

Question 1

Reference: 2009 3rd Gen. IRM Supplementary Filing Model, Sheets C2.1 and C3.1

Please elaborate as to the basis of the revenue to costs figures shown in the second column of Table 1 in your Manager's Summary (e.g. do the figures represent 2008 revenues to cost ratios as calculated by the methodology used in the 2009 IRM filing model?).

Response:

The basis of the revenue to cost figures shown in the second column of Table 1 in Horizon Utilities' Manager Summary are the result of the calculations used in the OEB's 2009 IRM Supplementary Filing Model. The methodology used to calculate the revenue to cost ratios in the Model are inconsistent with Horizon Utilities cost allocation methodology as submitted in its 2008 EDR Application[Exhibit H].

Horizon Utilities 2008 EDR Application is based on the OEB's 2006 Cost Allocation Model adjusted for the Transformer Allowance as explained in Horizon Utilities' Application [Exhibit H/Tab 1/Schedule 2]. The 2009 IRM Supplementary Filing Model, as provided by the OEB, continues with the same methodology as in the original OEB Cost Allocation Model which is not consistent with Horizon Utilities approach and will therefore generate different results. In Horizon Utilities October 3, 2008 Decision with Reasons the OEB Findings state *"The Board is satisfied with Horizon's explanation of its methodology and finds that the ratios in column 2 of the table are appropriate for the purposes of reviewing the revenue to cost ratios for 2008"*. [Decision with Reason/Page 27].

In an IRM regime, the application of a Price Cap Index, which is the factor applied to increase base distribution rates, maintains the consistency of the revenue proportions derived from each customer class, thereby maintaining the consistency in the revenue to cost ratios going forward. The revenue to cost ratios will not change until such time as the class revenue proportions change.

The only change in revenue to cost ratios submitted in Horizon Utilities 2009 EDR Application is in respect of the Street Light customer class which had the revenue to cost ratio moved to 70% with the additional revenue applied to the benefit of the Residential customer class as directed in the October 3, 2008 Decision with Reasons [Decision with Reasons/Page 28].

The difference in the two cost allocation methodology is as follows:

Horizon Utilities cost allocation methodology does not add transformer allowance as a cost to each customer class and results in the revenue to cost ratios in Table 1 below and as explained above and submitted in Horizon Utilities Draft Rate Order as amended October 24, 2008 [Draft Rate Order October 24, 2008/Page 13].

Table 1
Horizon Utilities Revenue to Cost Ratios

Customer Class	Revenue to Cost Ratios Per Decision
Residential	111.56%
GS <50 kW	92.50%
GS>50 kW	86.31%
Large Use >5MW	92.12%
Unmetered Scattered Load	80.00%
Sentinel	70.00%
Street Light	43.00%
Back-up/Standby Power	65.84%
	100.00%

The OEB cost allocation methodology adds transformer allowance to each customer class as an additional cost and results in the revenue to cost ratios in Table 2 below as per the 2009 OEB 3GIRM Supplementary Filing Module Sheet C2.1.

Table 2
OEB Revenue to Cost Ratios

Customer Class	Revenue to Cost Ratios
Residential	107.79%
General Service Less Than 50 kW	88.10%
General Service 50 to 4,999 kW	97.97%
Large Use	95.16%
Unmetered Scattered Load	61.99%
Sentinel Lighting	72.28%
Street Lighting	44.83%
Standby Power	100.00%

As expected, when costs are increased for the transformer allowance the revenue to cost ratio decreases, however as discussed above, in an IRM regime the proportion of revenue received from each customer does not change and will maintain the revenue to cost ratios as calculated under Horizon Utilities cost allocation methodology.

Question 2

Reference: 2009 3rd Gen. IRM Supplementary Filing Model, Sheets C2.1 and C3.1

The Board directed, in EB-2007-0697, that increased revenues be collected from USL and that its revenue to cost ratio be increased to 80% for 2008 onwards. In making this decision, “the Board has already acknowledged the uncertainties associated with the cost allocation work” (page 28 of its decision) and took into account Horizon’s cost allocation methodology (see last paragraph page 27).

The 3rd Generation IRM Supplementary Filing Model indicates (Sheet C2.1) that the actual 2008 revenue to cost ratio for USL only increased to 62%. The 3rd Generation IRM Supplementary Filing Model further indicates (Sheet C3.1) that the requested 2009 revenue to cost ratio for this class remains at 62%.

Please explain how the 2008 and 2009 figures are consistent with the Board’s directions.

