PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

January 10, 2011

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Notice of Intervention: EB-2010-0131
Horizon Utilities Corporation – 2011 Electricity Distribution Rate Application

Please find enclosed the interrogatories of VECC in the above noted proceeding. Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

HORIZON UTILITES CORPORTION ("HORIZON")
<u>2011 RATE APPLICATION (EB-2010-0131)</u>

<u>VECC INTERROGATORIES (ROUND #1)</u>

<u>QUESTION #1</u>

Reference: Exhibit 3/Tab 1/Schedule 2, page 2

a) Please confirm whether the revenues reported in Table 3-1:
   - Exclude revenues from the smart meter rate adder
   - Exclude revenues for LV riders/adders
   - Are net of any transformer allowance discount.

b) If not, please restate the values by customer class for 2010 and 2011 excluding these items.

<u>QUESTION #2</u>

Reference: Exhibit 3/Tab 2/Schedule 2, pages 3-4
Exhibit 3/Tab 2/Schedule 2, Appendix 3.1

a) Please provide the detailed documentation supporting the historical CDM savings values used in the regression analysis.

b) Have the historical savings values been updated to reflect the OPA's most recent estimates of the CDM savings associated with various initiatives and technologies (e.g. lower savings values for CFLs)? If not, please restate the historical savings for 2005-2009 using the most recent estimates of unit savings for each technology/program.

c) Based on the revised data from part (b) please re-do the regression analysis and report the results in terms of:
   - The resulting prediction model (per page 3)
   - The model's statistics (per page 4)

<u>QUESTION #3</u>

Reference: Exhibit 3/Tab 2/Schedule 2, pages 3 and 5

a) Using the model coefficients' for HDD and CDD along with the difference between the actual HDD and CDD values for each year (2003-2009) and the weather normal values as defined by Horizon, please provide a schedule that
   - Estimates the impact of weather on each year's actual purchases and
   - SetS out each year's actual purchases adjusted to normal weather.

b) Please provide any more recent forecasts of 2010 and 2011 Real Ontario GDP.

c) Please provide Horizon's actual purchases for 2010. Please re-do the response to part (a) for 2010.

QUESTION #4

Reference: Exhibit 3/Tab 2/Schedule 2, page 6 and Appendix 3-1

a) Please confirm that Horizon's CDM target is 281.42 GWh of cumulative energy saving over the period 2011-2014.

b) Please provide a schedule that shows in detail the calculation of the CDM savings forecast for 2011 and how they are related to Horizon's CDM target as set by the OEB.

QUESTION #5

Reference: Exhibit 3/Tab 2/Schedule 2, page 7

a) Please clarify whether the forecast 2011 loss factor or the average historical loss factor was used to determine the billed kWh forecast for 2010 and 2011 – as reference in lines 2-5 is made to both values. Please explain why the value chosen was used.

QUESTION #6

Reference: Exhibit 3/Tab 2/Scheduel 2, pages 7-8

a) Are the customer connection data shown in Table 3-10 average annual values or year end values?

b) Please provide a table setting out the customer/connection values by class for 2010 – both average and year end values.

QUESTION #7

Reference: Exhibit 3/Tab 2/Schedule 2, page 14

a) This part of the Application states that Horizon is proposing to change the way the standby charge is applied. However, the 2011 Rate Schedule provided in Exhibit 8/Tab 1/Schedule 6 appears to use the same description for the rate as did the 2010 Rate Schedule. Please define how the filling determinant for 2011 has changed and how it will be established on a monthly basis.

b) Please provide Horizon’s understanding as to why the amount of load displaced by these customers is less than the nameplate rating of their generators.

c) For each year 2007-2009 please provide a schedule that compares the total name plate rating of the generators for these customers and the total average load displaced when the generators are in operation.

