

JAMES SIDLOFSKY
T 416-367-6277
F 416-361-2751
jsidlofsky@blgcanada.com

Borden Ladner Gervais LLP
Scotia Plaza, 40 King Street W
Toronto, ON, Canada M5H 3Y4
T 416.367.6000
F 416.367.6749
blg.com



October 22, 2010

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-2010-0131 - Horizon Utilities Corporation
Application to the Ontario Energy Board for Electricity Distribution
Rates and Charges as of January 1, 2011**

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 a set of revised pages from Horizon Utilities’ Application containing minor corrections, as listed below:

Exhibit 1, Tab 2, Schedule 1, page 9
Exhibit 2, Tab 4, Schedule 1, page 1
Exhibit 3, Tab 2, Schedule 2, page 7
Exhibit 4, Tab 1, Schedule 1, page 3
Exhibit 4, Tab 2, Schedule 6, page 11
Exhibit 4, Tab 2, Schedule 9, page 27
Exhibit 4, Tab 2, Schedule 10, page 16
Exhibit 6, Tab 1, Schedule 1, page 3

The corrections are clearly marked and the hard copies have been printed on green paper. Copies of these corrected pages are being sent by e-mail to intervenors of record in this proceeding. Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky

JCS/ac
Encl.

cc: John Basilio, Horizon Utilities Corporation
Indy J. Butany-DeSouza, Horizon Utilities Corporation
Intervenors of Record (by e-mail only)

:::ODMA\PCDOCS\TOR01\4479556\1

Updated October 22, 2010

1 In the absence of adequate and stable revenue and cashflow, consistent with Board rate-
2 making policy, the continued deferral of such capital expenditures will increase the risk of more
3 frequent and severe customer service interruption and are a concern with respect to public and
4 employee safety. Horizon Utilities will undoubtedly be required to address the resulting increase
5 in the severity and duration of service disruption on a reactive basis, which is far more
6 expensive over time than the proactive approach to renew capital provided in this Application.

7 Since its last rebasing, Horizon Utilities has undertaken a comprehensive Asset Management
8 Plan in conjunction with Navigant Consulting (Exhibit 2, Tab 3, Schedule 2, Appendix 2-1) and
9 certain asset condition assessments commencing with the most critical components of the
10 distribution system infrastructure, such as substations. Substations are considered critical
11 infrastructure in a distribution system since they represent source points for the conveyance of
12 electricity to large geographic areas with many customers.

13 Recent asset condition assessments indicate a critical requirement for Horizon Utilities to
14 immediately invest in substation asset renewal and decommissioning in order to avoid
15 expensive and reactive maintenance in the future, which is generally preceded by more severe
16 and frequent service disruptions to many customers.

17 Horizon Utilities has increased its distribution system capital expenditures from \$23MM in 2008
18 to over \$30MM in 2010 and \$33MM in 2011. The Application substantiates an urgent need for
19 ongoing increases to capital expenditures, which will be significantly in excess of depreciation
20 and amortization costs and, thus, will increase Horizon Utilities' rate base. Horizon Utilities
21 requires a corresponding increase to its distribution revenue to support such capital
22 expenditures.

23 The Board's 3rd GIRM rate adjustment process provides for an Incremental Capital Module to
24 address increases in capital expenditure during the applicable IRM period. However, the Board
25 provides at page 31 of its Supplemental 3rd GIRM Report dated September 17, 2008 that such
26 module is not intended to address a rising trend of asset renewal and related capital
27 expenditure as required by Horizon Utilities commencing in 2011:

28 "the intent is not to have an IR regime under which distributors
29 would habitually have their CAPEX reviewed to determine whether
30 their rates are adequate to support the required funding. Rather,
31 the capital module is intended to be reserved for unusual
32 circumstances that are not captured as a Z-factor and where the

Updated October 22, 2010

1 **WORKING CAPITAL CALCULATION BY ACCOUNT:**

2 • **Overview:**

3 Horizon Utilities' working capital allowance is forecast to be \$61,866,468 for 2011. Horizon
4 Utilities was directed by the Board to file a Lead/Lag study as part of its 2008 EDR COS
5 Application Decision as a determinant of an appropriate working capital allowance. Horizon
6 Utilities engaged Navigant Consulting to perform a thorough analysis of Horizon Utilities'
7 working capital requirements. Such study required specific inputs as follows: gross revenue;
8 cost of power; payroll and OM&A expenses; taxes; interest; and debt retirement charges.
9 Navigant Consulting also selected certain specific expenses for review including credit card
10 expenses; tree trimming; consulting; software; freight and postage. As a result of such analysis,
11 Navigant Consulting validated Horizon Utilities' allowance for working capital as 14%.
12 Consequently, Horizon Utilities submits the appropriate allowance for working capital is 14%.
13 | Please see Exhibit 2, Tab 4, Schedule, 12, Appendix 2-3 for Horizon Utilities' Lead/Lag Study.
14 Horizon Utilities has provided its calculations by account for each of 2007, 2008, and 2009
15 actual, the 2010 Bridge Year, and the 2011 Test Year in Figure 2-58 on the following pages.
16 Horizon Utilities has provided a spreadsheet setting out Horizon Utilities Cost of Power
17 | calculations in Exhibit 2, Tab 4, Schedule, 12, Appendix 2-2.

