EB-2010-0131

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 of fixing just and reasonable rates and other service charges for the distribution of Electricity as of January 1, 2011.

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES") RESPONSES TO BOARD STAFF TECHNICAL CONFERENCE QUESTIONS

DELIVERED: February 23rd, 2011

QUESTION TC# 1

Reference: AMPCO IRs # 7 and # 8

In its response to AMPCO IR # 7, Horizon states that it has not tracked productivity in the manner of labour productivity or Total Factor Productivity as referenced in AMPCO's interrogatory. Horizon then gives examples of what are cost efficiencies. Horizon also discusses productivity in its response to AMPCO IR # 8.

Please explain Horizon's understanding of productivity versus cost efficiency, and how it is using the term "productivity" in its Application.

Response:

In simple terms, Horizon Utilities understands productivity to be the effectiveness of productive effort measured in terms of the rate of output per unit of input. Horizon Utilities also understands efficiency to mean the extent to which productivity is achieved with minimum wasted effort and expense. Horizon Utilities submits that these terms are closely related.

While it may have been more precise to describe some of the Horizon Utilities' examples as being indicative of efficiency rather than productivity, Horizon Utilities believes that productivity is one of the primary drivers of efficiency, and conversely, evidence of efficiency is reasonably indicative of productivity.

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DELIVERED: February 23rd, 2011

QUESTION TC# 2

Reference: AMPCO IR # 20

Horizon documents a cost of $0.37 per retail meter read for a typical outside residential meter read. Please provide the basis for that estimate.

Response:

The cost of $0.37 per retail meter read for a typical outside residential meter was based on costs incurred by Horizon Utilities to have such a meter read in 2006, when this information was initially provided to support Horizon Utilities' cost allocation study filed with the Board on March 30, 2007. Such study was used to support Horizon Utilities' 2008 electricity distribution rates.

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QUESTION TC# 3

Reference: CCC IR # 3 – Fiscal Year Alignment and Regulatory Risk

Horizon states that regulatory risk of the misalignment of the fiscal and rate year creates investment risk for a utility.

a) Even if the rate year and fiscal calendar year were aligned, would the time horizon for many capital projects, particularly for pre-ordering large capital items or components such as vehicles, transformers, etc., be such that the investment risk would still be there (i.e. the utility would have pre-ordered the equipment and committed to the investment before a decision that might result in disallowance of such capital costs)?

b) Please provide evidence that Horizon has of investment risk due to capital cost disallowances due to the fiscal and rate year misalignment.

c) Please provide any evidence that Horizon has of investors and/or rating agencies requiring a premium or altering Horizon's or its parent corporation credit rating due to this regulatory/investment risk associated with the fiscal and rate year misalignment.

Response:

a) There will always be some element of investment risk where commitments and purchases are made in advance of rate decisions, as the source of financing for such is retained earnings or borrowings rather than distribution rate cashflows. However, such commitments and purchases are generally predicated on calendar year budgets that are reviewed and approved by a utility's Board of Directors. Management's authority with respect to commitments and purchases outside of budgets is generally limited. Furthermore, management will be mindful to continuously review budgeted expenditures in the context of distribution rate cashflows. Recognizing the level of investment risk inherent in the current rate year/ fiscal year misalignment, the Horizon Utilities Board approved its 2011 budget subject to the outcome of the Board decision on this Application (please also refer to the response to School Energy Coalition Technical Question 5).

Mitigating this risk through rate year and fiscal year alignment reduces both financial risk and operational risk. This issue tends to focus on a reduction of financial risk vis-à-vis the impacts on financial liquidity and cost, which are quite relevant in the context of a sustainable approach to financing utility infrastructure. However, Horizon Utilities submits that rate year/ fiscal year alignment improves the certainty and timing of cash flow to finance Board approved investment and, as such, allows the utility to more aggressively and confidently make investments on a timely basis and to address related operational risks and improve service in the interests of its utility customers.

b) and c) Horizon Utilities has no additional evidence to offer as prescribed by the questions by Board staff other than its own pre-filed evidence (Exhibit 1, Tab 2, Schedule 1, Page 17). Relevant excerpts of such evidence are reproduced below.

