



April 6, 2011

By RESS and Courier

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

Dear Ms. Walli;

Re: Horizon Utilities (“Horizon Utilities”) Corporation’s 2011 Electricity Distribution Rate Cost of Service Application

On March 14, 2011, Horizon Utilities filed an update to its evidence related to an update of the load forecast for its Large Use customer class. On Friday, April 1, 2011, Horizon Utilities responded to Board Staff and Intervenor Interrogatories on the March 14, 2011 evidence update.

Since filing the answers to those Interrogatories, Horizon Utilities has become aware that credits available under the Apprenticeship Job Creation Tax Credit program had not been included in the updated calculation of its revenue requirement. Those credits had been addressed in Horizon Utilities’ response to Energy Probe Technical Conference Question #8. This error affects Horizon Utilities’ responses to the following interrogatories on the revised evidence:

AMPCO 4, VECC 37, VECC 44

Please find accompanying this letter Horizon Utilities’ revised responses to those interrogatories. Because the revised calculations also affect Horizon Utilities’ Cost Allocation Model and Revenue Requirement Work Form, Horizon Utilities is providing updated electronic versions of those models. Horizon Utilities will also have hard copies available at the Oral Hearing tomorrow.

We regret any inconvenience this may cause.

Yours Truly,

Original signed by

Indy J. Butany-DeSouza
Vice-President, Regulatory and Government Affairs
Horizon Utilities Corporation

HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO
INTERROGATORIES ON REVISED EVIDENCE

DELIVERED: April 1st, 2011

REVISED April 6th, 2011

Question 4

Reference: Exhibit 6, Tab 1, Schedule 2, Page 3, Table 6-2 Drivers of Revenue Deficiency

In the original filing, the change in load forecast in Table 6-2 shows and impact on revenue requirement of \$3,628,000. In the updated Table 6-2, the change in load forecast impact on revenue requirement is the same. Please explain.

Response:

In the updated Table 6-2 provided in the Revised evidence, the change in the revenue requirement was not updated. As a result of the revised load forecast, the change in the impact on revenue requirement is an increase of \$402,405, resulting in a total impact of \$4,030,415 as shown in the Updated Table 6-2 below. Please see Horizon Utilities’ response to VECC Interrogatory 37, in which all revisions are detailed. Table 6-2 below reflects all such changes.

Updated Table 6-2 Drivers of Revenue Deficiency		
Drivers of Revenue Deficiency	Impact on Revenue Requirement \$000	References
Change in OM&A Expenses	7,983	Exhibit 4 Tab 2 Schedule 5 - Appendix 2-G OM&A Cost Driver Table
Change in Load Forecast	4,030	Exhibit 3 Tab 2 Operating Revenue Variance Analysis
Rate Base Related	8,198	Exhibit 2 Tab 3 Schedule 1 Drivers of Capital Expenditure Increases for Test Year. Exhibit 5 Tab 1 Schedule 2 Appendix 2-N Capital Structure and Cost of Capital
Total	20,211	

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3 Subsequent to the filing of the responses to the questions on the Refiled Evidence on
4 April 1, 2011, Horizon Utilities became aware that the credits available under the
5 Apprenticeship Job Creation Tax Credit program had not been included. Please refer to
6 Horizon Utilities' response to VECC 37. Please find below an update to Table 6-2
7 indicating the change in Tax Expense as a change in OM&A Expense.

