

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

4 DELIVERED: April 13, 2011

5
6 NO. J1.1: TO PROVIDE AN ESTIMATE OF LOST REVENUES FROM THE LARGE
7 USE CLASS OVER THESE THREE YEARS AND THE RETURN ON DEEMED
8 EQUITY, ASSUMING THAT HORIZON DID NOT LOSE THE REVENUE
9 ASSOCIATED WITH THE LARGE USE CLASS.

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11 **Response:**

12 The following is the estimate of lost revenues from the Large Use customer class for
13 2008, 2009, 2010 forecast (based on Table 3-1) and 2010 actual compared to the 2008
14 Board Approved revenues:

- 15 • 2008 Actual vs. 2008 Approved \$3,365,633*
- 16 • 2009 Actual vs. 2008 Approved \$947,860
- 17 • 2010 Forecast vs. 2008 Approved \$780,938
- 18 • 2010 Actual vs. 2008 Approved \$1,992,838

19 *Includes loss of transformer allowance of \$1,864,544

20 The estimated impact on the return on deemed equity (excluding Smart Meters) is as
21 follows:

- 22 • 2008 Actual – 9.2% vs. 7.7%
- 23 • 2009 Actual – 6.8% vs. 6.5%
- 24 • 2010 Forecast – 7.5% vs. 7.2%
- 25 • 2010 Actual – 8.0% vs. 7.3%

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2 In addition to the above analysis, Horizon Utilities respectfully submits that the total
3 estimated loss in revenue attributable to both Large Use and GS>50 customers is as
4 follows:

- 5 • 2008 Actual vs. 2008 Approved \$6,182,394*
- 6 • 2009 Actual vs. 2008 Approved \$1,864,367
- 7 • 2010 Forecast vs. 2008 Approved \$1,296,228
- 8 • 2010 Actual vs. 2008 Approved \$3,335,742

9 *Includes loss of transformer allowance of \$1,864,544

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11 The estimated impact on the return on deemed equity (excluding Smart Meters) is as
12 follows:

- 13 • 2008 Actual – 10.6% vs. 7.7%
- 14 • 2009 Actual – 7.4% vs. 6.5%
- 15 • 2010 Forecast – 7.6% vs. 7.2%
- 16 • 2010 Actual – 9.4% vs. 7.3%

17 Note:

18 The above ROE computations include an assumption on the increase in the estimated
19 rate base to reflect an increase in the cost of power attributable to the increase in load.
20 In addition, it is important to note that the ROE computation assumes that Horizon
21 Utilities would have maintained the same level of OM&A expenditures, despite an
22 increase in the distribution revenue that would have occurred had the load materialized.

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24 The following is an explanation of the Large Use distribution revenue variance from
25 2008 through 2010:

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2 2008 Board Approved compared to 2008 Actuals

3 The OEB approved distribution revenue for the Large Use customer class for 2008 was
4 \$5.5MM while actual revenue for 2008 was \$2.1MM, representing a revenue shortfall of
5 \$3.4MM. The shortfall in 2008 was primarily attributable to the following:

- 6
- 7 • In accordance with the OEB Decision on Horizon Utilities' 2008 Distribution Rate
8 Application (EB-2007-0697), the new distribution rates were effective May 1,
9 2008. However, as a result of the timing of the Decision, such rates were not
10 implemented until December 1, 2008. With respect to the Large Use customer
11 class, the approved rates discontinued the transformer allowance provided to this
12 customer class. As a result of the fact that the new rates were not implemented
13 until December 2008, Horizon Utilities paid \$1.9MM in transformer allowance to
14 this customer class in 2008;
 - 15 • A decline in kW consumption in 2008 compared to the 2008 Board Approved
16 load forecast for this class resulted in a \$0.6MM loss of revenue; and
 - 17 • The balance of \$0.9MM was principally attributable to the delay in the
18 implementation date of the new rates (a "Forgone Revenue" rate rider was
19 implemented December 1, 2008).

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20 2009 Actuals compared to 2008 Actuals

21 The 2009 distribution revenue for the Large Use customer class was \$4.5MM, or
22 \$2.1MM higher than the 2008 revenue, representing an increase in revenue of
23 approximately \$2.4MM. The increase in revenue in 2009 was primarily attributable to
24 the following:

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- 26 • As noted above, the 2008 distribution revenue reflected the payment of \$1.9MM
27 in transformer allowances to the Large Use customers, which was not required
in 2009;

- 1 • 2009 distribution revenue included revenue from the “Forgone Revenue” rate
2 rider (fixed and variable) of approximately \$1.2MM to provide for the difference
3 in rates between May 1, 2008 and December 1, 2008;
- 4 • These favourable revenue variances were offset by a decline in the Large Use
5 customer load, as compared to the 2008 Board approved load, resulting in lower
6 distribution revenue of approximately \$0.9MM.

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8 2010 Actuals compared to 2009 Actuals

9 The 2010 distribution revenue for the Large Use customer class was \$3.3MM, or
10 \$1.2MM lower than 2009 distribution revenue. Excluding the \$1.2MM in the 2009
11 distribution revenue from the “Forgone Revenue” rate rider, distribution revenue from
12 the Large Use class was the same as 2009. Revenue increased by approximately
13 \$0.4MM reflecting an increase in the load over 2009, offset by miscellaneous
14 adjustments.