

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 the recovery of certain amounts related to an unforeseen loss of revenue to be effective January 1, 2010.

**HORIZON UTILITIES CORPORATION (“HORIZON UTILITIES”) RESPONSES TO
BOARD STAFF INTERROGATORIES**

DELIVERED DECEMBER 1, 2009

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.

Response:

Horizon Utilities’ response to this interrogatory is being filed in confidence.

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.

Response to Part (a):

Horizon Utilities' response to part (a) of this interrogatory is being filed in confidence.

Response to Part (b):

b) It would be the preference of Horizon Utilities to recover the Rate Rider as a Fixed Charge. Paragraph 1(d) of the Z-Factor Application (the "Application") proposes a Variable Rate Rider (the "Variable Rider") by customer class, as provided in Schedule A. Horizon Utilities has filed the Application based on the traditionally accepted approach of volumetric rate riders based on electricity consumption.

Paragraph 1(d) also brings to the attention of the Board an alternative rate rider based on a fixed charge (the "Fixed Rider"), as provided in Schedule B. The Fixed Rider is being submitted for alternative consideration for the reasons noted below.

Paragraph 5(a) sets out the "Relief Sought" by Horizon Utilities. For clarification, Horizon Utilities is seeking approval of the most appropriate form of rate rider based on the economic nature of the costs underlying forgone revenue with respect to the Subject Customer.

- 1 Horizon Utilities desires that both forms of rider receive the consideration of the Board.
- 2 Specifically, Horizon Utilities' costs of servicing the Subject Customer are fixed in nature and
- 3 must be supported irrespective of the amount of the Subject Customer's consumption while
- 4 that customer remains connected to Horizon Utilities' distribution system. The costs allocated
- 5 to this customer do not change as a result of its indefinite consumption change, particularly
- 6 through the Z-Factor recovery period proposed.
- 7 Given that the costs of servicing this customer remain fixed, Horizon Utilities submits that the
- 8 Fixed Rider is a more appropriate recovery mechanism than a Variable Rider.

1 **3. Ref: Manager's Summary, p.5**

2 It is stated that:

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

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

8 Please provide similar monthly customer demand (kW) data for each of Horizon's large users,
9 including the subject customer, for the period from January 2006 through October 2009.

10 Please also include yearly totals and explanations for any anomalies. It is not necessary that
11 the identity of each customer be provided in responding to this interrogatory.

12 **Response:**

13 Horizon Utilities' response to this Interrogatory is being provided in confidence.

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

2 It is stated that:

3 *“The Applicant’s approved distribution revenue is required, among other purposes, to*
4 *finance its investment in capital, operations, and maintenance expenditures in support of*
5 *the safe and reliable supply of electricity. The Applicant has realized an actual distribution*
6 *revenue deficiency for the 2008 rate year in the amount of \$744,824, and \$181,251 for the*
7 *first two months of the 2009 rate year, for a total of \$926,075. The Applicant anticipates an*
8 *additional distribution revenue deficiency for the balance of the 2009 rate year in the*
9 *amount of \$868,179 for a total 2009 rate year distribution revenue deficiency of*
10 *\$1,049,430. The Applicant submits that the loss of distribution revenue for the rate years*
11 *2008 and 2009, in the amount of \$1,794,254, is significant to its regulated operations and*
12 *cash flow.*

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

18 b) Please provide an updated version of Table 1 “Revenue Deficiency Summary” as provided
19 by Horizon in its EB-2007-0697 Application as Exhibit A, Tab 2, Schedule 4, Page 1 of 1.
20 Please include columns for 2008 Board Approved, 2008 Actual, and Horizon’s current 2009
21 Forecast. Please also state whether Horizon used a 2010 Forecast to determine that it was
22 necessary to defer the capital projects and, if so, please provide the forecast numbers for
23 2010 used in this table.

24 **Response:**

25 Horizon Utilities’ response to this Interrogatory is being provided in confidence.

1 **5. Ref: Application Summary, p. 6**

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

4 *This has made it necessary for the Applicant to review its expenditures in order to*
5 *determine which projects may be deferred without incurring any risk to system reliability or*
6 *customer safety. Furthermore, the deferral of any project from 2009 to 2010 is only a*
7 *short term deferral – any project being deferred is still necessary and must be completed*
8 *in 2010, a year in which the Applicant anticipates a further loss of distribution revenue of*
9 *\$1,056,232. In addition, the impact of the distribution revenue deficiency now requires the*
10 *Applicant to consider a plan to accelerate the filing of its next cost of service application to*
11 *August 2010 for implementation May 1, 2011. The Applicant submits that, despite such*
12 *deferral, it will not achieve its maximum allowable return on equity, and that such deferrals*
13 *are necessary as prudent measures in relation to available regulated cash flows. “*

- 14 a) Please identify which projects have been deferred to 2010 or beyond and please provide
15 an explanation as to why they were chosen for deferral. Please include the dollar amount
16 of each project.
- 17 b) Please state how Horizon determined that it was necessary to defer these capital projects
18 in order to maintain prudent levels of regulated cash flows.
- 19 c) Please provide the following:
- 20 i) an explanation as to what Horizon would view as a prudent level of regulated cash
21 flow for each of 2009 and 2010 and why.
- 22 ii) the level of cash flow for each of these years had the projects not been postponed
23 and with their postponement.
- 24 iii) In this context, please state how their postponement would bring the cash flows to
25 acceptable levels.
- 26 iv) the assumed financing mix that was used in assessing the impacts of deferring
27 these projects (approved or actual capital structure, 100% debt, 100% equity, or
28 some other mix).
- 29 d) Please state in which years Horizon anticipates not achieving its maximum allowable

1 return on equity and provide the currently forecast levels for the relevant years. Please
2 state whether the loss of the large customer revenue is the only factor that is leading to
3 this underachievement, or, if there are other factors, please state what they are.

