour may not be accurate.
175. Any changes in capitalization percentages between the 2006 Actual and 2008 Test Year are derived from changes to the work plans for that particular year. A lower percent in one year does not mean that there has been a change in methodology; it means that the type of work being performed has changed (more capital work vs. less Operations and Maintenance work) based on the work plans. The same is true for increases or decreases in the percentage of OM&A labour.

Employee Benefits

OEB Staff and Schools submission

Reference page 22; 3.5.15 respectively – OEB Staff have commented and Schools agree, that a second major component of the increase in total compensation is an increase in the average employee benefits, which they state have increased by 27% for executives, 21% for management and 22% for non-union employees.

Response:

176. These increases have been calculated by OEB Staff, again using the average benefit costs provided as part of the Total Compensation shown in Exhibit D/Tab 2/Schedule 7/Page 8 of 10. Horizon Utilities provided a response to these increases as part of OEB Staff IR 36.
177. Horizon Utilities would reiterate that these increases were a computed percentage, based on average benefit costs per employee and again do not reflect the actual change in total benefits.
178. Using information provided as part of Undertaking J1.7 with respect to salaries and benefits, Horizon Utilities is providing the following summary to highlight that there has not been a significant change in benefit costs, as a percentage of total salaries in each of the G&A categories:

Executive

	2006	2007	2008	Benefits		
				% of Salaries and Wages		
	2006	2007	2008	2006	2007	2008
Salaries & Benefits (A/C 5605)						
Salaries and Wages	609,389	776,012	926,551			
Benefits	12,815	14,622	14,990	2.1%	1.9%	1.6%
EHT	15,986	19,970	23,408	2.6%	2.6%	2.5%
OMERS	71,390	87,081	108,497	11.7%	11.2%	11.7%
Great West Life	13,033	18,720	25,560	2.1%	2.4%	2.8%
Life insurance	2,246	3,000	3,852	0.4%	0.4%	0.4%
Long term disability	5,136	7,000	8,676	0.8%	0.9%	0.9%
Bonus	180,428	194,125	244,877	29.6%	25.0%	26.4%
WSIB	3,300	2,900	3,625	0.5%	0.4%	0.4%
Vacation payout	22,584	-	28,571			
Total Benefits	326,918	347,418	462,056	49.9%	44.8%	46.8%
Total Salaries and Benefits	\$ 936,307	\$1,123,430	\$ 1,388,607			

Total benefit costs for Executive, as a percentage of salaries is 46.8% in the 2008 Test Year, compared to 49.9% in 2006 Actual.

Management

					Benefits		
					% of Salaries and Wages		
	2006	2007	2008		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		3.2%	3.5%	3.3%
EHT	47,896	54,871	60,185		2.3%	2.2%	2.2%
OMERS	205,585	232,359	256,250		9.7%	9.3%	9.4%
Great West Life	83,577	130,620	149,496		3.9%	5.3%	5.5%
Life insurance	8,664	10,236	12,066		0.4%	0.4%	0.4%
Long term disability	20,806	27,942	30,330		1.0%	1.1%	1.1%
Bonus	375,442	236,452	329,882		17.7%	9.5%	12.0%
WSIB	19,538	6,780	21,735		0.9%	0.3%	0.8%
Total Benefits	901,038	791,863	977,787		39.2%	31.6%	34.7%
Total Salaries and Benefits	3,018,372	3,278,788	3,718,018				

Total benefit costs for Management, as a percentage of salaries is 34.7% in the 2008 Test Year, compared to 39.2% in 2006 Actual.

Staff

					Benefits		
					% of Salaries and Wages		
	2006	2007	2008		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		5.2%	4.9%	5.0%
EHT	53,804	32,319	36,871		4.2%	2.0%	2.1%
OMERS	94,459	122,099	140,308		7.3%	7.7%	8.0%
Great West Life	72,242	98,820	127,992		5.6%	6.2%	7.3%
Life insurance	3,897	4,842	5,739		0.3%	0.3%	0.3%
Long term disability	7,919	11,478	11,526		0.6%	0.7%	0.7%
Bonus	71,920	69,656	73,213		5.6%	4.4%	4.1%
WSIB	14,371	15,884	18,056		1.1%	1.0%	1.0%
Total Benefits	470,298	473,739	565,068		30.0%	27.3%	28.4%
Total Salaries and Benefits	\$ 1,758,606	\$ 2,063,359	\$ 2,329,827				

Total benefit costs for Staff, as a percentage of salaries is 28.4% in the 2008 Test Year, compared to 30.0% in 2006 Actual.

179. Horizon Utilities disagrees with Schools' comments on its incentive plans [3.5.15] which is probably a result of Schools not understanding the process. Horizon Utilities' incentive program has been clearly described in its pre-filed evidence [Exhibit D/Tab 2/Schedule 7/p 6] and the Annual Incentive Program for 2007 was filed in response to Schools IR 13 I). In addition, Horizon Utilities has provided

the average annual incentive pay for all levels of employees as part of Exhibit D/Tab 2/Schedule 7/Table 3.

180. Horizon Utilities submits, based on its evidence filed in Undertaking J1.7 and summarized above, that its employee benefit costs, as a percent of wages have not increased over the 2006 Actual costs; that they are reasonable; and supported by the evidence in its Application.

Human Resource Costs

Schools submission

Horizon Utilities would note that throughout this section Schools continue to refer to the [REDACTED] for the purpose of the merger between HHI and SCHUSI, a plan that at the time of filing was already three years old. It appears to Horizon Utilities that Schools asserts that the [REDACTED] should be representative of the 2008 business activities of Horizon Utilities. Horizon Utilities submits that it would be irresponsible for any business to expect that a business plan should be put in place and never reviewed again as implied by Schools. Business activities and therefore business plans are not stagnant and must be reviewed and updated regularly.

Aging Workforce

Reference 3.5.3 – 3.5.8 – Horizon Utilities' aging workforce is not an issue

Response:

181. Horizon Utilities submits that the 2008 Test Year compensation budget with respect to new hires, including seven new apprentice line maintainers, two operators and three Engineers in Training is necessary, appropriate and is supported by evidence contained in its Application.
182. Horizon Utilities has identified that in the next five years, 16.9% of Horizon's Utilities' employees are eligible for retirement, and an additional 16.1% will be

eligible within 10 years [Exhibit D/Tab 2/Schedule 7/p 1]. Horizon Utilities is being proactive and strategic in its approach to workforce planning by using a demographic profile to identify gaps by skills and trades, and by responding to the impending shortage of professional electrical engineers and the hiring of skilled trades in apprenticeship positions [Exhibit D/Tab 2/Schedule 7/p 3]. The demographic profile was provided as part of the pre-filed evidence [Exhibit D/Tab 2/Schedule 2/p 1].

183. In fact, Schools acknowledges in Section 3.5.4 of its submission that:

“the issue of an ageing workforce is not a new issue and that all companies have this issue, as a result of ageing baby boomers in skilled positions getting closer to the time they qualify for retirement. It is an economy wide-concern”.

184. The issue of expected retirements and the hiring of apprentices is also acknowledged by the Board, in the Toronto Hydro-Electric System Limited (“THESL”) decision dated May 15, 2008 [p 48]:

“...has surfaced in other recent Board proceedings, and describes a phenomenon that challenges all elements of the economy in varying degrees. It is a phenomenon of particular interest to industries where it is necessary to replace highly skilled workers on a schedule that corresponds to expected retirements.”

185. In addition, the Board reiterates that [p 48]:

“this is a phenomenon that is not unexpected. It has taken years to evolve and it has been “on the radar” for some time.”

186. Horizon Utilities notes that Schools acknowledges that “every business should include as part of its on-going activities a succession planning function, built into

its budgets” [Schools 3.5.8]. However, Schools disagree that there are costs related to succession planning as stated in Schools 3.5.8 “a \$1.1 million budget for on-going activities related to succession planning is entirely unnecessary and that a \$1.0 million reduction in human resource costs is appropriate”.

187. Horizon Utilities also notes that Schools’ principal argument for a reduction in compensation related to retirements and skilled trades is that, based on a [REDACTED] [Schools 3.5.7], “...it was stated clearly that there is no problem in the foreseeable future”. Horizon disagrees with Schools’ position on a number of fronts, specifically:

- Schools is referencing an [REDACTED] prior to the merger between Hamilton Hydro Inc. and St. Catharines Hydro Inc. and contains information that is stale dated. Despite the fact that certain of the [REDACTED] is stale dated, Horizon Utilities’ position that there will be an increase in retirement eligibility of employees is consistent with the [REDACTED].
- Schools entirely ignores the demographic information that was provided in Horizon’s pre-filed evidence [Exhibit D/Tab 2/Schedule 2/p 1].
- The table of demographics contained in Exhibit D/Tab 2/Schedule 7/p 2, clearly highlights the average age and length of service for Supervisors and Managers, as well as skilled trades, including control operators. The demographics of Supervisors and Managers very clearly highlights a requirement for succession planning.

188. As stated above, Schools’ entire submission is predicated on [REDACTED] [REDACTED] that Schools purports should be the key driver for Horizon Utilities’ 2008 Human Resource business activities. Horizon Utilities submits that business plans are not fixed over time and that Schools’ reliance on [REDACTED] as its submission is not relevant to Horizon Utilities 2008 Test Year Application.

189. Horizon Utilities submits that it has filed detailed evidence in support of its Human Resource costs for the 2008 Test Year and requests that the OEB accept its compensation costs as proposed and reject the submission of Schools in this regard.

Headcount

Reference 3.5.9 – 3.5.14 – Horizon Utilities' headcount should be reduced

Response:

190. Horizon Utilities would note that Schools continues to refer to [REDACTED] in assessing the appropriate level of Horizon Utilities number of employees.
191. Horizon Utilities confirms that it has only increased its workforce by 4.7% over the three year period 2005 to 2008, reflecting an increase in staff complement of 17 employees [Exhibit D/Tab 2/Schedule 7/Table 3 and Tr. Vol 1, pp.19-20] and discusses this further below. Horizon Utilities notes that this increase in staff complement follows closely to a decrease of 59 resulting from the merger of the former HHI and SCHUSI. [Exhibit D/Tab 2/Schedule 7/p 3] The employee complement provided as part of Table 3 reflects the staff complement at the end of each fiscal year and Horizon Utilities would note that not all employees would have been hired at the beginning of 2006. Therefore, the increase in OM&A expenditures between 2006 and 2008 is impacted by the timing of the new hires.
192. Horizon Utilities would also note that as a result of the successful merger of Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. in March 2005, the utility reduced its headcount by 59 full-time positions by the end of 2005. Horizon Utilities strongly believes that an increase in headcount of 4.7% over a three year period is not significant in light of the many initiatives being undertaken by the utility including smart meters, asset management and mergers

and consolidations, combined with the challenges of an aging workforce and skilled trade shortages.

193. Horizon Utilities disagrees with Schools' statement that Horizon Utilities "*have provided no rationale*" for these new positions [3.5.11] and furthermore Schools argument [3.5.12] that Horizon "*has not led evidence of work that has to be done now, that was not required (or being done)*" is not factual. In fact, Horizon has provided as part of its pre-filed evidence explanations for the increase in headcount [Exhibit D, Tab 2, Schedule 7], as well as position descriptions clearly outlining the work to be performed by these positions, reason for hiring, related budget amounts for these new hires and detailed position descriptions [OEB Staff IR 23c) and Appendix G]
194. In addition, Horizon Utilities has provided detailed information with respect to the aging workforce and skilled trade requirements [Exhibit D/Tab 2/ Schedule 7/pp 1 – 3]. In this Exhibit Horizon Utilities details, by department and position, the average ages of the employee groups. In its Argument-in-Chief, paragraph 48, Horizon Utilities identified that over the next five years 63 employees are eligible to retire with an additional 60 in the following five years. This translates into 12 employees per year for the next ten years.
195. Horizon Utilities recognizes that not every employee may retire or be compelled to retire when they actually become eligible for retirement. As such, Horizon Utilities workforce renewal is more gradual. For example, since 2005 Horizon Utilities' has hired seven Apprentice Line Maintainers, two Apprentice Network Operators and three Electrical Engineers-in-Training. [Exhibit D/Tab 2/Schedule 7/p 3], being 12 employees over two years as opposed to 12 in each year as Horizon Utilities' employee demographics would support.
196. With respect to ERP and Schools' statement that "*there are no staff reductions that result from these efficiencies*", Horizon Utilities would highlight that the ERP business case does in fact include staff reductions as part of the \$2 million of benefits [Exhibit B/Tab 3/Schedule 1/Appendix E]. The estimated resource

savings are identified in the following areas: Supply Chain Management [p 22], Work Management [p 24], and Human Resources [p 25]. Horizon Utilities submits that Schools is factually incorrect in making this statement.

