



EB-2010-0131

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Horizon Utilities
Corporation for an order approving just and reasonable rates
and other charges for electricity distribution to be effective
January 1, 2011.

BEFORE: Marika Hare
Presiding Member

Cathy Spoel
Member

Karen Taylor
Member

DECISION AND ORDER

BACKGROUND

Horizon Utilities Corporation (“Horizon”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 27, 2010 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Horizon charges for electricity distribution, to be effective January 1, 2011. The Board assigned the Application File Number EB-2010-0131.

The Proceeding

The Board issued a Notice of Application and Hearing dated September 20, 2010. Energy Probe Research Foundation (“Energy Probe”), Vulnerable Energy Consumers Coalition (“VECC”), and School Energy Coalition (“SEC”) applied for intervenor status and cost eligibility. PowerStream Inc. also applied for intervenor status but did not seek cost eligibility. The Consumers’ Council of Canada (“CCC”) filed a late letter of intervention, but indicated that Horizon, through the latter’s counsel, did not oppose the intervention. The Board also received a late intervention request from the Association of Major Power Consumers of Ontario (“AMPCO”) on December 17, 2010, subsequent to the issuance of the Decision on the Preliminary Issue of Early Rebasing and Procedural Order No. 4 (discussed below). PowerStream, VECC, Energy Probe, SEC, CCC and AMPCO are collectively referred to as “the Intervenors”. No objections were received. The Board allowed all requests for intervention and eligibility for cost awards for those who requested it.

The Board also received two letters of comment from individual ratepayers opposing the Applicant’s rate adjustment. Three requests for observer status were also received and approved by the Board.

On October 21, 2010, the Board issued Procedural Order No. 1, whereby the Board indicated that it would first consider the Preliminary Issue of Early Rebasing (the “Preliminary Issue”), as Horizon had applied to rebase its distribution rates through a Cost of Service application for 2011, one year in advance of when it would normally have been expected to apply for rebasing under the multi-year Incentive Regulation Mechanism (“IRM”) plan. In Procedural Order No. 1, the Board allowed for interrogatories and submissions by parties with respect to the Preliminary Issue.

Horizon filed a letter on November 3, 2010 advising that it would be unable to provide responses to these interrogatories by November 4, 2010 but would file them by November 8, 2010. On November 4, 2010, the Board issued Procedural Order No. 2 extending the deadlines for the filing of the interrogatory responses, submissions and reply submissions with respect to the Preliminary Issue.

On November 15, 2010, the Board issued Procedural Order No. 3. In Procedural Order No. 3, the Board determined that claims for confidentiality with respect to certain

interrogatory responses and attachments with respect to the Preliminary Issue were not warranted, and directed that Horizon file unredacted versions of the documents on the public record. In light of this, the Board extended the deadlines for filing submissions and reply submissions with respect to the Preliminary Issue.

On December 17, 2010, the Board issued the Decision on the Preliminary Issue of Early Rebasing and Procedural Order No. 4. The Board found that Horizon's application did not meet the threshold issue set out in the Board's letter of April 20, 2010. However, the Board considered that Horizon's expectation that its early Cost of Service application would be received in light of the Board's decision in Horizon's previous Z-factor application (EB-2009-0332) was reasonable. In that decision, the Board found that Horizon's load loss and volatility should be examined in a comprehensive Cost of Service application. The Board therefore determined that it would proceed with considering this Application. The Board also made Horizon's current approved Tariff of Rates and Charges interim effective January 1, 2011, pending the Board's determination in this Decision.

On January 10, 2011, the Board issued its Decision on Confidentiality, Late Intervention Request and Procedural Order No. 5. The Board granted Horizon's request for confidentiality for its 2011 wage information. The Board also approved AMPCO's late intervention request.

The Board issued Procedural Order No. 6 on February 3, 2011 in which the Board made provision for submissions and reply submissions with respect to information in certain interrogatory responses. The Board also made provision for a Technical Conference on February 25, 2011, preceded by the filing of questions on issues for which parties would seek information in the Technical Conference. The Technical Conference was to be followed by a Settlement Conference conducted on March 8, 2011 and continuing on March 11, 2011.

A transcribed Technical Conference was held on February 25, 2011, with a portion of the Technical Conference conducted *in camera*.

A facilitated Settlement Conference was conducted on March 8 and 9, 2011, at the Board's offices, attended by Horizon and its legal counsel, representatives for the

Intervenors and by Board staff. The Settlement Conference concluded without settlement of any issues.

On March 14, 2011 Horizon filed an update to its evidence. The updates pertained primarily to Horizon's load forecast for its Large Use customer class. Horizon also indicated that it was taking the opportunity to correct an error in certain of the billing determinants used in its application. In its letter of March 14, 2011, Horizon noted that the updates to the Large Use customer load forecasts reflect more current information than was available at the time of preparation and filing of Horizon's application. In its updates Horizon also added a new table (Table 3-24) which provided a summary of forecasted Large User load for 2011 on an individual customer basis. Horizon asked that the unredacted version of Table 3-24A be treated as confidential.

The Board issued Procedural Order No. 7 on March 18, 2011. The Board determined that the updated evidence filed by Horizon on March 14, 2011 was material and warranted discovery through a round of interrogatories in advance of the oral hearing. Interrogatories were filed by Board staff and intervenors by March 25, 2011, and Horizon filed responses on April 1, 2011.

An oral hearing was conducted in the Board's Hearing Room on April 7, 8, 11 and 14, 2011. Part of the hearing was conducted *in camera* on April 7 and 8, 2011. Updates to certain interrogatories on the March 14, 2011 updated evidence, and responses to undertakings, were filed during the course of the oral hearing, including certain updated evidence submitted on April 15, 2011.

Horizon filed an Argument-in-Chief ("AIC") on April 22, 2011. Board staff filed its submission on May 4, 2011, filing both confidential and public redacted versions. On May 6, 2011, Board staff filed a correction to page 10 of its submission. SEC, Energy Probe, AMPCO and VECC filed submissions by May 6, 2011; SEC's and AMPCO's submissions were filed in confidence. Having requested and been granted an extension, CCC filed its submission in confidence on May 9, 2011. Horizon filed its reply submission in confidence on May 20, 2011.

On June 10, 2011, the Board issued a letter to all parties. The Board noted that some intervenors had, to that date, not filed public redacted versions of their submissions and that Horizon's reply submission had only been filed in confidence. The Board directed

parties who had not yet done so to file public redacted versions of submissions and reply submissions by June 15, 2011. Redacted public submissions were received from CCC, SEC and AMPCO and a public redacted reply submission was received from Horizon by that date.

The Issues

Alignment of the Rate Year with the Calendar Fiscal Year

In the Application, Horizon proposed to align the rate year with the current fiscal year. Like most electricity distributors, Horizon's rate year is currently May 1 to April 30, while its fiscal year is January 1 to December 31.

In its decision with respect to an IRM application by Enersource Hydro Mississauga Inc., the Board denied the utility's proposal to align the fiscal calendar and rate years in that application, but indicated that it saw merit in exploring the issue.¹ A generic consultative process with the industry was conducted in early 2010. In its letter documenting its findings from the consultation, the Board indicated that it would consider a proposal to align the fiscal and rate years on a case-by-case basis, with the onus being on the applicant to document the benefits for the utility, its shareholders and its ratepayers.² The Board's expectations were that requests for the alignment of the rate and fiscal years would be submitted as part of Cost of Service applications.

Horizon, in the current Application, has requested alignment of the fiscal and rate years on this basis, and provided its reasons in support of the request.³

Board staff submitted that there were some benefits due to alignment of the rate and fiscal years, and that Horizon had provided more documentation than the Board has seen in other instances. However, Board staff also submitted that Horizon had overstated some of benefits, citing the Standard & Poors' Credit Rating report where

¹ Decision with Reasons [EB-2009-0193], page 5, December 15, 2009

² Letter from the Board Re: Alignment of Rate Year with Fiscal Year for Electricity Distributors [EB-2009-0423], April 15, 2010, pages 1-2

³ Exhibit 1/Tab 2/Schedule 1/pp. 15-17. Further elaboration was also provided in the response to Board staff Technical Conference Question # 3.

regulatory lag was not seen as a major issue by the rating agency. However, in conclusion, Board staff took no issue with Horizon's proposal.⁴

AMPCO supported Horizon's proposal.⁵ CCC did not oppose the proposal so long as there was no adverse impact on Horizon's ratepayers. However, CCC stated that, if Horizon's proposal for rates effective January 1, 2011 is approved, there would be backlash from ratepayers due to the impacts of collection of the incremental revenues back to January 1.⁶

Energy Probe supported Horizon's proposal, and submitted that rate and fiscal year alignment may make it easier to compare historical performance as a change in rates mid-year would not skew the results. However, Energy Probe questioned whether this matter should be decided as a result of an early rebasing application, noting that Horizon will have been under IRM for only 20 months. As such, Energy Probe submitted that rate year alignment be allowed as of January 1, 2012.⁷

SEC supported the proposal to align the fiscal and rate years. However, SEC did not support that this should apply for 2011 rates, citing the lateness, time taken and complexity of the Application. SEC argued that the precedent of the recent Hydro One Brampton ("HOBNI") Decision (EB 2010- 0132) was not applicable, in particular because a revenue sufficiency resulted in that case while Horizon's Application has a revenue deficiency. SEC submitted that the Board should approve rate and fiscal year alignment effective January 1, 2012 for Horizon's next IRM application.⁸ VECC made similar arguments to those of SEC and proposed that the rate year be aligned with the fiscal year effective January 1, 2012 for the IRM period. VECC submitted that the rate year for 2011 should continue to be May 1, 2011 with new rates effective following the Board's decision, as is the standard practice.⁹

SEC, VECC and AMPCO also suggested that Horizon's next Cost of Service application should be for 2016, rather than 2015. This would put Horizon back on its normal schedule, ignoring the early rebasing being considered in this proceeding.

⁴ Board staff submission [EB-2010-0131], May 4, 2011, pp. 6-7

⁵ AMPCO submission [EB-2010-0131], May 5, 2011, pg. 13

⁶ CCC submission [EB-2010-0131], May 9, 2011, pp. 17-19

⁷ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 53-54

⁸ SEC submission [EB-2010-0131], May 6, 2011, pp. 48-50

⁹ VECC submission [EB-2010-0131], May 6, 2011, pp. 35-40

In reply, Horizon noted that all parties supported the proposal to align the rate and fiscal years, but noted that there was disagreement as to when this should occur. Horizon noted that, per the Board's letter of April 15, 2010, a proposal to align the rate and fiscal years should be made in a Cost of Service application. Horizon submitted that it was not possible for it to have filed its application eight or nine months in advance of January 1, 2011 due to the timing of the Board's April 15, 2010 letter and the time needed to develop a comprehensive Cost of Service application. Horizon submitted that the only proposal consistent with the Board's policy that alignment be considered in a Cost of Service application would be to align the rate and fiscal year effective January 1, 2011.¹⁰ Horizon also objected to proposals to confirm its next rebasing for 2016, stating that these requests were imprudent and that the Board would not be inconvenienced in managing its workload in having Horizon file according to the four-year schedule, which would mean a rebasing application for 2015. Horizon submitted that intervenors' submissions be rejected on this matter.

Board Findings

The Board approves the change in rate year from May 1st to January 1st in order to align the financial year with the rate year. Horizon provided evidence of several benefits of this realignment, and there was no dispute about these advantages from any party. This change is effective, in principle, January 1st, 2011. Later in this Decision, the Board determines that the actual effective date for Horizon's new rates will be May 1, 2011.

Horizon is expected to file an IRM application by mid-August for new rates effective January 1, 2012. Horizon is then expected to stay on IRM for 3 years, which would be until December 31st, 2014. Having determined that Horizon was eligible for a review of a Cost of Service application for the 2011 rate year, the Board does not accept arguments about a later rebasing. Absent a material change in circumstances that would disrupt the rates cycle contemplated by the Board in this Decision, Horizon is expected to file its next Cost of Service application with the Board in April 2014 for rates effective January 1, 2015.

¹⁰ Horizon Reply submission [EB-2010-0131], May 20, 2011, pp. 146-148

Effective Date of January 1, 2011

In its Application, Horizon has requested an effective date for rates of January 1, 2011. In its Decision on the Preliminary Issue of Early Rebasing and Procedural Order No. 4, the Board made Horizon's current rates interim pending this Decision.¹¹

Horizon's current approved rates were adjusted as a result of the Board's decision with respect to Horizon's separate application for an increased Smart Meter Funding Adder ("SMFA"), effective on an interim basis as of March 1, 2011 until April 30, 2012.

Board staff did not support an effective date of January 1, 2011. Board staff noted that Horizon filed its Application on August 26, 2010, just four months in advance of the proposed January 1, 2011 date, and noted that there has been significant time taken for the regulatory process. Board staff submitted that the effective date for rates be subsequent to the Board's Decision, but that the Board might wish to consider an earlier effective date of May 1, 2011. This would be four months after January 1, 2011, and aligned with the normal effective date commensurate with the timing of the application filing in August 2010.¹²

All intervenors opposed an effective date of January 1, 2011 for rebased rates and proposed that the effective date for new rates be subsequent to the issuance of the Board's Decision. Intervenors noted that the Application was not filed early enough, that the precedent of the HOBNI decision should not apply to Horizon and that delays were caused by the updating of evidence late in the process, and by procedural steps to address confidentiality.

In reply, Horizon rejected the submissions of Board staff and intervenors. Horizon noted that, for a normal 8 month hearing process, it would have had to file by May 1, 2010, only two weeks after the April 15, 2010 letter from the Board advising about rate and fiscal year alignment. Horizon submitted that it takes the Board's hearing processes seriously and strived to meet all deadlines with full, complete and accurate evidence. It also compared its situation to that of HOBNI, which filed for January 1, 2011 rates only two months earlier than did Horizon. HOBNI's application was

¹¹ Decision on the Preliminary Issue of Early Rebasing and Procedural Order No. 4, page 9, December 15, 2010

¹² Board staff submission {EB-2010-0131}, May 4, 2011, pp. 8-9

approved with a January 1, 2011 date. Horizon noted that its rates were made interim effective January 1, 2011. Horizon proposed that the January 1, 2011 effective date for new rates be approved, with an implementation date of August 1, 2011. Horizon proposed that foregone incremental revenues from January 1 to July 31, 2011 be collected via a rate rider until December 31, 2011.¹³

Board Findings

Horizon filed its Application four months prior to its proposed effective date of January 1, 2011. The Board typically requires 8 months to complete a Cost of Service review; this information is posted on the Board's web-site. In addition, the Board has issued two letters indicating the filing dates for those distributors seeking a January 1st rate year and those seeking a May 1st rate year. Horizon's Application was filed on time, but only for a rate year commencing on May 1st.

The processing of this Application was also extended by the many updates to the application, including the load forecast update in March 2011 and with updates filed in responses to Undertakings during the oral hearing in April 2011, the amount of time spent on reviewing issues relating to confidentiality of documents, and the number of undertakings given during the hearing to answer many questions that were fundamental to the Application.

The Board does not accept Horizon's argument that its Application and that of HOBNI are analogous. While even HOBNI did not file eight months in advance of the January 1, 2011 date, in HOBNI's case, the Board's decision resulted in a revenue sufficiency and the Board decided that ratepayers should benefit from the rebased rates. In Horizon's case, there is a revenue deficiency, even after the adjustments determined by the Board in this Decision. Therefore, the Board will not approve an effective date of January 1, 2011 as proposed by Horizon.

The Board's recent practice has been to set the effective date for late filers as the 1st day of the month following the issuance of a decision. However, Horizon was not a "late filer" for a May 1st effective date. Horizon could also not have known the process which would be taken by the Board to establish, as a threshold issue, whether a distributor seeking to rebase prior to the established three-year IRM term should be permitted to

¹³ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 149-152

do so. The process adopted by the Board did result in the Board not being able to render this Decision in time for May 1st rates. For the reasons set out above, the Board approves new rates effective May 1, 2011.

