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July 21, 2011

**VIA MAIL and E-MAIL**

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: Horizon Utilities Corporation – 2011 Electricity Distribution Rate Application (EB-2010-0131)**
**Draft Rate Order - VECC's Comments**

The Vulnerable Energy Consumers Coalition has reviewed the Draft Rate Order (DRO) distributed by Horizon on July 18, 2011. Set out below are areas where, in VECC's view, further details are required in order to confirm that the DRO conforms with the Board's Decision. In addition, VECC has identified three areas where it submits changes to the draft rate order are required.

*Areas Requiring Clarification*

There are three areas where, in VECC's view, further details are required in order to demonstrate the DRO is consistent with the Board's Decision. In each case, VECC suggests that Board Staff should work with Horizon to ensure the appropriateness of the DRO:

- 2011 Capital Expenditures and Depreciation (page 7) – Horizon has provided no explanation as to the basis for the apportionment of the $5 M reduction in capital spending across asset categories. This is important as it affects the calculations for both depreciation and capital cost allowance. Similarly, Horizon has provided no details as to how the proposed depreciation adjustments for 2011 were determined.
- Cost of Power Component of the WCA (page 7) – Horizon has not provided any calculations to support its Allowance for Working Capital, particularly the Cost of

Power Component. It would be useful if Horizon provided a schedule, similar to Appendix B in Energy Probe's Final Argument, that documented the calculation and reconciled with the load forecast and RTSRs as used in the DRO.

*Revisions Required*

- Foregone Revenue Calculation and Recovery (pages 36-37)

Horizon calculates the foregone revenue for the period May 1, 2011 to July 31, 2011 based on actual power purchases for May, June and the first 10 days of July. The recovery rate riders are then calculated using the approved 2011 load forecast and the percentage of the total 2010 load accounted for in the months August to December. In VECC's view a consistent approach should be used to calculate both the foregone revenue and the rate rider and, most importantly, both calculations should be tied to the approved load forecast. This can be accomplished in one of two ways:

- o Each month could be given equal weight (e.g. 1/12$^{th}$), or
- o The actual 2010 distribution of load over the twelve months of the year could be used.

VECC notes that while the second approach appears to be more accurate the first has been used by many electricity distributors to calculate their approved 2011 foregone revenue recovery rate riders.

- Cost Allocation (pages 16-17)

Horizon has adjusted the revenue to cost ratios for the Large Use, Sentinel Lights and USL classes so as to bring the first two up to the bottom end of the Board's prescribed range and reduce the USL's ratio to the top end of the Board's prescribed range. The surplus revenue resulting from these adjustments has been used to reduce the revenue to cost ratio for the Residential class.

While this approach "benefits" VECC's client group, it is not appropriate. In VECC's view, where surplus revenues arise from revenue to cost ratio adjustments they should be applied to those customer classes with the highest revenue to cost ratios. In this instance, the USL class' ratio of 120% exceeds the Residential class' starting point ratio of 111.2%. As a result, VECC submits that the surplus revenues should first be used to reduce the USL ratio to 111.2% and, if there are still surplus revenues remaining, the ratios for both the Residential and USL classes should be reduced in tandem.

- Green Energy Plan 2012-2014 Rate Riders (pages 31-33)

For 2011, the cost of Horizon's Green Energy Plan is included in the approved revenue requirement and resulting rates as noted in the Board's Decision (page 65) and Horizon's DRO (page 32). These costs consist of $530,000 in OM&A expenses (page 31). Consistent with the Board's Decision, Horizon has calculated rate riders for the years 2012-2014 to recover the "incremental revenue requirement" associated with its

Green Energy Plan spending. However, VECC submits that Horizon's calculation of the incremental revenue requirement for these years is incorrect.

For each year, Horizon has based its calculations on the total GEA-related OM&A and capital spending for the years 2012-2014. This produces revenue requirement values of $642,182, $644,477 and $671,174 for the respective three years (Appendix E, page 1) which are then used to determine the rate riders. However, in making these calculations Horizon has failed to account for the fact that the 2011 approved rates provide for the recovery of $530,000 in GEA spending and that, under IRM, the rates for 2012-2014 will recover similar amounts. As a result, VECC submits that the "incremental revenue requirement" for each of the years 2012-2014 is the GEA-related revenue requirement in excess of the $530,000 already provided for in the 2011 rates and the revenue requirements used to calculate Horizon's 2012-2014 Green Energy Plan rate riders should be reduced accordingly.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Horizon Utilities Corporation
Attention: Indy J. Butany-DeSouza