> *The alignment of rate year and fiscal year is particularly important to distributors that require financial liquidity from third party lenders. Horizon Utilities has a significant requirement for debt capital and incurs such in a manner, with related terms and covenants, similar to other large utilities such as Toronto Hydro Electric System Limited and Hydro One. All of such utilities including Horizon Utilities have public debt ratings which directly impact both the cost and availability of debt capital to support their financing requirements for distribution system infrastructure. Lenders and rating agencies base their respective decisions on the availability and relative certainty of cash flow to support business investment requirements and debt servicing. The alignment of the rate year with the fiscal year is supportive of cost effective and available financial liquidity as: i) the incurrence of investment and cost more closely aligns with cash flow; and, ii) there is less regulatory uncertainty related to the approval of expenditures months after the commencement of the fiscal year.*
>
> *Regulatory uncertainty in relation to the rate year/ fiscal year lag also creates investment risk for a utility. There is a significant risk that, in the first effective year of a COS application, the Board may disallow the recovery of certain investments and costs that have been incurred in advance of its rate*

decision.

The alignment of the rate year and fiscal year simplifies the explanation of fiscal year results in relation to regulatory approvals of investments, costs, and return on equity. Such returns are presently computed in rate applications based on calendar year budgets. However, such are not practically available given the misalignment of the rate year and fiscal year. This creates confusion for users of financial statements, such as the lenders and rating agency to Horizon Utilities, and also complicates variance analyses in rate applications.

Lastly, Horizon Utilities' reporting to the Board is provided on a calendar year basis and, as such, all underlying input data into rate applications is based on the calendar year. For example, variance analyses are addressed by way of comparisons with prior years. Consequently, an alignment of the rate year and fiscal year would allow for further consistency in comparative data collection presentation, reporting, and analysis. This would improve efficiency in utility reporting processes.

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
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DELIVERED: February 23rd, 2011

QUESTION TC #4

Reference: CCC IR # 24 – Web Site Redesign

In its application for an increase to its Smart Meter Funding Adder, being considered under EB-2010-0292, in response to Board staff IR # 10 in that proceeding, Horizon stated:

> Ongoing operating and maintenance expenses associated with the customer communication plan including web presentment as noted in Table 7 of this Application [i.e. for the Smart Meter Funding Adder], is budgeted at $500,000 for 2010, 2011 and beyond.

a) Does the proposed budget for the website redesign include any of the costs for web presentment that Horizon has included in the requested increased Smart Meter Funding Adder? Please explain your response.

b) Is the estimated budget for the website redesign "one-time" or ongoing. Please explain your response.

Response:

a) The proposed budget for the website redesign does not include any of the costs for web presentment that Horizon Utilities has included in the Smart Meter Funding Adder.

As noted in Table 7 of the Horizon Utilities Smart Meter Funding Adder Application (EB-2010-0292), the budget titled Media Communications of $500,000 for 2010 and 2011 and beyond is comprised primarily of customer education and communication materials including demonstrating the benefits of a web presentment system to its customers.

b) The estimated website redesign budget is a one-time expenditure. Please see Horizon Utilities' response to Board staff Interrogatory 23. There will be an annual website maintenance budget in subsequent years.

