

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”)  
SUBMISSION OF ORAL HEARING UNDERTAKING**

**DELIVERED: April 11, 2011**

**NO. J1.3: TO RESPOND TO THREE-PART HYPOTHETICAL POSED BY MR. AIKEN**

- i. There are two groups of customers, group A and group B. Group A is read bimonthly, and there is one customer in group A. Group B have their meters read monthly and are billed monthly, and there are nine customers in that group. So the first part of the question is: Do you agree that based on the Horizon/Navigant customer weighting, the service lag would be 16-1/2 days?
- ii. Then the second part is if you assume that the revenue from customer A is \$5,000, and the total revenue from the nine customers in group B is also \$5,000 - - so the total revenue is \$10,000 -- would you agree that the service lag based on the dollar-weighting methodology would be 22-and-a-half days, being the midpoint of the 15 and the 30?
- iii. Since the utility is getting half its money after 15 days -- and we can add in the collection lag and the processing lag and all of the other lags. Assume they're the same as what is in the Navigant report. But for simplifying purposes, since the utility is getting half its money after 15 days and the other half after 30 days, does it not make more sense that, on average, it is getting all of its money at the midpoint of these two periods?

**Response:**

- i. Assuming, for simplification purposes that the mid-point for the bi-monthly read customer is 30 days and the midpoint for the monthly read customer is 15 days, then Horizon Utilities confirms that the calculation is correct.
- ii. Horizon Utilities has provided qualifications in Part iii of its response to this undertaking. Subject to such qualifications, the calculation is correct.

1     iii.     Horizon Utilities respectfully disagrees with this conclusion. While the argument  
2             might seem appealing on the surface, one cannot assume that “all of the other  
3             lags are the same as what is in the Navigant report”. If as suggested in Energy  
4             Probe’s three-part undertaking, revenue-weighting were to be used on the  
5             service lag component of the overall revenue lag, the same revenue-weights  
6             must to be applied to all other components of the overall revenue lag as well, i.e.,  
7             billing, collections, and payment processing, since this paints a more full picture  
8             of “when the utility is getting all its money”. In Horizon Utilities’ case, using  
9             revenue-weights on the billing and payment processing lags has no impact on  
10            Horizon Utilities’ overall revenue lag and the working capital requirement, since  
11            the un-weighted lag days are the same for both bi-monthly and monthly  
12            customers.

13            As shown on Table 1, using revenue (rather than customer) weighting decreases  
14            the service lag component of the overall revenue lag from 30.27 to 26.70 days  
15            (see response to J1.2). However, it concurrently increases the collections lag  
16            component from 24.00 days to 26.84 days. When both are taken into account,  
17            the overall revenue lag, as shown in Table 1, is 72.10 days, compared with the  
18            72.84 days as filed in the Navigant Report. The result is a slight increase to  
19            Horizon Utilities’ requested working capital amount shown in Table 1. The  
20            calculation of the revenue-weighted collections lag is discussed in further detail  
21            below.

22            As noted on Page 43, lines 16-21 of the Oral Hearing Transcript (Vol. 1) in EB-  
23            2010-0131, dated April 7, 2011, the collections lag of 24.00 days provided in the  
24            Table within the Energy Probe Compendium (p. 23 of 46) has been partially  
25            dollar-weighted, i.e., the collections lag time of 24.00 days has been determined  
26            using an average aging time within intervals of receivables weighted by the  
27            dollars within those intervals for Horizon Utilities as a whole. This does not imply  
28            that the collections lag is 24.00 days for either bi-monthly or monthly customers;  
29            it is an un-weighted blended average of both. If the collections lag is calculated  
30            separately, the collections lag is 29.34 days for bi-monthly customers and 19.08

1 days for monthly customers, respectively. When the separate collections lags  
2 are revenue-weighted in a manner consistent with that used to derive the 26.70  
3 days of service lag (i.e., 76% bi-monthly and 24% monthly respectively), the  
4 result is 26.84 days, compared with the 24.00 days as contained in the Navigant  
5 report and shown on Page 23 of 46 of the Energy Probe Compendium.

6 **Table 1**

Line	Description	Group A	Group B	Revenue Weighted Total (Days)	Per Navigant Report (Days)	Working Capital Impact
	(A)	(B)	(C)	(D)	(E)	(F)
1	Meter Reading Frequency	Bi Monthly	Monthly			
2	Revenue Weights	76%	24%			
3	Service Lag (Days)	30.42	15.21	26.70	30.27	
4	Billing Lag (Days) from Navigant Report	17.35	17.35	17.35	17.35	
5	Collections Lag (Days) - <b>See Calculation in Table 2 Below</b>	29.34	19.08	26.84	24.00	
6	Payment Processing Lag (Days) From Navigant Report	1.21	1.21	1.21	1.21	
7	Total (Days)			72.10	72.84	
8	Working Capital Requested by Horizon using 14% of OM&A including Cost of Power – see Tab 1. Rate Base in Revenue Requirement Work Form dated April 6, 2001 Filed in EB-2010-0131					\$61,312,651
9	Working Capital Assuming Revenue Weighted Total Lag Days of 72.10 days <sup>1</sup>					61,677,860
10	Difference					+\$365,209

8  
9 **Table 2**

<b>RECEIVABLES BALANCES</b>			
	Bi Monthly	Monthly	Total
Current	15,938,939	29,771,065	45,710,004
Less Than 30 Days	8,829,718	1,701,761	10,531,479
31 - 60 days	2,193,776	(194,248)	1,999,527
61 - 90 days	857,489	(69,256)	788,233
> 90 Days	1,423,799	531,475	1,955,275
Total	29,243,721	31,740,796	60,984,518
<b>PERCENT OF RECEIVABLES BY AGING INTERVAL</b>			
Current	54.5%	93.8%	
Less Than 30 Days	30.2%	5.4%	
31 - 60 days	7.5%	-0.6%	
61 - 90 days	2.9%	-0.2%	
> 90 Days	4.9%	1.7%	
<b>AVERAGE AGE OF RECEIVABLES (Days)</b>			
Current	16.00	16.00	
Less Than 30 Days	23.00	23.00	
31 - 60 days	38.00	38.00	
61 - 90 days	53.00	53.00	

<sup>1</sup> Note that per the Revised Navigant Report dated March 14, 2011, the Company's estimated working capital requirement was \$62.7M. Assuming 72.10 days of Revenue Lag, the rationale for which is both Provided in Table 2 and discussed in the narrative above, the Company's estimated Working Capital Requirement would have been \$61.7M, i.e., a reduction of \$1M. But, as explained in Horizon's Oral Hearings on April 7, 2011, the Company had conservatively understated its working capital to begin with by rounding and assuming 14% of OM&A including cost of power as its working capital requirement (Transcript at p. 25, Lines 20-26). The net change between the revisions shown here and Horizon's original conservative calculation assuming 14% of OM&A expenses including cost of power in terms of an increase (decrease) - is shown on Line 10 Col (F) of Table 1.

> 90 Days	190.50	190.50	
<b>WEIGHTED AVERAGE AGE OF RECEIVABLES (Days)</b>			
Current	8.72	15.01	
Less Than 30 Days	6.94	1.23	
31 - 60 days	2.85	(0.23)	
61 - 90 days	1.55	(0.12)	
> 90 Days	9.27	3.19	
RESULT (Days)	29.34	19.08	