ISSUES FROM THE APPLICATION

Rate Base and Capital Expenditures

Horizon is proposing capital expenditures of \$43,992,099 in 2011, a 27.7% increase over 2008 actual capital additions of \$34,449,049.¹⁴ It documents that the formal asset management approach that it adopted beginning in 2008 has resulted in increased capital expenditures to address the age and condition of its network. Horizon estimates that sustainable replacement of its network on a going-forward basis will require an increase of capital expenditures to about \$45 million per year from 2015 onwards. Horizon has not included any smart meter spending in rate base.

Board staff and intervenors questioned the level and the nature of Horizon's actual and proposed capital expenditures. In particular, parties questioned the prioritization of capital expenditures, noting significant expenditures for IT-related projects, while Horizon's witnesses had testified on the need to renew its aging distribution network and pointed to the support of the Asset Management Plan ("AMP"). Parties were also concerned with the quantum of the proposed increases in view of the limited growth in customers and connections, and the decline in demand forecasted for the test year.

Board staff did not have specific concerns with Horizon's rate base and capital expenditures. However, considering Horizon's load forecast as updated during the proceeding and the general level of increases of operating expenses, Board staff did express concern with the overall level of capex.

Board staff noted that Horizon has provided a comprehensive AMP, but stated:

While an extensive AMP is corroborative support for a capital plan, it is not sufficient in and of itself. A utility must also consider its resources – time, money, and people – and decide what it can and must do, and with what priorities. Board staff submits that Horizon's evidence on this is limited.

¹⁴ Exhibit 2/Tab 2/Schedule 4/page 1/Table 2-14

First, Horizon has proposed significant increases in operating and capital expenditures in the 2011 test year, even when faced with little growth in customers and possibly a decline in consumption. When faced with demand constraints, a profit-seeking corporation will consider options for productivity improvements and cost constraints. While distribution utilities face an obligation to serve, they also must make similar decisions of how to manage costs when faced with demand and revenue constraints. This was discussed during the oral hearing [footnote omitted], but the evidence, in Board staff's view, is not definitive as to how Horizon has dealt with this in its 2011 capital and operating programs and budgets. In fact, Board staff submits that the misalignment between demand and capital plans is exacerbated by the load forecast updates where Horizon has reduced its load forecast but has not altered its 2011 capital program at all.¹⁵

Energy Probe noted that Horizon, in the original Application, had forecasted a 2010 closing net book value ("NBV") of \$307,416,000 and construction work-in-progress ("CWIP") of \$6,316,000. However, as Horizon subsequently filed in the response to Energy Probe Technical Conference Question #1b in late February 2011, the actual closing NBV for 2010 was \$304,891,000 while the closing CWIP balance was \$9,157,000. The NBV was \$2,527,000 lower than forecast, while the CWIP balance was \$2,800,000 higher than forecast. Energy Probe submitted that the actual 2010 closing NBV rate base should be used for the opening balance for the 2011 test year, and that the depreciation expense for 2011 should also reflect the 2010 actual closing NBV.

Board staff and most intervenors submitted envelope changes to Horizon's capital expenditures. Board staff suggested a reduction of \$5,500,000 for a proposed 2011 capex of \$38,492,099. Energy Probe proposed that capital additions should be \$40,500,000 plus an adjustment to CWIP of \$2,800,000. Energy Probe also proposed a reduction to fleet of \$107,550 related to reductions in proposed FTEs, and removal of the premium for hybrid vehicles.

VECC proposed two options, with capital expenditures of \$41,106,029 or \$41,866,864.

¹⁵ Board staff submission [EB-2010-0131], May 4, 2011, pp. 10-11

SEC was concerned about the inconsistency between Horizon's internal AMP and the study conducted by Kinectrics several years ago for a potential merger between Horizon and Guelph Hydro. In light of the inconsistencies, SEC proposed a 2011 capex of \$38,980,051 based on a 2 year average (2009 and 2010 plus CWIP). Using an approach similar to that used by SEC, CCC proposed a 2011 capex of \$36,100,000.

In reply, Horizon noted that it had agreed, during the oral hearing, that reflecting its closing 2010 actuals as the opening balance for the test year with 2011 capital additions adjusted to reflect the increased CWIP that is expected to close to rate base in 2011, was fair. Horizon reiterated that its proposed capital expenditures are necessary to renew its aging infrastructure, and that any reduction from the proposed capex would result in increased operations and maintenance costs. Horizon defended its AMP and stated that it had conducted numerous other analyses which point to the severity and need for replacement of aging infrastructure, with the AMP focusing on the utility's distribution substations. Horizon stated that its evidence pointed to an increasing backlog of assets that are now beyond "end of life".

With respect to employees, Horizon submitted that its employee hiring is focused on its "front line delivery", and that it also takes advantage of third party contracting to help manage the seasonal volatility (particularly with respect to the "construction season" between spring and fall, and to avoid overstaffing. Horizon submitted that the analyses of other parties, based on historical averages or trending are not representative of Horizon's future capital requirements as supported by its AMP. As such, Horizon requested approval of its proposed 2011 capex of \$43,992,099.

Board Findings

Rate Base

The Board accepts the submissions of several parties, as agreed to by Horizon, that the actual 2010 NBV adjusted for the increase in CWIP should be used by Horizon as the opening balance for 2011 in the calculation of the rate base for the test year. The Board directs Horizon to reflect the lower capital expenditures closed to rate base in the test year depreciation expense. While this may have a small impact on the calculation of the total rate base, the Board is of the view that the most accurate calculation of rate base should be used.

Capital Expenditures

The Board is concerned with the significant increase in capital expenditures proposed by Horizon for 2011. This concern is elevated by Horizon's proposed increase in spending despite a loss of load and revenue and lack of customer growth. The Board would have expected Horizon to have looked for different operating models which would fit with a distribution company in Horizon's position, but it appears the opposite is the case. Continuing to increase capital spending given the economic situation of its service territory may not be sustainable.

The Board does not accept Horizon's claim that this amount of capital expenditures is required to address Horizon's aging infrastructure and asset renewal requirements. While the Board encourages ongoing asset renewal and maintenance to ensure service quality and reliability, a distributor must prioritize expenditures in order to keep rate increases at a reasonable level. Furthermore, the Board agrees with several parties that Horizon's evidence was confusing and contradictory. While Horizon claimed that an increase in capital expenditures is needed to address infrastructure renewal, the Board notes that a significant portion of the increase is related to non-distribution system projects such as IT hardware and software.

The Board finds Horizon's asset management evidence is not persuasive. Horizon presented an "in-house" asset management study that was contradicted by a previous study undertaken by an independent consultant. The conclusion arising from Horizon's "in-house" study that a much more aggressive level of spending is required is not as persuasive as the external study that was previously undertaken for purposes of an asset acquisition. This previous study found that materially lower levels of capital expenditures would have been required on a continuing basis post-acquisition by the combined entity. In light of the discrepancies between the studies, the Board places limited weight on the asset management study undertaken by Horizon staff.

Nevertheless, there is also no doubt that an appropriate investment in asset renewal and maintenance is required. The issue is at what level and over what time-frame. Prioritization of capital projects, including enhanced management of discretionary projects, can smooth and stabilize expenditures over time. Horizon's actual expenditures do not yet show this profile. Without addressing each project in detail, the Board notes that the capital budget includes several discretionary projects, such as the

Enterprise Data Warehouse/Operational Data Store and investment in new equipment in fleet capital additions. With respect to the issue of fleet capital, the Board also notes that the premiums paid by Horizon to purchase electric hybrid vehicles should not be the responsibility of the ratepayer.

Parties have provided various rationales or approaches (averaging of 2 or 3 years of actual capital expenditures, an envelope reduction, etc.) to arrive at an appropriate level of capital expenditures for the test year. Each approach produces a different capital budget. However, the range of results is relatively narrow. On one point, however, there is agreement – that the proposed capital budget is excessive and not adequately supported by Horizon’s evidence. The Board agrees.

The Board finds that the capital expenditures for setting 2011 rates should be \$39 million (exclusive of smart meters), which is approximately equal to a \$5 million reduction in the applied-for capital expenditures budget of about \$44 million. The approved capital expenditures budget is within the range suggested by parties and Board staff and is a 3.5% increase to Horizon’s previous peak-year capital spending of \$37.7 million, reached in 2009.

Lead-Lag study

As directed by the Board in its decision on Horizon’s previous Cost of Service application for 2008 rates (EB-2007-0697), Horizon filed a lead-lag study to update its working capital requirements. The study was conducted by Navigant Consulting Inc. (“Navigant”). The results of the lead-lag study are the basis for Horizon’s proposal that the Working Capital Allowance (“WCA”) be calculated as 14% of the sum of the Cost of Power plus controllable expenses; this is lower than the 15% factor that is commonly used in the electricity distribution sector.

An update to the study was filed as part of Horizon’s updated evidence on March 14, 2011. The update did not result in material changes to the results of the lead-lag study.

Mr. Subbakrishna of Navigant Consulting testified on behalf of Horizon with respect to the lead-lag study. During cross-examination it was affirmed that, while revenue weights are used for most components of the analysis, customer weighting was used to estimate the service lag.

In its submission, Board staff submitted that customer weighting overestimates the average service lag, and that revenue weighting for the service lag, as for other revenue and expense leads and lags, is appropriate. Board staff noted the response to Undertaking J1.2, reducing the service lag from 30.5 days to 26.7 days would result in a WCA factor of about 13%, and reduce rate base by about \$5.5M.¹⁶

Energy Probe agreed that the WCA was overstated by more than \$4.5 million compared to the updated Navigant Report for the reasons noted by Board staff. Energy Probe also submitted that the WCA should be updated and corrected through updating of Tables 8 and 9 of the Lead-Lag study conducted by Navigant Consulting, rather than just through application of the 14% factor or whatever factor determined by the Board.¹⁷ Energy Probe also submitted that the revenue weights should use the 2011 test year forecasts rather than 2009 actual data,¹⁸ that management fee expenses of \$784,515 should be excluded from OM&A for the purposes of calculating the WCA¹⁹ and that the Cost of Power was incorrect and proposed corrections for this. Overall, Energy Probe estimated that its proposed adjustments would result in a WCA factor of 13.6%.

Energy Probe also submitted that the WCA should be updated to reflect any adjustments resulting from the Board's decision (i.e. with respect to controllable operating expenses and/or load forecast).²⁰

CCC²¹, SEC²² and VECC²³ supported Energy Probe's submission on this issue. AMPCO did not make a submission on this matter.

In reply, Horizon concurred with Energy Probe's submissions for the updated Cost of Power and with the exclusion of management fee expenses of \$784,515 from OM&A and hence from controllable expenses for purposes of calculating the WCA. However, Horizon rejected the submissions of Board staff and stated that its 14% WCA factor per the updated Navigant Report is correct. It stated that the alternative would be to apply the generic 15% factor commonly used by electricity distributors. Horizon also opposed

¹⁶ Board staff submission [EB-2010-0131], May 4, 2011, pp. 17-18

¹⁷ *Ibid.*, pp. 12-13

¹⁸ *Ibid.*, pp. 14-16

¹⁹ *Ibid.*, pg. 19

²⁰ *Ibid.*, pp. 16-18

²¹ CCC submission [EB-2010-0131], May 9, 2011, pg. 7

²² SEC submission [EB-2010-0131], May 6, 2011, pp. 35-36

²³ VECC submission [EB-2010-0131], May 6, 2011, pg. 4

Energy Probe's proposed 13.6% factor for the WCA, submitting that it was too late in the process to suggest changes in the methodology for revenue weighting of service and revenue lags.²⁴

Board Findings

The Board has considered the many adjustments and corrections suggested by Energy Probe, and supported by other parties, in order to calculate the WCA. The Board is in agreement that these factors would reduce the WCA by approximately \$2.6 million, as suggested by Energy Probe.

The Board is also concerned with the adequacy of the WCA calculation given the testimony of the Navigant consultant, who stated that the lead/lag study did not take into consideration a number of elements that would have reduced the billing lag – most notably the introduction of smart meters and AMI, which represent a significant investment in assets in order to improve billing information. Noting that Horizon has nearly completed its deployment of smart meters and will be implementing time-of-use ("TOU") pricing this year, the Board finds it is incongruent to disregard the operational impacts arising from smart meters and TOU pricing that should reduce cash working capital requirements during 2011 and the subsequent IRM period.

The Board does accept Horizon's argument that a lead/lag study is undertaken based on the individual characteristics of the distributor, and therefore comparisons to other distributors may not be appropriate. Nevertheless, the Board must take notice of the results of other study results such as those conducted for and filed by Hydro One Networks Inc. and Toronto Hydro Electric Systems Ltd. to ascertain reasonableness.

For the reasons set out above, the Board directs that a 13.5% working capital allowance will be used. This result is also more consistent with the results of the working capital allowance studies undertaken by Hydro One (result being 11.9%) and Toronto Hydro-Electric Systems Limited (result being 12.9%).

²⁴ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 41-44

Operating Revenues and Load Forecast

Load Forecasting – General

Horizon has used an approach similar to that used by other distributors, with one significant exception. Horizon has used a commonly accepted approach for a regression-based load forecast for demand for all classes, in aggregate, excluding Large Users. It has then separately forecasted demand for the Large Use class. The approach is an intermediate one between the class-specific modeling that Toronto Hydro has used in its 2011 Cost of Service application currently before the Board, and the one-model approach generally used by other distributors.

No parties disagreed with the general approach. Board staff submitted that Horizon's approach was appropriate, as it had a sizable Large Use class with 12 customers whose demand was unique and that separate modeling was appropriate to address the load volatility that was part of the reason for Horizon's early rebasing application.

While parties raised no issues with Horizon's general approach, submissions were made with respect to each of the Large Use and non-Large Use load forecasts.

Customer Forecast

Horizon provided forecasts of customers or connections for each rate class. It proposed a total customer/connections count of 290,997 for the 2011 test year, compared to 288,245 for 2009 actuals.

VECC submitted that the 2011 customer and connection forecast should be accepted, as it is reasonable based on the 2010 actuals.²⁵ No other parties made submissions with respect to the forecast of customers and connections, and Horizon did not address this matter in reply.

Load Forecast – Other than Large Use Customers

Horizon used a linear regression model that has evolved and been accepted by the Board in previous Cost of Service cases. The general approach is to regress monthly

²⁵ VECC submission [EB-2010-0131], May 6, 2011, pp. 4-5

kWhs based on economic activity, days in the month, Heating Degree Days (“HDD”), Cooling Degree Days (“CDD”), a Spring/Fall binary “flag”, CDM and other variables as necessary. This modeling approach attempts to estimate the influence of key determinants – such as customer base, economic activity, and seasonal and weather variations on realized demand. The estimated parameters are then used in the model along with forecasted exogenous variables for the test period to estimate a weather-normalized demand.

This aggregate demand is then apportioned within classes based on estimated per customer consumption patterns, and kW demand forecast for demand-billed customer classes are estimated through kW/kWh patterns or trends.

In its original Application, Horizon proposed a billed demand forecast of 4,660.0 GWh for the normalized test year; this amount includes Large Use demand of 693.7 GWh and 3,966.3 GWh for non-Large Use load. In the evidence updated on March 14, 2011, Horizon proposed a billed demand forecast of 4,486.6 GWh, including a revised Large Use demand of 520.3 GWh and 3,966.3 GWh for non-Large Use load. In the regression model accompanying Undertaking J3.3 filed on April 13, 2011, Horizon provided a revised billed demand forecast of 4,355.3 GWh, including Large Use demand of 520.3 GWh and 3,835.1 GWh for non-Large Use load.

A significant amount of the cross-examination on the fourth day of the oral hearing, April 14, 2011, was related to Undertaking J3.3 and the associated updated load forecast model. In Undertaking J3.3, Horizon confirmed that there had been a double-counting of 3rd tranche and OPA CDM savings. It thus adjusted the CDM variable and then re-ran the model. In Undertaking J3.3, Horizon provided a summary indicating that the resulting revenue deficiency increased (in magnitude) from \$19,684,267 to \$20,721,653.