Drivers of Revenue Deficiency	Impact on Revenue Requirement \$000	References
Change in OM&A Expenses	7,456	Exhibit 4 Tab 2 Schedule 5 - Appendix 2-G OM&A Cost Driver Table
Change in Load Forecast	4,030	Exhibit 3 Tab 2 Operating Revenue Variance Analysis
Rate Base Related	8,198	Exhibit 2 Tab 3 Schedule 1 Drivers of Capital Expenditure Increases for Test Year. Exhibit 5 Tab 1 Schedule 2 Appendix 2-N Capital Structure and Cost of Capital
Total	19,684	

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HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)
RESPONSES TO
VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON
REVISED EVIDENCE

DELIVERED: April 1st, 2011

REVISED: April 6th, 2011

Question 37

Reference: i) Revised Exhibit 1/Tab 2/Schedule 5

ii) Revised Exhibit 2/Tab 4/Schedule 1/Appendix 2-3

a) Please explain why the first reference shows a change in 2011 working capital requirement from \$61.87 M to \$62.10 M (a \$230 k increase) whereas the second reference shows a change in 2011 working capital requirement from \$62.6 M to \$62.7 M (as \$100 k increase).

b) With respect to reference (ii) please confirm that the increase in the cost of power (even though total 2011 kWh’s are less than in the original Application) is due to a “correction” in the billing parameters used for Rural Rate Assistance and Wholesale Market Service.

c) If part (b) is confirmed please identify where in the Evidence this error was first noted.

d) Are there any other errors in/required revisions to the original application that have been identified during the process to-date that have been reflected in the current Update (apart from the Large User load forecast)? If yes, please provide a schedule that identifies what they are, where they are described on the record to date and where they are reflected in the Updated Evidence.

e) Are there any other errors in/required revisions to the original application that have been identified during the process to-date that have not been reflected in the current

1 Update (apart from the Large User load forecast)? If yes, please provide a schedule
2 that identifies what they are, where they are

3 **Response:**

4 **a)** The first reference shows a change in 2011 working capital requirement from
5 \$61.87 M to \$62.10 M as a direct result of the change in the 2011 Cost of Power from
6 \$394,028,103 to the refilled 2011 Cost of Power of \$395,726,409. The difference is
7 \$1,698,306. When the Allowance for Working Capital of 14% is applied, the increase in
8 working capital requirement is \$237,763, rounded to \$230k.

9 The second reference is taken from the Lead/Lag Study Exhibit 2, Tab 4, Schedule 1,
10 Appendix 2-3 in Table 8 Working Capital Requirement Associated with Distribution
11 Operations – 2011 and is changed from the Original Application to reflect the revised
12 Cost of Power amount, as well as other changes that impact the lead/Lag study but not
13 the calculation of the Working Capital Allowance for purposes of the Rate Base
14 Calculations. One of the most obvious differences is that the Lead/Lag Study
15 incorporates the costs of the Debt Retirement Charges as it reflects a use of cash.
16 Such figures are not part of the Cost of Power, nor are they included in any calculation
17 of working capital requirement.

18 **b)** Horizon Utilities confirms that the increase in the Cost of Power is due to a
19 “correction” in the billing parameters used for Rural Rate Assistance and Wholesale
20 Market Service costs in addition to the revised Large User load.

21 **c)** This error was first noted by Horizon Utilities in the answer to Energy Probe’s
22 Technical Question 3, at which time it is noted that “Additionally, Horizon Utilities has
23 corrected the Volume Metrics for Wholesale Market Service and Rural Rate Assistance
24 Charges....”

25 **d)** Horizon Utilities has not reflected other errors in/required revisions to the original
26 application that have been reflected in the current update (apart from the Large Use
27 Customer Load Forecast).

28 **e)** Horizon Utilities requests an update to its evidence relating to changes in its total
29 revenue requirement, its revenue deficiency and its rate base as follows.

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1) Revision to Large Use customer load forecast.

Horizon Utilities submitted revised evidence to indicate the change in the Large Use customer load forecast. Further, as indicated in the response to VECC Supplementary Interrogatory 44, the Cost Allocation Model has been updated.

2) Cost of Power

The Cost of Power has changed due to the change in the Load Forecast for the Large Use Customer Class. Please see Horizon Utilities' response to Energy Probe Revised Evidence Question 1.

3) Update to Cost of Capital Parameters.