Updated October 22, 2010

1 **Billed KWh Load Forecast**

2 In order to determine the total weather normalized energy billed forecast, the total system
 3 weather normalized purchases forecast, excluding Large User customers, is adjusted by a
 4 historical loss factor. As outlined in Exhibit 8, Tab 144, Schedule 1, Horizon Utilities' proposed
 5 loss factor is 4.07%.

6 With consideration for this average loss factor, the total weather normalized billed energy will be
 7 4,094.8 (GWh) for 2010 (i.e. 4,261.4/1.0407) and 3,966.3 (GWh) for 2011 (i.e. 4,127.72/1.0407).

8 **Billed KWh Load Forecast and Customer/Connection Forecast by Rate Class**

9 The total weather normalized billed energy amount must be distributed by rate class for rate
 10 design purposes, taking into consideration the customer/connection forecast and expected
 11 usage per customer by rate class.

12 The next step in the forecasting process is to determine a customer/connection forecast. The
 13 customer/connection forecast is based on historical customer/connection data as presented in
 14 the following table.

15 **Table 3-10 - Historical Customer/Connection Data**

Year	Residential	General Service < 50 kW	General Service 50 to 4,999 kW	Street Lighting	Sentinel Lighting	Unmetered Scattered Load	TOTAL
Number of Customers/Connections							
2003	204,831	18,342	1,880	51,482	505	3,150	280,189
2004	206,013	18,260	1,986	51,707	495	3,160	281,620
2005	207,486	18,170	2,080	52,099	482	3,176	283,492
2006	208,782	18,099	2,105	52,297	479	3,207	284,968
2007	209,864	18,071	2,141	52,352	479	3,236	286,142
2008	211,092	18,037	2,179	52,277	491	3,205	287,280
2009	212,158	18,033	2,172	52,160	502	3,208	288,233

16
 17 The growth rate in customer/connection can be determined from the historical
 18 customer/connection data, which is provided in Table 3-11. The geometric mean growth rate in
 19 number of customers is also provided. The geometric mean approach provides the average
 20 growth rate from 2003 to 2009.

21

Updated October 22, 2010

1 **Workforce Planning**

2 Workforce planning is a key area of focus for Horizon Utilities, as it is for the entire electricity
3 sector¹. Employee demographics within Horizon Utilities and the broader electricity sector
4 demonstrate an accelerated pace of retirements over the next decade. In order to provide for a
5 sustainable electricity distribution utility, Horizon Utilities must address such circumstance with a
6 measured and timed workforce renewal plan. Thirteen of the twenty-six planned new trade hires
7 are directly related to planned capital investments. Further detail regarding Horizon Utilities
8 | Workforce Labour Strategy and Plan (“WLSP”) is discussed in Exhibit 4, Tab 2, Schedule ~~640~~,
9 Appendix 4-1.

10 **Operational Systems and Technologies**

11 Operational systems and technologies enable necessary and evolving regulated electricity
12 distribution and support processes on both a sustainment and continuous improvement basis.
13 A “continuous improvement” approach is necessary to achieve efficiency and effectiveness
14 objectives and a high level of customer service delivery. Continuous improvement is a
15 systematic method to achieve high levels of performance through a process of measurement,
16 assessment, planning, and the ongoing implementation of process refinements, generally
17 through new and evolving technologies.

18 Investments in process and technology include consideration for change and growth in both the
19 size and complexity of business processes; much of which is driven by new regulatory
20 requirements. The objectives of such investments in 2011 are principally risk mitigation,
21 business continuity, and regulatory compliance through new and renewed processes and
22 technologies; some of which have reached their end of life or no longer adequately support such
23 objectives.

24 Following on the investments contemplated in its 2008 EDR COS Application, Horizon Utilities
25 has prudently invested in foundational systems and processes, such as its Enterprise Risk
26 Management (“ERP”) system, to support: replacement of other technologies that have been
27 stretched beyond their useful life; respond to the changing regulatory landscape; and manage

¹ “Bright Future” Electricity Sector Council 2008 Labour Market Study

Updated October 22, 2010

1 **Collective Agreement**

2 Horizon Utilities' collective agreement with unionized staff provides for annual payroll increases
3 and employee step progressions. Labour rates are adjusted annually based on negotiated
4 percentages contained within the collective agreement. Horizon Utilities' current collective
5 agreement terminates on May 31, 2011. Labour wages are the result of a negotiated process
6 and future wage estimates are based on factors such as recent settlements reached in the
7 Hamilton area and Ontario, both within and outside of the industry, and in consideration of the
8 Ontario and Hamilton Consumer Price Index. Management salaries have been forecasted in a
9 similar manner.

10 **Compensation**

11 Horizon Utilities' compensation cost drivers comprise unionized wage progressions and annual
12 negotiated pay increases, non-union merit increases, and non-union incentive payouts based on
13 performance results. Horizon Utilities' total compensation system is comprised of a combination
14 of fundamental elements designed to support the organization's compensation philosophy,
15 motivate employee performance, and reward performance for the achievement of critical
16 business objectives. For more information about compensation, please refer to ~~section~~ Exhibit
17 4, Tab 2, Schedule 10.