Board staff expressed concern over the updated load forecast filed in Undertaking J3.3. Board staff submitted that the regression results showed that the coefficients of both the income and the CDM variables changed in the updated model, due to collinearity between the variables and that it was the combined impacts which were drivers of the significant change in the load forecast and the resulting increase in the revenue deficiency. Board staff stated that it had no confidence in the load forecast from the updated model filed on April 13, 2011, in the absence of having an adequate

opportunity to test the model, and that, overall, the original 2011 weather-normalized Purchased Load Forecast of 4,127.6 GWh may be a more realistic forecast, despite the errors of the CDM variable in the regression model.²⁶

In its submission, Energy Probe stated that it had two concerns with respect to Horizon's load forecast for non-Large Use customers:

- Inaccuracies in the CDM impact; and
- Horizon's regression model.

With respect to the estimated CDM target, Energy Probe stated that the CDM target for 2011 should be 28.142 GWh, not 75.25 GWh. First, the end target for Horizon is 281.42 GWh and not the 301 GWh used by Horizon. Second, the target for 2011 should be 10% of the end-target, assuming a 10 percentage point increase each year and that the end-target is cumulative over the four-year period. Energy Probe stated that this treatment was that same as the Board recently approved in the HOBNI decision²⁷ and that there is no reason for different treatment in Horizon's case.

Energy Probe submitted that issues with regression models filed in the proceeding by Horizon were severe enough that the regression based approach should not be used. Energy Probe also stated its concerns with the CDM variable as constructed and used in the analysis. Energy Probe's analysis concluded that multicollinearity between the CDM and economic activity/income variables was a factor. It stated that this would not be a concern if the same relationship between the correlated variables continued in the forecast period, but noted that this is not the case here due to the CDM targets that have become a condition of a distributor's license.

Energy Probe provided an alternative analysis deriving a normalized non-Large Use load forecast of 4267.5 GWh for the 2011 test year.²⁸

Energy Probe also made a submission on the kWh to kW conversion. While accepting the average factor approach for the streetlighting and sentinel lighting customer classes, Energy Probe submitted that there is a trend in the kW to kWh ratio over time, and that

²⁶ Board staff submission [EB-2010-0131], May 4, 2011, pg. 31

²⁷ Decision and Order, Hydro One Brampton Networks Inc., [EB-2010-0132], April 4, 2011

²⁸ Energy Probe submission [EB-2010-0131]. May 6, 2011, pp. 20-27

the Board should use the actual 2010 ratio of 0.2872%, as provided in the response to Energy Probe interrogatory 11 d) rather than the 2003 to 2009 average of 0.2727%.²⁹ Energy Probe estimated that this change would reduce the revenue deficiency by approximately \$622,840.

VECC made submissions similar to those of Board staff and Energy Probe, critiquing the model with respect to the multicollinearity of the economic activity and CDM variables, the interpretation of the CDM coefficient, and the late updating of the regression model which precluded adequate testing. VECC concluded that the regression model was not sufficiently robust or adequately understood to allow it to be used to forecast the 2011 demand.³⁰

VECC also supported the submissions of Board staff and Energy Probe with respect to the adjustment for CDM for 2011 to 10% rather than 25% of the 4-year target.³¹ In the absence of a suitable model for forecasting non-Large Use demand, VECC supported Energy Probe's proposal for the 2011 non-Large Use demand of 4267.5 GWh.³² SEC supported the analyses of VECC and Energy Probe, and their estimate of 4267.5 GWh, as being reasonable in light of past history and the likely impact of CDM.³³

CCC supported VECC's submission with respect to the treatment of the CDM targets. CCC supported Energy Probe's analysis with respect to the Load Forecast for Other than Large Use customers. Noting that load forecasting has been a contentious issue in a number of recent applications, in part because of CDM impacts, CCC submitted that the Board should undertake a consultation with LDCs and other stakeholders on load forecasting methodologies.³⁴

In reply, Horizon noted that the multivariate regression approach is a more sophisticated approach than the average use per customer previously used and has been general accepted by the Board in Cost of Service applications in recent years. Horizon submitted that the increased significance of the CDM coefficient with the corrected CDM variable as filed in Undertaking J3.3 was sensible, and reflected additional consumption

²⁹ *Ibid.*, pp. 29-30

³⁰ VECC submission [EB-2010-0131], May 6, 2011, pp. 6-10

³¹ *Ibid.*, pp. 10-12

³² *Ibid.*, pg. 12

³³ SEC submission [EB-2010-0131], May 6, 2011, pg. 11

³⁴ CCC submission [EB-2010-0131], May 9, 2011, pp. 7-8

reductions beyond the measured CDM benefits from OPA and third tranche programs and that continuation of these additional benefits would be expected to continue with the implementation of TOU pricing. Horizon further submitted that, even if multicollinearity was present, the significant t- and F-statistics and high R^2 of the model indicated that it was not problematic.

Horizon submitted that the issue of the CDM license condition target impacts, and whether it should be 25% or 10% of the overall target for 2011 is not an easy issue, as noted in Board staff's submission. Horizon submitted that its proposal of a 75 GWh reduction in 2011 was supported by its CDM strategy and its review of 2011 OPA programs. Regardless of the Board's decision, Horizon submitted that any generic true-up mechanism that might be established by the Board, as contemplated by the Board in its decision with respect to HOBNI's 2011 Cost of Service rates application would also be available to Horizon.³⁵

Horizon also refuted Energy Probe's submission with respect to the kW-to-kWh conversion, and submitted that its proposed factor of 0.2727% is a more "normalized" approach.³⁶

Load Forecast – Large Use Customers

As discussed above, Horizon modeled its Load Forecast for its Large Use customer class separately. In this way, the utility could take into account the unique characteristics of the twelve customers in this class and address the volatility in demand which has been experienced in recent years. In its original Application, Horizon forecasted a Large Use class load of 693.7 GWh (billed demand). In its updated evidence filed on March 14, 2011, Horizon revised this to 520.3 GWh. In the revision, Horizon proposed to use the actual 2010 load for 10 out of the 12 customers. For one customer, the 2011 demand was set at zero, while the demand for the third customer is based on actual demand for January and February 2011 and on the average demand from December 2010 to February 2011 for the remainder of the 2011 test year. Horizon proposed that a variance account be established to track the difference between the forecasted and actual demand for the two specified customers, and that any overage in

³⁵ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 49-59

³⁶ *Ibid*, pp. 60-61

revenues due to higher demand than was forecast be shared 50:50; Horizon would bear the risk for any underage in demand for the two customers.

While Board staff took no issue with Horizon's approach for forecasting the load for Large Use customers, Board staff was concerned that Horizon's updated forecast was an underestimate for 2011, particularly as Horizon assumes zero demand for the one specified customer when there is known demand by this customer to date in 2011.

Energy Probe took no issue with respect to the updated load forecasts for the specified Large Use customers, noting Horizon's proposal for a variance account.³⁷ However, Energy Probe submitted that Horizon has not factored in any growth for the other ten Large Use customers, despite using a GDP growth of 3% for non-Large Use demand. Energy Probe submitted that some load growth for the Large Use customers would be reasonable, but did not make a specific proposal for this.³⁸

VECC submitted that the Large Use forecast in the March 14, 2011 update was conservative in that:

- It did not factor in any economic growth for 2011; and
- The zeroing of the demand for one customer for the whole year, and the assumption of the lower demand based on January and February for two other customers assumes that the circumstances will persist for the full year.³⁹

VECC also made submissions with respect to the proposed variance account; these are discussed later in this Decision.

SEC submitted that the volatility that Horizon was claiming with respect to Large Use demand was a variance from the 2008 Board-approved amount rather than a real volatility in demand. SEC further submitted that there is no clear evidence of a fundamental change in the business environment in Horizon's service territory of the cities of Hamilton and St. Catharines that would cause a persistent change in the demand level. SEC argued that the observed "volatility" in distribution revenues is small with respect to Horizon's total revenues. Based on this, SEC submitted that Horizon's

³⁷ Energy Probe's submission on the variance account proposal is discussed late in this document under Account 1572.

³⁸ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 27-28

³⁹ VECC submission [EB-2010-0131], May 6, 2011, pg. 5

Large Use load forecast should be the average of the last three actual years (2008-2010) adjusted for the events documented in Undertaking J1.1.⁴⁰

AMPCO stated that Horizon has underestimated its 2011 load, and has overstated the loss in revenues. While acknowledging some of the volatility seen in recent years is real, AMPCO submitted that the decline from 2008 to 2010 may be temporary based on economic conditions; there is no evidence of how permanent the decline is. AMPCO supported SEC's proposal for the three-year average but stated that it would still be a "conservative" estimate for the test year.⁴¹

In reply, Horizon submitted that the volatility of its load and associated revenue for the Large Use and GS > 50 kW classes was central to the Z-factor application dealt with over a year ago and also dealt with in the Board decision on the preliminary issue of early rebasing. Horizon stated that there was ample evidence on the demand of the customers and it submitted that its updated load forecast, up to April 13, 2011, was reasonable. With respect to the non-zero demand for the one specified customer, Horizon submitted that the consumption is not material and the customer would no longer qualify for inclusion in the class if demand remains at current levels for 12 months.

Horizon was not opposed to Board staff's proposal to extrapolate demand as part of the draft Rate Order, subject to this not causing delays in the effective and implementation date(s) for new rates.⁴²

Board Findings

The Board agrees with the submissions of many parties that the evidence concerning the forecasting of volumetric load is problematic. The issues relating to the adequacy and credibility of the volumetric load forecast have been compounded by three updates of the forecast, the last being as a result of an undertaking response in the last days of the oral portion of the hearing.

⁴⁰ SEC submission [EB-2010-0131], May 6, 2011, pp. 11-13

⁴¹ AMPCO submission [EB-2010-0131], May 9, 2011, pp. 10-12

⁴² Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 64-66

The Board does find that the method employed by Horizon, that being the separation for forecasting purposes of Large Use Customers and Non-Large Use Load, is appropriate. The Board also accepts the forecast of customer count as filed in the original Application.

The Board has previously endorsed the use of regression modelling to forecast load; however, in this situation the Board notes the serious problems with the regression equations used by Horizon to forecast the purchased power for the non-Large Use customer classes.

The Board accepts the last updated load forecast of 3,991.0 GWh for non-Large Use load, but will revise this number for the impact of CDM. As noted in the submissions of Energy Probe, and as accepted by a number of other parties, Horizon's 4-year target for CDM has been revised to 281.42 GWh; but this is a cumulative target. To achieve this target, Horizon will need to achieve 28.142 GWh in the first year, which is 1/10 of the cumulative target. The Board will therefore adjust the accepted load forecast by 10% of Horizon's 4-year target for CDM or 28.142 GWh. This approach is consistent with the Board's Decision in the HOBNI proceeding. The result of this adjustment is a volumetric forecast of 4,033.2 GWh⁴³ for non-Large Use customers in the test year.

The Board accepts Horizon's approach for the kW/kWh conversion of 0.2727% for the GS 50-4,999 kW class as proposed. Horizon's proposal is based on seven years of data, and the Board is not convinced, based on the evidence, that the trending proposed by Energy Probe will persist into the future.

Several parties commented on the need for a consultation process to deal with deficiencies in load forecasting methodologies, the goal being a consistent approach by distributors. The Board notes that this is not an issue that applies to all distributors, many having unique circumstances which permit the use of alternate load forecasting methodologies. The Board does not find it appropriate, at this time, to recommend a generic review of this issue.

The Large Use load forecast was complicated by the change in the economic situation of two of Horizon's twelve Large Use customers. However, for the remaining ten Large

⁴³ Calculated as: updated load forecast of 3,991.0 GWh, increased by one quarter of Horizon's 4-year target for CDM of 281.42 GWh and reduced by 1/10 of the cumulative target or 28.142 GWh.

Use customers no allowance for load growth has been factored into the forecast. No consideration was given to whether an overall improvement in the economy from 2009, the year of lowest actual load from Large Use customers, might occur. The Board also notes that the updated forecast, which eliminated all volumes for the two Large Use customers, does not take into account the reality that load will be at approximately 15% of the pre-shut down load for one of these customers and not zero. The Board notes that there was little evidence to either substantiate or reject an allowance for growth in volumes.

The suggestion of taking an average of the last 3 years does not take into account that the changes in Large Use load volumes are not simply fluctuations around an average, but represent significant changes in economic circumstances for at least some of these customers.

The Board will accept the most recent forecast filed by the Applicant (2,417,347 kW), but will make an adjustment to account for the fact that not all the volumes for the two customers have been eliminated and to provide for a modest amount for potential growth. The Board finds that a large use load forecast of 2,500,000 kW is therefore reasonable under the circumstances.

Other Revenues

In its Application, Horizon has forecasted Other Operating Revenues as \$5,481,969 for the 2011 test year. Further, as discussed in the oral hearing and agreed to by Horizon in reply submission, \$784,515, related to the provision of services to affiliates should be transferred from OM&A to Account 4380. This results in an adjusted forecast for other Operating Revenue of \$4,697,454.

In its submission, Board staff noted that there has been a trending reduction in Other Operating Revenues over time, from \$7,292,436 in 2007, \$7,344,652 in 2008, \$6,083,647 in 2009, and \$5,601,659 in 2010 bridge to the \$5,481,969 for the 2011 test year.⁴⁴ Horizon's evidence is that the reduction reflects, in part, a revised Service Level Agreement with Hamilton Utilities Corporation, effective May 1, 2009. Board staff did not take issue with Horizon's proposal, but submitted that Horizon be required to provide further detailed information on the actual time allocation of Horizon's executive,

⁴⁴ Exhibit 3/Tab 3/Schedule 1/page 1/Table 3-25

managers and staff involved in providing services to non-distribution affiliates, as part of the utility's next Cost of Service application.⁴⁵

Noting that Horizon's 2010 actual other revenues was \$6,062,880, which is \$461,221 higher than the original bridge year forecast, VECC submitted that the 2011 test year forecast be adjusted for the variance between the 2010 actual and the 2010 bridge year forecast. With an adjustment of \$460,000, VECC proposed Other Revenues of \$5,941,969, even allowing for loss of rental income.⁴⁶

Energy Probe submitted that the 2011 test year Other Revenue forecast should be \$5,843,190, about \$360,000 more than Horizon originally forecast. In addition to accepting adjustments, such as the loss of rental income from Horizon's property at John St., Energy Probe submitted that there should be adjustments for gains from disposition of utility and other property.⁴⁷

CCC submitted that the 2011 test year forecast for Other Revenues should be \$5.896 million, equal to the 2010 actuals less the loss of rental income from the John St. property of \$166,960.⁴⁸

SEC supported VECC's submission, but also provided an alternative estimate of \$5,506,530, exclusive of management fees of \$784,515. SEC's approach was based on an average of three years of actuals after adjustments.⁴⁹

In reply, Horizon submitted that there was sufficient evidence on the record supporting its proposal. It disagreed with intervenors' proposals to use the 2010 actuals as a starting point for the 2011 forecast, stating that there are differences between the two years; Horizon pointed out changes in interest income and the fact that it has not identified any gains from disposition of property for the 2011 test year. Horizon also refuted the use of a three-year average, noting certain one-time, non-recurring amounts as perturbing the average. Horizon submitted that its approach to forecasting Other Revenues should be approved.⁵⁰

⁴⁵ Board staff submission [EB-2010-0131], May 4, 2011, pp. 33-34

⁴⁶ VECC submission [EB-2010-0131], May 6, 2011, pp. 12-13

⁴⁷ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 31-33

⁴⁸ CCC submission [EB-2010-0131], May 9, 2011, pp. 8-9

⁴⁹ SEC submission [EB-2010-0131], May 6, 2011, pp. 13-14

⁵⁰ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 68-70

Board Findings

The Board finds the amount to be attributed to Other Revenues to be \$5,896,000, which is the 2010 actual amount of Other Revenue adjusted for the cessation of rents from the John St. property.

The Board directs Horizon in its next Cost of Service application to move Management Fees paid to affiliates from Other Revenues to OM & A offsets.

The Board further directs Horizon, in its next Cost of Service application, to file more detailed information, which can be substantiated through examination, on the actual time allocated by Horizon's executive managers and staff involved in providing services to non-distribution affiliates.