In its initial Application, Horizon Utilities used an ROE and Short Term Debt Rate of 9.85% and 2.07%, respectively. The OEB issued a letter (the "Letter") on November 15, 2010 with regard to Cost of Capital Parameter Updates for 2011 Cost of Service Applications for Rates Effective January 1, 2011. The updated ROE and Short Term Debt Rate per the Letter were 9.66% and 2.43%, respectively. Horizon Utilities has applied these changes.

4) Tax Updates

As detailed in Horizon Utilities' response to Energy Probe Technical Conference Question 8, Horizon Utilities updated Tables 4-37, 4-38, 4-39, and 4-40 to incorporate new information regarding eligibility for the Ontario Tax Training Apprenticeship Credit and for corrections to Class 52 assets.

5) Regulatory Costs

In its original Application, Horizon Utilities amortized Regulatory Costs of \$960,000 related to the Cost of Service Application over an amortization period of 3 years. Horizon Utilities recognizes that the amortization period should be

1 over a period of 4 years. The original amount was \$320,000 per year (\$960,000
2 divided by 3); the revised amount, reflective of the change in amortization period,
3 is \$240,000 (\$960,000 divided by 4).

4 6) Interest Rate on Promissory Note.

5 In its original Application, Horizon Utilities estimated that the long term debt rate
6 on its \$40MM Horizon Holdings Inc. Promissory Note (the "Note") would bear an
7 interest rate of 4.92%. Once the Note was issued, the actual rate was 4.89%.
8 Horizon Utilities has updated its evidence to reflect the 4.89% rate.

9
10 Please see the table below that summarizes all changes.

	<u>Revenue</u> Deficiency	<u>Total</u> Revenue	Rate Base	Reference
As originally filed	\$19,560,006	\$108,707,939	\$376,890,026	
# 1 Initial Change in Large Use Load Forecast	\$209,367	\$15,561	\$237,762	Revised Evidence
As per revised evidence	\$19,769,373	\$108,723,500	\$377,127,788	
#1 Update to Cost Allocation Model due to Large User Load Forecast change	\$441,466	\$0	\$0	VECC Interrogatory on Refiled Evidence 44
#2 Cost of Power update due to Large User Load Forecast change	-\$68,120	-\$68,120	-\$780,379	Energy Probe Revised Evidence Question 1
#3 Update to Cost of Capital Parameters.	-\$345,160	-\$345,160	\$0	AMPCO Interrogatory on Revised Evidence 3
#4 Tax Updates	\$510,726	\$510,726	\$0	Energy Probe Technical Conference Question 8
#5 Regulatory Costs	-\$80,978	-\$80,978	-\$11,200	Board staff Interrogatory 40 Board staff Technical Question 9
#6 Interest Rate on Promissory Note	-\$16,211	-\$16,211	\$0	School Energy Coalition Interrogatory 34
Total	\$20,211,096	\$108,723,757	\$376,336,209	

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Subsequent to the filing of the responses to the interrogatories on the Refiled Evidence on April 1, 2011, Horizon Utilities became aware that the credits available under the Apprenticeship Job Creation Tax Credit program had not been included. Please refer to Horizon Utilities' response to Energy Probe Technical Conference Question 8. The table that follows includes the Credits and establishes a Revenue Deficiency of \$19,684,267 and Total Revenue Requirement of \$108,196,928. The Rate Base remains unchanged at \$376,336,209.