Response:

In order to explain how the 2008 and 2009 figures are consistent with the Board’s directions Horizon Utilities would refer to the response to OEB IR #1 which identifies the two different cost allocation approaches and the fact that OEB staff are not comparing the same methodologies and will therefore not generate the same results.

Horizon Utilities revenue to cost ratio for the Unmetered/Scattered Load customer class is 80% as filed in Horizon Utilities Draft Rate Order, as amended October 24, 2008, [Draft Rate Order amended/Page 13] and provided in Table 1 above. The application of different cost of service methodologies will result in different revenue to cost ratios. As submitted in the response to OEB IR #1 above, the revenue proportions for each customer will remain unchanged during an IRM regime and therefore the revenue to cost ratio for the Unmetered/Scattered load class will remain consistent.

Question 3

Reference: Manager’s Summary, pages 5 to 8

Horizon’s Manager’s Summary indicates that you will apply for an 8.09% uniform increase in the 2009 Network Service Rates and a 3.75% increase in the 2009 Line and Transformation Connection Service Rates. Please provide the spreadsheet used to derive the explanatory Tables 2 through 5 set out in your Manger’s Summary.

Response:

Excel spreadsheet provided.

Question 4

Reference: 2009 RGM Model, Sheets C1.1, J1.1 and J2.3

Please explain why the previously approved Smart Meter Rate Adder of \$0.82 per metered customer was not added at Sheet C1.1 (which is intended to record any current smart meter rate added) and Sheet J1.1 (which is intended to record any smart meter funding adder requested for 2009), but was instead added to Sheet J2.3 (which is intended to apply to any smart meter disposition rider).

Response:

Horizon Utilities has an approved Smart Meter Rate Rider as per Horizon Utilities OEB approved Tariff of Rates and Charges, Effective May 1, 2008 [Rate Order November 13, 2008/Tariff of Rates and Charges/Pages 2 – 3]. The instructions for the 2009 RGM Model Sheet C2.4 [SC RateRider for Smrt Mtr] states the *“Purpose of this sheet: To record the current Service Charge for Smart Meter rate rider (if applicable)”*. Horizon Utilities has complied with the instructions of the model accordingly.

Horizon Utilities would note that the Sheets C1.1 and J1.1 referred to in this IR question are specific to smart meter rate adders. Horizon Utilities questioned OEB Staff on the different terminology used in the instructions to various sheets of the 2009 RGM Model, to which OEB Staff confirmed Horizon Utilities understanding of the “adder” vs. “rider” sheets and that Horizon Utilities approach was correct.

Question 5

Reference: 2009 IRM SupM, Sheet C4.3

Please explain why there is an out of balance figure of \$56,344 at Sheet C4.3.

Response:

The out of balance figure of \$56,344 at Sheet C4.3 is a result of rounding. Horizon Utilities would direct the OEB Staff to the values in Sheet C3.1 columns “W”, “Y” & “AA” and would specifically note that these values are rounded to 2, 4 & 4 decimal places respectively. Due to the protection in the model Horizon Utilities is unable to adjust these cells accordingly, which would correct the rounding error.

Question 6

Reference: 2009 3rd Gen. IRM Supplementary Filing Module, Sheet B3.1

Sheet B3.1 shows that Horizon's 2008 revenue requirement from distribution rates was \$88,636,239.

Horizon's draft 2008 rate order filing dated October 17 2008 (re EB-2007-0697) shows, at page 16, a 2008 revenue requirement of \$86,971,807. Staff understands that part of the difference between this number and the information provided in the IRM model may be due to the inclusion in the former of low voltage charges and transformer allowance, but this does not account for the entire difference.

Please reconcile these two figures, providing a full explanation for any differences.

Response:

Horizon Utilities provides the following explanation for the differences in the above figures.

On October 17, 2008 Horizon Utilities submitted its Draft Rate Order which was subsequently amended on October 24, 2008. OEB Staff are referring to the initial Draft Rate Order rather than the amended Draft Rate Order and therefore will be unable to reconcile the appropriate amounts.

The following Table 3 reconciles Horizon Utilities' Draft Rate Order as amended to the total Rate Classes Revenue as calculated on Sheet B3.1 of the 2009 3rd Gen. IRM Supplementary Filing Module.

Table 3
Reconciliation – Draft Rate Order to Sheet B 3.1

Draft Rate Order October 24, 2008 as amended				
	Distribution Revenue Requirement			86,661,248
	LV Charges			196,399
	Transformer Allowance			1,778,591
				88,636,238
Sheet B 3.1 - Supplementary Filing Module				
	Rate Classes Revenue			88,634,520
			rounding	1,718