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QUESTION TC# 5

Reference: CCC IR # 28

Horizon estimates that meter reading expenses will decline to $322,000 for 2011, roughly 50% of meter reading expenses of $627,773 in 2008. Horizon states that this is due, in large part to the deployment of smart meters and the communications infrastructure to remotely read and communicate usage data. Horizon also states that:

> With respect to the current meter read contract, conventional 1 meter reading costs per meter may increase as efficiencies associated with read routes are lost. However, overall costs for conventional meter reading are expected to decrease each year. Horizon Utilities anticipates issuing a competitive Request for Proposal ("RFP") process for any conventional meter reading services required beyond the term of the current contract.

a) With respect to evidence on Smart Meter deployment filed in Exhibit 9 and in the separate application for an increased Smart Meter Funding Adder under File No. EB-2010-0292, Horizon has largely completed deployment to residential and small commercial customers by the end of 2011. Horizon also expects to implement TOU pricing in 2011. Given all of this, why is the estimated meter reading expense for 2011 of $322,000 only about 10% lower than the average of 2009 ($348,453) and 2010 ($366,256)?

b) What is the term of the current meter read contract? In other words, is the $322,000 expected to be a reasonable estimate of meter reading expenses beyond 2011 and, if so, for what period of time?

Response:

a) Since mid-2007, Horizon Utilities has been reading smart meters for billing purposes via the Advanced Metering Infrastructure through the retrieval of register reads.

As noted in the Horizon Utilities Smart Meter Funding Adder Application (EB-2010-0292), Horizon Utilities had installed 220,082 residential and GS<50 single phase Smart Meters as of December 31, 2009. This accounted for 94.6% of the installations for customers requiring Smart Meters.

As such, Horizon Utilities reached a baseline for conventional meter reading costs by the end of 2009. A 10% reduction between 2010 and 2011 to reflect the continued installation of outstanding smart meters and the continued reading of conventional meters for the GS>50 customers is a reasonable estimate in Horizon Utilities' view.

It is also noted that the GS>50 meters require kWh, kW and KVA readings as well as a physical demand reset of the meter. In addition, residential, GS<50 and GS>50 rate class meters were previously in combined routes. As the reading of smart meters through the Advanced Metering Infrastructure increases, the distance between meters requiring manual reads also increases resulting in an increase in costs per meter read.

b) The term of the current meter read contract was originally executed for a three-year period and extended with the acceptance of both parties for an additional two-year term. The current contract expires in April 2012. Horizon Utilities anticipates issuing a Request for Proposals in expectation of the contract termination in mid-2011.

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QUESTION TC# 6

Reference: CCC IR # 36 – Operating Expenses

Is the $300,000 identified for consulting services related to the Industrial and Finance Systems in 2011 a one-time cost or ongoing? Please explain your response.

Response:

Please refer to Horizon Utilities' Response to Board staff Interrogatory 23 with respect to one-time costs.

The $300,000 identified for consulting services represents the cost to engage external expertise to evaluate, build and implement a Planning and Scheduling module. This project is further described in the pre-filed evidence in Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(f), Page 23, and in Exhibit 4, Tab 2, Schedule 6, Pages 25 to 26.

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
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QUESTION TC# 7

Reference: Board Staff IR # 23 – One Time Costs

Horizon notes that the projects listed in response to Board Staff IR #23 are multiyear projects and include both OM&A and capital expenditures. For each of the projects provided listed, please identify the OM&A and capital expenditure figures.

Response:

The figures listed in response to Board staff Interrogatory 23 were only for the OM&A portion for 2011 that related to each multi-year project.

The following is a summary of the OM&A and capital expenditures included in 2011 Test Year for each project:

Description	Reference	OM&A	Capital	Total
Planning and Scheduling (ERP)	Ex. 4, T2, S6, Table 4-8	300,000	-	300,000
Budget and Forecast Software	Ex. 4, T2, S6, Table 4-8	100,000	250,000	350,000
Enterprise Risk Management Framework	Ex. 4, T2, S6, Table 4-8	100,000	-	100,000
Redesign of Corporate Website	Ex. 4, T2, S6, Pg. 32	295,000	70,000	365,000
E-Mobile	Ex. 4, T2, S6, Table 4-8	226,000	205,000	431,000

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HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
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QUESTION TC# 8

Reference: Board Staff IR # 27 – Purchases from Non-Affiliates

Horizon has provided tables of purchases from non-affiliates up until the 2010 bridge year. No information is provided for the 2011 Test Year.