	<u>Revenue</u> <u>Deficiency</u>	<u>Total</u> <u>Revenue</u>	<u>Rate Base</u>	<u>Reference</u>
As originally filed	\$19,560,006	\$108,707,939	\$376,890,026	
# 1 Initial Change in Large Use Load Forecast	\$209,367	\$15,561	\$237,762	Revised Evidence
As per revised evidence	\$19,769,373	\$108,723,500	\$377,127,788	
#1 Update to Cost Allocation Model due to Large User Load Forecast change	\$441,466	\$0	\$0	VECC Interrogatory on Refiled Evidence 44
#2 Cost of Power update due to Large User Load Forecast change	-\$68,120	-\$68,120	-\$780,379	Energy Probe Revised Evidence Question 1
#3 Update to Cost of Capital Parameters.	-\$345,160	-\$345,160	\$0	AMPCO Interrogatory on Revised Evidence 3
#4 Tax Updates	\$510,726	\$510,726	\$0	Energy Probe Technical Conference Question 8
#5 Regulatory Costs	-\$80,978	-\$80,978	-\$11,200	Board staff Interrogatory 40 Board staff Technical Question 9
#6 Interest Rate on Promissory Note	-\$16,211	-\$16,211	\$0	School Energy Coalition Interrogatory 34
Total as per response to Questions on Refiled Evidence	\$20,211,096	\$108,723,757	\$376,336,209	
#7 Inclusion of Apprenticeship Credits	-\$526,829	-\$526,829	\$0	Energy Probe Technical Conference Question 8
Total Revised Evidence	\$19,684,267	\$108,196,928	\$376,336,209	

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Horizon Utilities has separately filed a “live” OEB Revenue Requirement Work Form model with this evidence.

1 In addition to the financial revisions listed above, Horizon Utilities is withdrawing two
2 requests for Deferral/Variance accounts as per Exhibit 9, Tab 1, Schedule 1, and Pages
3 4 to 8. The first relates to the Provincial Meter Data Management and Repository
4 (“MDM/R”) Costs from the IESO for the Smart Meter Entity (“SME”). Since the IESO
5 has not yet filed an application with the Board requesting recovery of costs as had been
6 anticipated at the time of filing, an account accumulating costs in this regard is not
7 required at this time. Secondly, Horizon Utilities had requested the establishment of a
8 Deferral/Variance account for the Late Payment Penalty (“LPP”) Charges. Such costs
9 were the subject of a generic hearing by the Board. Therefore, the establishment of a
10 deferral/variance account is not required.

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3 **HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)**
4 **RESPONSES TO**
5 **VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON**
6 **REVISED EVIDENCE**

7 **DELIVERED: April 1st, 2011**

8 **REVISED: April 6th, 2011**

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10 **Question 44**

11 **Reference:** Revised 2011 Cost Allocation Model Run (Appendix 7-1)

12 **a)** Sheet O1 of Cost Allocation Model Run (i.e., the Excel file) provided with the
13 Updated Evidence does not include any values for Distribution Revenues (i.e., Row #17
14 is all zeros). Please confirm that the values for Distribution Revenues by class used in
15 this Sheet should be those from Column 7C of revised Table 7-4.

16 **b)** Given the issue noted part (a), please explain how the values for the Status Quo
17 Revenue to Cost Ratios set out in Revised Table 7-3 were determined.

18 **c)** Please prepare a schedule that compares the kWh values attributed to the Large
19 Use class in the original versus the revised Application (per Sheet I6) – both including
20 and excluding wholesale market participants.

21 **d)** Please explain why, with the reduction in the load forecast for the Large Use class -
22 i) the kWh including wholesale market participants is unchanged and ii) the kWh
23 excluding market participants increases.

24 **e)** Please prepare a schedule that compares the Large Use class demand allocators
25 (per Sheet I8) as per the original Application with those in the revised Application.

26 **f)** Please explain why, with the change in the Large Use class load forecast, the
27 demand allocators for the class appear to be unchanged.

1 **g)** Based on the responses to above questions please provide a revised Cost
2 Allocation run along with revised versions of Tables 7-2, 7-3 and 7-4.

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4 **Response:**

5 **a)** Horizon Utilities did not fully update the Cost Allocation Model in the revised
6 Application. Horizon Utilities has fully updated the Cost Allocation Model. Please see
7 the answer to part g) of this interrogatory which provides the updated version of Table
8 7-4.