Operating Expenses

Horizon Utilities is requesting Operations, Maintenance, and Administration ("OM&A") costs for the 2011 Test Year of \$47,457,279, which represents a reduction of \$80,000 from the original amount requested of \$47,537,239 to reflect the amortization of regulatory costs over four years as opposed to three years as originally proposed. The OM&A amount excludes the amount of \$337,800 for property taxes. The revised proposed OM&A of \$47,757,439 represents an increase of \$7.7 million or 19% over 2010 budget and \$8.95 million or 23% over 2009 actuals.

The drivers for and the need and prudence of the increases to OM&A were dealt with in some detail through interrogatories, the Technical Conference and throughout the oral hearing. Horizon's assumptions about non-labour inflation and about increases in staff complement and associated salaries, wages and benefits were discussed in some detail. There was also lengthy discussion on the record with respect to Horizon's employee complement and historical and proposed increases to its staffing. Confusion regarding "FTEs" and headcount were discussed during cross-examination, and Horizon filed Undertaking JX2.4 (Public Redacted J2.4), an update of Table 4-25 to address this confusion. These were subject to updates through Undertakings during the oral hearing for updated material and to clarify definitions and to allow "apples-to-apples" comparisons.

However, in submissions, many parties adopted an “envelope” approach to operating expenses given the record. The following table summarizes the OM&A forecasts proposed in various submissions.

	2008 Actual	2009 Actual	2010 Bridge Year Forecast	2010 Actual	2011 Test Year
Horizon	\$38,749,191	\$38,804,535	\$40,066,077	\$39,500,000	\$ 47,875,239
Updated					\$ 47,457,439
Board staff					\$ 42,757,439
CCC					\$ 40-42 million
Energy Probe					\$40.6-\$41.4 million
SEC					\$ 41,100,000
VECC					\$ 42,684,989

Board staff submitted that Horizon has overestimated its staffing levels and associated wages, salaries and benefits. Board staff also submitted that Horizon’s assumption of a non-labour inflation factor of at least 3% was inconsistent with standard measures such as the CPI and GDP-IPI. Board staff also expressed concerns about the fact that Horizon had little evidence of productivity gains in historical years or for the test period.⁵¹

In its submission, VECC stated:

- 4.8 Under the circumstances, VECC submits that the only practical approach for setting the 2011 OM&A component of the revenue requirement is an overall envelope or “top down” approach.
- 4.9 In this regard, VECC observes that if the Board were so inclined as to limit the increase in OM&A expenses to 10% over the two-year period 2009-2011 [footnote omitted]. Horizon’s 2011 OM&A claim would be limited to \$42,684,989 [footnote omitted] i.e., a reduction of about \$4.77M from the proposed figure of \$47,457,439.
- 4.10 In view of the fact that Horizon is a low- or no-growth utility, a 10% increase in OM&A costs over two years seems more than generous in VECC’s view, given that inflation has been about 2% per year.⁵²

⁵¹ Board staff submission [EB-2010-0131], May 4, 2011, pp. 34-43

⁵² VECC submission [EB-2010-0131], May 6, 2011, pg. 15

VECC noted that that Horizon's proposal is 10% higher than the 2009 actual and that the Board, in its decision on Burlington Hydro's 2011 application, approved an increase in OM&A of 10% over a two year period.

CCC made similar submissions to other intervenors and Board staff. CCC submitted that the 2011 test year OM&A should be in the range of \$40-42 million, and noted that a 3% escalator over the 2010 actuals would be \$40.7 million and a 3% escalator for two years over 2009 actuals would be \$41.128 million.⁵³

SEC commented extensively on difficulties with the detailed record in its submission, dealing with remapping of data and issues with presentation. Like other parties, SEC proposed an OM&A envelope amount, with an amount of between \$39.9 to \$42.3 million, depending on the starting actual year and the escalator chosen. SEC also provided an analysis of OM&A per customer in support of its submission.⁵⁴

Using an approach similar to other parties, Energy Probe submitted that the base OM&A should be in the range of \$40.6 to \$41.4 million for the 2011 test year; this was based on applying a 6.6% increase from 2009 actuals or 3.3% on 2010 actuals, and took into account inflation escalation and the low but positive growth in customers. Energy Probe also made submissions with respect to adjustments or other treatment for expense items such as removal of management fees, LEAP costs, etc.⁵⁵

In reply, Horizon submitted that a test year OM&A of \$44 million would result applying Board staff's methodology, but would not provide Horizon with any financial flexibility for additional and necessary OM&A activities. Horizon submitted that the approaches advanced by intervenors for escalating the OM&A were inappropriate. In response to the escalator/inflation approaches that have been used for other utilities, Horizon stated that its circumstances are different from those of other utilities like Burlington Hydro, providing some discussion of various attributes of its operations and service territory. Horizon replied that its hires were justified and refuted submissions that many positions were not in support of its core distribution operations. Horizon also refuted the submissions of several intervenors, submitting that its increase in employees is driven

⁵³ CCC submission [EB-2010-0131], May 9, 2011, pp. 9-12

⁵⁴ SEC submission [EB-2010-0131], May 6, 2011, pp. 15-27

⁵⁵ Energy Probe [EB-2010-0131], May 6, 2011, pp. 32-36

by factors other than customer growth. Other factors documented by Horizon are with respect to:

- Largely or wholly connected to the HV transmission grid, necessitating the incurrence of capital and operating costs for distribution stations and feeders;
- Concentration of Large Use demand and having the largest average Large Use demand of any Ontario distributor; and
- Service area characteristics, including heavily industrialized cities and the age and design of the distribution networks in Hamilton and St. Catharines.

Horizon submitted that its proposed OM&A was documented and supported by its evidence on the record.⁵⁶

Board Findings

Considerable hearing time and submissions of the parties focused on employee headcount and compensation. Some of these are attributable to OM&A and some to capital spending. While compensation is the largest component of OM&A, the Board is not inclined to delve into the specific headcount or FTEE numbers, or the extent to which activities are contracted out or undertaken by Horizon's staff. These are matters for Horizon to manage within the spending envelope approved by the Board.

The Board finds that it is appropriate to amortize the one time regulatory costs over a period of four years as submitted by Horizon in its update filed on April 6, 2011. This adjusts the original OM&A by approximately \$80,000.

After this adjustment, Horizon is requesting \$47.457 million for OM&A. The last Board approved OM&A for Horizon for the 2008 test year was \$38.3 million. Since then, actual spending on OM&A has increased only marginally so that actual spending on OM&A was \$39.5 million in 2010. The increase requested is approximately 20% over 2010 actual spending, and an average annual increase in excess of 7% since 2008.

While the Board accepts Horizon's evidence that some spending was delayed or deferred during the unsuccessful merger discussions with Guelph Hydro, and that there is a need to address an aging workforce and aging infrastructure, the Board questions

⁵⁶ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 71-104

whether it is realistic to expect that an increase of \$8 million over 2010 actual spending can be properly implemented in the test year. While the Board does not intend to delve into the details of the hiring and deployment of employees, it does note that hiring to fill new positions and vacancies is behind schedule.

Given that there is very little, if any, growth forecast the Board finds that the increase requested by Horizon is excessive. The Board finds that OM&A spending of \$42 million, before adjustments for property taxes, LEAP and OMERS expenses, for the 2011 test period is appropriate. This represents an average annual increase of slightly more than 3% since the last Board-approved budget in 2008. As this represents a 6% increase over 2010 actual spending, the Board expects that Horizon will be able to prioritize its business activities, implement its workforce and maintenance renewal projects and find ways to implement a business model which reflects its economic circumstances of little customer growth and a loss in load.

Depreciation

In its Application, Horizon stated that it has followed the Accounting for Municipal Electric Utilities in Ontario and the *2006 Electricity Distribution Rate Handbook*.⁵⁷ It has estimated a depreciation expense of \$27,371,137 in the updated Revenue Requirement Work Form (“RRWF”) filed on April 15, 2011.

Board staff submitted that Horizon’s methodology for calculating depreciation expense is consistent with Board policy and practice, but that depreciation expense may need to be updated in light of any findings in the Board’s Decision, particularly with respect to rate base and capital expenditures.⁵⁸

Energy Probe took no issue with the depreciation rates used. Energy Probe also noted that Horizon calculates depreciation from the month that an asset enters service. Energy Probe submitted that this is more accurate than the general “half-year” rule used by most distributors, and that this approach was approved for Horizon’s 2008 Cost of Service application. Energy Probe submitted that Horizon’s approach should be approved. Energy Probe noted that the depreciation expense may also need to be updated for the Board’s Decision on any impacts in the 2010 closing gross fixed assets

⁵⁷ Exhibit 4/Tab 1/Schedule 13

⁵⁸ Board staff submission [EB-2010-0131], May 4, 2011, pg. 44

as well as 2011 capital expenditures.⁵⁹ VECC supported Energy Probe's submissions.⁶⁰

AMPCO, CCC and SEC made no submissions on this matter. Horizon did not address this matter in reply.

Board Findings

The Board approves Horizon's methodology for calculating its depreciation expense, and notes that this more detailed approach is used by natural gas distributors and some electricity distributors in Ontario. Using this approach, Horizon is directed to re-calculate the depreciation expense for the 2011 test year based on the Board's determinations, elsewhere in this Decision, on Horizon's rate base and capital expenditures.

PILs

In its original Application, Horizon proposed a grossed-up PILs expense allowance of \$6,058,643. This amount was subject to adjustment for the updated cost of capital, in addition to changes in capital and operating expenses, and possibly other factors, as determined by the Board in its Decision.

In response to interrogatories and questions from the Technical Conference, Horizon amended its PILs allowance to reflect corrections to the calculations of taxes/PILs, to reflect:

- Correct classification of certain Class 52 computer hardware assets effective January 1, 2011. This in turn results in a different Capital Cost Allowance for these assets in the 2011 test year.
- Adjustments to reflect tax credits available. These tax credits include the Ontario Small Business Tax Credit as well as Federal and Provincial Apprenticeship Training Tax Credits.

⁵⁹ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 41-42

⁶⁰ VECC submission [EB-2010-0131], May 6, 2011, pg. 16

Horizon also accepted a tax reduction of \$36,250 due to the availability of an Ontario surtax clawback on the first \$500,000 of taxable income, as documented in its response to Undertaking J2.2, and confirmed that it would reflect that in the calculation of the revenue requirement resulting from the Board's Decision. In the updated RRWF filed on April 15, 2011, Horizon documented a grossed-up PILs expense of \$5,904,367.

Board staff took no issue with Horizon's approach to calculating taxes/PILs, and submitted that Horizon should continue to apply this approach to determine the PILs expense reflecting the Decision of the Board.⁶¹

Energy Probe submitted that the Board accept the changes documented by Horizon in paragraph of 39 of Horizon's AIC and in Undertaking J2.2, and that this approach be followed to calculate the PILs expense reflecting any adjustments directed by the Board in its Decision.⁶² SEC supported and adopted the submissions of Energy Probe and Board staff.⁶³ VECC supported and adopted Energy Probe's submission.⁶⁴

Horizon made no additional submissions in its reply submission.

Board Findings

The Board approves Horizon's methodology for calculating PILs. Horizon is directed to re-calculate its 2011 PILs expense allowance to reflect the adjustments documented above and additionally to reflect the Board's determinations in this Decision with respect to Horizon's rate base and capital expenditures and Cost of Capital.

LEAP

Horizon did not include any costs associated with LEAP (Low-income Emergency Assistance Program) in its Application although it understood that LEAP will be recommenced by the Board pursuant to Ministerial Directive.⁶⁵ Horizon confirmed this in response to an interrogatory⁶⁶, and also indicated that an expense amount for LEAP,

⁶¹ Board staff submission [EB-2010-0131], May 4, 2011, pp. 44-45

⁶² Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 42

⁶³ SEC submission [EB-2010-0131], May 6, 2011, pg. 27

⁶⁴ VECC submission [EB-2010-0131], May 6, 2011, pg. 16

⁶⁵ Exhibit 4/Tab 2/Schedule 6/page 33

⁶⁶ Response to Board staff IR # 24

equal to 0.12% of approved 2011 distribution revenues should be included. Based on the original Application, this would be an amount of \$130,450. Horizon also noted that it had included in 2011 an amount of \$55,000 for Winter Warmth programs, which will now be replaced by the LEAP program.

In accordance with Board policy and practice, Board staff submitted that an expense for LEAP equal to 0.12% of approved distribution revenues, should be included in allowed operating expenses. The forecasted donation of \$55,000 for Winter Warmth programs for 2011 should correspondingly be removed from 2011 operating expenses and hence revenue requirement.⁶⁷ Energy Probe and VECC also supported this approach.^{68, 69}

VECC did not address this matter directly, but submitted that its proposed 2011 OM&A expense of \$42,684,989 was inclusive of LEAP funding.⁷⁰

In reply, Horizon concurred with Board staff's submission that an amount for LEAP equal to 0.12% of distribution revenues less the \$55,000 already included for Winter Warmth should be included in its revenue requirement.⁷¹

Board Findings

The Board agrees with Horizon that LEAP funding of 0.12% of distribution revenues is incremental to the OM&A envelope. The \$55,000 budgeted for the Winter Warmth program should be removed from the approved OM&A envelope of \$42 million, with a LEAP expense of 0.12% of distribution revenues, as determined in Horizon's draft Rate Order should be, added to OM&A.

Cost of Capital

In its original Application of August 20, 2010, Horizon used an estimated Cost of Capital of 7.27%, based on a deemed capital structure of 60% debt (56% long-term debt and 4% short-term debt) and 40% equity. It used a Return on Equity ("ROE") of 9.85% and deemed short-term debt rate of 2.07%, which were the Cost of Capital parameters for

⁶⁷ Board staff submission [EB-2010-0131], May 4, 2011, pp. 52-53

⁶⁸ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 34-35

⁶⁹ CCC submission [EB-2010-0131], May 9, 2011, pg. 17

⁷⁰ VECC submission [EB-2010-0131], May 6, 2011, pg. 16

⁷¹ Horizon reply submission [EB-2010-0131], May 20, 2011, pg. 12

2010 applications with May 1, 2010 effective dates as announced in the Board's letter of February 24, 2010. Horizon acknowledged that these parameters would be updated with data three months in advance of the effective date for its new rates, proposed to be January 1, 2011, in accordance with the methodology documented in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009 (the "Cost of Capital Report").

Through discovery, Horizon updated the cost of the new debt of \$40 million in 2010, with a rate of 4.89%, compared to the 4.92% originally proposed. Horizon reflected this in updated calculations of the revenue requirement.

No parties took issue with the deemed capital structure requested. Subject to the effective date for the new rates, the deemed short-term debt rate to be used was also not questioned by any parties. The only issues raised pertain to the ROE and the applicable rate on certain existing long-term debt.

Return on Equity

In its updated evidence, Horizon reflected the ROE and deemed short-term debt rate assuming an effective date of January 1, 2011, as proposed. The parameters used are an ROE of 9.66% and short-term debt rate of 2.43%, as documented in the Board's letter of November 15, 2010.