QUESTION #8

Reference: Exhibit 6/Tab 1/Schedule 2, Appendix 6-1, page 8
Exhibit 7/Tab 1/Schedule 2, page 5

a) Please provide a schedule that sets out, by customer class, the determination of the $83,665,964 Distribution Revenue for 2011 at currently approved rates (i.e. show the loads and rates used by class).

b) Please confirm that the revenues at existing rate reported for Standby is based on the 2010 definition of the billing determinant.

c) Please confirm that the derivation:
   - Excludes the smart meter rate adder/rider
   - Excludes the LV rates
   - Is net of the transformer ownership allowance.

   If not, please provide revised response to part (a) with these adjustments.

QUESTION #9

Reference: Exhibit 7/Tab 1/Schedule 1, page 3

a) Please confirm that the 2009 and 2010 ratios reported in Table 7-1 are the ratios implemented for the respective years using the IRM model adjustments and are not “actual ratios” calculated using the “actual revenue and costs” for the years concerned.

QUESTION #10

Reference: Exhibit 7/Tab 1/Schedule 1, page 3
Board Report EB-2007-0667, pages 5-7

Preamble: In establishing the revenue to cost ratio ranges for the various classes the Board cited current problems with both the accounting and load data. The Board stated that “Distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations" (emphasis added).

a) What improvements has Horizon made to either its load data or accounting data (since the 2006/07 informational filing) that would justify moving the ratios closer to one than indicated by the Board's current ranges?

QUESTION #11

Reference: Exhibit 8/Tab 1/Schedule 1, pages 4-9

a) Please confirm that the proposed Monthly Fixed Charges for Residential, GS<50 and GS>50 all exceed the "ceiling" value calculated by the Cost Allocation model for the respective customer class.

b) On page 4 Horizon cites the Board's EB-2007-0667 Report that "it did not expect distributors to make changes to the MSC that would result in such exceeding the ceiling as defined by the methodology for the MSC". In light of this expectation, please explain why Horizon is proposing to increase the MSC for each of these classes to a value that exceeds the ceiling for each class.

QUESTION #12

Reference: Exhibit 8/Tab 1/Schedule 1, page 11

a) Please explain how the forecast LV billing quantities in Table 8-10 were established.

b) Please provide a schedule that sets out the actual 2009 LV billing quantities and the "costs" using Hydro One Networks' recently approved 2011 LV rates.

QUESTION #13

Reference: Exhibit 8/Tab 1/Schedule 3, pages 3-4

a) Please provide a schedule that sets out the actual kWh wholesale purchases by Horizon for 2010 and contrast the results with the forecast purchases for 2011.

b) Please update Tables 8-15 through 8-17 for the most recent 12 months of data.

QUESTION #14

Reference: Exhibit 9/Tab 1/Schedule 1, page 2 and Schedule 2, pages 2-3

a) For each of the three USOA #1508 sub-accounts for which Horizon is seeking disposition (per Table 9-5) please provide:
   - A description of the activities underlying the costs claimed
   - The period of time over which the costs were incurred
   - The OEB's approval to record the costs in a deferral account.

b) Please confirm that Horizon's proposed rate base/revenue requirement do not include any smart meter costs.

QUESTION #15

Reference: Exhibit 1/Tab 1/Schedule 13

a) Please identify any amounts included in the revenue requirement associated with the Board of Directors of (i) the holding company or (ii) any of its affiliates.

b) Please provide the impact on the deficiency of removing all such costs in (a) from the revenue requirement.

QUESTION #16

Reference: Exhibit 1/Tab 2/Schedule 1, page 4, lines 7-9

Preamble: The evidence states that "[a]s a result of more comprehensive analysis by Horizon Utilities of the condition of its distribution system assets, Horizon Utilities has determined that a dramatic increase in infrastructure investment is required in comparison to prior years."

a) When was this comprehensive analysis started and completed?

b) What initiated the comprehensive analysis?

c) Please provide the presentation made to the utility's Board of Directors along with any other materials provided to the Board of Directors.

d) Please provide the minutes from the Board of Directors meeting(s) at which the more comprehensive analysis was discussed.

e) Please provide any other documents associated with this analysis that are not included in the pre-filed evidence.