197. Horizon Utilities submits that it has provided detailed evidence to support its staffing requirements and workforce renewal and would request the OEB accept its compensation levels as proposed and reject the request of Schools in this regard.

Compensation Reduction

Reference 3.5.17 – The HR costs increase of \$4.4 million 2006 Actual to 2008 Test Year should be reduced to \$1.4 million.

Response:

198. Horizon Utilities would refer Schools to its response to Undertaking J1.7; OEB Staff IR 23 b); and the tables accompanying paragraphs 154 and 155 above. Once again this will clarify for the OEB that the HR cost that Schools refers to as increasing by \$4.4 million are not all salary and wage related. These USoA accounts 5605, 5610 and 5615 also include other expenditures such as training and development, health and wellness subscriptions and memberships and I/T support. The direct compensation increase, which includes employee benefits, is \$1.8 million and not \$4.4 million.
199. Horizon Utilities submits that it has filed a significant amount of compelling evidence, tables and various different summaries as requested throughout this process and identified in this Horizon Utilities Reply Argument, to support its compensation costs and requests the OEB to accept its compensation costs as proposed and reject the submissions of Schools in this regard.

- **ERP – “Project FUSION”**

Overview

Horizon Utilities undertook an untraditional approach for its determination of Revenue Requirement to support costs related to its Enterprise Resource Planning project (“Project FUSION”). Relative to the traditional rate-making approach of the Board, Horizon Utilities estimated that its approach, which incorporates future project-related cost savings, will save its customers approximately \$0.7MM over the five-year useful life of this project. Horizon Utilities asserted this approach on the basis that the rate implications appeared to be preferential for its customers relative to the traditional approach of the Board. The Horizon Utilities approach computes a Revenue Requirement for Project FUSION of \$1.337MM. Horizon Utilities estimates that the use of the more traditional approach would yield a Revenue Requirement of approximately \$1.468MM. Horizon Utilities did not anticipate that its approach would be contentious and as such is responding to OEB Staff and the Intervenors separately as needed.

OEB staff submission

Reference page 24; pages 35 to 36 – OEB Staff comment on Horizon Utilities’ approach to determination of revenue requirement, materiality and the traditional approach to accounting for projects.

Response:

200. Board Staff correctly identify that the overall rate impact of this approach for Horizon Utilities’ customers is less than 1% (Board Staff Submission – page 24). Board Staff also submit that:

“adherence to traditional rate-making approaches, and where any savings can be treated as they occur and in light of Horizon’s circumstances and the Board’s policies as expressed in 3rd Generation IRM or the Report of the Board on Rate-making Associated with Distributor Consolidation, issued July

23, 2007, would be more appropriate and would be consistent with Board policy and practice” (Board Staff Submission – page 35 - 36)

201. Horizon Utilities acknowledges that Board Staff does not contest the operating or capital costs proposed for Project FUSION, nor the business case supporting such project (Board Staff Submission – page 35).
202. Board Staff does note a total tangible benefit related to Project FUSION in 2008 of “\$27.3 K” (Board Staff Submission – page 35). Horizon Utilities’ approach contemplated the mitigation of Project Fusion OM&A by \$0.4MM per year commencing in 2009 (please refer to Horizon Utilities’ response to VECC Interrogatory 14 a)). It is noteworthy that Horizon Utilities presently estimates total 2008 Project FUSION costs to exceed its 2008 budget by approximately \$0.5MM. [Transcript Volume 1, page 141, lines 13-18]
203. At this time, and based on this particular submission of Board Staff, Horizon Utilities proposes to adjust its rate Application to include its Project FUSION costs using the traditional rate-making approach referred to within the Board Staff Submission.

VECC, Schools and CCC submissions

Reference 4.7; 4.5.9; paragraph 48 respectively – affiliates of Horizon Utilities should bear a portion of the costs of this project.

Response:

204. Horizon Utilities’ Application, based on existing underlying affiliate agreements, provides for the Affiliates to bear some of these costs, but not to the extent suggested by these intervenors. [Exhibit C/Tab 3/Schedule 2/Appendix A]
205. The Intervenor Arguments assert that all costs of Project FUSION should be allocated to the Affiliates on the same basis as Horizon Utilities uses to allocate Corporate and Other Services to Affiliates, which VECC identifies as 17.6% (VECC – Section 4.7; Schools – Section 4.5.9). The implication of such

intervenor arguments is that the Affiliates benefit from Project FUSION ratably with Horizon Utilities, which is entirely false.

206. The value of the allocation asserted by the intervenors would be, approximately, \$1.6MM based on total Project FUSION costs of \$8.8MM over its five-year useful life. Such total costs include licensing and related ongoing information technology administration and support costs.
207. Horizon Utilities submits that the present allocation methodology for business applications costs, within the Corporate and Other Services allocation, will continue for Affiliates, but without consideration for the project development costs for Project FUSION, which are approximately \$7.2MM of the \$8.8MM total. The Affiliates, on an ongoing basis, will continue to be charged allocations of all licensing and related support costs associated with the new ERP system. Horizon Utilities submits that this allocation methodology is appropriate since the Affiliates do not receive any incremental value from Project FUSION relative to the current level of business applications support.
208. Horizon Utilities would have undertaken Project FUSION irrespective of Affiliate considerations, which were not part of its business case rationale. The Affiliates had no choice but to accept this change or seek such services elsewhere.
209. The business operations of Affiliates are very limited in scope and presently represented by small portfolios of water heater rentals and Hamilton Community Energy, a 3.5MW district energy project. The information systems and business process requirements of these operations, as will be provided by Project FUSION, are, similarly, very limited in nature to the preparation of financial statements, accounts receivable and payable processing, and some modest procurement. As such, the Affiliates do not participate in the value created by Project FUSION which is principally focused on supporting complex business processes and high volume transactions specific to the regulated distribution operations of Horizon Utilities, as outlined in its business plan in Exhibit B/Tab

3/Schedule 1/Appendix E of its Application. The scope of complexity of Horizon Utilities' operations far exceeds that of the Affiliates.

210. The business applications requirements of the Affiliates, to be provided for by Project FUSION, could be supported by very inexpensive off-the-shelf software packages. It would not have been economically feasible or relevant for the Affiliates to have procured, or participated in the procurement of, the ERP systems and processes underlying Project FUSION. As such, Horizon Utilities submits that it is reasonable that the Affiliates do not participate in the project development costs of Project FUSION and that the proposed cost allocation, including software licensing, is fair and reasonable and representative of the costs that the Affiliates would bear otherwise without reliance on Horizon Utilities.

Schools submission – Merger strategy and timing

Reference 4.5.1 to 4.5.3 – Schools refers to the [REDACTED] in a manner that implies that Project FUSION was undertaken as part of a merger strategy and that it should have been commenced and completed before this application.

Response:

211. Horizon Utilities observes that Schools failed to reference the stated objectives for an Information Technology ("IT") strategy [REDACTED] that apply equally to the former HHI as for Horizon Utilities as follows:

- Maximize return on investment;
- Leverage experience of other, similar utilities;
- Where possible, leverage the best practices embodied in package solutions;
- Managing implementation risk and cost.

212. [REDACTED] also articulated the expected benefits of the [REDACTED] just above the Schools reference, as follows:

This approach is expected to deliver significant quantifiable benefits in the following areas:

- Asset management;
- Inventory management;
- Maintenance planning and execution;
- Financial operations;
- Project management;
- Human resource planning and performance management.

213. As Horizon Utilities asserted during the oral proceeding, Project FUSION is scalable such that it will naturally facilitate future merger integrations relative to its existing IT architecture. [Transcript Volume 1, page 128, line 8 to page 129, line 15]. However any business systems integration of this scope and magnitude will naturally provide for further scale, which is generally inherent in related software rather than a discrete option that has an associated cost.
214. Schools further implies that there is something untoward in regard to the ultimate timing of the investment in Project FUSION relative to [REDACTED] and the Application (sections 4.5.2 and 4.5.3). The investment in Project FUSION is neither a merger benefit nor a merger-related cost. It is best characterized as required and prudent investment in support of sustainable electricity distribution activities. The cost of such is appropriately included in Horizon Utilities' Application.
215. Such costs were clearly not part of the rate base of Horizon Utilities at the time of, and throughout, [REDACTED]. Schools is incorrect in its assertion that such costs were included in the 2005 component of [REDACTED] (Schools Argument - 4.5.3).
216. Horizon Utilities did make provision for \$1.0MM of investment in its IT strategy within the [REDACTED] forecast for 2006 and 2007. However, such costs were rough

estimates not substantiated by a proper business case nor were such part of a budget or business plan approved by the Horizon Board of Directors.

217. As a practical matter, this investment could not have been undertaken within the timeline of [REDACTED] and the related forecast provisions reflected an ambitious, but unapproved, provision for IT investment. The [REDACTED] was drafted in 2004. The merger contemplated therein occurred March 1, 2005 with related integration activities consuming most of Horizon's resources throughout 2005. Much of Horizon's IT staff was involved with the planning and execution of Smart Meter pilots and related activities in 2006 through to 2007.
218. The requirements definition and procurement process is a lengthy process which commenced in September of 2006 and concluded in May of 2007, with a well developed business case and plan [Exh 3/ Tab B/ Sch 1/ Appendix E]. The Board of Directors of Horizon Utilities only just approved such plan and related costs at the end of May 2007. The project thereafter commenced in July of 2007. There is no provision within the Application for recovery of costs related to the requirements definition and procurement process.
219. Based on the foregoing analysis, Horizon Utilities submits that the Schools Arguments in 4.5.1 to 4.5.3 do not support its related conclusions in 4.5.8 to 4.5.11.

Benefits to Ratepayers and to Shareholder - Schools

Reference 4.5.4 to 4.5.6 – the benefits will accrue to the Shareholder through mergers and not to Ratepayers.

220. Horizon Utilities observes that Schools continues its confusing argument, based on references to [REDACTED], that the investment in Project FUSION is supported by future mergers. This is entirely inconsistent, as noted above, with the stated objectives and anticipated benefits articulated in the [REDACTED] to

which Schools selectively refers to in 4.5.4. and the business case approved by the Horizon Utilities Board of Directors in 2007 provided as evidence in Exhibit 3/Tab B/Schedule 1/Appendix E.

221. Horizon Utilities reiterates that, based on its evidence above, the justification of the investment in Project FUSION is irrespective of future merger activity.

Depreciation - Schools

Reference 3.7.3 and 4.5.7 – since this system replaces a patchwork of systems all older than five years it is submitted that a ten year depreciation life is more appropriate

222. Horizon Utilities submits that this is an unsubstantiated argument that would only serve to arbitrarily amortize the cost of this project beyond its useful life despite requiring a significant upgrade in five years.
223. Horizon Utilities would refer to the Accounting Procedures Handbook (“APH”) Article 410, which describes acceptable amortization methods and revisions to the amortization method and estimated useful life of property plant and equipment. The APH does not provide prescriptive guidance for the amortization of computer software. The APH does allow for professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to the nature of the property, plant and equipment. This is also consistent with Canadian generally accepted accounting principles (CICA Handbook 3061), which is referenced in Article 410 of the APH.
224. CICA Handbook Section 3061.32 also states that factors to be considered in estimating the life and useful life of a capital asset include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable terms. Horizon Utilities asserts that a 10% annual depreciation rate would be unacceptable for generally accepted accounting

purposes on the basis that such does not reflect the useful life of Project FUSION assets.