Board staff submitted that, should the Board determine an effective date other than January 1, 2011, the appropriate cost of capital parameters should be updated based on data three months in advance of the effective date determined by the Board. This is consistent with the methodology documented in the Cost of Capital Report. Board staff also noted that Horizon had acknowledged compliance with the Cost of Capital Report during cross-examination by staff counsel.⁷²

CCC noted that the ROE reflected in Horizon's 2008 revenue requirement and rates, when the utility last rebased, was 8.57%, while it is now seeking an ROE of 9.66%. CCC submitted that this early rebasing application is to address a loss of load and to allow Horizon to earn the 9.66% ROE in 2011 would be a "windfall" for the utility. CCC noted that, even in the past few years, despite demand and revenue volatility, Horizon

⁷² Board staff submission [EB-2010-0131], May 4, 2011, pg. 54

was still paying dividends to its shareholder. CCC submitted that the updated ROE should be allowed beginning with 2012 rates. This would require some adjustment to reflect the updated ROE for the base rates for the 2012 IRM adjustment.⁷³

Energy Probe also submitted that approving the increased ROE for 2011 would be a windfall for the utility, and estimated that the impact of the higher ROE and associated PILs expenses would be about \$2.3 million or 11% of the applied for revenue deficiency. Energy Probe noted that a different ROE and short-term debt rate should apply, depending on the effective date determined by the Board.⁷⁴

SEC submitted that the ROE and short-term debt rate should be determined as if the rates were effective May 1, 2011, in line with its submission on the effective date. While noting that Horizon will benefit from the Board allowing its early rebasing application, SEC submitted that the cost of capital is a cost and that: “[o]nce the Board accepted a rate application on that basis, it was under current law required to establish the reasonable and prudent costs for the test period, which costs include cost of capital”.⁷⁵

In its submission, VECC submitted that the allowed ROE should be 9.58%, aligning with its proposal for an effective date of May 1, 2011.⁷⁶

In reply, Horizon rejected the submissions of intervenors. In alignment with its proposal that rates be effective for January 1, 2011, Horizon submitted that the ROE should be the 9.66% it has proposed in the updated evidence. Horizon agreed that it is the effective date and not the implementation date for the new rates that should determine the cost of capital parameters. However, Horizon submitted that it should be the effective data as proposed in the Application.⁷⁷

Long-term Debt

Horizon used a long-term debt rate of 6.10% on a long-term debt note of \$116 million payable to an affiliate, Hamilton Utilities Corporation. While the actual debt rate is 7.0%, the 6.10% corresponds to what the Board approved as the allowed rate for this affiliated

⁷³ CCC submission [EB-2010-0131], May 9, 2011, pp. 12-13

⁷⁴ Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 44

⁷⁵ SEC submission [EB-2010-0131], May 6, 2011, pp. 37-38

⁷⁶ VECC submission [EB-2010-0131], May 6, 2011, pp. 16-18

⁷⁷ Horizon reply submission [EB-2010-0131], May 20, 2011, pg. 114

debt in Horizon's 2008 Cost of Service application (EB-2007-0697). Horizon also had new debt of \$40 million in 2010; this new debt is also due to an affiliated party (Horizon Utilities Corporation), and Horizon assumed a debt rate of 4.92% for the new debt. The weighted average cost of long-term debt in 2011 was 5.80%.

The debt note of \$116 million matures on July 31, 2012. This is outside of the 2011 test year. In its Application, Horizon stated:

... It is Horizon Utilities' intention to refinance such note at that time through the issuance of a promissory note to HHI ("Future HHI Note"). HHI is expected to finance the Future HHI Note through the issuance of a debenture obligation under its Trust Indenture ("Future HHI Debenture"). The terms of the Future HHI Note would be identical, *mutatis mutandis*, to the terms of the Future HHI Debenture. Horizon Utilities requests that, effective with the time of such refinancing of the \$116MM HUC Note in its next scheduled incentive rate mechanism adjustment, its Long-Term Debt rate be adjusted based on the above analysis by substituting the rate on the \$116MM HUC Note with the Future HHI Note.⁷⁸

In response to questions concerning this debt instrument at the oral hearing, parties explored the possibility of imputing an update of the debt rate of this note into base rates during the IRM plan term. In its Application, Horizon did not make a specific proposal of how the Cost of Capital would be updated at the time of its next IRM application. At the oral hearing, Horizon qualified that it would not be finalizing the rate before July 31, 2012 and so the IRM application for which the debt rate update would occur would be for 2013 rates. Horizon's witness suggested that a deferral account could be used to track the difference between the 6.10% and the rate of the renewed debt during the IRM period; the approach would be symmetric (i.e. it would apply whether the rate was higher or lower than 6.10%).⁷⁹

Board staff submitted that the \$116M note should attract the rate of 6.1%, as allowed by the Board in Horizon's 2008 Cost of Service application. Board staff opposed the establishment of a variance account to track the difference in interest expense between the 6.1% and the actual rate of the renewal note actualized in 2012. Board staff

⁷⁸ E5/T1/S1/pg. 3

⁷⁹ Tr., Vol. 3/pg. 84/l. 3 to pg. 85/l. 7

submitted that there is no need for such an account and would run counter to Incentive Regulation, as the GDP-IPI implicitly captures movements in the cost of capital as well as capital, material and labour prices.⁸⁰

SEC submitted that the appropriate rate for the existing debt note should be 5.32%, the current deemed long-term rate for rates effective May 1, 2011 per the Board's letter on March 3, 2011. SEC submitted that, in the Board's decision with respect to Horizon's previous Cost of Service application, the Board determined that this debt note should attract the deemed debt rate. SEC stated that nothing had changed in the interim, and also noted that Horizon was also paying an actual rate of 4.89% on the new \$40 million note executed in July 2010. SEC submitted that Horizon should refinance the \$116 million note now. It did not support Horizon's proposal for the variance account for the debt rate on refinancing in July 2012.⁸¹ CCC supported SEC's submission with respect to the treatment of long-term debt.⁸²

Energy Probe also supported SEC's submission with respect to the treatment of long-term debt, and submitted that the \$116 million debt note should attract a rate of 5.48% for a January 1, 2011 effective date or a 5.32% rate for a May 1, 2011 effective date. While Energy Probe supported Board staff's submission that no variance account should normally be required for debt management under IRM, in this case Energy Probe submitted that special treatment was warranted. Energy Probe submitted that a 10 basis point adjustment on the debt cost was about \$225,000, and suggested that there should be variance account treatment if the difference was above Horizon's materiality threshold of about \$500,000.⁸³

VECC submitted that the variance account proposed for the treatment of the renewed long-term debt should not be approved. VECC submitted that refinancing during the IRM period is not an issue unique to Horizon, and Horizon, like other distributors, should be expected to manage this under the IRM framework. If necessary, and subject to materiality considerations, a Z-factor could be allowed under IRM to address situations like this.⁸⁴

⁸⁰ Board staff submission [EB-2010-0131], May 4, 2011, pp. 54-56

⁸¹ SEC submission [EB-2010-0131], May 6, 2011, pp. 38-41

⁸² CCC submission [EB-2010-0131], May 9, 2011, pg. 13

⁸³ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 45-47

⁸⁴ VECC submission [EB-2010-0131], May 6, 2011, pg. 32

In reply, Horizon submitted that intervenors had misinterpreted the Board's decision in the 2008 Cost of Service application. Noting that the note is not callable and has a fixed rate, Horizon submitted that the appropriate rate should be 6.1% as determined in the prior application. Horizon acknowledged that its proposal for the variance account to track the difference between the 6.1% rate and the rate established when the note is refinanced in July 2012 is "novel", and that parties had different positions on its proposal. Horizon acknowledged that it would adhere to the Board's Decision on its proposal.⁸⁵

Board Findings

The Board approves the use of the Cost of Capital parameters set out in the Letter of the Board dated March 3, 2011, which provides the cost of capital parameters for Cost of Service rate applications with rates effective May 1, 2011. Included therein is a Return on Equity of 9.58% and a deemed short term debt cost of 2.46%. Consistent with the Cost of Capital Report, and as acknowledged by Horizon, the cost of capital parameters are updated with data three months in advance of the effective date for rates. The Board has found elsewhere in this Decision that rates are to be effective May 1, 2011. It is therefore appropriate to use the cost of capital parameters set out in the March 3, 2011 Letter.

The Board also accepts Horizon's weighted debt cost of 5.79%, which reflects two long term debt instruments with its parent company: (i) \$116 million, 6.10% term note maturing in July 2012; and (ii) \$40 million, 4.89% term note due in 2020. The Board finds that 6.1% is the appropriate debt rate for the \$116 million term note for the 2011 test year and is a reasonable proxy for setting base rates for the IRM plan term. The Board notes that the terms and conditions of the \$116 million term note have not changed since the Board's previous approval in EB-2007-0697, and the use of the embedded debt cost is consistent with the Cost of Capital Report as it relates to long term debt that is not callable on demand or has a variable rate.

The Board also accepts the deemed capital structure used by Horizon in its application: 40% equity, 56% long term debt and 4% short term debt, which is consistent with the Board's policy, as set out in the Board's Cost of Capital Report.

⁸⁵ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 113-115

The Board is not persuaded by the arguments of various parties that the Cost of Capital Report should not apply or that the use of updated cost of capital parameters should be deferred on the basis that this application is an early rebasing application. This assertion is clearly contrary to the findings of the Board in its *Decision on the Preliminary Issue of Early Rebasing*, issued on December 15, 2010. In that decision, the Board stated that it was reasonable for Horizon to believe that the Board would accept a Cost of Service application at this time, and allowed the application to proceed. Having made that decision, it is only reasonable that the most recent cost of capital parameters, that is for May 1, 2011, should apply. In addition, the Board also found that load loss and volatility should be explored in a comprehensive Cost of Service review.

The Board is of the view that it would be contrary to the Cost of Capital Report to deny the use of updated cost of capital parameters and finds that the positions put forth by parties are insufficient to justify diverging from the policy of the Board.

The Board denies the approval of the requested variance account to track the difference between the rate of 6.1% and the rate that will be established when the debt is renewed in July 2012. The Board agrees with Board staff that debt renewal is a normal aspect of business and one that the utility is expected to manage under IRM. The Board also agrees that the proposal runs counter to and even undermines the concept of incentive regulation. It is therefore inconsistent with the basic design of 3rd Generation IRM.

Cost Allocation

For this Application, Horizon conducted an updated Cost Allocation study, which was subsequently revised during the course of the proceeding. Horizon's most current proposal for cost allocation between all customer classes is as follows.⁸⁶

Revised Table 7-1 - Revenue to Cost Ratios - 2008 Board Approved and 2011 Proposed

Customer Class	Low	High	2008 Approved	2009 and 2010 Actual	2011 Cost Allocation	2011 Proposed
Residential	85.0%	115.0%	111.6%	106.4%	110.7%	104.0%
General Service < 50 kW	80.0%	120.0%	92.5%	88.1%	102.8%	102.7%
General Service > 50 kW	80.0%	180.0%	86.3%	98.0%	84.8%	91.2%
Large Use	85.0%	115.0%	92.1%	95.2%	63.9%	91.2%
Streetlighting	70.0%	120.0%	43.0%	70.0%	62.4%	91.2%
Sentinel Lighting	70.0%	120.0%	70.0%	72.3%	75.6%	91.2%
Unmetered Scattered Load	80.0%	120.0%	80.0%	62.0%	129.8%	120.0%

⁸⁶ Exhibit 7/Tab 1/Schedule 1/pg. 3/Table 7-1 (updated March 14, 2011), revised to reflect Table 7-1 in response to VECC IR # 44 (April 1, 2011)

As Horizon clarified during cross-examination, its approach is to move classes towards unity. In this Application, Horizon moved the Residential class towards unity, moving from a revenue-to-cost (“R/C”) ratio of over 110% to 104% (“approximately half-way”), and then adjusting other classes; classes outside of the thresholds were to at least move to the minimum/maximum, as applicable, with further adjustments made for classes within the range for that class.⁸⁷ Horizon has also indicated its desire to move the R/C ratios for all classes towards unity, but is not seeking approval for further adjustments in this Application. Horizon is proposing a common R/C ratio of 91.2% for GS > 50 kW, Large Use, Streetlighting, Sentinel Lighting and Standby Power classes, within the applicable range for each class.

AMPCO supported Horizon’s proposal to move R/C ratios towards unity for all customer classes.⁸⁸

Board staff did not oppose Horizon’s proposed cost allocation and R/C ratios in this Application, but cautioned against further movement towards unity. Board staff noted the inexactness and volatility of cost allocation results. Board staff noted that the cost allocation methodology has evolved and that further evolution should be expected with more detailed data that will become available with smart metering. As such, Board staff submitted that any further cost allocation adjustment should await the outcomes of generic consultations currently underway and should be tested in the context of Horizon’s next Cost of Service application.⁸⁹

In its submission, CCC acknowledged Board staff’s submission, and suggested that “the Board should adopt a uniform approach to the issue of revenue-to-cost ratios so as to avoid inconsistent results across utilities.”⁹⁰

Energy Probe submitted that Horizon’s 2011 Cost Allocation study was conducted appropriately, and that the status quo ratios from that study are the appropriate starting point. Energy Probe supported Horizon’s proposal to move the R/C ratio for the USL class, currently above the threshold, down to the threshold of 120%. Energy Probe submitted that the two classes for which the R/C ratios are below the threshold should be moved to the minimum threshold of the class per the Board’s policy, and submitted

⁸⁷ Tr., Vol. 3, pg. 147/l. 22 to pg. 155/l. 23. See also Undertaking J3.7

⁸⁸ AMPCO submission [EB-2010-0131], May 5, 2011, pg. 4

⁸⁹ Board staff submission [EB-2010-0131], May 4, 2011, pp. 59-60

⁹⁰ CCC submission [EB-2010-0131] May 9, 2011, pg. 14

that, since the bill impacts would not be close to 10%, no phase-in or mitigation should be needed. Any further adjustment in other class R/C ratios, specifically for the Large Use and streetlighting classes should be used to lower the R/C ratio for the Residential class. While noting that there is variability in Board decisions on adjustments once R/C ratios are within the Board-approved range for a class, Energy Probe submitted that no further adjustments were necessary in Horizon's application.⁹¹

VECC submitted that Horizon had applied the Cost Allocation methodology correctly. However, VECC submitted that, where the R/C ratio is within the range for that class, no further adjustment is warranted. VECC noted that this issue is being dealt with in three applications (2011 rates applications for Horizon, Toronto Hydro and Brant County Power), and the circumstances differ in each case. VECC argued that adjustments within the range should be approved on a principled basis, and submitted that the Board should establish generic guidelines for this and avoid different outcomes for different utilities. VECC concluded by stating:

VECC respectfully submits that the appropriate and consistent position that the Board should adopt is a policy that refrains approving movements in cost ratios for classes that are already within Board approved ranges absent specific improved cost allocations, except to absorb shifts in ratios for classes that require movement to the outer bounds of the Board's approved ranges. Consistent application of such a policy would essentially eliminate much of the controversy with respect to revenue to cost ratios, as it would eliminate the supposition that utilities have an absolute discretion to move (or not move) ratios towards 1.0 based on considerations that have, in VECC's view, nothing to do with the accuracy of the cost allocation underpinning the resulting revenue to cost ratios.⁹²

SEC supported VECC's submission, and submitted that the R/C ratios arising out of VECC interrogatory # 44 (d) and (g), subject to adjustments to any load forecast, are the correct starting point for the analysis.⁹³ SEC also supported VECC's submission with respect to the principles and conclusions regarding the proposed R/C ratios. Specifically, SEC submitted that, while movement towards unity is appropriate in

⁹¹ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 49-53

⁹² Ibid., pg. 27

⁹³ SEC submission [EB-2010-0131], May 6, 2011, pg. 44

principle, SEC believes that this should be as a result of a generic and principled Board policy and not just at the discretion of an individual utility. As such, SEC opposed Horizon's proposed adjusted R/C ratios.⁹⁴

In reply, Horizon submitted that the cost allocation methodology and the data used has improved since the 2006 Informational filing used in Horizon's 2008 Cost of Service application. Horizon clarified that it had set the R/C ratio for the Residential class closer to unity, and then adjusted other classes.⁹⁵ It requested approval of the R/C ratios as proposed in its updated evidence of March 14, 2011.

Board Findings

The Board accepts the results of Horizon's 2011 Cost Allocation Study and agrees that the results, as updated in the response to VECC IR # 44, represent an appropriate starting point for any consideration of adjustment to customer class revenue-to-cost ratios.

The Board finds, however, that the proposed revenue-to-cost ratios are not appropriate and not consistent with the Board's revenue to cost policy, which establishes ranges of tolerance around revenue-to-cost ratios of one and adopts an incremental approach, whereby changes to revenue-to-cost ratios within the range are to be supported by improvements to the cost allocation model.

The Board is of the view that updating the pre-existing cost allocation model with test year data is an insufficient "improvement" for the purpose of supporting the movement within class ranges, as the Board recognizes that the results will vary somewhat due to data limitations and volatility.