Please provide details and forecasted amounts for the 2011 Test Year.

Response:

The table below summarizes the forecasted 2011 purchases from non-affiliates >$250K, based on data collected from business plans and budgets plan.

2011 Purchase Forecasts from Non-Affiliates >$250K			
Name	**Activity**	**Priced By**	**Total**
K-LINE MAINTENANCE AND CONST LTD	Contractor	RFP/RFQ/PO	$4,000,000
HD SUPPLY UTILITIES	Inventory	RFP/RFQ/PO	$3,000,000
BLACK AND MCDONALD	Contractor	RFP/RFQ/PO	$1,000,000
BETHLEHEM TRENCHING LTD	Contractor	RFP/RFQ/PO	$1,000,000
CANADA POST CORP	Service Provider	RFP/RFQ/PO	$1,000,000
HYDRO ONE (483 BAY ST.)	Service Provider	Sole Source	$1,000,000
IFS INDUST. AND FINANCIAL SYST.	Consultant	RFP/RFQ/PO	$900,000
AECON CONSTRUCTION	Contractor	RFP/RFQ/PO	$800,000
GLENTEL	Fleet Communications	RFP/RFQ/PO	$900,000
STRESS-CRETE LTD	Inventory	RFP/RFQ/PO	$800,000
ANIXTER	Inventory	RFP/RFQ/PO	$700,000
EATON YALE COMPANY	Inventory	RFP/RFQ/PO	$700,000
WAJAX	Fleet Equipment	RFP/RFQ/PO	$650,000
PVS CONTRACTORS INC	Contractor	RFP/RFQ/PO	$600,000
PRYSMIAN CABLES AND SYSTEMS LTD	Inventory	RFP/RFQ/PO	$500,000
CANNON TECHNOLOGIES INC	Inventory/Maintenance	RFP/RFQ/PO	$600,000
BESWICK TREE SERVICE LTD	Contractor	RFP/RFQ/PO	$500,000
WESTBURNE RUDDY (LONDON)	Inventory	RFP/RFQ/PO	$500,000
BEL VOLT SALES LTD	Inventory	RFP/RFQ/PO	$500,000
NEXANS	Inventory	RFP/RFQ/PO	$500,000
ABLE-ONE SYSTEMS INC	Service Provider	RFP/RFQ/PO	$500,000
OFFICE SOURCE INC, THE	Furniture/Equipment	RFP/RFQ/PO	$400,000
TELECOM COMPUTER	Computer Hardware	RFP/RFQ/PO	$400,000
A AND W HIGH VOLTAGE	Contractor	RFP/RFQ/PO	$400,000
DAVEY TREE EXPERT CO	Contractor	RFP/RFQ/PO	$400,000
MOHAWK FORD SALES LTD	Fleet Equipment	RFP/RFQ/PO	$400,000
GUELPH UTILITY POLE CO LTD	Inventory	RFP/RFQ/PO	$400,000
DUNDAS POWER LINE LTD	Contractor	RFP/RFQ/PO	$300,000
METRO FREIGHTLINER HAMILTON	Fleet Equipment	RFP/RFQ/PO	$300,000
FUELS INC	Inventory	RFP/RFQ/PO	$300,000
GENERAL CABLE CANADA	Inventory	RFP/RFQ/PO	$300,000
DAFFRON AND ASSOCIATES INC	Service Provider	RFP/RFQ/PO	$300,000
CANADA POWER PRODUCTS	Inventory	RFP/RFQ/PO	$250,000
COMMERCIAL CLEANING	Service Provider	RFP/RFQ/PO	$250,000
TOTAL			**$25,050,000**

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QUESTION TC# 9

Reference: Board Staff IR # 41 – Next Rebasing Application

Horizon Utilities expects to incur $960,000 in costs in respect of the completion of the 2011 EDR COS Application including its preparation and the proceeding that will follow.