225. Horizon Utilities provided in its responses to VECC IR 16 that:

“The estimated useful life of the project is assumed to be five years. This is based on discussions with the vendor with respect to the estimated timing/scheduling of future software upgrades that will result in a major software upgrade, involving additional capital costs and resources to implement. As future software upgrades may involve upgrades or replacements to computer hardware due to changes in the operating environment, often due to significant changes in technology, the estimated useful life of the computer hardware was assumed to be the same as the software. An estimated useful life of 3-5 years for computer hardware is considered to be reasonable based on industry standards.”

226. Horizon Utilities would refer to THESL’s 2008 rate application EB-2007-0680 Exhibit D1, Tab 13, Schedule 1 Appendix A “Computer Software Capitalization Policy” (Section 1.7 Amortization) whereby THESL indicates that “amortization of software costs is usually done over a three to five year period. Five years in some cases is considered the upper limit because this is generally the same asset life for the associated hardware. The decision on the period to choose is dependent upon management’s assessment of the useful service life, a matter of professional judgment in each case.”

227. Horizon Utilities ERP Project FUSION capital assets include computer hardware and the ERP software. Horizon Utilities currently amortizes computer hardware over five years in accordance with the APH, Appendix E, and amortizes computer software over three years. Horizon Utilities amortization schedule was provided in response to Schools IR 8 a). Horizon Utilities amortization of its ERP Project FUSION software over five years, as discussed in paragraph 225 above already exceeds its normal amortization period of three years. Horizon Utilities

also observes that other intervenor arguments and the OEB Staff Submission did not take exception to the annual depreciation rate of five years.

228. Horizon Utilities submits its amortization rate of five years for its ERP Project FUSION capital is appropriate and requests the OEB to reject Schools submission.

Conclusions - Schools

Reference 4.5.8 to 4.5.11 – the revenue requirement needs to be recalculated based on the project being in service in 2006 and 10 years depreciation.

229. Based on the foregoing responses to the Schools Arguments, Horizon Utilities submits that the Board should reject the arbitrary and unsubstantiated arguments and submissions of Schools with respect to adjustments to Horizon Utilities' rate base and revenue requirements related to Project FUSION.

CCC submission

Reference paragraph 48 – CCC supports Horizon Utilities recovering its investment in the ERP solution over five rate years except that 1) OM&A expenses related to the ERP that occurred in 2007 should not be recovered in 2008 and 2) affiliate costs associated with the project have been allocated to those entities.

230. Horizon Utilities has addressed the "second issue" above noting that certain costs related to the "ERP Project" during its full life cycle will be allocated to Affiliates.
231. Horizon Utilities' approach to recover its investment in the ERP solution was reasonably balanced between customers and shareholders having provided a Revenue Requirement impact that was favourable to customers relative to the traditional approach of the Board for rate-making purposes. Underlying this approach was a balance between: i) the risk for shareholders of advancing

unrealized and projected savings and ii) that customers bear the full cost of the project throughout its lifecycle, commencing with implementation. As noted above, however, in light of the Staff submission in this regard, Horizon Utilities proposes to revert to a traditional rate making approach with respect to ERP-related expenditures.

VECC submission

Reference 4.6 – VECC supports Horizon Utilities proposed approach to recovery of its ERP costs and savings but requires clarification on how the OM&A has been reduced and how \$479,204 has been reflected in the Application.

Response:

232. Horizon Utilities refers to its response to VECC IR 19 a) which provides a table that identifies the method of reduction of OM&A expenses in the determination of Revenue Requirement using the recovery approach of Horizon Utilities in its Application. It is clear that OM&A is reduced by \$0.4MM per year commencing in 2009 and pro-rated in the terminal year of the project.
233. The specific and detailed calculations of Revenue Requirement corresponding to such table are provided in Horizon Utilities' response to Board Staff IR 24 b) in Attachment H. Such attachment was updated for revised PILs rates as Attachment I to the same Board Staff Interrogatory.
234. As illustrated in VECC IR 19 a), no savings were allocated to 2008. As such, the "\$479,204 difference" represents an averaging of Revenue Requirements across 2007 to 2013, which include savings in 2009 to 2013, and the Revenue Requirement computed for 2008. As noted above, however, in light of the Staff submission in this regard, Horizon Utilities proposes to revert to a traditional rate making approach with respect to ERP-related expenditures.

- **Capital, Property and Income Taxes**

OEB Staff, Schools & VECC submissions

Reference OEB – page 25, Schools 3.8 and 3.9, VECC 4.11 - Horizon Utilities needs to update capital tax and income tax rates to the most recent announced rates.

Response

235. Horizon Utilities acknowledges that the tax rates have changed and that these changes will be incorporated into the Draft Rate Order as directed by the OEB.

- **Excess interest**

OEB Staff submission

Reference page 26 – should Horizon Utilities include in the PILs calculations interest additions and deductions if these should arise when preparing its rate order.

Response:

236. Horizon Utilities acknowledges the OEB Staff submission regarding “excess interest” at page 26 of 53 of the OEB Staff Submissions. Such OEB Staff submission makes reference to the budget of March 22, 2007 of the Ontario government and specific draft legislation that would serve to minimize the interest deduction in the determination of PILs payments pursuant to section 93 of the Electricity Act, 1998.

237. Horizon Utilities has reproduced below an excerpt from the publicly available document *2007 Ontario Budget: Budget Papers* (“2007 Budget”) at page 190 of such document which provides the object and intent of the proposed Government of Ontario rules with respect to the “excess interest” submission of OEB Staff:

“While corporations can usually deduct interest paid to their shareholders from their taxable income, shareholders must include the interest received

- in their taxable income. However, unlike most shareholders, municipalities are not subject to tax or PILs on interest. To prevent the potential for excessive interest deductions by municipal electricity utilities (MEUs), new rules would make the deductibility of interest by MEUs consistent with the proposed Ontario Energy Board cost-of-capital rules. The new rules would limit the interest rate on debt to municipalities and impose a debt-to-equity ratio. These measures would be effective for all interest payments made by all MEUs to municipalities after March 22, 2007.”
238. The purpose of the new proposed “excess interest rules” of the Government of Ontario is to promote the concept of tax integration which is summarized in the first sentence of the above 2007 Budget reference. Interest payments to municipalities confound the concept of tax integration since such entities do not pay taxes or PILs.
239. Horizon Utilities observes that this was the specific issue underlying the reference of Board Staff to Norfolk Power’s decision [EB-2007-0753, page 17, paragraph 3] which, as basis for such decision, makes further reference to Halton Hills Hydro decision [EB-2007-0696]. The specific concern regarding interest deductibility in the Halton Hills Hydro proceeding was submitted by Schools as follows:
- “Schools submitted that the proposed adjustment to interest expense should be denied because allowing the company to enjoy the tax advantage of having higher than deemed debt would “provide too great an incentive to utilities to have actual debt components in excess of that determined by the Board to be an appropriate capital structure.” [EB-2007-0696, page 8, paragraph 5]
240. Horizon Utilities submits that it does not have, either directly or indirectly, any debt obligations to municipalities. The amount of PILs deductions with respect to its affiliate debt obligations result in an equal and offsetting amount of taxable income for Hamilton Utilities Corporation. As such, the objective of tax

integration is preserved in this affiliate relationship, which should not be objectionable to the Ministry of Finance (Ontario) and does not seem to be the object of its proposed "excess interest rules".

241. Additionally, the forecast debt to equity ratio for Horizon Utilities for the 2008 Test Year is below the 60% deemed ratio. Horizon Utilities does not anticipate issuing debt obligations in 2008 that would cause its total outstanding obligations to exceed the amount of its 2008 deemed debt provided in the Application.
242. Horizon Utilities is unaware of any specific draft or final legislation or regulation regarding the "excess interest rules" contemplated in the 2007 Budget reference above. This notwithstanding, Horizon Utilities submits that neither the nature of its current debt obligations nor its 2008 capital structure, as provided in the Application, would result in the PILs interest disallowance contemplated by the object of the Government of Ontario with respect to proposed "excess interest rules".
243. Horizon Utilities submits that the intended application of the "excess interest rules" of the Government of Ontario are not applicable to Horizon Utilities, since it does not have any municipal debt obligations and its parent, HUC, is subject to PILs on its affiliate interest income. As such, any downward revision in the Board permitted deemed debt rate for Horizon Utilities should not result in an interest expense disallowance for PILs proxy purposes.
244. Lastly, Horizon Utilities has no intention of issuing debt such that its total debt obligations would exceed the OEB deemed capital structure, which appeared to be the issue in the Halton Hills Hydro decision [EB-2007-0696].

RATE BASE

- **Reconciliation of numbers and totals**

OEB submission

Reference page 28 – Board Staff have noticed a difference in capital expenditures between Exhibit B/Tab 2/Schedule 1/p. 3 and OEB Staff IR 4 of \$40,231.

Response

245. In exhibit B/Tab2/Schedule1/Page 3 the capital expenditure for 2008 (before work in process) is \$43,942,709, whereas in response to Board staff interrogatory 4, the amount of additions is shown as \$43,902,478, a difference of \$40,231. Horizon Utilities' response to OEB staff IR 4 is based on capital expenditures on a project basis as required. Horizon Utilities would note that thirty-seven of the projects, as provided in the IR response and in Horizon Utilities' pre-filed evidence in Exhibit B/Tab 3/ Schedule 1 are rounded to \$1,000. The 2008 Test Year Fixed Asset Continuity Schedule provided in Exhibit B/Tab 2/Schedule 1/pg 3 is presented in detail to the dollar. The difference of \$40,231 or 0.09% represents rounding.

OEB Staff submission

Reference page 28 – Board Staff have observed differences in smart meter capital expenditures as recorded in various documents.

Response

246. Horizon Utilities' smart meter related costs have been reported in its pre-filed evidence and in response to interrogatories in different amounts depending on the clarification required for that interrogatory. Horizon Utilities' cost of the smart meters including installation amounts to \$7,117,061 for 50,000 installations [Ex. B/Tab 2/Schedule 1/p.2] and \$10,573,416 for 80,000 installations [Ex. B/Tab 2/Schedule 1/p.2] in the 2007 Bridge Year and the 2008 Test Year respectively.

The total cost of smart meters including capital expenditures for computer hardware, software, and other tools and equipment is the amount of \$10,962,329 [Ex. B/Tab 1/Schedule 1/App. B] for the 2008 Test Year. The non-meter capital expenditures are included in their respective categories in the fixed asset continuity schedules. Horizon Utilities would note that the figure of \$8,444,605 shown in Table 9 of Exhibit B/Tab 3/Schedule 1/p. 24 is incorrect and has not been included in its Application.

- **Wholesale Meter upgrade**

OEB Staff submission

Reference 2.1 – OEB staff invite Horizon Utilities to comment on the reasons for deferments of wholesale meter installations from 2007, and identify planning strategies, contingencies and coordination with Hydro One to ensure wholesale meter installations will be carried out as scheduled.

Response:

247. The lack of resources at Hydro One resulted in Horizon Utilities' long delays in completing scheduled Wholesale Meter upgrades. To further compound the delays experienced, Hydro One's Society of Professional Engineers entered into a labour dispute with their employer in 2006 that lasted over six months. All Wholesale Meter upgrade work was suspended throughout the Province. Once the labour disruption ended, Horizon Utilities met with the Wholesale Meter Project Management Team at Hydro One to commence a dialogue on how to establish a schedule that both parties would be able to comply with in order to complete the meter upgrades as per the meter's expiration dates.
248. As well, a protocol of requirements for both parties has been established and regular meetings are being held between Horizon Utilities and Hydro One to ensure that the agreed to schedule is adhered to. Horizon Utilities has provided (below) the latest schedule arranged with Hydro One to provide assurance to the

OEB and Intervenor that the planned work will be carried out. Many of the wholesale meters scheduled for upgrading in 2008 have already been completed and Horizon Utilities is continuing with the schedule work even though the costs are exceeding the capital requirement included in Horizon Utilities' Application.