For those customer classes with starting revenue-to-cost ratios greater or less than the upper or lower end of the range provided by the Board in EB-2007-0667, Horizon is directed to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust the other class ratios only as required to reconcile with the overall approved revenue requirement

⁹⁴ *Ibid.*, pp. 44-45

⁹⁵ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 121-123

Streetlighting Revenue-to-Cost Ratio

In its updated evidence of March 14, 2011, Horizon requested that it be allowed to update its revenue-to-cost ratio for streetlighting in a subsequent hearing, in all likelihood its 2012 (or maybe 2013) IRM application.⁹⁶ Horizon noted that it has not conducted the necessary study in this Application and it is too late to update the ratios for 2011 rates.

Board staff noted that the Board had recently issued a report on its updated Cost Allocation policy, which stated that a consultation will be initiated to consider the methodology for the proper treatment of streetlighting for cost allocation.⁹⁷ The outcome of this consultation may result in changes to the Board's Cost Allocation model. Board staff submitted that it would be premature for Horizon to consider updating the R/C ratio for the streetlighting class in its next IRM application. Instead, Horizon should await the outcome of the announced consultative process. Further, Board staff submitted that it would be inappropriate to update the Cost Allocation for only the streetlighting class, and that a full and proper Cost Allocation study is best examined in the context of its next Cost of Service application.⁹⁸

VECC supported Board staff's submission. VECC commented that Horizon should have known its options earlier than the March 14, 2011 update. In VECC's view, this review of streetlighting should be done as part of a comprehensive cost allocation study and reviewed in a Cost of Service proceeding, and that Horizon's circumstances do not warrant a departure from the standard Board approach.⁹⁹ CCC's submission mirrors those of VECC and Board staff.¹⁰⁰

AMPCO, SEC and Energy Probe did not make submissions on this matter. In its reply submission, Horizon clarified that it would await the outcome of the Cost Allocation consultation before addressing the matter of streetlights.¹⁰¹

⁹⁶ Exhibit 7/Tab 1/Schedule 1/page 4/ll. 4-25, updated March 14, 2011.

⁹⁷ *Report of the Board on the Review of Electricity Distribution Cost Allocation Policy*, EB-2010-0219, pg. 39

⁹⁸ Board staff submission [EB-2010-0131], May 4, 2011, pp. 63-64

⁹⁹ VECC submission [EB-2010-0131], May 6, 2011, pp. 27-28

¹⁰⁰ CCC submission [EB-2010-0131], May 9, 2011, pg. 16

¹⁰¹ Horizon reply submission [EB-2010-0131], May 20, 2011, pg. 124

Board Findings

The Board accepts Horizon's proposal to await the outcome of the consultation process on the terminology and modeling methodology for Street Lighting and Unmetered Scattered Load classes, as per the *Report of the Board on the Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219), dated March 31, 2011. The effective date for the implementation of any changes as a result of that consultation will be addressed at a later date.

Rate Design

Fixed/Variable Split

With the exception of the Large Use class, Horizon has proposed to retain the existing fixed/variable ("F/V") split for other customer classes. For the Large Use class, Horizon has proposed to make the fixed component 49.4% instead of the existing 34.3%. The fixed component would be equal to that for the GS 50-4999 kW class.¹⁰²

Board staff submitted that having an appropriate volumetric rate for the Large Use class is important for allocating costs within the class between customers with different levels of demand, as a 100% fixed charge would mean that all customers in the class would pay the same distribution charges regardless of differences in consumption. Board staff submitted that Horizon had not provided adequate quantitative support for moving the fixed ratio to that of the GS 50-4999 kW class, and suggested an option of moving the fixed ratio to 41.85%, halfway between the current Large Use (34.3%) and GS 50-4999 kW (49.4%) ratios.¹⁰³

CCC submitted that the fixed charge for residential customers should be maintained at the current level; this would implicitly change the F/V ratio for this class. CCC made this suggestion to mitigate the impacts, particularly on lower consumption residential customers, and also stated that this would promote energy conservation through increased volumetric rates.¹⁰⁴

¹⁰² Exhibit 8/Tab 1/Schedule 1/pp. 1-8

¹⁰³ Board staff submission [EB-2010-0131], May 4, 2011, pp. 60-62

¹⁰⁴ CCC submission [EB-2010-0131], May 9, 2011, pp. 15-16

Energy Probe supported Horizon's proposal to maintain the F/V ratios constant for all other classes, but took no position with respect to Horizon's proposed adjustment to the F/V split for the Large Use class.¹⁰⁵

SEC was concerned about Horizon's proposal, which would increase the monthly fixed charge for Large Users from \$11,151.32 to \$24,900.49, and noted that this, in and of itself, would be an increase of \$165,000 per customer per annum. SEC noted that this change was the major reason for delivery cost increases of 25-39% and total bill impacts of 4-6% for this class. SEC expressed its concern that Horizon did not have a good appreciation of the broader implications of its proposed changes on the affected customers, and submitted that good ratemaking policy would require that the Board be aware of these.¹⁰⁶

VECC submitted that Horizon's proposal was contrary to the policies from the Board's November 2007 *Report – Application of Cost Allocation for Electricity Distributors*, and that the proposed monthly service charges for Residential, GS < 50 kW, GS 50 to 4,999 kW, and USL all of which exceed the ceiling of the Board's ranges and the Large Use monthly service charge which significantly exceeds the ceiling, should not be further increased.¹⁰⁷

AMPCO submitted that Horizon's proposal to increase the fixed proportion for the Large Use class was arbitrary and unsupported in principle, and was inconsistent with Horizon's testimony that it was mindful of the impacts on customers. Recognizing that there has been demand volatility in recent history, AMPCO expressed concern that Horizon's proposal was shifting revenue risk from the utility to its ratepayers. AMPCO submitted that Horizon's proposal, which would see a 123% increase in the monthly service charge, would be of concern to Large Use customers and could result in some considering alternative service delivery options. AMPCO agreed with the position of SEC, and went on to state:

With the caveats provided by SEC mentioned above, AMPCO acknowledges that there have been marginal declining loads in the Large User class since 2008 that may put financial pressure on the utility.

¹⁰⁵ Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 53

¹⁰⁶ SEC submission [EB-2010-0131], May 6, 2011, pp. 46-47

¹⁰⁷ *Ibid.*, pp. 29-30

AMPCO submits, however, that loading more fixed costs onto the Large User is not an appropriate approach to rate design to deal with any potential revenue shortfalls moving forward.¹⁰⁸

In its conclusion, AMPCO supported SEC's submission with respect to Large Use class rate design.¹⁰⁹ AMPCO submitted that the Large Use monthly service charge be maintained at the current Board-approved level, and that Horizon be directed to develop an alternative that would move the charge closer to the ceiling of \$726.87 from the 2011 Cost Allocation model.¹¹⁰

In reply, Horizon submitted that it had considered proposing a 100% fixed charge for the Large Use class, and that there is support for this concept in the revenue decoupling work that has been undertaken by the Board. Horizon stated that its proposal still leaves it subject to revenue volatility, and requested that the Board approve its proposal to move the fixed proportion for the Large Use class to that of the GS 50 to 4999 kW class.¹¹¹

Board Findings

The Board approves the continuation of the current fixed/variable splits for all customer classes as proposed by Horizon, with the exception of the Large Use Class. The Board approves the proposed fixed/variable split for the Large Use class of 49.4%/50.6%, which is the same ratio for Horizon's GS 50 – 4999 kW class. The Board notes that there are special circumstances in this case that warrant deviating from the policy of the Board, as set out in EB-2007-0667, particularly as it relates to the Large Use class.

The Board does not accept SEC's arguments, particularly regarding the impacts on Large Use customers. Horizon has provided estimated bill impacts for "typical" Large Use customers on the record with the proposed rates. The Board also views that SEC's claimed increase of \$165,000 per annum may be overstated, as the higher fixed monthly charge will be partially offset by lower volumetric rates due to the lower variable component, all else being equal.

¹⁰⁸ AMPCO submission [EB-2010-0131], May 5, 2011, pg. 6

¹⁰⁹ *Ibid.*, pg. 7

¹¹⁰ *Ibid.*, pg. 10

¹¹¹ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 131-133

The decline and variability in revenue from the Large Use class go to the heart of this application and the previous approval by the Board that resulted in this full Cost of Service application. The Board finds it appropriate to approve a higher fixed ratio for Large Use customers in this Application.

Retail Transmission Service Rates

In its Application¹¹², Horizon filed for adjusted Retail Transmission Service Rates (“RTSRs”) based on the Board’s *Guideline G-2008-0001: Electricity Distribution Retail Transmission Rates*, and based on an analysis of historical trends/patterns for over or under-collection in the associated variance accounts. The proposed RTSRs are also based on the approved Uniform Transmission Rates for Hydro One Networks Inc. effective January 1, 2010.

However, Horizon acknowledged that Hydro One Networks’ Uniform Transmission Rates were subject to adjustment, in accordance with the Board’s Decision on Hydro One Networks’ 2011/2012 Uniform Transmission Rate Adjustment Application. The Board approved new Uniform Transmission Rates for Hydro One effective January 1, 2011 in its decision¹¹³ issued December 23, 2010.

Board staff submitted that Horizon’s RTSRs for 2011 rates should be updated to reflect Hydro One Networks’ approved 2011 Uniform Transmission Rates.¹¹⁴

VECC noted that Horizon had updated its proposed RTSRs to reflect 2010 billing quantities in response to VECC interrogatory # 13 (b). VECC submitted that the RTSRs be updated from VECC interrogatory # 13 (b) to reflect: a) Hydro One Networks’ approved 2011 Retail Transmission Rates; and b) the percentage change between 2010 actual billing quantities and the 2011 test year forecast (for all classes including Large Use customers).¹¹⁵

AMPCO, Energy Probe, SEC and CCC did not address this matter in their submissions. Horizon did not address this matter in its reply submission.

¹¹² Exhibit 8/tab 1/Schedule 3/pp. 1-5

¹¹³ File No. EB-2010-0002

¹¹⁴ Board staff submission [EB-2010-0131], May 4, 2011, pg. 64

¹¹⁵ VECC submission [EB-2010-0131], May 6, 2011, pg. 28

Board Findings

The Board directs Horizon to update the Retail Transmission Service Rates to reflect Hydro One Network's approved Uniform Transmission Rates effective January 1, 2011 and also to reflect the 2011 load forecast approved elsewhere in this Decision.

Low Voltage Rate Riders

Horizon has proposed updated Low Voltage ("LV") Rate Riders in its original Application,¹¹⁶ and has used Hydro One Networks' LV rates approved by the Board effective May 1, 2010 to derive its proposed LV rate riders that would be applicable to Horizon's ratepayers.

Board staff observed that Hydro One Networks' has approved updated LV rates effective January 1, 2011. Analogous to the update for the RTSRs, Board staff submitted that Horizon's LV Rate Riders should be updated to reflect Hydro One Networks' current approved LV rates for 2011.¹¹⁷

VECC noted that, in response to VECC interrogatory # 12 (b), Horizon had updated the proposed LV rates based on 2009 quantities and the approved 2011 LV rates for Hydro One Networks. VECC submitted that the proposed LV rates be updated based on Hydro One Networks' 2011 Low Voltage rates and the percentage change between the 2009 billing quantities and the 2011 test year forecast for all classes except Large Use. VECC commented that its proposal was reasonable as Large Use customers are not typically supplied through LV.¹¹⁸

AMPCO, Energy Probe, SEC and CCC did not address this matter in their submissions, and Horizon did not address this in its reply submission.

Board Findings

The Board directs Horizon to update its proposed Low Voltage rates to reflect Hydro One Networks' Low Voltage rates approved by the Board effective January 1, 2011.

¹¹⁶ Exhibit 8/Tab 1/Schedule 1/pp. 10-11

¹¹⁷ Board staff submission [EB-2010-0131], May 4, 2011, pg. 66

¹¹⁸ VECC submission [EB-2010-0131], May 6, 2011, pp. 30-31

Horizon is also directed to provide adequate documentation to allow the Board to confirm the derivation of its proposed updated Low Voltage rate riders.

Loss Factor

In its Application¹¹⁹, Horizon proposed the following loss factors:

Description	Loss Adjustment Factor	
	Existing	Proposed
Supply Facility Loss Factor	1.0067	1.0078
Distribution Loss Factors		
Secondary Metered Customer < 5000 kW	1.0421	1.0407
Secondary Metered Customer > 5000 kW	1.0168	1.0179
Primary Metered Customer < 5000 kW	1.0316	1.0303
Primary Metered Customer > 5000 kW	1.0067	1.0078

Board staff submitted that Horizon's methodology for updating its Loss Factors complies with Board policy and practice.¹²⁰ VECC also submitted that Horizon's proposal for the 5-year average was reasonable.¹²¹

Energy Probe submitted that the updated loss factor should be 3.92% rather than the 4.07% proposed. The 3.92% represents the three year historical average for 2007 through 2009, as Energy Probe considered the high losses in 2006 to be an outlier and should be excluded from the calculation.¹²²

In reply, Horizon stated that the preferred option of the 5-year average has been achieved without undue additional costs to customers and should be approved.¹²³

Board Findings

The Board approves Horizon's proposed loss factors as filed. The Board finds that the methodology used by Horizon to update its loss factors complies with Board policy and practice. No analysis was presented that would suggest that the loss factor put forth by Energy Probe, which is based on three years of data, would be more accurate than the

¹¹⁹ Exhibit 8/Tab 1/Schedule 3/pp. 6-7

¹²⁰ Board staff submission [EB-2010-0131], May 4, 2011, pg. 65

¹²¹ VECC submission [EB-2010-0131], May 6, 2011, pg. 31

¹²² Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 43

¹²³ Horizon reply submission [EB-2010-0131], May 20, 2011, pg. 134

loss factors proposed by Horizon, which use five years of data and are consistent with the Board's Filing Requirements.

Specific Service Charges, Transformer Allowance Credit and Standby Rate Application

Horizon is not proposing any changes to its current approved Specific Service Charges. Horizon is not proposing any change in treatment for the Transformer Allowance credit either.

In its Application, Horizon proposes a change to the method by which the standby rate is applied to applicable customers.¹²⁴ Currently, the application of standby power is based on the generator name plate rating for the customer-owned generation equipment. Horizon proposes that the standby charge be based on the amount of load displaced, so that the customer is only billed on the reserved capacity to supply its gross load.

Board staff observed that Horizon's proposal is analogous to the situation applicable for some other distributors whereby the standby charge is applied based on a contracted amount, which may differ from the name plate rating of the customer's equipment. Further, Board staff noted that the standby charge is approved on an interim basis for Horizon as well as for a large majority of other Ontario distributors and Horizon has not requested to make these rates final.

Board staff took no issue with Horizon's proposal to change the application method for the standby charge and the resulting change to the charge itself, but submitted that any new standby charge should continue to be approved on an interim basis. Interim approval would continue until such time as the Board has reviewed the rate methodology for standby charges generically for all Ontario distributors.

No other intervenors made submissions on this issue. Horizon did not address this matter in its reply submission.

¹²⁴ Exhibit 3/Tab 2/Schedule 2/page 14

Board Findings

The Board approves the continuation of the current approved Specific Service Charges and the rate and application of the Transformer Allowance credit.

The Board also approves the proposed change in the method by which the standby rate is applied to applicable customers, but on an interim basis, until such time as the Board has reviewed the rate methodology for standby charges generically for all Ontario distributors. The Board notes that none of Board staff and the parties had an issue with the proposed change in approach.

Deferral and Variance Accounts

In Exhibit 9 of its Application, as updated on March 14, 2011, Horizon documented the deferral and variance (“D/V”) accounts for which it is seeking disposition. The amounts (December 31, 2009 principals plus carrying charges to December 31, 2010) for which Horizon is seeking disposition are:

- (\$2,766,975) for Group 1 accounts excluding Account 1588 RSVA Global Adjustment sub-account;
- \$5,315,314 for Account 1588 Global Adjustment sub-account, applicable to non-RPP customers; and
- \$1,381,966 for Group 2 accounts for which Horizon is seeking disposition.¹²⁵

In its original Application, Horizon also requested approval for the following new D/V accounts and sub-accounts:

- Account 1595 – Disposition of Regulatory Asset Balances. New sub-account to record D/V account balances approved in this application and subsequent cost recovery and carrying charges.
- New D/V account to record charges from the Smart Meter Entity (“SME”) for Provincial MDM/R charges once these are established beginning in 2011. This D/V account is sought regardless of whether the issue is dealt with in this application or by way of a generic hearing.
- New D/V account to track OMERS pension contribution increases for 2011-2012.