18 Horizon Utilities engages a third party compensation consultant to independently review its total
19 compensation for the non-union group. The consultant makes recommendations relative to
20 appropriate comparators and economic outlook.

21 **Other Compensation and Benefits**

22 Other compensation comprises overtime, on-call, and group insurance benefits such as health,
23 dental, long-term disability, and life insurance, as well as post employment benefits (retiree
24 benefits). The cost drivers for the increase in this category year over year reflect increases in
25 benefit rates, in particular annual group insurance benefit rate increases, and Ontario Municipal
26 Employees Retirement System ("OMERS") pension plan rates. In addition, increases in the
27 number of full-time employees year over year also results in an overall increase in benefit
28 costs.

Updated October 22, 2010

1 **Operations And Maintenance**

2 Operations and maintenance expenditures in the 2011 Test Year will be \$22.5MM, an increase
3 of \$4.4MM over the 2008 actual costs. The increase in expenditures principally comprises:

- 4 • Increase in labour costs for new operations and maintenance personnel and annual
5 wage and benefit increases, as well as the reallocation of wages and benefits from
6 general and administration for supervisory operations and maintenance personnel.

7 Further details regarding the workforce labour strategy are provided as part of Section
8 10 which overviews Compensation.

- 9 • Increase in meter expenses to reflect expenditures related to the roll-out of both the
10 residential and small commercial smart meter program and costs associated with the
11 deployment of time of use rates. In addition, meter expenses also include meter staff
12 costs that were previously allocated to General and Administration. Smart meter
13 expenditures have been removed from both the 2011 Test Year costs and the 2008
14 Actuals through the OM&A Contra Account (Account 5695), which is included as part of
15 General and Administration.

16 | Maintenance expenditures, in particular Overhead Distribution Lines - Right of Way (Account
17 | 5135) have decreased by approximately \$1.1M reflecting a reduction in tree trimming
18 | expenditures in 2011 compared to 2008. As outlined in Exhibit 4, ~~Tab 8~~Tab 2, Schedule 1,
19 | Table 4-1, tree trimming costs are lower as a result of a decline in tree trimming activity
20 | following the elimination of a backlog of such in 2008.

21 **Billing And Collections**

22 Billing and Collections expenses are expected to increase from \$7.5MM in 2008 Actual costs to
23 \$8.5MM in the 2011 Test Year, reflecting higher operating costs for the customer services
24 department and increased bad debt expenditures.

25 Customer Care operating costs have increased since 2008 mainly due to inflationary increases
26 in salaries and benefits and consumables. Consumables, such as paper, envelopes, printing
27 materials, postage costs, and computer maintenance costs continue to increase

Updated October 22, 2010

1 • **Cable Splicer Apprentice (2 positions)**

2 These positions are required in 2011 in order to prepare for projected attrition of Cable Splicer's
3 | over the next 3 to 5 years. Refer to Horizon Utilities WLSP, as Appendix 4-~~24~~ of this exhibit for
4 further information. It takes approximately five years to fully train a Cable Splicer. Further,
5 Horizon Utilities is one of the few utilities in Ontario with a significant underground system. As a
6 result, recruitment from other utilities is unlikely. Both positions must be hired early in 2011.

7 • **Substation Apprentice (3 positions)**

8 This position is required in 2011 in order to prepare for projected attrition of over the next 5
9 | years. Refer to Horizon Utilities' WLSP, Appendix 4-~~24~~ of this exhibit for further details. The
10 average age in this small department is 47 years and the requirements to fully train a Substation
11 Maintainer is 4 to 5 years. This position is expected to be filled in January 2011.

12 • **Line Maintainer Apprentice (3 positions)**

13 These positions are required in 2011 in order to prepare for projected attrition of Line
14 Maintainers over the next 3 to 5 years. Refer to Horizon Utilities' Workforce Labour & Strategy
15 | Plan, Appendix 4-~~24~~ of this exhibit. It takes approximately five years to fully train a Line
16 Maintainer. Based on current organizational demographics, apprentice hiring will be required on
17 an annual basis. Two of these positions are expected to be filled in January 2011 and the third
18 will be filled in September 2011.

19 • **Smart Grid Engineer**

20 In response to the GEA, Horizon Utilities has prepared a GEAP that supports the addition of one
21 Smart Grid Engineer in 2011. Qualified and experienced technical personnel, that understand
22 distribution system engineering and operating, are required to address the impacts on
23 distributed generation, energy storage and power quality, and to evaluate new technologies.
24 There is also a need for personnel with knowledge and experience in communications systems
25 and infrastructure.

Updated October 22, 2010

- 1 |
- 2
- 3
- 4
- Smart Meter Entity Charge discussed in Exhibit 9, Tab 1, Schedule 1, p. 49. Similar to the Late Payment Penalty Charge Adjustment, Horizon Utilities is not requesting an adjustment for the Smart Meter Entity Charge. Horizon Utilities submits that the Board may deal with this on a generic basis.

5