EB-2010-0131

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")
SUBMISSION OF ORAL HEARING UNDERTAKING

DELIVERED: April 13, 2011

NO. J3.7: TO PROVIDE INFORMATION ON DESIRED REVENUE-TO-COST RATIOS AND FIXED CHARGES RELATIVE TO EACH OTHER AND RELATIVE TO THE DEFICIENCY COLLECTED.

Response:

Horizon Utilities' Application reflects a transitioning of the revenue-to-cost ratios closer to parity (Exhibit 7, Tab 1, Schedule 1, Page 1 and Page 3). This approach involved the identification of the difference between the last Board-approved ratios and parity. The process started with the proposal to move the ratio for the residential class to about half.

Horizon Utilities addressed the ratio for the residential customer class, first. As can be seen from Table 7-1 at Exhibit 7, Tab 1, Schedule 1, Page 3 of 3, the revenue-to-cost ratio for the residential customer class was 110.2% as per the 2011 Cost Allocation Model and 111.6% per the 2008 Board Approved ratios.

Horizon Utilities calculated the distance to move this customer class approximately halfway to parity. Horizon Utilities proposed a specific revenue-to-cost ratio for the residential class for 2011.

With the remaining revenue requirement to be allocated to other classes, Horizon Utilities proposed specific revenue-to-cost ratios for 2011 to adhere to the overarching principle of bringing the revenue-to-cost ratios for each class closer to parity.

The Board will of course make a decision on the proposed ratios for each rate class. It was Horizon Utilities' expectation that the Board-approved revenue-to-cost ratios for 2011 would serve as the basis for allocating the Board-approved revenue requirement to all rate classes based on the Board-approved revenue-to-cost ratios for each class.

Horizon Utilities is not requesting that the Board rule in this Application as to whether and how these ratios may be altered during the IRM period.

Regarding the fixed versus variable charge split, Horizon Utilities has not proposed any changes to the current fixed/variable split, save for the Large Use customer class. In the Board's Decision in Horizon Utilities' 2009 Z-factor Application (EB-2009-0332) at page 9 of the Decision, the Board stated that it:

> *"is in agreement with staff and intervenors that Horizon has not demonstrated that the revenue losses experienced are an event genuinely external to the regulatory regime for which the management of the Applicant could not plan"*

Based on this insight from the Decision of the Board, Horizon Utilities has proposed to move the current fixed charge percentage for the Large Use customer class from 34.3% to 49.4%, in order to manage the revenue risk noted above. The latter percentage reflects that of the next lowest customer class, the GS>50kW. Similar to the revenue-cost-ratios proposal, Horizon Utilities is not requesting that the Board rule in this Application as to whether and how this split may be altered during the IRM period.