¹²⁵ Exhibit 9/Tab 1/Schedule 2/Table 9-5

- New D/V account to track payments for the Late Payment Penalty (“LPP”) Charges and recovery for customers. Horizon’s amount of the Late LPP is \$1,107,863. Again, the D/V account is sought regardless of whether the issue is dealt with in this application or generically.

With the updated evidence filed on March 14, 2011, Horizon removed its request for the D/V accounts to track the LPP, as this has been dealt with by the Board in a separate proceeding (EB-2010-0295) and the tracking of SME MDM/R charges, as no charges have been applied for by the SME or approved by the Board.

Horizon proposed that the total D/V account balance of \$3,930,306, excluding Account 1592 (discussed below) be recovered or refunded (as applicable) to customers over a one-year period.

In its submission, Board staff invited Horizon to clarify the nature, amounts and justification for certain sub-accounts of Account 1508 – Other Regulatory Assets for which Horizon is seeking disposition.¹²⁶ Board staff also submitted that account 1592 should be disposed, noting that Horizon had agreed to dispose of this account in response to Board staff interrogatory #54.¹²⁷ In its response to Board staff interrogatory #55, Horizon provided an updated balance of (\$1,089,186), which Horizon’s witness at the oral hearing confirmed as an updated audited amount during cross-examination.¹²⁸ Finally, Board staff submitted that Horizon’s proposal for disposition through rate riders to collect or refund amounts over a period of one year was appropriate and consistent with Board policy and practice.

VECC made no submission with respect to the D/V accounts for which Horizon is seeking disposition of the balances. However, VECC made submissions with respect to the class allocator and billing determinants for sub-account Incremental Capital Charges of Account 1508. This represents payments made to Hydro One Networks for their incremental capital rate rider, an additional charge from Hydro One Networks for Sub-Transmission (i.e., LV) service. Horizon has used distribution revenues to allocate the balance between classes, while VECC submitted that the allocator should be LV Costs.

¹²⁶ Board staff submission [EB-2010-0131], May 4, 2011, pg. 69

¹²⁷ Ibid., pp. 71-72

¹²⁸ Tr., Vol. 3, pg. 141/l. 21 to pg. 143/l. 9

VECC supported Horizon's proposal to use 2011 data for the allocation, rather than 2008 actuals, given the changes in volumes in certain classes over time.¹²⁹

Energy Probe supported Board staff's submission with respect to the disposition of the D/V accounts, and accepted Horizon's proposal for the allocators and billing determinants.¹³⁰ No other intervenors made submissions on this matter.

In reply, Horizon concurred with disposition of account 1592 and with a revised balance of (\$1,089,186), in accordance with responses to interrogatories and oral testimony. Horizon noted that the balance of \$10,017 was for charges from Hydro One Networks Inc. for incremental capital, as documented in the response to VECC IR #14 a). Horizon also submitted that the amounts for CDM recorded in the sub-account of Account 1508, with an amount of \$445,690, were for internal staffing and training to provide support for Horizon's CDM programs. These costs were not recoverable from the OPA as they were not for specific OPA-funding programs. Recording of these costs in a sub-account of Account 1508 was in accordance with the Board's decision in Horizon's 2008 Cost of Service application (EB-2007-0697).

Board Findings

Except as set out below, the Board approves the disposition of Horizon's Group 1 and Group 2 deferral accounts, on a final basis as at December 31, 2009, including carrying charges to December 31, 2010.

In general, the Board finds that a one year disposition period is appropriate. However, as noted by the Board later in this Decision, the implementation date for final rates arising from this proceeding will be August 1, 2011. In order to avoid multiple changes in rates over the 2011 and 2012 rate years, and to mitigate the impacts on Horizon's ratepayers and administrative work for the utility, the disposition will be over the 17-month period from August 1, 2011 to December 31, 2012.

The Board finds it appropriate to dispose of the GA sub-account by means of a separate rate rider applicable to non-RPP customers that is included in the delivery component of the bill.

¹²⁹ VECC submission [EB-2010-0131], May 6, 2011, pp. 33-34

¹³⁰ Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 47

Group 2 Account Balances: Account 1508

The Board finds \$445,690 of CDM costs and \$10,017 in Other Regulatory Assets Incremental Capital costs in account 1508 to be appropriate. The Board directs Horizon to cease accruing CDM costs in account 1508, in light of the CDM framework established by the *Green Energy and Green Economy Act*, (the “GEA”). Pursuant to this framework, CDM costs are either funded by the OPA pursuant to a Master Agreement with the LDC or via Board approved CDM programs, which are also funded through the Global Adjustment.

The Board approves the disposition of the balance in account 1508 on a final basis as at December 31, 2009, including carrying costs to December 31, 2010. The disposition period will begin with the effective date for final rates and end December 31, 2012.

Account 1592

The Board approves the disposition of account 1592, as agreed to by Horizon. The Board approves the disposition of a credit balance of \$1,017,175 on a final basis as of December 31, 2009, plus interest to December 31, 2010, totaling (\$1,089,186). The disposition period will begin with the implementation date for final rates of August 1, 2011 and end December 31, 2012.

Disposition of IFRS account

Horizon has filed its Application in accordance with Canadian GAAP. At the time of filing in August 2011, Horizon assumed that it would convert to IFRS effective January 1, 2011; it has subsequently altered the changeover to January 1, 2012. Horizon’s original Application was based on an assumption that there would be no further “transition” costs in 2011 assuming a January 1, 2011 changeover to IFRS, but Horizon has noted that there are costs for IFRS with respect to employees, systems and training factored into the 2011 operating and capital budgets. Horizon has included an amount of \$560,752 as the December 31, 2009 balance of Account 1508 – Other Regulatory Assets – sub-account Deferred IFRS Costs in the D/V accounts for which it is seeking disposition.¹³¹

¹³¹ Response to Board staff IR # 58

Board staff submitted that the Board might consider allowing disposition of 50% of the claimed amount as this is a new issue first arising in this application and in the 2011 rates application of Toronto Hydro and in light of the substantial costs being claimed in each of these applications. Board staff also noted that Horizon will have further costs recorded to December 31, 2010 and may, with the delay in converting to IFRS, have further transition costs in the 2011 test year.¹³²

No intervenors made submissions on this matter.

In reply, Horizon rejected Board staff's proposal. Horizon submitted that Board staff's proposal was uninformed and arbitrary as it was only based on the two examples of Horizon's and Toronto Hydro's applications. Horizon stated that the costs recorded were for one-time incremental costs for third-party consulting, project management, information system and business process design, and training costs related to the transition to IFRS.

Board Findings

The Board finds Horizon's deferred IFRS transition costs to be reasonable and approves the disposition of 100% of these costs on a final basis as at December 31, 2009, including carrying charges to December 31, 2010. The disposition period will be over the 17-month period from August 1, 2011 to December 31, 2012.

OMERS

In its Application, Horizon requested a D/V account to track increases in the Ontario Municipal Employees Retirement System ("OMERS") pension contribution increases being implemented in 2011, 2012 and 2013. Horizon noted that the contributions are an expense item and hence only the 2011 amounts are factored into its test year revenue requirement. The requested D/V account would track the incremental increases in 2012 and 2013. Horizon submitted that its proposed approach is analogous to the manner in which the Board previously handled the cessation of the OMERS contribution holiday on December 31, 2002.

¹³² Board staff submission [EB-2010-0131], pp. 80-81

In response to a Board staff interrogatory advancing an option for a “normalized” OMERs expense increment from 2011 to 2014, Horizon stated that it was open to the suggestion subject to the amount being subject to true-up at the end for any over- or under-collection; any true-up approach would require a D/V account.¹³³ In its submission, Board staff proposed that known increases in the 2011 to 2014 period should be amortized over the rebasing year and IRM period and embedded in base rates with no true-up, similar to how other forecasted OM&A costs in some areas, such as regulatory costs, are treated.¹³⁴

Energy Probe opposed the proposed variance account, and submitted that the preferred option was to amortize the OMERS expense increases over the four-year period, with the amortized (i.e. averaged amount) included in the 2011 revenue requirement.¹³⁵

SEC opposed the requested variance account, stating: “SEC continues to believe that pension costs are one of the normal costs that should be forecast and managed, and in respect of which the utility is compensated for the risk of increases”.¹³⁶

In reply, Horizon requested that the 2011 revenue requirement be increased by \$351,000 to reflect an amortized OMERS contribution increase over the 2011-2014 period, and that no variance account would be required as a result.¹³⁷

Board Findings

The Board accepts the proposal put forth by Board staff and most intervenors – to take the known increases in OMERS premiums and amortize them over four years. The Board therefore approves an increase of the approved OM&A budget envelope by \$351,000. No variance account is required pursuant to this approach. The Board notes that Horizon has withdrawn the request for a variance account, subject to approval of Board staff’s proposal by the Board.

¹³³ Board staff IR # 52

¹³⁴ Board staff submission [EB-2010-0131], May 4, 2011, pg. 70

¹³⁵ Energy Probe submission [B-2010-0131], May 6, 2011, pp. 48-49

¹³⁶ SEC submission [EB-2010-0131], May 6, 2011, pg. 42

¹³⁷ Horizon reply submission [EB-2010-0131], May 20, 2011, pg. 142

Account 1572

In its revised evidence of March 14, 2011, Horizon requested approval to track in a subaccount of account 1572 – Extraordinary Event Losses any distribution revenues related to demand above the revised load forecast for the two specific Large Use customers. Horizon proposed that any balance recorded in the sub-account, upon disposition, be shared 50:50 with its Large Use customers. Horizon proposed that the account be asymmetric and that any downside risk be borne by Horizon and its shareholder.

In response to Board staff supplemental IR # 3 c), Horizon stated:

Horizon Utilities identified one approach to the disposition of any variances that are tracked in Account 1572. Since the volatility in load and related revenues stems from the Large Use customer class, Horizon Utilities submitted that this customer class alone should receive the benefit of positive variances. However, Horizon Utilities acknowledges that this is not the only approach that may be employed and that other approaches may be relevant. Further, the disposition of any balances will be a matter to be dealt with in a future application and proceeding.

Board staff submitted that Horizon was seeking an accounting order approving this account in this Application and that, as such, the Board panel should consider the nature and intention of the account, and could provide “useful instruction and documentation on what was its intention based on the evidence when it did establish a deferral account” for a panel that would decide on any subsequent application for disposition.¹³⁸

Board staff submitted that the downside risk of Horizon’s proposal was minimal. As the demand for one customer was set to zero, there was no downside risk with respect to that customer’s demand. Second, Board staff noted that the affected customers were not the largest in the class, and Horizon will still receive significant distribution revenues in the class. Board staff opposed the proposed 50:50 split, submitting that Horizon would still recover the class-allocated costs from higher rates based on its revised lower demand forecast. Board staff also submitted that Horizon was compensated for normal

¹³⁸ Board staff submission [EB-2010-0131], May 4, 2011, pg. 74

business risk through the allowed ROE. Board staff questioned the need for the proposed D/V account, but submitted that, if the Board approved this approach, an allocation of 5% to Horizon, 75% to the Large Use class and 20% to all other classes may be appropriate.¹³⁹

AMPCO submitted that Horizon was compensated for business risk through the ROE, and that the 50:50 sharing approach was unreasonable. If Horizon's proposal was adopted, AMPCO submitted that 100% of any net revenues be refunded to customers upon disposition.

CCC was not opposed to the establishment of the requested variance account. However, CCC submitted that any incremental revenues should not be shared with Horizon's shareholder, but should be 100% returned to customers. CCC also questioned why any amount would be returned only to Large Use customers, although it did not make a specific proposal of an alternative.¹⁴⁰

Energy Probe supported Horizon's proposal for an asymmetric variance account in light of the updated Large Use load forecast. However, Energy Probe submitted that 100% of the amount should be returned to customers, and that the refund should be not just to Large Use customers. Energy Probe supported Horizon's proposal that the exact disposition approach be determined when Horizon applies for disposition.¹⁴¹

SEC noted that it had addressed Horizon's load volatility under the load forecasting section of its submission. SEC submitted that the load volatility that Horizon may have been experiencing was primarily associated with the Residential class and not with the Large Use class as Horizon has claimed. SEC also stated that: "the ROE provided to utilities is intended to compensate the shareholder for normal business risks, including the risk of variations in revenue driven by customer volumes. While there may well be circumstances in which a particular volume risk is outside of the normal business risks, in our submission that case has not been made out here." SEC concluded that Horizon's proposal was not justified by the utility's circumstances.¹⁴²

¹³⁹ *Ibid.*, pp. 73-78

¹⁴⁰ CCC submission [EB-2010-0131], May 9, 2011, pp. 16-17

¹⁴¹ Energy Probe submission [EB-2010-0131], May 6, 2011, pp. 28-29

¹⁴² SEC submission [EB-2010-0131], May 6, 2011, pp. 42-43

VECC submitted that the definition of the variance account should include the load for all three Large Use customers discussed in the updated evidence of March 14, 2011. VECC also submitted that 100% of the account balance should be returned to customers upon disposition.¹⁴³

In reply, Horizon submitted that its proposal for a 50:50 sharing is reasonable. It stated that, if it had known earlier about the further volatility of the load forecast for the specific Large Use customers, it would have taken that into account and revised lower the load forecast in its Application. Subsequently, it would have benefited from any additional distribution revenues associated with any load beyond the forecast. While acknowledging that the ROE is intended to be compensatory for business risk, Horizon stated that this aspect of the ROE does not replace the existence of numerous D/V accounts for electricity distributors, and that the Board does not adjust the ROE for the number and type of D/V accounts.¹⁴⁴

Board Findings

The Board denies Horizon's request to track any distribution revenues received for demand above the revised load forecast for two specific Large Use customers. The Board finds that the asymmetric return profile to the utility, 100% of the downside risk and 50% of the upside benefit, and the limited coverage of the account as it applies to only two of Horizon's 12 Large Use customers, to be problematic. Most importantly, the proposal is inconsistent with the Board's rate setting practice overall, including the use of a forward test year approach and reliance on forecasted costs and revenues.

Account 1595

In its Application, Horizon requested approval for a new sub-account of Account 1595 - Account 1595 – Disposition of Regulatory Asset Balances, to record D/V account balances approved in this application and the subsequent cost recovery and carrying charges.

Board staff submitted that a sub-account of Account 1595 to track the recovery of amounts disposed in this application is reasonable. Board staff notes that this request

¹⁴³ VECC submission [EB-2010-0131], May 6, 2011, pp. 5-6 and pg. 32

¹⁴⁴ Horizon reply submission [EB-2010-0131], May 20, 2011, pp. 143-44

is consistent with the practice as documented in the Accounting Procedures Handbook FAQ issued in December 2010 with respect to D/V account dispositions approved for 2010 rate applications.¹⁴⁵ Energy Probe made similar comments and did not object to Horizon's request.¹⁴⁶ CCC also did not oppose Horizon's request.¹⁴⁷

No other intervenors made submissions on this matter, and Horizon did not address this in its reply submission.

Board Findings

The Board will approve and issue new industry-wide sub-accounts of Account 1595 for deferral and variance accounts cleared through the 2011 rates process in the Accounting Procedures Handbook FAQs that will be forthcoming later this year. This approach is consistent with the Board's practice of approving three generic sub-accounts of Account 1595 for the approved disposition of account balances in each rate year promulgated through the APH-FAQs.

In the interim, Horizon should setup and track the deferral and variance accounts cleared in 2011 rates in sub-accounts of Account 1595 consistent with the sub-accounts format and guidance in the Accounting Procedures Handbook FAQ (Question and Answer #6) issued in December 2010.