MMP	Station	Schedule 1	Field check date	Scope/Prepa- out	Plan	Meter Pt	Material	RESO phase 1 submitted	RESO phase 1 approved	Meter Point ID New and Old	RESO phase 2 submitted	RESO phase 2 approved	Phase Line	RESO phase TRT x	Meter Cabinet assembled	Forecast Date	Actual Date/E- Item/193	PO #	PO sent	Close W.O. (SR#)
Expiry 2003 to 2005																				
St Catharine	Carlton TS		5-Jun-06		primary metering	D9HS (Q++B bus)	3-VTS&CTs	10-Jan-07	19-Jan-07	1000014770 0242520080 0242520080	8-Jan-08	8-Jan-08	Horizon to arrange for completed	6044	completed Jan 17/08	11-Feb-08	29-Feb-08	81203 & 76819	\$263K-2007 \$280K-2008 Total=\$50K	final invoice by the END of MAY/08
	Carlton TS		5-Jun-06		primary metering	D10S (Y+K+E bus)	3-VTS&CTs							6043		16-Feb-08	7-Mar-08	81203		
HH	Lake TS		01-Mar-06 Feb-07	20-	primary metering	T3 (Q1+I1)	3-VTS&CTs	21-Aug-07	4-Sep-07	1000018360 0243118070 0243118140				6114	---cabinets delivered to site	21-Apr-08	15-May-08	81337 & 76818		final invoice by EARLY Aug/08
	Lake TS		01-Mar-06 Feb-07	20-	primary metering	T4 (Q2+I2)	3-VTS&CTs			1000018370 0243118140 0243120660	28-Mar-08	31-Mar-08	Horizon to use existing S05 561-9997 line	6115		28-Apr-08	15-May-08	81337		
	Lake TS		01-Mar-06 Feb-07	20-	full upgrade	T1 (B bus)	3-VTS&CTs			1000018340 0243120660 0243120660				6112	- backplate completed	7-Apr-08	15-May-08	81337		
	Lake TS		01-Mar-06 Feb-07	20-	full upgrade	T2 (Y bus)	3-VTS&CTs			1000018350 0243120680 0243120680				6113		14-Apr-08	15-May-08	81337		
HH	Gage TS		5-Mar-06		full upgrade	T3	3-VTS&CTs			0243116320										
	Gage TS		5-Mar-06		full upgrade	T4	3-VTS&CTs													
	Gage TS		5-Mar-06		full upgrade	T5	3-VTS&CTs													
	Gage TS		5-Mar-06		full upgrade	T6	3-VTS&CTs			0243116440										
HH	Dundas TS				full upgrade	M2 PME		Nov/04	Dec/04	1000008240 0243115270	Feb/05	Mar/05			completed					
Expiry 2006																				
HH	Beach TS	13-Mar-06	6/6/2006&5e06	30-Nov-06	full upgrade	T3B1	3-VTS&CTs	29-Feb-08	7-Mar-08	1000019070 0243119080 0243119130	23-Apr-08	30-Apr-08	Horizon to arrange for one new line S05 545-5494	6168 6169 6170	---cabinets delivered to site - backplate completed	21-Jun-08 6-Jun-08 31-May-08	5-Jun-08	81895 81896 81896	Dec 2106 Dec 2106 Dec 2106	HT to issue 3 MTHS after May 26/08
	Beach TS	13-Mar-06	6/6/2006&5e06	30-Nov-06	full upgrade	T5J2	3-VTS&CTs			1000019110 0243122760 0243122760				6171		26-May-08	5-Jun-08	81896	Dec 2106	
HH	Mohawk TS	13-Mar-06	6-Jun-06	30-Nov-06	full upgrade	B1	3-VTS&CTs			1000018910 0243118920 0243120070	24-Oct-07	13-Feb-08	Horizon to arrange for one new line		completed Jan 31/08	5-Sep-08 18-Sep-08 11-Sep-08	81894 81894 81893	Dec 2106 Dec 2106 Dec 2106	HT to issue 3 MTHS after Sep 22/08	
HH	Mohawk TS	13-Mar-06	6-Jun-06	30-Nov-06	full upgrade	B2	3-VTS&CTs			1000018940 0243120080 0243120080						25-Sep-08	81893	Dec 2106		
HH	Mohawk TS	13-Mar-06	6-Jun-06	30-Nov-06	full upgrade	Y2	3-VTS&CTs			1000018870 0243100780 0243100780	24-Oct-07	2-Jan-08	Horizon to arrange for one new line			17-Oct-08	81897	Dec 2106	3 MTHS after Oct 08/08	
HH	Nebo TS	13-Mar-06	6-Jun-06	30-Nov-06	full upgrade	T4Q	3-VTS&CTs			1000018880 0243100780						24-Oct-08	81897	Dec 2106		
Expiry 2007																				
St Catharine	Vancickle TS	31-Oct-06	2-Apr-07	11-Dec-07	full upgrade	T5				0244114770			Horizon to arrange for one new line			Nov 7/08		88721	Jan / 08	3 MTHS after Nov 10/08
			2-Apr-07		full upgrade	T6				0244114770						Nov 13/08		88721	Jan / 08	
HH	Birmingham T	31-Oct-06	3-Apr-07	4-Dec-07	meter only upgrade	J1Q Bus	change ratio on CTs ratio to remain as 3200 S	15-Feb-08	26-Feb-08	1000019060 0245200900 C3			Horizon to arrange for one new line			Nov 17-20/08		88474	Dec 11/07	3 MTHS after Nov 08/08
St Catharine	Glendale TS	31-Oct-06	2-Apr-07 Feb /08 2-Apr-07	25-M-07 16-May-08 25-M-07	full upgrade meter upgrade	T1B + T2J T1Q + T2Q	---readable photos of all VTs - unreadable photos of all CTs be have a photo of spate CT			0245200070 0245200070 0245200070						Dec 1-3/08 Dec 1-3/08 Dec 4-5/08	86296 86297 86298	Aug / 07 Aug / 07 Aug / 07	HT to issue 3 MTHS after Nov 24/08	
	T3E	31-Oct-06	Feb /08 2-Apr-07	16-May-08 25-M-07	meter upgrade full upgrade in STN	M6				0245200070 0245200070 0245200070			all Horizon work			Dec 4-5/08	86299	Aug / 07		
	T4Y	31-Oct-06	Feb /08 2-Apr-07	16-May-08 25-M-07	PME's outside of STN full upgrade in STN	M6 M14				0245200070 0245200070 0245200070			all Horizon work all Horizon work all Horizon work			2009 2009 2009	86300 86300 86300	Aug / 07 Aug / 07 Aug / 07	internal PO to Hudson	
Expiry 2008																				
HH	Gage TS					T1 (29H2) T2 (29H2) T7 (29H2)	Scheduled to be de-commissioned in April 2009 Scheduled to be de-commissioned in April 2009 Scheduled to be de-commissioned in April 2009													
HH	Dundas T3T4					Sun Canada PME	purchased from Hydro One for \$2	17-Jan-08	8-Feb-08	1000019880 0245200500	13-Feb-08	14-Feb-08	transfer existing 600- 4678 line	6081	to be completed on-site	*Mar 26/08	*Mar 26/08	Completed Mar 26 / 08		
MC Dispensation ---Meter upgrade only																				
HH	Beach TS	4	14-Feb-08			rec'd CTS&VTs for Y1-MC app CTS&VTs for Y2 -Y2 ct recd-mist	Y1/Y2	2009		1000009800										
			14-Feb-08			rec'd CTS&VTs for G1	Q1/Q2	2011		1000013820										
HH	Elgin	6	14-Feb-08			rec'd CTS&VTs for G2		2009		1000010610										
			14-Feb-08			rec'd CTS & VTs for T1D	DK	2009		1000010620										
			14-Feb-08			rec'd CTS & VTs for T2K	EZ	2009		1000010630										
			14-Feb-08			rec'd CTS & VTs for T3E		2009		1000010620										
			14-Feb-08			rec'd CTS & VTs for T4Z	J1Q	2010		1000010630										
			14-Feb-08			rec'd CTS & VTs for T1Q		2009		1000010630										
HH	Horsing	4	14-Feb-08	photo of spare B1B2 rec'd----- MC app'd		B1/B2		2009		1000010390										
			14-Feb-08	photo of spare Q1Q2 rec'd----- MC app'd		Q1/Q2		2009		1000010400										
HH	Kentleworth	2	14-Feb-08			EU		2010		1000011700										
HH	Newton	4	14-Feb-08			rec'd CTS for T1B and T3B-MC app rec'd VTs for B Bus-Blue Ph misal	T1B/T3B	2010		1000010420										
			14-Feb-08			rec'd CTS for T1Y and T2Y-MC app rec'd VTs for Y Bus-MC app	Y1/Y2/Y	2010		1000010430										
HH	Stilton	4	14-Feb-08			BY		2009		1000009320										
			14-Feb-08			QZ		2009		1000009330										
HH	Gage TS	2				T8		2009		1000003680										
						T9		2009		1000003690										

- **Halsen Conversion Project**

OEB submission

Reference 2.2 – clarify that this project is expected to be completed and in-service in 2008.

Schools submission

Reference 4.3 – this project was identified as critical yet the project was delayed from 2005 to 2006 and now goes into 2008, and should have been started earlier.

Response:

249. The Halsen conversion project was designed in three phases with phase one completed in 2006. Phase two was completed in 2007. [REDACTED] confirmed the need for the Halsen conversion project and also confirmed that project plans were in place to begin this work. The project was delayed due to other customer and system demands on capital. Horizon Utilities confirms that this project will be completed and in-service in 2008, and would refer to its response to OEB Staff IR 7 page 12 of 157 – Security, where Horizon Utilities confirms that the Halsen Substation feeder conversion will begin in Q1 and will be finished in Q4. Horizon Utilities confirms that Schools is not requesting any change to Horizon Utilities' Test Year capital budget or rate base in respect of the Halsen project.

- **Capacity projects**

OEB submission

Reference 2.3 – Horizon Utilities stated in Exhibit B/Tab 3/Schedule 1/p 15 that the Horning M50 project will take two to four years however in Horizon Utilities response to OEB Staff IR 11 a. Horizon Utilities stated the project would be started and completed in 2008. Clarification is required on the duration of the Horning M50 project and expected in-service date.

Response

250. Horizon Utilities designs multi-year projects into phases and would refer OEB Staff to its evidence-in-chief provided in Transcript Volume 1, page 26, lines 22-28 where Horizon Utilities explains “As a point of clarification, our application contains references to multi-year projects. In planning for such projects, Horizon divides a multi-year project into distinct phases, which are then budgeted for and constructed in a specific year. Only those costs that are planned in respect of the 2008 phase are included in the 2008 application.”
251. Horizon Utilities would also refer OEB staff to its response to OEB Staff IR 7 page 12 of 157 – Capacity, where Horizon Utilities confirms that the Horning M50 new feeder (being the 2008 phase) will begin in Q1 and will be finished in Q3. This phase will be in-service in 2008.

- **Service Reliability Indices**

OEB submission

Reference page 30 – comments are invited on Horizon Utilities’ reliability performance and its proposed 2008 capital projects to maintain and enhance system reliability.

Response:

252. Horizon Utilities submits that its operations and maintenance programs ensure system reliability and safety. The results of these programs are evident in Horizon Utilities’ reliability indices and the fact that Horizon Utilities’ customers, on average, do not experience more than 1.4 interruptions in service in a year and, when an interruption occurs, Horizon Utilities’ average restoration time is 39 minutes. [Exhibit A/Tab 2/ Schedule 1/page 5]

253. Overall, in 2006, Horizon Utilities' system reliability index was 0.99989, meaning that Horizon Utilities' distribution system was available to supply customers 99.989% of the time during that year. [Exhibit A/Tab 2/Schedule 1/page 5]

- **Asset Condition and Asset Management Plans**

OEB submission

Reference page 31 – Comments are invited on Horizon Utilities' 2007 Distribution System Capital & Maintenance Programs document and the appropriateness of the proposed 2008 capital expenditures contained in the document.

Response:

254. The document referred to in the OEB Staff submission should be the 2008 Distribution System Capital & Maintenance Programs. [Exhibit B/Tab 1/Schedule 1/Appendix A].

