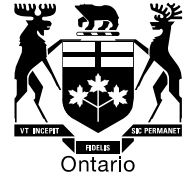


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BY E-MAIL CB@M

November 4, 2009

Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Interrogatories
Application to the Ontario Energy Board for a Z-factor-related Rate Rider
Horizon Utilities Corporation
EB-2009-0332**

Please find the attached Board staff interrogatories in the above proceeding. Please forward the following to Horizon Utilities Corporation and all other parties to this proceeding.

Sincerely,

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Attachment

Board Staff Interrogatories
Application to the Ontario Energy Board for a Z-factor-related Rate Rider
Horizon Utilities Corporation (“Horizon”)
EB-2009-0332

1. Ref: Application Summary, p. 2

It is stated that:

“Specifically, the Applicant seeks recovery of \$926,075, being the actual distribution revenue deficiency forgone by the Applicant for the period May 2008 to June 2009 and the anticipated distribution revenue deficiency of \$1,924,411 for the period July 2009 to April 30, 2010, for a total of \$2,850,486, through a Z-factor Adjustment.”

Please provide a breakdown of the anticipated revenue deficiency of \$1,924,411 for the period July 2009 to April 30, 2010 into forecast and actual components. Please specify which months are based on actuals and which on forecasts and the basis of any forecast used.

2. Ref: Application Summary, pp. 2-3

It is stated that:

“The Applicant has proposed to recover the Z-Factor Adjustment through a Variable Rate Rider as the distribution revenue deficiency is related to the decline in the Subject Customer’s load and therefore variable distribution revenue. However, the Applicant has also, in Schedule B to this Application, provided the calculations to support a Fixed Rate Rider which the Applicant suggests better reflects the recovery of the distribution revenue deficiency required to continue to meet the fixed capital investment and ongoing operating costs of providing distribution service to the Subject Customer. The Applicant submits that the Fixed Rate Rider is the appropriate method to recover the distribution revenue deficiency and seeks the OEB’s consideration and direction on the recovery methodology.”

- a) Please provide the fixed capital investment and ongoing operating costs of providing distribution service to the Subject Customer.
- b) Please state why a fixed rate rider better reflects the recovery of the related distribution revenue deficiency.

3. Ref: Manager’s Summary, p.5

It is stated that:

“For the fourteen month period from May 2008 to June 2009, Horizon Utilities’ distribution revenue, from its Large User class, has decreased by a total of \$1,823,474, of which \$926,075, or 51% is due entirely to the Subject Customer’s shutdown.”

Table 1 on this page provides the subject customer's monthly kW history for the period from January 2006 to June 2009.

Please provide similar monthly customer demand (kW) data for each of Horizon's large users, including the subject customer, for the period from January 2006 through October 2009. Please also include yearly totals and explanations for any anomalies. It is not necessary that the identity of each customer be provided in responding to this interrogatory.

4. Ref: Application Summary, pp. 5-6

It is stated that:

"The Applicant's approved distribution revenue is required, among other purposes, to finance its investment in capital, operations, and maintenance expenditures in support of the safe and reliable supply of electricity. The Applicant has realized an actual distribution revenue deficiency for the 2008 rate year in the amount of \$744,824, and \$181,251 for the first two months of the 2009 rate year, for a total of \$926,075. The Applicant anticipates an additional distribution revenue deficiency for the balance of the 2009 rate year in the amount of \$868,179 for a total 2009 rate year distribution revenue deficiency of \$1,049,430. The Applicant submits that the loss of distribution revenue for the rate years 2008 and 2009, in the amount of \$1,794,254, is significant to its regulated operations and cash flow.

a) Please state whether the distribution revenue deficiency numbers referenced above relate only to revenue losses related to the large customer, or are total utility distribution revenue deficiencies. If these numbers are not total utility revenue deficiencies, please state whether or not Horizon is anticipating a total utility deficiency and if so the amount and the key reasons for it.

b) Please provide an updated version of Table 1 "Revenue Deficiency Summary" as provided by Horizon in its EB-2007-0697 Application as Exhibit A, Tab 2, Schedule 4, Page 1 of 1. Please include columns for 2008 Board Approved, 2008 Actual, and Horizon's current 2009 Forecast. Please also state whether Horizon used a 2010 Forecast to determine that it was necessary to defer the capital projects and, if so, please provide the forecast numbers for 2010 used in this table.