QUESTION #17

Reference: Exhibit 1/Tab 2/Schedule 1, page 6, lines 16-18

Preamble: The pre-filed evidence states that "[a]n urgent requirement to renew and increase skilled trades positions within the workforce and other administrative functions in support of growth and change in the electricity distribution business."

a) When did Horizon first notice this urgent requirement that needed addressing?

b) When did Horizon begin to address this problem?

c) Are ongoing OM&A savings related to the replacement of more senior personnel with more junior personnel expected and reflected in this application?

QUESTION #18

Reference: Exhibit 1/Tab 2/Schedule 1, page 13

Preamble: The evidence states that a driver of OM&A increases is wage inflation: "Approximately $3.7MM of wage and price inflation estimated at a cumulative growth rate of 3% per year. Wage inflation in collective agreements has exceeded such rate of growth."

a) Please explain why the collective agreements have provided for wage inflation in excess of 3% annually.

QUESTION #19

Reference: Exhibit 1/Tab 2/Schedule 2, Appendix 1-9(a), Horizon Group of Companies Business Development Business Plan – Fiscal 2011

a) Please provide the allocation of costs for the BD unit among the Horizon Group for each year that the BD unit has existed.

b) Are there any metrics against which the BD unit's actual performance can be judged in attaining its objectives as listed on page 5?

c) Are there any metrics against which the utility's actual performance can be or are judged in attaining the Horizon Utilities Strategic Business Objectives as listed on page 6?

d) Please expand the tables shown on page 9 to (i) include budgeted and actual spending for each year that the Sustainability initiative and Business Development have existed and for which actual figures are known and (ii) add an extra row in each for "Salaries/Benefits.".

e) Please define and provide examples of "Distributable Expenses." Are they included in Total Operating Expenses?

f) Please explain why salaries and benefits of $43,601 were not utilized for the 2010 Sustainability Initiative.

g) With respect to the three-year plan summary on page 15, please explain why total operating expenses are forecast to increase by 6% in each of the three years.

h) On page 11, it states that Incremental Initiatives/Projects "have already been allocated for in budget." Please break out the specific Incremental Initiatives/Projects that have already been allocated for in budget for each of the three years of the plan, i.e., what are the specific incremental initiatives/projects and how much are each of them forecasted to cost.

i) Please provide a copy of the most recent three-year plan that was superseded by the plan that was filed.

QUESTION #20

Reference: Exhibit 1/Tab 2/Schedule 2, Appendix 1-9(b), Corporate Communications Business Plan – 2011

a) Please provide the cost of producing the Corporate Communications Business Plan and also the allocation of this cost among the Horizon Group of Companies.

b) The figures for the 2010 and 2011 budgets shown on pages 16 and 17 appear to be the total amounts for the Horizon Group. Are all of the 2011 costs included in the utility revenue requirement? If not, please provide the allocation of the 2010 and 2011 budgets to non-utility entities.

c) Please define and provide examples of "Distributable Expenses." Are they included in Total Operating Expenses?

d) For the table at the top of page 17, please add (i) an extra row breaking out Salaries/Benefits, and (ii) actual and budgeted information for all other years that Horizon has had a Corporate Communications Business Plan.

e) Please explain how each of the line items for the table requested in d) have been allocated among the Horizon Group.

f) For the Project/Initiative described on page 17, please indicate the amounts of the $335K allocated to 2010 and 2011.

QUESTION #21

Reference: Exhibit 2/Tab 2/Schedule 2

a) Please indicate how Horizon treats sale/salvage/trade-in proceeds from the disposal of assets such as transportation equipment and how any such amounts are reflected in the revenue requirement.

b) Please provide the sale/salvage proceeds from the disposal of transportation equipment for each year 2007-2010 and provide vehicular details of the transportation equipment disposed of (type, vintage, model, mileage, etc.)

c) Please explain why no disposals are shown for any assets in 2010 and 2011, including transportation equipment.

d) Please explain why Contributions and Grants are expected to be lower in 2011 than in 2010.