255. In managing its distribution system assets, Horizon Utilities' main objective is to optimize performance of the assets at a reasonable cost with due regard for system reliability, safety, and customer service requirements. Horizon Utilities has prepared its 2008 "Distribution System Capital & Maintenance Programs" document (referred to as the "CMP"), which sets out Horizon Utilities' processes for determining the necessary distribution system investments to ensure safe, reliable delivery of electricity to its customers. The CMP will be updated annually. [Exhibit B/Tab 1/schedule 1/p 3 – 4]

256. Horizon Utilities considers performance-related asset information including, but not limited to, data on reliability, asset age and condition, loading, customer connection requirements, and system configuration, to determine investment needs of the system.

257. On an annual basis, Horizon Utilities reviews capital projects identified for potential implementation and attempts to prioritize each project based on defined criteria on a relative basis. The criteria are set out in the CMP.
258. In addition to the capital needs of the network, Horizon Utilities provides for maintenance planning for the assets. Horizon Utilities' maintenance practices and programs are addressed in the CMP, and are discussed in greater detail in Exhibit D – Operating Costs.

- **Pole Replacement**

- VECC submission**

Reference 2.4 – VECC expresses its concern about replacing fewer poles in 2008 but at a higher cost per pole, and recommends using the average 2006 and 2007 pole replacement cost and reducing the capital spending.

Response:

259. Horizon Utilities would note that the 2006 total pole replacement cost is incorrect in Horizon Utilities' responses to Undertaking J1.11 and OEB Staff IR 9 c. The correct amount is \$1,623,000 and is found in Horizon Utilities' response to OEB Staff IR 4 a., 2006 Actual - Renewal – Wood Pole Replacement.
260. Undertaking J1.11 identifies 340 poles requiring replacement in the 2008 Test Year compared to 350 poles (before the carry over from 2006) identified for replacement in the 2007 Bridge Year. The number of poles identified for replacement is only a proxy for the actual number of poles that may require replacement (pole hits, pole fires etc) and Horizon Utilities will work within its 2008 Test Year budget to ensure as many required pole replacements are completed.
261. Horizon Utilities has also provided factors that affect individual pole replacement costs such as 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. Each of these is taken into consideration in determining the estimated time and cost to replace wood poles in addition to the increase in cost of labour and material.

- **ERP – Project FUSION**

262. As discussed in paragraphs 200 and 203 above, Horizon Utilities recognizes that its proposed approach to recovery of its ERP investment is not consistent with the traditional regulatory approach of accounting for capital projects and as such, Horizon Utilities will adjust its revenue requirement to reflect the implementation of its ERP solution consistent with its method of accounting for any other capital and OM&A project. Horizon Utilities will only include those costs to be incurred in the 2008 Test Year and will remove all costs related to 2007 and future years when it prepares its Draft Rate Order. Horizon Utilities will reduce its 2008 Test Year expenditure related to ERP by \$27,300 being the estimated savings in the 2008 Test Year.

- **Transportation capital**

Schools submission

Reference 4.2.4 – Horizon Utilities has planned major capital spending in 2007 and 2008 [CCC IR Appendix A-1, page 10] but shows no capital spending in 2009 or 2010. Capital spending should be equalized over the three years.

Response:

263. Schools appear to be referring to only a portion of Table 4-3 in Appendix A-1. Table 4-3 provides for both Recurring Capital Programs and Non-Recurring Capital Programs. Schools is making reference to the non-recurring portion of the table which provides for non-recurring transportation capital spending in each of 2007 and 2008 and no non-recurring transportation capital spending for 2009 and 2010. Horizon Utilities would refer Schools to the Recurring Capital Program section of this table. Page 13 of that document (at section 4.4.2) confirms that the line in the table designated – “Other Recurring Capital” includes, among other

items, fleet-related capital expenditures. Of the \$2.9 million and \$3.0 million in estimated Other Recurring Capital expenditures for 2009 and 2010 respectively, Horizon Utilities estimates that fleet-related capital expenditures will total \$775,000 and \$800,000 respectively. Accordingly, Horizon Utilities is already appropriately spreading its recurring transportation capital expenditures over time. Horizon Utilities submits that it would be inappropriate to artificially spread non-recurring capital spending over a multi-year period, as that would improperly defer the inclusion of in-service assets in rate base.

- **Working Capital**

- Overview**

264. At paragraphs 77 through 79 of its Argument in Chief, Horizon Utilities reiterated that its Working Capital Allowance, calculated in its Application, was based on the “15% of specific O&M accounts formula approach” of the Board. Such approach complies in all respects with section 2.3 of the Filing Requirements (EB-2006-0170) which also provided for the alternative “working capital based on a detailed analysis” approach. Horizon Utilities has not compiled evidence that would reasonably support minimum requirements of the Board for the “working capital based on a detailed analysis” approach.
265. Horizon Utilities observes that the Board has accepted the use of the “15% of specific O&M and cost of power accounts formula approach” for other electricity distributors without adjustment, other than for revisions to underlying charges such as Transmission and Connection Network charges, Cost of Power, and similar amounts. Horizon Utilities expects to adjust its Working Capital Allowance for such charges.
266. Horizon Utilities is aware that THESL and Hydro One Networks Inc. (“HONI”) have prepared and submitted recent forward test year rate applications utilizing the “working capital based on a detailed analysis” alternative approach of the

Board permitted by the Filing Requirements. THESL and HONI had undertaken detailed and independent lead/lag studies specific to their respective operations that appear to have satisfied such Filing Requirements.

OEB Staff, CCC, Energy Probe, VECC submissions

Reference page 36; paragraphs 51; 36; 2.6 – 2.7 respectively – Horizon Utilities should use the latest cost of power and transmission rates in deriving its working capital

Response:

267. Horizon Utilities acknowledges that these changes are required and will update accordingly in its Draft Rate Order.

VECC/ Energy Probe/ CCC submissions

Reference paragraphs 2.8; 37 – 39; 51 - 53

In their Final Arguments, VECC, Energy Probe, and CCC have argued that the Working Capital Allowance of Horizon Utilities should be adjusted from 15% to within a range of 11.6% and 13.3%. Those intervenors appear to assert that these ranges are consistent with:

- a) the specific lead/lag studies used as a basis for Working Capital Allowance for THESL and HONI within their respective and recent forward test-year rate applications;
- b) the acceptance of Enersource Hydro Mississauga Inc. ("EHMI") and Hydro Ottawa Inc. ("HOI") of lower Working Capital Allowances, on the basis of the lead/lag studies pertaining to the respective THESL and HONI rate proceedings.

Response:

268. Horizon Utilities asserts that any such adjustment would be arbitrary and without regard for the specific operating environment of Horizon Utilities and its impact on working capital.

269. The THESL and HONI studies were specific to their respective operations. Both of such studies yielded different results which provide clear evidence that the appropriate level of Working Capital Allowance varies by distributor based on its specific operating environment.
270. Horizon Utilities notes that both EHMI and HOI accepted lower Working Capital Allowances within respective settlement agreements with intervenors in their respective 2008 forward test-year rate proceedings. Such agreements were the outcome of settlement conferences within their rate application processes, which led to settlement packages.
271. Horizon Utilities cautions that this should not serve as evidence that the amount of Working Capital Allowance approved for EHMI and HOI is appropriate to their specific operations. Rather, on balance, EHMI, HOI, and the intervenors appear to have arrived at compromises on baskets of issues that, in total, resulted in an acceptable economic outcome for all stakeholders.
272. Horizon Utilities acknowledges that the lead/lag studies of THESL and HONI concluded somewhat lower working capital requirement than the 15% provided for under the "15% of specific O&M and cost of power accounts formula approach". Horizon Utilities rejects this as evidence that its own working capital requirements are less than 15%. Many aspects of Horizon Utilities' operating environment are different than THESL, HONI, HOI, and EHMI including matters such as customer demographics, the proportion of commercial default supply customers, and age of plant to highlight a few. In the absence of a proper lead/lag study the impact of these and any other considerations that would be determined, through such a lead/lag study, are undeterminable and as such, arbitrary adjustments to Horizon Utilities working capital are unfounded.
273. Horizon also observes that the OEB specifically rejected similar arguments of intervenors that, as in the case of Oshawa PUC Networks Inc. (EB-2007-0710) for example, one distributor should simply, and somewhat arbitrarily, accept a level of working capital allowance on the basis that it is suitable to the specific

operating environment of another distributor. In addition the OEB decided that it was not prepared to impose the results of the HONI and THESL lead/lag studies on a distributor without first considering in some detail whether those studies are fully applicable to the circumstances of a wide range of distributors.

Schools Submission

274. The Schools submission with respect to Working Capital Allowance (section 4.7.1) asserts that the Board Staff Submission (page 36) identified the Horizon Utilities Working Capital Allowance as being calculated “incorrectly”. This is a misstatement of fact as Board Staff made no such statement. Board Staff submitted that:

“Horizon should use the most accurate data in the calculation of working capital, as the Board has found in recent decisions on 2008 distribution rate applications for other distributors.” (page 36)

275. The context of such submission was in regard to input data such as cost of power, transmission and wholesale market charges, rather than a fundamental misapplication of the Filing Guidelines as Schools suggests. Horizon Utilities fully intends to make the necessary adjustments to that input data.
276. In the context of all Evidence provided by Horizon Utilities, the Schools Argument in sections 4.7.2 through 4.7.8 again provides poor context for its references to a stale document prepared in 2004 [REDACTED] as evidence specific to a 2008 forward test year application. Horizon Utilities finds this to be a ludicrous basis for suggesting that it is recovering an excess of \$4MM of revenue, which is simply erroneous. While Horizon Utilities accepts that the required working capital levels of distributors may vary, it is fantasy on the part of Schools to suggest that it would only require a 5.9% Working Capital Allowance. It is noteworthy that the other interveners have not asserted such a fantastic approach in their arguments regarding Working Capital Allowance.

277. The exhibits within the [REDACTED] were prepared for the HHI-SCHUSI merger [REDACTED] and are incompatible with a determination of working capital for rate making purposes. The "working capital" references in paragraph 4.7.5 of the Schools submission and related [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Horizon Utilities submits that a snapshot does not represent, nor can it reasonably be understood to represent, an analysis of Horizon Utilities' working capital requirements either in 2004 or now. Many of such components would not form part of a working capital determination, such as the studies undertaken by THESL and HONI. The purpose of this amount is essentially part of a calculation to forecast the long-term debt requirements of Horizon Utilities, which is also identified in this reference.
278. The extract from [REDACTED] referred to by Schools in para. 4.7.4 of its submission does not reflect the differences between the snapshot discussed above and the calculation of working capital for rate making purposes. The approach in the [REDACTED] proved to be false and, in any event, is not indicative of Horizon Utilities' approach to its 2008 Forward Test Year Application. For instance, such approach failed to include consideration for certain liabilities (such as Regulatory Liabilities) that bear interest charges and which would naturally be excluded from working capital calculations and studies. The "Net working capital" amount presented in [REDACTED] includes such liabilities but, again, it is used for the purpose noted above in paragraph 276 (that is, forecasting long term debt requirements) and does not purport to be, nor should it be taken as, any form of study or determination of the working capital allowance necessary for Horizon Utilities.
279. Based on the above, Horizon Utilities rejects the irresponsible argument of Schools that its Working Capital Allowance should be adjusted to 5.9%. Horizon

Utilities submits that, in the absence of a lead/lag study in respect of working capital that is specific to its own operating environment, it is both appropriate and consistent with Board practice that its current 15% working capital allowance be maintained.

REVENUE REQUIREMENT

Schools submission

Reference 0.3.1 – 0.3.15 – the revenue requirement should be in the range of \$79.0 million and \$86.9 million based on the multiple calculation methods.

Response:

280. In its submissions, Schools refer to what it calls a “sanity check” for Horizon Utilities’ revenue requirement and puts forth several base revenue requirements assumptions and then applies the OEB’s Incentive Regulation Mechanism (“IRM”) methodology of Inflation less 1% productivity plus a factor for Horizon Utilities’ customer growth of 0.6%, to determine its view of an appropriate 2008 revenue requirement.
281. Schools seems to be asserting that Horizon Utilities’ 2008 Forward Test Year Revenue Requirement should be determined through an IRM process. Schools is confusing an IRM application, which is a mechanistic adjustment to distribution rates, with a forward test year application that includes Cost of Service. The regulated requirements for such types of applications are quite different. The OEB’s Filing Requirements were issued to provide guidance to LDCs filing “*cost of service rate applications pursuant to section 78 of the Ontario Energy Board Act, 1998 (the Act), based on a forward test year.*” The Filing Requirements also provide the guidelines for those distributors filing for 2nd generation incentive regulation mechanism application. Horizon Utilities has filed its Application based on a Cost of Service Forward Test Year basis in accordance with the Filing Requirements. Horizon Utilities submits that the “sanity check” asserted by Schools is prepared on a hypothetical “quasi-IRM” basis that is entirely inconsistent with the appropriate basis for the Application provided by the Filing Requirements. As such Horizon Utilities requests that the OEB dismiss the so called “sanity check” submissions of Schools.