9 **b)** Please see the answer to part g) of this interrogatory which provides the updated
10 version of Table 7-3.

11 **c)** Please find below a table that sets out the comparison of kWh values attributed
12 to the Large Use Customer Class in the original versus the revised Application (per
13 Sheet I6).

	Large Use Class 2011 Forecast	
	kWh without WMP	kWh with WMP
Original Application	693,689,836 kWh	1,458,874,419 kWh
Revised Application	520,292,236 kWh	1,342,230,493 kWh

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15 **d)** Please see Horizon Utilities' response to part a), above. Horizon Utilities has
16 filed a "live" Cost Allocation Model with this evidence.

17 **e)** Please find below a table that compares the Large Use Customer Class demand
18 allocators (per Sheet I8) as per the original Application with those in the updated Cost
19 Allocation Model (filed in response to part d above).

DEMAND ALLOCATORS FROM SHEET 18 OF THE COST ALLOCATION MODEL				
Large Use Class Only				
		Original	Revised	
		Application	Application	
COINCIDENT PEAK				
1 CP				
Transformation CP	TCP1	188,520	173,447	
Bulk Delivery CP	BCP1	0	0	
Total System CP	DCP1	188,520	173,447	
4CP				
Transformation CP	TCP1	722,311	664,558	
Bulk Delivery CP	BCP1	0	0	
Total System CP	DCP1	722,311	664,558	
12CP				
Transformation CP	TCP1	2,294,474	2,111,020	
Bulk Delivery CP	BCP1	0	0	
Total System CP	DCP1	2,294,474	2,111,020	
NON-COINCIDENT PEAK				
1 NCP				
Classification NCP from Load				
Data Provider	DNCP1	221,457	203,750	
Primary NCP	PNCP1	221,457	203,750	
Line Transformer NCP LTNCP1				
Secondary NCP SNCP1				
4NCP				
Classification NCP from Load				
Data Provider	DNCP4	874,912	804,959	
Primary NCP	PNCP1	874,912	804,959	
Line Transformer NCP LTNCP4				
Secondary NCP SNCP\$				
12NCP				
Classification NCP from Load				
Data Provider	DNCP4	2,550,620	2,346,686	
Primary NCP	PNCP1	2,550,620	2,346,686	
Line Transformer NCP LTNCP4				
Secondary NCP SNCP\$				

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- 1 f) Please see Horizon Utilities' response to part a) above. The updated version of
 2 the Cost Allocation Model indicates the corrected demand allocators. Horizon Utilities
 3 has filed a "live" Cost Allocation Model with this evidence.
- 4 g) Based on the responses to the above questions Revised Tables 7-2, 7-3 and 7-4
 5 are shown below.

6 **Table 7-2 – Chapter 2 Filing Requirements Appendix 2-O a) – Allocated Costs**

Customer Class	Cost Allocated in Previous Study (2008)	%	Cost Allocated in Test Year Study (Column 7A)	%
Residential	49,528,453	56%	62,003,187	57.028%
GS < 50 kW	11,666,227	13%	12,756,917	11.733%
GS >50	16,672,253	19%	21,278,603	19.571%
Large Use	5,766,749	7%	8,279,404	7.615%
Sentinel Lights	41,146	0%	60,045	0.055%
Street Lighting	2,620,584	3%	3,112,829	2.863%
USL	1,035,853	1%	567,719	0.522%
Standby Power	568,376	1%	665,053	0.612%
Total	87,899,641	100%	108,723,757	100.000%

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8 **Table 7-3 – Chapter 2 Filing Requirements Appendix 2-O c) – Re-Balancing**
 9 **Revenue to Cost Ratios**

Customer Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios
Residential	106.4	110.7	104.0
GS < 50 kW	88.1	102.8	102.7
GS >50	98.0	84.8	91.2
Large Use	95.2	63.9	91.2
Sentinel Lights	72.3	62.4	91.2
Street Lighting	70.0	75.6	91.2
USL	62.0	129.8	120.0
Standby Power	65.8	79.0	91.2