QUESTION #22

Reference: Exhibit 2/Tab 3/Schedule 1, pages 94-95

a) For the nine vehicles that Horizon plans to buy in 2011 that are not shown in Table 2-48, please confirm that the average cost per vehicle is over $71.7K.

b) For each of the twelve vehicles that are being replaced, please provide the estimated sale/salvage/trade-in value and indicate how these proceeds have been recognized in the 2011 revenue requirement.

c) Please provide a brief description of the nine vehicles, not shown in table 2-48, that are to be replaced.

d) Please confirm that all vehicles referred to are to be used solely for use in providing electricity distribution service in Horizon's service area. If unable to so confirm, please explain..

e) Please provide details of the fleet in rate base (type, model, vintage, mileage, purpose) for each year 2008-2011 inclusive.

QUESTION #23

Reference: Exhibit 2/Tab 3/Schedule 1, page 96

a) How old are the two-way radio systems that Horizon proposed to replace? Please provide their original cost, age of equipment, and accumulated depreciation.

b) Please provide details of the enterprise fleet communications equipment to be purchased and indicate how the cost estimate was determined, e.g., third-party RFP, sole-source, etc.

QUESTION #24

Reference: Exhibit 2

a) Please provide the capital budgets as approved by the utility's Board of Directors for each year 2008-2011 inclusive, indicating the date on which each was approved.

b) Did Horizon apply for any federal or provincial infrastructure loans to finance capital projects?

QUESTION #25

Reference: Exhibit 2/Tab 3/Schedule 3

a) Does Horizon foresee any utility issues with respect to its capitalization policy and the implementation of IFRS?

QUESTION #26

Reference: Exhibit 3/Tab 3/Schedule 3, page 4

a) Please expand Table 3-28 to include the fees collected in the years 2007, 2008, and 2009.

QUESTION #27

Reference: Exhibit 3/Tab 3/Schedule 3, Appendix 3-3 and Schedules A and B

a) Do the cost recoveries from provision of the shared services include a return on the assets used? If yes, how is it determined?

<u>QUESTION #28</u>

Reference: Exhibit 4/Tab 1/Schedule 1, page 3

Preamble: The pre-filed evidence states that “[t]hirteen of the twenty-six planned new trade hires are directly related to planned capital investments.

a) Given that Horizon has elsewhere described itself as a low growth utility, did Horizon consider using contracted labour as opposed to new hires for the positions related to planned capital investments? If not, why not?

<u>QUESTION #29</u>

Reference: Exhibit 4/Tab 2/Schedule 1, page 2, Table 4-1

a) As compared to 2008, please explain why the 2011 amounts for Accounts 5605 and 5610 have increased by about 50%.

b) As compared to 2008, please explain why the 2011 amounts for Account 5620 has approximately tripled.

<u>QUESTION #30</u>

Reference: Exhibit 4/Tab 2/Schedule 6, pages 2-3

a) Does or has Horizon applied for any tax credits under federal apprenticeship programs?

<u>QUESTION #31</u>

Reference: Exhibit 4/Tab 2/Schedule 7

a) Please provide the decrease in expected costs if an oral hearing is not required in this case.

<u>QUESTION #32</u>

Reference: Exhibit 4/Tab 2/Schedule 8, Table 4-11

a) Please complete the entries in the row “FTEEs/Customer.”

QUESTION #33

Reference: Exhibit 4/Tab 2/Schedule 9, page 5

a) Please explain why a three-year tree trimming program is required.

QUESTION #34

Reference: Exhibit 4/Tab 2/Schedule 10, page 1

Preamble: The evidence states that “[i]n the next five years, 13% of Horizon Utilities employees are eligible for retirement and an additional 18% will be eligible for such within ten years.”

a) Please briefly discuss the eligibility requirements for retirement for these employees.

QUESTION #35

Reference: Exhibit 4/Tab 2/Schedule 10, page 11, Table 4-25

a) Please explain why “Average Yearly Base Wages” for Executives increased by almost 19% in 2010 over 2009, from $180,450 to $214,206.