In its response to the above referenced interrogatory, Horizon Utilities has indicated that it intends to file its next rebasing application in 2014 for 2015 rates. Please confirm whether Horizon Utilities is applying to amortize the regulatory costs associated with this rebasing application over 3 or 4 years. Please explain your response.

Response:

In its response to Board staff Interrogatory 41, Horizon Utilities submitted:

> *"Barring any unforeseen circumstances, Horizon Utilities anticipates that its next Cost of Service Application will be filed in 2014 for electricity distribution rates effective January 1, 2015."*

Horizon Utilities respectfully submits a clarification of this response with reference to Horizon Utilities' response to School Energy Coalition Interrogatory 19 a) in which Horizon Utilities provided:

> *Horizon Utilities does not confirm that it may not have cause to submit another cost of service application in 2013 or, in more general terms that it may not have reason to advance future rate applications. The April 20, 2010 letter of the Board provides conditions under which it may accept an advanced re-basing application. Horizon Utilities will consider the timing and*

need of its next re-basing application in the context of both IRM and the April 20, 2010 letter of the Board."

Consequently, there may be circumstances that cause Horizon Utilities to seek re-basing in advance of the 2015 rate year.

Horizon Utilities has applied to amortize its regulatory costs over three years but recognizes that a four year amortization is more consistent with the general expectation under IRM for rate re-basing every four years. Horizon Utilities submits that, if the amortization is changed to four years, it should be able to recover any unamortized portion of such if it were to file, and the Board were to accept, its next cost of service rate application in advance of the 2015 rate year

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QUESTION TC# 10

Reference: SEC IR # 13a – Customer Service Business Plan

Horizon Utilities has planned for an increase of 25% in call volumes to support the migration of customers to TOU rates through 2010 and 2011.

a) Please provide the number of total calls, by month, for the 2009 and 2010 calendar years.

b) What is the basis or evidence that Horizon has used to identify that call volumes are expected to increase by 25% due to the implementation of TOU rates?

c) Does Horizon expect this increased volume of customer inquiries related to TOU rate implementation to continue beyond 2011, or to decrease to levels closer to 2009 and 2010? Please explain your response.

Response:

a) The number of total calls received, by month, for the 2009 and 2010 calendar years are provided below.

	2009	2010
Jan	27,775	25,240
Feb	24,907	24,141
Mar	28,141	29,104
Apr	26,800	26,885
May	24,745	26,700
June	29,455	30,335
July	28,795	27,380
Aug	28,198	30,104
Sept	28,349	31,715
Oct	28,381	28,979
Nov	26,415	30,172
Dec	21,245	20,837
Total	**325,215**	**331,592**

b) Horizon Utilities prepared Customer Service and communication strategies in preparation to implement Time-of-Use rates. The expectation that call volumes could increase by 25% during the migration of customers to time-of-use rates was based on industry discussions of experience in other service territories in Ontario combined with Horizon Utilities' own experience of changes of great impact to its customers. In May 2002 customers faced a significant change when the electricity market opened and customers began to be invoiced for their electricity based on hourly pricing. As a result of this change, call volumes for the former Hamilton Hydro increased by approximately 45% from 203,545 in 2002 to 296,519 in 2003.

c) As previously indicated in Horizon Utilities' response to School Energy Coalition Interrogatory 13, it is expected that higher call volumes related to Time-of-Use rates will return to established norms beyond 2011 as customers become confident in their understanding of the rate structure and its impacts to their household. To that end, Horizon Utilities has contracted incremental staff for 2011 to manage the Time-of-Use transition period as noted in Horizon Utilities' Smart Meter Funding Adder Application (EB-2010-0292).