282. Throughout this rate application process, Horizon Utilities has provided considerable evidence supporting its Rate Base; Working Capital; Cost of Capital and Debt structure; Distribution Revenues and Other Revenues; OM&A expenditures; Cost of Service; Deferral and Variance Accounts; LRAM/SSM recoveries; and Rate Design.
283. Horizon Utilities has also provided, at paragraph 150 above and reproduced below, its “driver table” supporting Horizon Utilities incremental OM&A requirements over the four year period 2004 Actual to 2008 Test Year. This table is appropriate as Horizon Utilities’ 2006 EDR Application, while deemed a rebasing application, was based on 2004 Actual year end financial results with certain OEB approved Tier 1 adjustments. Horizon Utilities’ 2008 Test Year Application is a Forward Test Year Cost of Service Application, which is effectively four years removed from its last rebasing application and 2004 Actual results. It should be noted that this “driver table” incorporates annualized savings resulting from the Hamilton Hydro/St. Catharines Hydro merger.

Description	\$(000)	Reference
2004 OM&A HHI + SCHUSI	32,500	Schools IR 13 c.
Merger savings	(3,900)	CCC IR 2.
	28,600	
Wage & Price Inflation	4,100	4 years at 3% = 1.126%
ERP Solution	1,295	Exhibit D/Tab 2/Schedule 1/p 20/Table 1
ERP Savings	(27)	Exhibit B/Tab 3/Schedule1/Appendix E/p 21
Tree Trimming	950	Exhibit D/Tab 2/Schedule 3/p 2
Mgmt vacancies - turnover	1,000	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10; OEB staff IR 23
Skilled/other Trades	700	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10
New positions and related expenses	900	Exhibit D/ Tab 2/ Schedule 7/p 1 to 10; OEB staff IR 23
OMERS Pension	300	2006 EDR Exhibit B/Tab 3/Schedule 3-1 and 2008 EDR Exhibit D/Tab 2/Schedule 7/p 10
OEB Assessment	400	2006 EDR Exhibit B/Tab 3/Schedule 3-1 and 2008 EDR Exhibit D/Tab 2/Schedule 2
Bad Debt recovery 2004	1,000	Schools IR 13 c.
Regulatory Expenses	268	Exhibit D/Tab 2/Schedule2; Schools IR 13 c)
2008 Rate Costs Deferred to 2009/10	(137)	Undertaking J1.1 [\$206,000x2/3]
Asset Management Consulting	150	Exhibit B/Tab 1/Schedule 1/Appendix B/Network Planning and Operations
Increase in allocated costs re FibreWired	143	OEB IR #23(b)
Board of Director fees and expenses	119	OEB IR #23(b); Undertaking J1.7
Training	400	Undertaking J1.7; Tr Vol 1; P 20, Lines 27-28
Community Relations	446	SEC IR#13(c); Tr Vol 1; Lines 24-25
Maintenance - Low Voltage Charges	196	Exhibit I/Tab 1/Sched 1/p12; Tr. V1,p.170, L 23
Emergency Maintenance	150	SEC IR#13(e)
Other Maintenance	177	SEC IR#13(e)
Other USofA changes (rounding)	4	Exhibit D/Tab 2/Schedule 2; Schools IR 13 c.
Increase over 2004	12,534	
2008 OM&A as adjusted for SM & other misc	41,134	

284. The above table provides the key drivers in changes to Horizon Utilities OM&A from 2004 Actual to the 2008 Test Year and references such to evidence as provided in pre-filed evidence, IR responses, and the oral and written proceedings. Horizon Utilities submits that, based on the considerable body of evidence provided in support of its Application, the growth in its OM&A, and its total OM&A provided in the Application, are prudent, just and reasonable and support the interest of its customers in the delivery of safe, reliable, and economical electricity distribution on a sustainable basis. Horizon Utilities further

submits that such customer interests will not be served by determinations of Revenue Requirement based on “sanity checks” of the kind submitted by Schools, but rather, by thoughtful and thorough evaluation of the evidence supporting its Revenue Requirement in its Application.

285. Horizon Utilities has recalculated its 2008 Test Year Revenue Requirement taking into consideration the changes proposed in its Reply Argument. Horizon Utilities has reproduced the table below (from paragraph 15 above) providing its revised Revenue Requirement reflecting the following adjustments:

- All Smart Meter Capital, OM&A, and Revenue has been removed from Horizon Utilities’ forward test year calculations and charged to the variance accounts 1555 and 1565.
- Cost of Power has been reduced for the updated electricity price of \$54.50 MW, and the Transmission Network and Connection charges have been reduce to reflect the OEB’s November 1, 2007 Decision on Transmission Charges. (Working Capital)
- The cost to renumber the switches in St. Catharines has been removed from maintenance expense (\$150,000)
- Regulatory costs have been reduced by \$137,000 being two-thirds of the intervenors costs related to Horizon Utilities 2008 Application. (2/3 of \$206,0000)
- ERP project expenditures have been adjusted to reflect the traditional method of accounting for capital projects and related OM&A (\$130,000)
- Horizon Utilities has not adjusted for the [REDACTED] cost of \$23,000 or the one-third of its legal and consulting expenditures as they relate to its 2008 Application. Horizon Utilities will make these adjustments at the same time as it prepares its Draft Rate Order.

286. The following represents Horizon Utilities revised revenue requirement based on the adjustments provided in paragraph 285:

Revenue Requirement						
	2006 Board Approved	2006 Actual	2007 Bridge Year	2008 Test Year Filed	Adjustments per Reply Argument	2008 Test Year Adjusted per Reply Argument
Operation, Maintenance, and Administration	34,383,894	33,992,627	39,792,078	42,116,544	(1,557,494)	40,559,050
Amorization Expense	18,973,872	19,729,625	21,275,590	23,727,691	(886,806)	22,840,885
Property Taxes	139,754	443,632	557,966	574,689	0	574,689
Interest Expense	13,736,395	13,800,180	14,510,027	14,919,835	(706,977)	14,212,857
PILs Taxes	9,481,282	9,322,255	8,459,387	7,379,422	(603,009.35)	6,776,413
Return On Equity	11,794,212	11,828,726	12,437,166	12,862,677	(975,862.92)	11,886,815
Service Revenue Requirement	88,509,409	89,117,045	97,032,204	101,580,859	- 4,730,150	96,850,709
Less Revenue Offsets	5,303,694	7,145,654	7,513,186	6,524,481	-	6,524,481
Base Revenue Requirement	83,205,715	81,971,391	89,519,019	95,056,378	- 4,730,150	90,326,228

287. The total reduction to Horizon Utilities' Revenue Requirement, based on the above adjustments, is \$4,730,150, resulting in a revised Revenue Requirement of \$90,326,228. Horizon Utilities submits that its Revenue Requirement, as revised, is appropriate and reflects its Revenue Requirement to sustain a safe, reliable distribution operation and requests the approval of the OEB accordingly.

COST ALLOCATION AND RATE DESIGN

- **Cost Allocation**

OEB Staff submission

Reference 6.1 to 6.3 – the Street Light class should be moved to a revenue to cost ratio of 43% being half-way to the 70% lower range limit.

Schools submission

Reference 6.5.3 – the Street Light class should be moved to a revenue to cost ratio of 43% being half-way to the 70% lower range limit.

CCC submission

Reference 57 – the Street Light class should be moved to a revenue to cost ratio of 70% with all the additional revenue used to reduce the residential customer class ratio.

VECC submission

Reference 8.1 to 8.8 – VECC proposes an alternative allocation methodology to the cost allocation study involving the determination of revenue shares with all the additional revenue directed to the Residential customer class. VECC submits that the smart meter adder should be removed from the fixed distribution charge and the LV charge should be removed from the variable distribution charge, followed by the allocation of revenue proportions. VECC requests a more aggressive change for the Street Light ratio and less aggressive for the Sentinel Lights and USL.

Response:

288. The consensus is to move the Street Light class revenue to cost ratio closer to the range established by the OEB as would be consistent in the OEB decisions to date on 2008 applications. At the direction of the OEB, Horizon Utilities will adjust the Street Light revenue to cost ratio to 43%, being half-way to the nearer end of the target range. Horizon Utilities proposes that the extra distribution revenue recovered from the Street Light class be distributed across the remaining classes based on their proportionate share of distribution revenue.

OEB Staff requested information on bill impacts of making this change and as such Horizon Utilities has included the following table which provides the bill impacts as filed and the revised bill impacts should the OEB direct the adjustment to the revenue to cost ratio for the Street Light class.

Percent Impact On Total Bill				
Customer Class			As Filed	Street Light revenue to cost ratio of 43%
Residential				
1,000	kWh		(0.59%)	(0.75%)
General Service < 50 kW				
2,000	kWh		2.86%	2.68%
General Service < 50 kW				
5,000	kWh		2.06%	1.92%
General Service > 50 kW				
15,000	kWh		3.58%	3.45%
60	kW			
General Service > 50 kW				
40,000	kWh		2.41%	2.33%
100	kW			
General Service > 50 kW				
100,000	kWh		2.29%	2.23%
350	kW			
Large User				
2,800,000	kWh		3.76%	3.71%
6,500	kW			
Large User				
10,000,000	kWh		2.69%	2.66%
20,000	kW			
Street Lights				
36,000	Connections		9.01%	23.50%
2,400,000	kWh			
6,800	kW			
Street Lights				
15,000	Connections		9.99%	26.00%
850,000	kWh			
2,400	kW			
Unmetered/Scattered				
1	Connection		35.14%	34.87%
511	kWh			

289. Horizon Utilities does not agree with VECC that all increases in revenues derived by changing the revenue to cost ratio for Street Lighting should go to the benefit of the Residential customer class. As the OEB is aware, the average Residential customer will already be experiencing a bill decrease through this Application.

290. Furthermore, Horizon Utilities does not agree with VECC's calculations on the re-alignment of revenue to costs. Horizon Utilities will refer to the example provided by VECC for the Large User customer class to explain the error in the assumptions which is then consistently applied to all the remaining classes. As Horizon Utilities understands the VECC position, VECC state that the revenue to cost ratio for Large Users increases from 49.79% to 92.12% (i.e. by a factor of 1.85) while the share of total distribution revenue allocated to the Large User class only increases from 5.46% to 6.30% (i.e. by a factor of 1.15). VECC then concludes that the proposed shift in revenue allocation only increases the revenue to cost ratio for the Large User class from 49.79% to 57.45% - [49.79% times 1.15 – added by Horizon Utilities for clarification], still well below the Board's Guidelines. This is where the error occurs. VECC has attempted to relate the Large User class share of total distribution revenue to the revenue to cost ratio - a ratio derived from the class revenue and the cost to service this class. The following table taken from Exhibit H/Tab 1/Schedule 2/page 6 will help to clarify:

Customer Class	100% Cost Allocation	Allocation at Existing Rates	Proposed Cost Allocation	Revenue Share at 100% Cost Allocation	Revenue Share at Existing Rates	Revenue Share Proposed
Residential	55.81%	67.53%	62.76%	52,945,593	64,057,794	59,529,379
GS <50 kW	12.97%	10.90%	12.00%	12,305,813	10,339,938	11,383,197
GS>50 kW	19.52%	15.23%	16.85%	18,519,607	14,450,207	15,983,906
Large Use >5MW	6.84%	5.46%	6.30%	6,487,111	5,176,699	5,976,179
Street Light	3.15%	0.44%	0.75%	2,991,048	421,575	711,450
Sentinel	0.05%	0.02%	0.05%	46,660	16,705	42,687
Unmetered Scattered Load	0.97%	0.15%	0.85%	915,776	140,780	806,310
Back-up/Standby Power	0.68%	0.27%	0.45%	648,369	256,281	426,870
TOTAL	100.00%	100.00%	100.00%	94,859,978	94,859,978	94,859,978

291. In order for the Large User class revenue to cost ratio to equal 100%, Horizon Utilities would require a class revenue of \$6,487,111 which represents 6.84% of Horizon Utilities' total distribution revenue. The existing class revenue is \$5,176,699 representing 5.46% of total distribution revenue and a revenue to cost ratio of 49.79%. It is at this point the confusion becomes apparent. It is

clear from the table above that to bring the Large Users to a revenue to cost ratio of 92.12%, Horizon Utilities must only increase the class distribution revenue by \$799,480 to \$5,976,179, being 6.30% of total distribution revenue. \$5,976,179 is 92.12% of the \$6,487,111 required to reach a revenue to cost ratio of 100%. The proposed percent of total distribution revenue of 6.30% is exactly 92.12% of the required percent of total distribution revenue of 6.84% representing the Large User customer class proportion of distribution revenue required to reach a revenue to cost ratio of 100%. There is simply no basis for multiplying the current share of total distribution revenue allocated to the Large User class (\$5,176,699) by 1.85. Doing so would result in Large User class distribution revenue of \$9,577,000, far exceeding the \$6,487,111 required to achieve a 100% revenue to cost ratio for that class. Horizon Utilities' proposed re-alignment of revenue to cost ratio achieves the desired results not only for the Large User customer class but all customer classes.