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Table 7-4 – Chapter 2 Filing Requirements Appendix 2-O b) – Calculated Class Revenues

	Column 7B	Column 7C	Column 7D	Column 7E
Customer Class	2011 Revenue at Existing Rates	2011 Base Revenue Allocated in the Same Proportion as 2011 Revenue at Existing Rates	2011 Proposed Base Revenue at Proposed Revenue to Cost Ratios	Miscellaneous Revenue
Residential	52,414,922	65,173,615	61,037,048	3,446,270
GS < 50 kW	9,881,301	12,286,579	12,279,380	821,973
GS >50	13,864,142	17,238,912	18,593,906	812,647
Large Use	4,052,870	5,039,409	7,300,202	250,796
Sentinel Lights	28,642	35,614	52,928	1,834
Street Lighting	1,823,696	2,267,615	2,752,783	86,185
USL	557,044	692,638	636,750	44,512
Standby Power	408,074	507,406	588,791	17,752
Total	83,030,691	103,241,788	103,241,788	5,481,969

Subsequent to the filing of the responses to the interrogatories on the Revised Evidence on April 1, 2011, Horizon Utilities became aware that the credits available under the Apprenticeship Job Creation Tax Credit program had not been included. Please refer to Horizon Utilities' response to VECC 37. As a result of those changes, Tables 7-2, 7-3 and 7-4 are updated below.

Revised Table 7-2 – Chapter 2 Filing Requirements Appendix 2-O a) – Allocated Costs

Customer Class	Cost Allocated in Previous Study (2008)	%	Cost Allocated in Test Year Study (Column 7A)	%
Residential	49,528,453	56%	61,715,827	57.040%
GS < 50 kW	11,666,227	13%	12,697,966	11.736%
GS >50	16,672,253	19%	21,167,987	19.564%
Large Use	5,766,749	7%	8,234,179	7.610%
Sentinel Lights	41,146	0%	59,699	0.055%
Street Lighting	2,620,584	3%	3,094,725	2.860%
USL	1,035,853	1%	565,213	0.522%
Standby Power	568,376	1%	661,332	0.611%
Total	87,899,641	100%	108,196,928	100.000%

Revised Table 7-3 – Chapter 2 Filing Requirements Appendix 2-O c) – Re-Balancing Revenue to Cost Ratios

Customer Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios
Residential	106.4	110.6	104.0
GS < 50 kW	88.1	102.7	102.7
GS >50	98.0	84.9	91.2
Large Use	95.2	63.9	91.2
Sentinel Lights	72.3	62.4	91.2
Street Lighting	70.0	75.7	91.2
USL	62.0	129.8	120.0
Standby Power	65.8	79.0	91.2

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**Revised Table 7-4 – Chapter 2 Filing Requirements Appendix 2-O b) –
 Calculated Class Revenues**

	Column 7B	Column 7C	Column 7D	Column 7E
Customer Class	2011 Revenue at Existing Rates	2011 Base Revenue Allocated in the Same Proportion as 2011 Revenue at Existing Rates	2011 Proposed Base Revenue at Proposed Revenue to Cost Ratios	Miscellaneous Revenue
Residential	52,414,922	64,841,042	60,738,190	3,446,270
GS < 50 kW	9,881,301	12,223,882	12,218,838	821,973
GS >50	13,864,142	17,150,944	18,491,701	812,647
Large Use	4,052,870	5,013,693	7,258,442	250,796
Sentinel Lights	28,642	35,432	52,609	1,834
Street Lighting	1,823,696	2,256,044	2,736,079	86,185
USL	557,044	689,104	633,743	44,512
Standby Power	408,074	504,817	585,356	17,752
Total	83,030,691	102,714,958	102,714,958	5,481,969