Green Energy Plan

Horizon submitted its Green Energy Act Plan ("GEA Plan") as part of its original application on August 26, 2010. Horizon requested GEA Plan capital and operating expenditures as set out in the table below:

¹⁴⁵ Board staff submission [EB-2010-0131], May 4, 2011, pp. 69-70

¹⁴⁶ Energy Probe submission [EB-2010-0131], May 6, 2011, pg. 48

¹⁴⁷ CCC submission [EB-2010-0131], May 9, 2011, pg. 16

GEA plan amounts requested for prudence and recovery

Year	Operating Expenditures	Capital Expenditures
2011	\$530,000	nil
2012	\$640,000	\$156,000
2013	\$640,000	\$192,000
2014	\$590,000	\$1,682,000
Total	\$2,400,000	\$2,030,000

The nature of the expenditures over the term of the plan include: renewable connections, renewable connection enablers, smart grid investigations, customer engagement & communication, and feeder & substation automation projects.

Horizon did not propose the use of a funding adder. Instead, and in the absence of capital expenditures in 2011, all operating expenditures in 2011 would be recovered through its revenue requirement. Horizon indicated that it was not seeking to recover any portion of the GEA Plan amounts through the provincial recovery mechanism. Horizon clarified at the oral hearing that it was seeking a finding of prudence with respect to all amounts from 2011 through 2014 included in its GEA Plan, in keeping with the years that Horizon expects to be subject to the Board's IRM process.

Board staff submitted that the amounts requested in the GEA Plan appear to support permitted initiatives as contemplated in the DSP Filing Requirements. However, Board staff submitted that, given the evolutionary nature of the Green Energy Act plan and initiatives, it may be more appropriate to allow for recovery of GEA Plan amounts through the implementation of a rate rider for 2011, and a rate adder and deferral account mechanism for GEA costs forecast to be incurred in the period 2012 to 2014. The effect of a finding of prudence by the Board for the four years of the plan (2011-2014) would commit Horizon to make certain outlays in respect to its GEA initiatives, whether or not there are material changes to Horizon's plan prior to its next rebasing application. A rate adder and deferral account mechanism would allow the Board to revisit and approve disposition of deferral accounts when it has better information at its disposal with respect to forecast and actual amounts spent with respect to the GEA plan. Board staff also submitted that the direct benefit factors approved for Hydro One Networks in EB-2009-0096, and noted that the Board had approved the application of those factors for HOBNI in its 2011 Cost of Service application under EB-2010-0132.¹⁴⁸

¹⁴⁸ Board staff submission [EB-2010-0131], May 4, 2011, pp. 48-49

CCC submitted that Horizon's 2011 OM&A expenses of \$530,000 for its Green Energy Plan should be approved, but also submitted that operating and capital expenditures in 2012 to 2014 should be tracked in a deferral account and recovered through a rate adder in the same way that the Board has allowed for recovery of smart meter costs. CCC submitted that full prudence of these costs should be determined in Horizon's next Cost of Service application.¹⁴⁹

AMPCO, SEC, VECC and Energy Probe did not make submissions on this matter.

In its reply submission, Horizon stated that the direct benefit percentages approved by the Board for Hydro One Networks inc. and as set out in Horizon's response to Board staff Interrogatory #36 should be used. Horizon also stated that "if the Board finds that the costs associated with Horizon Utilities' GEA Plan are prudent, that it should approve the recovery of such in the Test Year, rather than through a funding adder as suggested by Board Staff."¹⁵⁰

Board Findings

The Board finds that the GEA Plan expenditures are within the scope of permitted initiatives in the Board's DSP Filing Requirements, and that the GEA Plan expenditures from 2011- 2014 are prudent. The Board approves Horizon's GEA Plan as filed. The Board understands that this approval of Horizon's GEA Plan commits the utility to incur the investments and expenditures and implement the programs.

The Board notes the concerns raised by Board staff about the inclusion of ongoing OM&A costs in the GEA Plan. However, the Board is satisfied with the clarification of the nature of these costs provided by Horizon in its reply argument and will allow their recovery as part of the GEA Plan. However, the Board does not accept the proposal by Horizon that the recovery of all GEA Plan costs should be reflected in the Test Year, as the majority of operating and capital costs will be incurred beyond 2011.

The Board notes the following from the DSP Filing Requirements. First, with respect to a Basic GEA Plan, such as Horizon has filed in its Application:

¹⁴⁹ CCC submission [EB-2010-0131], May 9, 2011, pg. 19

¹⁵⁰ Horizon reply submission [B-2010-0131], May 20, 2011, pg. 105

The Basic GEA Plan should cover a five year horizon, and include information regarding any capital expenditures the distributor intends to make and any OM&A expenses it expects to incur. Where the distributor is seeking to recover costs related to the connection of renewable generation from ratepayers, the Basic GEA Plan must contain detailed costing information for specific projects for at least the first year of the Basic GEA Plan. The level of detail should be sufficient for the Board to assess the need for and prudence of the planned projects and their associated costs.

If a distributor is unable to provide this level of detail for all five years of the Basic GEA Plan, the distributor may discuss the general level and type of investments and expenses anticipated for years 2 – 5 of the Basic GEA Plan. However, such general information will not allow the Board to assess the prudence of and approve cost recovery for the expenditures anticipated in the later years of the Basic GEA Plan.¹⁵¹

Further information on cost recovery mechanisms is also provided in the DSP Filing Requirements:

Availability of additional funding for expenditures proposed in a GEA Plan

In general, rates approved as part of a cost of service application will include only costs from year one of a GEA Plan. An exception to this general rule could occur if the Board is considering an application based on two test years, and finds the information in the GEA Plan sufficiently detailed and robust to approve for both test years.

The Board recognizes that distributors may need additional funding for expenditures proposed in a GEA Plan between cost of service applications, and will consider applications for suitable funding mechanisms. The nature of the mechanism used will depend on whether

¹⁵¹ *Filing Requirements: Distribution System Plans - Filing under Deemed Conditions of Licence, EB-2009-0397, March 25, 2010, pg. 10*

the Board is able to properly assess prudence of the proposed expenditures based on the evidence filed in the application.

A rate rider is a tool to allow recovery of expenditures that have been examined as part of an application, found to be prudent, and approved for recovery by the Board. An account to track variances from budget may be established in conjunction with a rate rider.

In contrast, the costs collected through a funding adder (sometimes referred to as a rate adder) are not subjected to a prudence review before the adder is approved. The costs will be subject to a prudence review in the first cost of service application following the implementation of the adder. The Board will require the distributor to refund to ratepayers costs already collected through the adder, but found to be imprudent.

Where costs recorded in a deferral account have not been subjected to a prudence review, recovery of these costs may be denied at the time the Board considers an application to dispose of the balances in the account.¹⁵²

The Board sees no merit in the Board staff's submission that a rate adder and deferral account would be a useful mechanism to allow the Board to revisit the issue at a later date. As noted in the DSP Filing Requirements, that mechanism is intended only where no finding of prudence can be made.

Horizon has not provided any mechanism for cost recovery beyond 2011. Since capital and operating expenditures for 2012 to 2014 are beyond the 2011 test year, the Board finds it inappropriate to include these in the test year revenue requirement, although the Board approves inclusion of the 2011 operating expenses.

The Board notes that Horizon, in its reply argument, agreed that the investments in the GEA Plan do qualify as eligible investments for the purpose of connecting or enabling the connection of qualifying generation facilities, within the meaning of section 79.1 of the OEB Act. Horizon proposes to apply the standard direct benefit percentages approved by the Board for basic GEA Plans in an application for Hydro One Networks

¹⁵² *Ibid.*, pg. 21

Inc., in EB-2009-0096. The Board orders that these percentages be applied and that Horizon file with the Board, along with its proposed rate riders, the calculated amounts to be recovered from provincial ratepayers.

For costs for 2012 to 2014, Horizon is directed to propose rate riders for each year that would recover the incremental revenue requirement associated with capital expenditures in service in that year and incremental operating expenses in that year. In the draft Rate Order filing, Horizon should document the derivation of the incremental revenue requirement and associated rate riders, clearly showing all assumptions and calculations, including the application of the direct benefit percentages established by the Board for Hydro One Networks Inc. in EB-2009-0096, which Horizon agreed to apply in its reply submission.

Other Matters

Late Payment Penalty Litigation Cost

In its Application, Horizon requested the recovery of a one time expense of \$1,102,335.23 related to the late payment penalty (“LPP”) costs and damages resulting from a court settlement that addressed litigation against many of the former municipal electricity utilities in Ontario.

On October 29, 2010 the Board commenced a generic proceeding on its own motion to determine whether Affected Electricity Distributors¹⁵³, including Horizon, should be allowed to recover from their ratepayers the costs and damages incurred as a result of the Minutes of Settlement approved on April 21, 2010 by the Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice (Court File No. 94-CQ-r0878) and as amended by addenda dated July 7, 2010 and July 8 (the “Minutes of Settlement”) in the late payment penalty class action and, if so, the form and timing of such recovery. This proceeding was assigned File No. EB-2010-0295.

On February 22, 2011 the Board issued its Decision and Order in the LPP Generic Hearing (the “LPP Decision”) and determined that it is appropriate for the Affected Electricity Distributors to be eligible to recover the costs and damages associated with the LPP class action in rates. The LPP Decision listed Horizon as an Affected

¹⁵³ As defined in the Board’s Decision and Order EB-2010-0295

Electricity Distributor and approved Horizon's share of the class action costs. The Board directed Affected Electricity Distributors such as Horizon to file with the Board detailed calculations including supporting documentation, outlining the derivation of the rate riders based on the methodology outlined in the LPP Decision. The Board noted that the rate riders submitted would be verified in each Affected Electricity Distributor's IRM or Cost of Service application, as applicable. Horizon elected to recover the amount approved in the LPP proceeding and accordingly filed the associated rate riders on February 28, 2011.

In its reply submission, Horizon requested that the LPP rate rider be confirmed for a twelve month recovery period.¹⁵⁴

Board Findings

The Board has reviewed Horizon's proposed LPP rate riders and approves them as filed.

Smart Meters

As is noted on the record, Horizon's separate application for an increase to its Smart Meter Funding Adder ("SMFA") was dealt with separately, under File. No. EB-2010-0292. In the Board's decision in that case, Horizon was approved an increased SMFA of \$2.14 per month per metered customer, effective from March 1, 2011 to April 30, 2012.

Horizon noted that the Smart Meter Funding Adder increase from \$1.56 to \$2.14 has been incorporated into the RRWF and requires no further adjustment.¹⁵⁵

Board Findings

The Board confirms the approval, on a final basis, of the Smart Meter Funding Adder of \$2.14 per month per metered customer, effective March 1, 2011 to April 30, 2012.

¹⁵⁴ Horizon Reply submission [EB-2010-0131], May 20, 2011, pg. 145

¹⁵⁵ *Ibid.*, pg. 13

The Board expects that Horizon will file, at its earliest opportunity, a stand-alone application to seek a prudence review and disposition of capital and operating costs for its installed smart meters. Such an application should be in accordance with *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* or any successor document issued by the Board. The discretion of the Board considering such an application may also be informed by the PowerStream decision in EB-2010-0209.

IMPLEMENTATION OF RATES

While the Board approves a May 1, 2011 effective date, it notes that the rates will be implemented at a date subsequent to this Decision, following the draft Rate Order process and after the Board has issued a Rate Order approving the final Tariff of Rates and Charges. The Board determines that the implementation date should be August 1, 2011.

In preparing its draft Rate Order filing, Horizon is directed to calculate class-specific rate riders that would recover the foregone incremental revenue for the period from May 1, 2011 to July 31, 2011. Horizon should propose an appropriate time period for recovery giving due consideration to bill impacts on its ratepayers. The current interim rates are in effect until the Board approves the final Rate Order.

As the 2011 rates will be implemented beginning August 1, 2011, for the rate riders to dispose of approved deferral and variance account balances, Horizon is directed to recalculate the rate riders to collect the balances from customers assuming recovery for the period from August 1, 2011 to December 31, 2012. Horizon should provide detailed documentation in support of all rate riders in its draft Rate Order filing.

The Board expects Horizon to file detailed supporting material, including all relevant calculations showing the impact of this Decision on its proposed Revenue Requirement, the allocation of the approved Revenue Requirement to the classes, and the determination of the final rates, including estimated bill impacts. The draft Rate Order supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet which can be found on the Board's website. Horizon should also show detailed calculations of any revisions to the rate riders or rate adders reflecting this Decision.

CONCLUDING REMARKS

Horizon filed its Application on August 26, 2010, four months after the expected filing date for an application seeking rates effective January 1, 2011. The Board's decision on the threshold issue, which determined that the Board would hear the Application, was rendered on December 15, 2010. In that decision, the Board established steps to expedite the processing of Horizon's Application.

The Board notes that a considerable volume of evidence (including interrogatory responses) was filed in confidence by Horizon. The Board is concerned that much of the material that was filed in confidence was not relevant to the Application and complicated the record. In total, the Board was required to make three written decisions and one oral decision on confidentiality matters. This led to delays in the process in order to allow the Board to hear arguments on the requests and to render decisions, all of which ultimately made the proceeding more complex than it needed to be.

Further, the Board is concerned about the delay by parties, including Horizon, to comply with the *Practice Direction on Confidential Filings*. A redacted version is required by the Practice Direction to be filed at the same time as the unredacted, confidential version. As the Board noted in its June 10, 2011 letter, this delay affected the Panel's ability to complete this Decision. The fact that filing of the redacted version of the *in camera* session of the hearing was delayed caused intervenor submissions, in redacted form, to also be delayed. The Board notes that the Practice Direction does not specify whose responsibility it is to produce a redacted version of the transcripts, an omission that this panel recommends should be rectified as soon as possible.

The Board also notes that Horizon updated its Application very late in the process, beginning on March 14, 2011, just three weeks before the commencement of the oral hearing. Again, the Board tried to expedite the process by establishing an additional round of interrogatories with the responses due six days before the beginning of the oral hearing. While Horizon complied with filing the majority of the responses on April 1, the Board notes that several responses were filed as late as April 6, the day before the oral hearing. In addition, at the commencement of the oral hearing Horizon filed several more updates which were corrections and updates to the updated evidence, and to interrogatory responses on the updated evidence.

Horizon filed its last update (which was a significant piece of evidence) on April 14, 2011, the morning of the last day of the oral hearing. While the Board's *Rules of Practice and Procedure* allows for the filing of updated information that constitutes a material change to the evidence in a proceeding, the number of updates and corrections to updates, and the timing of the updates filed by Horizon throughout this proceeding made it difficult for parties to prepare for the hearing and made the oral hearing cumbersome. In hindsight, a postponement of the oral hearing may have been an option for the Board to have considered, but, given the late filing by Horizon in August and its request for a January 1 effective date, a postponement of the oral hearing was, in the opinion of this panel, not practical.

It is the Board's view that this Decision could have been issued much earlier had the delays noted above not materialized. It is the Board's expectation that Horizon will review its approach prior to its next Cost of Service application.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its authority under section 30 of the *Ontario Energy Board Act, 1998*. The Board will determine cost awards in accordance with its *Practice Direction on Cost Awards*. When determining the amounts of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximal hourly rate set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2010-0131, and be made through the Board's web portal at www.errr.ontarioenergyboard.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

RATE ORDER

A Rate Order will be issued by the Board after the processes set out below are completed.

THE BOARD ORDERS THAT:

1. Horizon Utilities Corporation shall file with the Board, and shall forward to the intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision within 11 days of the date of issuance of this Decision and Order. The draft Rate Order shall also include customer bill impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.
2. Intervenors shall file any comments on the draft Rate Order with the Board and forward them to Horizon Utilities Corporation within 7 days of the date of filing of the draft Rate Order.
3. Horizon Utilities Corporation shall file with the Board and forward to intervenors, responses to any comments on its draft Rate Order within 3 days of the date of receipt of submissions.
4. Intervenors shall file with the Board and forward to Horizon Utilities Corporation their respective cost claims within 7 days from the due date for any intervenor comments on the draft Rate Order.
5. Horizon Utilities Corporation shall file with the Board and forward to intervenors any objections to the claimed costs within 7 days from the date of the filing of the intervenor cost claims.
6. Intervenors shall file with the Board and forward to Horizon Utilities Corporation any responses to any objections for cost claims within 7 days of the date of any objections filed by Horizon Utilities Corporation.
7. Horizon Utilities Corporation shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, July 7, 2011

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary