July 20, 2011

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2010-0131
Horizon Utilities Corporation – 2011 Cost of Service Application
Energy Probe – Comments on Draft Rate Order

Pursuant to the Decision and Order issued July 7, 2011, please find attached the Comments of Energy Probe Research Foundation (Energy Probe) in respect of the Draft Rate Order filed July 18, 2011, by the Applicant in the EB-2010-0131 proceeding for consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Indy Butany-DeSouza, Horizon Utilities (By email)
James C. Sidlofsky, Borden Ladner Gervais LLP (By email)
Randy Aiken, Aiken & Associates (By email)
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EB-2010-0131

Ontario Energy Board

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.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

COMMENTS ON DRAFT RATE ORDER
JULY 20, 2011

HORIZON UTILITIES COPORATION
2011 RATES REBASING CASE
EB-2010-0131

COMMENTS OF ENERGY PROBE RESEARCH FOUNDATION ON DRAFT RATE ORDER DATED JULY 18, 2011

Energy Probe has reviewed the Draft Rate Order ("DRO") filed July 18, 2011. Energy Probe has a number of concerns, as detailed below. In most cases, the concerns are based on the level of information provided not being adequate to assess the figures provided by Horizon.

Capital Expenditures

With respect to the reduction of $5 million in capital expenditures as reflected in Table 3 of the DRO, it is not clear to Energy Probe how Horizon has allocated the reduction across the categories shown. For example, the reduction is not prorated based on the 'As Filed' numbers since the reduction in 'Miscellaneous hardware and software of $1,450,000 represents more than 40% of the 'As Filed' total, while the corresponding percentage for the other categories shown are substantially lower. The choice of which capital expenditures have been reduced has not been explained and can have a significant impact on both the depreciation expense and the capital cost allowance used for PILS purposes. Energy Probe submits that Horizon should provide further information on how it allocated the reduction of $5 million in capital expenditures.

Lead-Lag Study

Horizon indicates that it has updated the cost of power to reflect the Board's Decision and Appendix B to the Energy Probe submission dated May 6, 2011. However, as noted elsewhere in the DRO, there have been changes to the load forecast (both kWh and kW) for both the large use customers and other than large use customers, along with updates to retail transmission service rates and low voltage charges. Horizon does not appear to have provided a cost of power calculation, similar to Appendix B in the Energy Probe submission that it references in the DRO to support the cost of power figure of

$393,275,662 shown in the RRWF in Appendix C. Energy Probe submits that Horizon should file the relevant table of calculations to ensure that all of the changes to the various components of the cost of power reflected elsewhere in the DRO are properly reflected in the cost of power calculation.

Other Revenues

Horizon has indicated that it has transferred $784,515 in revenues related to the provision of services to affiliates from OM&A to Account 4380. Energy Probe believes the transfer is more accurately described as the transfer of $784,515 in costs related to the provision of services to affiliates from OM&A to a revenue offset in Account 4380.

Depreciation

Horizon has provided the change in the depreciation expense resulting from the change in rate base and capital expenditures approved by the Board in Table 3. However, there are no calculations provided showing how these adjustments, or the resulting depreciation figures, have been calculated. Energy Probe submits that more detail should be provided by Horizon.

PILS

It is not clear to Energy Probe what adjustments have been made to the 'UCC Prior Year Ending Balance' in the CCA Continuity Schedule' shown in Appendix D to the DRO relative to that filed in the response to Undertaking J2.2. It appears that the UCC ending balance for 2010 has been reduced in total and there have been adjustments to a number of CCA classes. Energy Probe submits that Horizon should clarify that the UCC Ending Balance for 2010 reflects actual expenditures for 2010 and that these figures match the UCC Ending Balance from the actual 2010 PILS calculation for the CCA.

Energy Probe also notes that there is a difference in the Board approved level of capital expenditures for 2011 and the additions shown in the CCA continuity schedule shown in Appendix D to the DRO. Energy Probe believes that an explanation for the difference should be provided, along with a mapping that shows the allocation of the capital expenditures shown in Table 3 of the DRO with the additions shown in the CCA continuity schedule in Appendix D of the DRO.