292. Horizon Utilities does not agree with VECC that the smart meter adder should be removed before implementing the re-alignment of revenue to cost ratios. The smart meter adder is the same for the four metered customer classes and removing the same smart meter adder from the fixed distribution charge will have a minimal impact on the proportion of the fixed distribution revenue. With respect to LV charges, the revenue to cost ratios have been applied to Horizon Utilities' base revenue requirement before the LV revenue requirement is added to the total revenue requirement. [Exhibit K/Tab1/Schedule 1/Appendix B/Distribution Rate Allocation Between Fixed & Variable Rates for 2008 Test Year].

- **Rate Design – Fixed/Variable Split**
OEB Staff; VECC; CCC submissions

Reference page 38 & 39; 9.1; 58 respectively – proposed methodology acceptable

Schools submission

Reference 6.4 – for the GS<50 kW class the variable charge should not be increased more than the fixed charge but rather by the same percent. For the GS>50 kW class the fixed charge should be kept the same as the existing charge and the change in revenue should all be applied to the variable charge.

Response:

293. Horizon Utilities discussed, at Exhibit I/Tab 1/Schedule 1/ pages 8-10, several OEB proceedings that have identified concerns or issues with the fixed-variable split. In light of these various proceedings, Horizon Utilities is proposing to maintain its current fixed-variable split as approved by the OEB in its 2006 EDR Application.
294. All intervenors except Schools agree with Horizon Utilities' methodology pending the results of the OEB proceeding on fundamental rate design.
295. Horizon Utilities submits that to provide preferential treatment to the General Service <50 kW and >50 kW customer classes, while revenue neutral within the class, is inequitable to the remaining customer classes who would not be receiving similar treatment. It is therefore not appropriate at this time to arbitrarily make the requested adjustments pending the results of the OEB proceeding on fundamental rate design.

- **Rate Design – Backup/Standby Power – Administration Charge**

OEB Staff submission

Reference page 39 – OEB Staff is unclear whether the charge should continue as a specific service charge or be included as a fixed charge.

Response:

296. Horizon Utilities' previously approved Administration Charge is a monthly Specific Service Charge to recover the additional billing and monitoring costs related to the provision of additional information as required by customers with load displacement. As this charge is specific to those customers requiring this service, it is correctly identified as such.

- **Transformer Allowance**

OEB Staff submission

Reference page 39 & 40 – agree with Horizon Utilities proposal but the explanation in the tariff or conditions of service is not clear.

Schools submission

Reference 6.1 – agree with Horizon Utilities' treatment of transformer allowance.

Response:

297. Horizon Utilities proposes to increase its transformer allowance from \$0.60 to \$0.73 per kW. Horizon Utilities will better define the transformer allowance as "Transformer allowance for General Service >50 to 4,999 kW customer class – per kW of billing demand/month" in its Tariff of Rates and Charges and its Conditions of Service.

- **Retail Transmission Service Rates**

OEB Staff submission

Reference page 40 – generally accept Horizon Utilities updated retail transmission rates but there may be a further reduction for the embedded delivery points.

VECC submission

Reference paragraph 10.1 – application needs to be adjusted for update retail transmission rates.

Response:

298. Horizon Utilities has proposed revised Retail Transmission Service Rates based on updated OEB-approved transmission rates in its response to OEB Staff IR 68 and will implement such rates as approved in its Draft Rate Order.

- **Credit Card Convenience Charge**

OEB Staff submission

Reference page 40 to 42 – should the credit card charge be approved and should it be made generic to the industry or Horizon Utilities specific.

299. The 2006 EDR Handbook provided for LDC's to submit calculations for service charges not on the list of approved service charges. Horizon Utilities has provided its explanation and calculation for its proposed credit card convenience charge. If approved, Horizon Utilities will begin to provide this service. Horizon Utilities has no submissions on the possible generic treatment of this proposed specific service charge.

SMART METERS

OEB Staff submission

Reference 7.1 to 7.5 and pages 50 to 53 – should Horizon Utilities smart meter capital and operating expenses continue to be tracked in variance accounts 1555 and 1556. Is the smart meter credit required.

Schools submission

Reference 7.1.1 – Horizon Utilities should be required to continue using the variance accounts.

VECC submission

Reference 2.2; 4.10; 7.1 to 7.6 – Horizon Utilities should be required to continue using the variance accounts. In regards to the 2008 smart meter operating costs - Horizon Utilities responded to CCC IR 17 with an amount of \$1,004,940 and VECC IR 26 with an amount of \$1,372,399 – please reconcile these amounts. Calculate impact of smart meters on revenue requirement with reference to evidence already filed.

CCC submission

Reference paragraph 59 to 64 - Horizon Utilities should be required to continue using the variance accounts.

Response:

300. Horizon Utilities recognizes that the OEB has, in previous decisions related to 2008 applications, required the continuation of the smart meter variance accounts and as such, Horizon Utilities will re-establish its variance accounts 1555 and 1556. Horizon Utilities will remove smart meter related capital, OM&A and revenue from its rate base calculations.
301. Horizon Utilities has OEB interim approval to continue with its existing rates and as such will file for an updated 2008 smart meter rate adder as a separate application.

302. With respect to the VECC reconciliation request, Horizon Utilities' response to CCC IR 17 included the operating costs related to Horizon Utilities' Hamilton service area and should have included Horizon Utilities' St. Catharines service area as in the response to the VECC IR 26. Horizon Utilities would refer to Exhibit B/Tab 1/Schedule 1/Appendix B, as the pages are not numbered sequentially. The reference begins with Customer Connections Department 2008 Budget Plan. At page 5 of this section Horizon Utilities provides the smart meter operating costs for both Hamilton and St. Catharines separately. Horizon Utilities has not prepared the impact analysis of smart meters on revenue requirement as Horizon Utilities will not be rate basing smart meters therefore this request is no longer applicable to Horizon Utilities' Application.

CONSERVATION AND DEMAND MANAGEMENT (“CDM”)

OEB Staff submission

Reference page 46 to 47 – Has Horizon Utilities complied with the Filing Requirements for its CDM evidence?

Schools submission

Reference 8.1 to 8.2 - Horizon Utilities has not complied with the filing guidelines and cost should be disallowed.

Response:

303. Horizon Utilities reiterates that it is not proposing to implement new CDM programs that are incremental to funding previously approved by the OEB and therefore has not applied for approval for such CDM funding as required by the Board's Filing Requirements for Transmission and Distribution Applications, Section 6.2. Horizon Utilities has engaged two contract employees for the specific purpose of working on OPA programs, and the costs of these contract employees are not included in this application. [OEB IR 56 c].
304. Horizon Utilities' CDM initiatives involve providing information and education to its customers in order to promote a conservation culture in its service area. [Argument in Chief, Issue 8.1, paragraph 110] Horizon Utilities' employees will participate in such events as Share the Warmth – kick off – joint event with the City of Hamilton; Emergency Preparedness Day – Hamilton; Earth Hour – City of Hamilton & City of St Catharines; City of Hamilton – Children's water festival; Conservation Generation – 5th grade conservation program activities; Children's Discovery Centre – ongoing support for “Power for Tomorrow” and the powerWISE home; Energy tips and education materials, upon customer request; web site updates (other than OPA programs); “Ask the Expert” – hot line; Customer inquires, energy tips and ongoing support for CSR group. [Argument in Chief, Issue 8.2, paragraph 113]

305. Horizon Utilities has provided three existing employees, from its customer services department, with training in conservation education. In an effort to demonstrate Horizon Utilities' commitment to conservation the wages and expenses for these employees were separated thus providing transparency to the OEB. Throughout this process both the OEB and Intervenors are recommending that these employees wages and expenses not be recovered, that they represent new CDM programs. Horizon Utilities has confirmed in its IR responses that the \$264,623 does not represent new CDM programs but rather the wages and expenses of three existing customer service employees. [OEB Staff IR 56, 57; Argument-in-Chief, paragraphs 108 -114]. There is no incremental spending on CDM, and Horizon Utilities submits that it would be entirely inappropriate to remove this amount, representing the wages of three existing employees, from Horizon Utilities' revenue requirement.
306. Horizon Utilities has acted responsibly in keeping with the provinces culture of conservation in its commitment to conservation by having trained staff on hand to respond to customer inquiries and enhance its customer service.

- **LRAM/SSM**

OEB Staff submission – None

VECC submission

Reference 11.1 to 11.2 – remove SSM credit rate rider from the General Service Class and have this class share the Residential class rider.

Schools submission

Reference 8.3 – remove the credit rate rider from the General Service class and reduce the rate adder for the Residential class by that amount. Do not assess the General Service class any SSM from the Residential class.

Response:

307. Horizon Utilities has reproduced below, Table 1 LRAM and SSM Total Amount and Rate Riders by Class, [Exhibit J/Tab 1/ Schedule 2] and would highlight the column Rate Riders Total \$/unit (kWh or kW) and the last column Three Year Rate Rider Total \$/unit (kWh or kW). Horizon Utilities has not proposed a negative or credit rate rider for the General Service >50 kW customer class. The calculated SSM was a negative amount, as program costs for this customer class exceeded program benefits. That simply means that there is no SSM recoverable by the utility – it does not mean that the utility provides a credit to customers. As such, Horizon Utilities set the rate rider to zero.

Rate Class	Amounts (2005 + 2006)		Billing Units (2006)		Rate Riders			Three Year Rate Rider
	LRAM	SSM			LRAM	SSM	Total	Total
	\$	\$			\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)
Residential	332,481	544,327	1,725,777,417	kWh	0.0002	0.0003	0.0005	0.0002
GS 50 > 50 kW	39	(12,395)	5,272,865	kW	0.0000	(0.0024)	-	-
Large Use	-	-	-	kW				
Unmetered Scattered Load	182	3,442	17,707,742	kWh	0.0000	0.0002	0.0002	0.0001
Total	332,702	535,374						

DEFERRAL AND VARIANCE ACCOUNTS

OEB Staff submission

Reference page 48 to 50 – should Horizon Utilities be permitted to dispose of forecasted balances of principal transactions. Should Horizon Utilities be permitted to dispose of its RSVA and RCVA when the OEB announced in February 2008 of its intentions to initiate a review of commodity and RSVA/RCVA accounts?