5. Ref: Application Summary, p. 6

It is stated that with respect to the loss of distribution revenue related to the large customer that:

This has made it necessary for the Applicant to review its expenditures in order to determine which projects may be deferred without incurring any risk to system reliability or customer safety. Furthermore, the deferral of any project from 2009 to 2010 is only a short term deferral – any project

being deferred is still necessary and must be completed in 2010, a year in which the Applicant anticipates a further loss of distribution revenue of \$1,056,232. In addition, the impact of the distribution revenue deficiency now requires the Applicant to consider a plan to accelerate the filing of its next cost of service application to August 2010 for implementation May 1, 2011. The Applicant submits that, despite such deferral, it will not achieve its maximum allowable return on equity, and that such deferrals are necessary as prudent measures in relation to available regulated cash flows. “

a) Please identify which projects have been deferred to 2010 or beyond and please provide an explanation as to why they were chosen for deferral. Please include the dollar amount of each project.

b) Please state how Horizon determined that it was necessary to defer these capital projects in order to maintain prudent levels of regulated cash flows.

c) Please provide the following:

- i) an explanation as to what Horizon would view as a prudent level of regulated cash flow for each of 2009 and 2010 and why.
- ii) the level of cash flow for each of these years had the projects not been postponed and with their postponement.
- iii) In this context, please state how their postponement would bring the cash flows to acceptable levels.
- iv) the assumed financing mix that was used in assessing the impacts of deferring these projects (approved or actual capital structure, 100% debt, 100% equity, or some other mix).

d) Please state in which years Horizon anticipates not achieving its maximum allowable return on equity and provide the currently forecast levels for the relevant years. Please state whether the loss of the large customer revenue is the only factor that is leading to this underachievement, or, if there are other factors, please state what they are.

6. Ref: Manager's Summary, pp. 7-8

Table 3 provides the calculation of the subject customer's actual and anticipated distribution revenue deficiency.

Please revise this table to include updated customer demand data for July through October 2009. Please also update the anticipated 2009 distribution revenue deficiency.

7. Ref: Manager's Summary, p. 10

On this page, Horizon discusses its reasons for believing that its claim meets the Board's criteria for Z-factor recovery. Horizon notes that the causation criterion is defined as "Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived." Horizon states that it believes its claim meets this criterion because:

"Horizon Utilities submits that the indefinite shutdown of the Subject Customer and the resulting reduction in distribution revenue is a single event clearly outside of the Large User load base upon which rates for 2008 and the 3rd Generation IRM period have been set."

Please further discuss this claim in light of the statement made on page 35 of the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* of July 14, 2008 that: "The Board has determined that the eligibility criteria are sufficient to limit Z-factors to events genuinely external to the regulatory regime and beyond the control of management and the Board." Please state whether or not Horizon believes that all loss of larger customer load is genuinely external to the regulatory regime and if so why. If not, please explain what criteria Horizon believes the Board should use to determine what level of large customer load loss is normal business risk, and what level is external to the regulatory regime.

8. Ref: Manager's Summary, p. 12

It is stated that:

"Horizon Utilities reviewed several methodologies in order to determine an appropriate mechanism to allocate the \$2,850,486 in a just and reasonable manner. As the indefinite shutdown of the Customer is out of the control of any single customer or customer class, Horizon Utilities believes that it is appropriate to allocate the decline in distribution revenue from this single event to all customer classes."

- a) Please state what the other methodologies were that Horizon considered and why they were rejected.
- b) Please provide the bill impacts that would have resulted had the decline been allocated only to the large user class.

9. Ref: Manager's Summary, p.14

It is stated that:

"As discussed above, Horizon Utilities' cost of providing distribution services to the Subject Customer are fixed and as such, Horizon Utilities submits that in setting just and reasonable rates for the recovery of the \$2,850,486, it is appropriate to calculate the Rate Rider as a fixed customer charge."

Please state for each of Horizon's customer classes whether the cost of providing distribution services is, in Horizon's view, fixed or variable, or both and why.

10. Ref: Manager's Summary, p.15

It is stated that:

"The OEB has approved a level of revenue requirement for Horizon Utilities in order that Horizon Utilities may finance its investment in capital, operations and maintenance expenditures in support of the safe and reliable supply of electricity. The indefinite shutdown of the Subject Customer has resulted in Horizon Utilities not realizing its approved distribution revenue requirement to date, and it does not expect to do so through the 2010 rate year."

a) Please complete the table below:

Year	Actual Return on Equity		Board Approved Return on Equity	
	\$	%	\$	%
2006				
2007				
2008				

b) Please complete the table below and provide explanations for any deviations from the Board's Yearbook of Electricity Distributors (issued September 10, 2009):

	2007 actuals	2008 Board Approved	2008 actuals	2009 (Actuals for Jan - Oct)	2009 (Projection for Nov & Dec)	2010 Forecast	% Change
Residential							
Number of Customers							
kWh Billed							
Distribution Revenue							
kWh Billed per customer							
Distribution Revenue per Customer							
General Service < 50 kW							
Number of Customers							
kWh Billed							
Distribution Revenue							
kWh Billed per customer							
Distribution Revenue per Customer							
General Service > 50 kW							
Number of Customers							
kWh Billed							
Distribution Revenue							
kWh Billed per customer							
Distribution Revenue per Customer							
Large User (>5000 kW)							
Number of Customers							
kWh Billed							
Distribution Revenue							
kWh Billed per customer							
Distribution Revenue per Customer							

c) Please state whether the loss in distribution revenue caused by the reduction in load by the subject customer has impacted the reliability of Horizon's distribution system and, if so, how.

d) Please complete the table below:

	2008	2009	2010
Actual / Anticipated Losses (A)			
Distribution RR (B)			
(A) / (B) * 100			