Cost Allocation

Energy Probe notes that Horizon has followed the Board's Decision with respect to the revenue to cost ratios shown in Table 8 of the DRO. In particular, the revenue to cost ratios for the Large Use and Sentinel Light classes have been moved up to the bottom of the Board approved ranges and the ratio for the USL class has been reduced to the top of the corresponding range.

In order to accommodate these changes and reconcile with the overall approved revenue requirement, Horizon has reduced the Residential revenue to cost ratio from 111.2% to 108.24%. Energy Probe submits that this is inappropriate.

The starting revenue to cost ratio for the residential class is 111.2%, which is lower than that for the USL class (at a proposed ratio of 120%). Energy Probe submits that when all classes are within the Board's approved ranges, the revenue excess should be addressed by decreasing the ratios for those classes whose starting points are the furthest above 100%. In this instance, this means that the USL ratio should be reduced to that of the Residential class (111.2%). These two classes would then be reduced in tandem until the revenue excess is eliminated.

Green Energy Plan

At page 66 of the July 7, 2011 Decision and Order the Board directed Horizon to propose rate riders for each year in 2012 to 2014 that would recover the incremental revenue requirement associated with capital expenditures in service in that year and incremental operating expenses in that year. In addition to these proposed rate riders, the amounts to be recovered from provincial ratepayers were to be calculated.

At pages 31 through 33 of the DRO, and in the Excel spreadsheet that deals with the GEA Rider Model, Horizon has provided theses calculations. Energy Probe believes these calculations include a significant error.

The Board allowed an operating expenditure of $530,000 associated with the GEA in the 2011 revenue requirement. Horizon has shown the projected operating expenditures for 2012 to 2014 of $640,000, $640,000 and $590,000, respectively, as the incremental operating expenditures in the calculation of both the GEA rate riders and the amount to be collected from provincial ratepayers. Energy Probe submits that since the 2011 revenue requirement already includes $530,000 in operating expenditures, the incremental operating costs are only $110,000 in 2012 and 2013 and $60,000 in 2014. These are the forecasted amounts for those years net of the $530,000 included in 2011 base rates that will carry forward into 2012 to 2014.

There is no similar issue with respect to the capital expenditures. There were no GEA related capital expenditures included in the 2011 revenue requirement. As such all of the capital expenditures forecast for 2012 through 2014 are, indeed, incremental to that included in the 2011 revenue requirement.

Implementation

The Board indicated that Horizon should propose an appropriate time period for recovery of the foregone incremental revenue for the period May 1, 2011 through July 31, 2011. Horizon has proposed a recovery time period of August, 2011 through December, 2011. Based on the foregone revenue rate riders shown in Table 23 of the DRO, Energy Probe submits that this is an appropriate period.

Energy Probe notes that Horizon has estimated the lost revenues based on actual consumption and demand by class for May and June and on actual power purchases for the first 10 days of July to estimate the total power purchases for that month. This is a somewhat unusual manner in which to calculate the foregone revenue over this period in that it is based on actual consumption rather than on the forecasted consumption that was used to determine the revenue deficiency.

Energy Probe notes that the methodology used to determine the estimated consumption for the August, 2011 through December, 2011 period (the volume used to determine the associated rate rider) is based on the actual consumption in August through December, 2010 as a percentage of the total load for the year and then applying this percentage to the 2011 forecast to arrive at the volumes for each rate class over which the foregone revenue rate rider would be collected. Energy Probe submits that Horizon could have calculated the May through July volumes in the same, consistent manner as this and used these estimates to calculate the foregone revenue.

Energy Probe submits that the Board should determine whether the calculation of the foregone revenue should be consistent with the forecasted volumes for the test year, or whether the use of actual data for relevant period is appropriate. Energy Probe submits that the calculation should be consistent with the approved volume forecast and should not be influenced by actual consumption data.