Schools submissions

Reference 9.1 – adopt VECC and OEB Staff submissions

VECC submission

Reference paragraph 6.1 to 6.3 – forecasted principal should not be disposed of

Response:

308. Horizon Utilities has applied for disposition of its Deferral and Variance account balances in the amount of \$8,551,325 being a credit to distribution rates and therefore a reduction to customer bills.
309. Horizon Utilities understands that in the electricity distribution sector, it has not been OEB practice to order disposition of forecasted principal balances on deferral and variance accounts. Except for smart meters, which is discussed at paragraph 300 and 314, Horizon Utilities has not forecasted the principle balances as they relate to its RSVA and RCVA accounts.
310. Horizon Utilities submits that this is a significant dollar amount that continues to increase to the credit to customers and that Horizon Utilities should be permitted to dispose of its December 31, 2006 audited balances plus interest accrued to April 30, 2009, and reduce the variable distribution charge to its customers accordingly.
311. Horizon Utilities acknowledges that the OEB, in previous 2008 forward test year applications, has not approved RSVA and RCVA accounts for recovery due to its

announcement in February 2008 of its intentions to initiate a review of commodity and RSVA/RCVA accounts. Therefore the disposition of Horizon Utilities RSVA and RCVA balances is at the discretion of the OEB.

312. Should the OEB not approve the disposition of Horizon Utilities RSVA and RCVA accounts, Horizon Utilities would continue to propose the recovery of its non-RSVA/RCVA accounts being 1508 Other Regulatory Assets, Pension Contributions; 1525 Miscellaneous Deferred Debits, OPC Cheque Costs (included in 1508 as per Horizon Utilities response to OEB Staff IR 50) ; and 1550 LV Variance Account. Horizon Utilities has re-computed the regulatory asset riders in the same manner as the 2006 regulatory asset riders were calculated, including proposed recovery over two years. The revised calculations are provided below and result in the following rate riders:

Regulatory Asset non-RSVA/RCVA accounts

Residential	\$0.0004	kWh
GS < 50 KW	\$0.0002	kWh
GS > 50 Non TOU	\$0.0159	kW
Large Users	-\$0.0021	kW
Small Scattered Load	\$0.0001	kWh
Sentinel Lighting	\$0.1246	kW
Street Lighting	\$0.0297	kW
Standby	\$0.0000	kW

Enter the appropriate 2006 data in the cells below.

Once the data in the yellow fields on Sheet 1 has been entered, the relevant allocations will appear on Sheet 2.

Go to Sheets 3 and 4 and enter the appropriate data in the yellow cells.

2006 Data By Class	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS		1,728,981,183	209,370	209,370	\$ 57,247,016
GENERAL SERVICE <50 KW CLASS		639,729,754	18,073	18,073	\$ 9,256,559
GENERAL SERVICE >50 KW NON TIME OF USE	5,272,865	2,061,392,421	2,127	2,127	\$ 10,915,081
GENERAL SERVICE >50 KW TIME OF USE					
STANDBY					
LARGE USER CLASS	3,786,319	1,101,307,533	12	12	\$ 1,657,479
UNMETERED & SCATTERED LOADS		17,275,942	1,917		\$ 170,698
SENTINEL LIGHTS	1,721	606,521	368		\$ 18,193
STREET LIGHTING	110,083	41,120,817	4		\$ 343,773
Totals	9,170,988	5,590,414,172	231,871	229,582	\$ 79,608,780

Allocators	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS	0.0%	30.9%	90.3%	91.2%	71.9%
GENERAL SERVICE <50 KW CLASS	0.0%	11.4%	7.8%	7.9%	11.6%
GENERAL SERVICE >50 KW NON TIME OF USE	57.5%	36.9%	0.9%	0.9%	13.7%
GENERAL SERVICE >50 KW TIME OF USE	0.0%	0.0%	0.0%	0.0%	0.0%
STANDBY	0.0%	0.0%	0.0%	0.0%	0.0%
LARGE USER CLASS	41.3%	19.7%	0.0%	0.0%	2.1%
UNMETERED & SCATTERED LOADS	0.0%	0.3%	0.8%	0.0%	0.2%
SENTINEL LIGHTS	0.0%	0.0%	0.2%	0.0%	0.0%
STREET LIGHTING	1.2%	0.7%	0.0%	0.0%	0.4%
Totals	100%	100%	100%	100%	100%

Sheet 2 - Rate Riders Calculation

NAME OF UTILITY
NAME OF CONTACT
E-mail Address
VERSION NUMBER
Date

Horizon Utilities Corporation
Cameron McKenzie
cmckenzie@horizonutilities.com

LICENCE NUMBER
DOCID NUMBER
PHONE NUMBER
(extension)

ED-2006-0031
RP-2007-0697
(905)317-4785

Regulatory Asset Accounts:	Decision Ref.#	Amount	ALLOCATOR	GS > 50 Non										Small Scattered Load	Sentinel Lighting	Street Lighting	Total
				Residential	GS < 50 KW	TOU	GS > 50 TOU	Standby	Large Users								
VMSC - Account 1580	2.0.35	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One-Time VMSC - Account 1582	2.0.35	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Network - Account 1584	2.0.35	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Connection - Account 1586	2.0.35	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Power - Account 1588	2.0.35	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal - RSVA		\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Regulatory Assets - Account 1508		\$ 1,932,535	Dx Revenue	\$ 1,389,695	\$ 224,707	\$ 264,968	\$ -	\$ -	\$ 40,236	\$ 4,144	\$ 442	\$ 8,345	\$ 1,932,535				
Retail Cost Variance Account - Acct 1518		\$ -	# of Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Retail Cost Variance Account (STR) Acct 1548		\$ -	# of Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Low Voltage - Account 1550		\$ (285,692)	kWh	\$ (88,356)	\$ (32,693)	\$ (105,345)	\$ -	\$ -	\$ (56,281)	\$ (883)	\$ (31)	\$ (2,101)	\$ (285,692)				
Other Deferred Debits - Acct 1525		\$ 83,781	Dx Revenue	\$ 80,247	\$ 9,742	\$ 11,487	\$ -	\$ -	\$ 1,744	\$ 180	\$ 19	\$ 362	\$ 83,781				
Subtotal - Non RSVA, Variable		\$ 1,730,624		\$ 1,381,584	\$ 201,756	\$ 171,109	\$ -	\$ -	\$ (14,301)	\$ 3,441	\$ 430	\$ 6,606	\$ 1,730,624				
Smart Meters Revenue and Capital, 1555 (Fixed)		\$ -	# of Metered Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Smart Meter Expenses, 1556 (Fixed)		\$ -	# of Metered Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Subtotal - Non RSVA Fixed		\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Total to be Recovered		\$ 1,730,624		\$ 1,381,584	\$ 201,756	\$ 171,109	\$ -	\$ -	\$ (14,301)	\$ 3,441	\$ 430	\$ 6,606	\$ 1,730,624				

Balance to be collected or refunded, Variable	\$ 1,730,624	\$ 1,381,584	\$ 201,756	\$ 171,109	\$ -	\$ -	\$ (14,301)	\$ 3,441	\$ 430	\$ 6,606	\$ 1,730,624
Balance to be collected or refunded, Fixed	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Number of years for Variable	2										
Number of years for Fixed (Smart Meters)	0										
Balance to be collected or refunded per year, Variable	\$ 865,312	\$ 680,792	\$ 100,878	\$ 85,555	\$ -	\$ -	\$ (7,150)	\$ 1,720	\$ 215	\$ 3,303	\$ 865,312
Balance to be collected or refunded per year, Fixed	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Class
Regulatory Asset Rate Riders, Variable
Billing Determinants
Regulatory Asset Rate Riders, Fixed (per month)
Billing Determinants

Components of 2008 Riders:
Variable RSVA
Variable Non RSVA
Fixed, per month

GS > 50 Non										Scattered Load	Sentinel Lighting	Street Lighting
Residential	GS < 50 KW	TOU	GS > 50 TOU	Standby	Large Users							
\$ 0.0004	\$ 0.0002	\$ 0.0162	\$ -	\$ -	\$ (0.0019)	\$ 0.0001	\$ 0.1249	\$ 0.0300				
kWh	kWh	kWh	kWh	kWh	kWh	kWh	kWh	kWh				
# metered cust.	# metered cust.	# metered cust.				# metered cust.						
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
\$ 0.0004	\$ 0.0002	\$ 0.0162	\$ (0.0019)	\$ 0.0001	\$ 0.1249	\$ 0.0300						

313. Horizon Utilities submits that it is appropriate for the OEB to approve the disposition of all its December 31, 2006 audited deferral and variance account balances plus interest accrued to April 30, 2008. However, in the event that the OEB does provide for disposition of Horizon Utilities RSVA/RCVA account balances, Horizon Utilities submits that the OEB should approve the disposition of its December 31, 2006 audited non-RSVA/RCVA deferral account balances plus interest accrued to April 30, 2008, as these account balances represent recovery of Horizon Utilities' already incurred expenditures.

- Smart Meters and Stranded Meters

OEB Staff submissions

Reference page 50 to 53 - it is unclear whether Horizon Utilities has included all of its O&M expenses up to December 31, 2007 in Account 1556 and from January 1, 2008 to December 31, 2008 in O&M expense in the revenue requirements. It is unclear whether Horizon Utilities is getting a return on rate base in its revenue requirement and also in account 1555 up to April 30, 2008.

OEB Staff state in their submission that Horizon Utilities will be applying for a new smart meter rate rider for 2009 and 2010, which implies that accounts 1555 and 1556 will be used to record smart meter OM&A and capital expenditures in those periods. Horizon Utilities is also proposing to continue the current rate rider for smart meters in 2008. The continuance of the smart meter rate rider is inconsistent with what is occurring in 2008 with the smart meter capital costs in rate base and the smart meter O&M costs in revenue requirement.

Response:

314. Horizon Utilities has acknowledged at paragraph 300 above, that Horizon Utilities will re-establish its variance accounts 1555 and 1556 and remove smart meter related capital, OM&A and revenues its rate base calculations. Horizon Utilities will also make an Application for a 2008 smart meter rate rider to recover its investment in smart meters, including ROE and PILs. As such, the responses to the OEB staff and intervenor questions on Horizon Utilities treatment of smart meters are no longer relevant to Horizon Utilities' Application.

- **Stranded Meters**

OEB Staff submission

Reference page 52 – Horizon Utilities has not increased the amortization rate for stranded meters to reflect their shorter life span.

315. Horizon Utilities' stranded costs associated with existing meters remain in rate base in accordance with the OEB Decision EB-2007-0063, which states "Many of the utilities suggested that at the present time, the stranded costs associated with existing meters should stay in rate base. The Board accepts this proposition." [Decision with Reasons, Combined Smart Meter Proceeding, EB-2007-0063, page 16]
316. The OEB Decision goes on further to state "Utilities can, if they choose, bring forward applications for the recovery of stranded costs in their 2008 rates. However, there are several reasons why the Board is deferring the decision at this time. First, the roll-out of smart meters will occur over four years. Second, the undepreciated amounts are unknown. Finally, the cost savings are unknown, as are the rate impacts." [Decision with Reasons, Combined Smart Meter Proceeding, EB-2007-0063, page 16]
317. Horizon Utilities has not brought forth an application for the recovery of stranded costs in its 2008 Application and is therefore treating stranded meters in a manner consistent with that put forth in the OEB's Decision.

OTHER ISSUES

Schools submission

[REDACTED]

Response:

318. [REDACTED]

319. [REDACTED]

320. [REDACTED]

CONCLUSION

321. As noted above, Horizon Utilities submits that its proposed revenue requirement, subject to certain adjustments set out in this reply submission, has been determined appropriately; that its proposed capital and OM&A programs for the 2008 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are just and reasonable.
322. The total bill impacts set out in the Application as filed were minimal. Those bill impacts will be further reduced in light of the modifications to the revenue requirement set out in this reply.
323. Horizon Utilities submits that in approving this Application, the OEB will have met its objective, set out in section 1 of the Ontario Energy Board Act, 1998, as amended, "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service." Horizon Utilities respectfully requests that the OEB approve its Application based upon its proposed 2008 revenue requirement as modified in this reply, and that the OEB direct Horizon Utilities to prepare a rate order that implements the modified revenue requirement effective May 1, 2008, and that the rate order provides for a rate rider that will enable Horizon Utilities to recover its revenue requirement shortfall for the period May 1, 2008 to the date the rates are implemented.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 16th DAY OF JULY, 2008.

Original Signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to Horizon Utilities Corporation