4 **Response:**

5 Horizon Utilities' response to this Interrogatory is being provided in confidence.

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

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

4 Please revise this table to include updated customer demand data for July through October
5 2009. Please also update the anticipated 2009 distribution revenue deficiency.

6 **Response:**

7 Horizon Utilities' response to this interrogatory is being provided in confidence.

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

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

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

11 Please further discuss this claim in light of the statement made on page 35 of the *Report of*
12 *the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* of July
13 14, 2008 that: "The Board has determined that the eligibility criteria are sufficient to limit Z-
14 factors to events genuinely external to the regulatory regime and beyond the control of
15 management and the Board." Please state whether or not Horizon believes that all loss of
16 larger customer load is genuinely external to the regulatory regime and if so why. If not,
17 please explain what criteria Horizon believes the Board should use to determine what level of
18 large customer load loss is normal business risk, and what level is external to the regulatory
19 regime.

20 **Response:**

21 Horizon Utilities would not generically submit that all loss of larger customer load is
22 necessarily external to the regulatory regime. Such would need to be evaluated, on a case
23 by case basis, in the context of Board rate-making policy including 3GIRM.

24 Horizon Utilities believes that the Board should simply evaluate the nature of losses in the
25 context of its own policies and underlying criteria that are determinative of whether an event is
26 internal or external to the regulatory regime, such as its Z-factor criteria. Horizon Utilities has
27 submitted the claim underlying this Application in the context of such policies and, specifically,
28 within the context of Board policy for Z-factor claims.

29 With respect to the specific claim underlying the Application, Horizon Utilities submits that it

1 has demonstrated that such is clearly external to the regulatory regime within the context of
2 related Z-factor criteria.

3 In particular, Horizon Utilities could not have predicted the decision of the Subject Customer
4 to adjust its operations in a manner that resulted in such a material decline in load. Horizon
5 Utilities does not presume to submit any possible reasons underlying that decision but
6 expects such to be complex based on many factors and considerations.

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

2 It is stated that:

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

8 a) Please state what the other methodologies were that Horizon considered and why they
9 were rejected.

10 b) Please provide the bill impacts that would have resulted had the decline been allocated
11 only to the large user class.

12 **Response:**

13 a) The methodologies to recover the revenue deficiency that Horizon Utilities considered
14 included allocation of the loss to:

- 15 • The Large User Class only
- 16 • The Large User and General Service > 50 kW Classes
- 17 • Metered Customer Classes
- 18 • All Customer Classes

19 Horizon Utilities tested the appropriateness of the approaches using the principle that the
20 approach should be similar to the method used to design rates in a cost of service
21 application. The first three approaches were rejected since they did not recover the impact of
22 the Subject Customer's load loss on the same basis that the loss would be recovered through
23 rates designed in a Cost of Service rate application.

24 b) Horizon Utilities' response to this interrogatory is being provided in confidence.

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

2 It is stated that:

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

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

9 **Response:**

10 Horizon Utilities' customer classes are Residential, General Service Less Than 50 kW,
11 General Service 50 to 4,999 kW, Large Use, Unmetered Scattered Load, Standby Power
12 (approved on an interim basis), Sentinel Lighting, and Street Lighting. Horizon Utilities
13 submits that costs to provide service to all customers are fixed since capital assets are
14 constructed in response to customers' long term requirements. In addition, the distribution
15 system is built to withstand the capacity requirements for those times when usage spikes
16 significantly. Further system expansion would be required only if the system is overloaded for
17 a long period of time and the customer requirements exceeded the capacity of the system.
18 An addition of one more customer in any customer class may not require any system
19 expansion, because capacity is generally available. If any one new customer adds a
20 significant long term load requirement, system expansion would be required. In the
21 circumstances of this Application, the customer is reducing its load, and therefore there will
22 be no additional capital costs, but there will also be no decrease in capital costs since the
23 existing system must be maintained, regardless of its usage. During an IRM period and
24 beyond, Horizon Utilities' costs are fixed as any fluctuations of the customer's demand does
25 not alter Horizon Utilities' capital cost requirements for customers or its obligations to deliver
26 such load as required.

27 Similarly, operating costs relate to the distribution facilities constructed and the addition of any
28 new customers. Once the system is constructed, it must be maintained. Costs will vary in
29 response to the number of customers, but not in response to the capacity used by customer.

- 1 Appropriate recovery would be on a per customer basis, which translates into a fixed charge
- 2 per customer.
- 3 Please refer to Horizon Utilities' response to Board Staff Interrogatory 2(b) above for further
- 4 discussion in this regard.

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

2 It is stated that:

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

8 a) Please complete the table below:

9 **Response to Part (a)**

10

	Actual Return on Equity		Board Approved Return on Equity	
Year	\$	%	\$	%
2006	16,561,489	10.13%	11,794,212	9.00%
2007	14,141,752	8.33%	N/A	9.00%
2008	14,914,502	8.59%	11,875,285	8.57%

11

12 The preceding financial ratios for the actual return on equity correspond to values in the OEB
13 Yearbook of Electricity Distributors for the respective years.

14 The 2006 and 2007 Actual ROEs reflect the material contribution of approximately \$4.7MM of
15 pre-tax operating cost savings resulting from the 2005 merger of the former Hamilton Hydro
16 Inc. and St. Catharines Hydro Utility Services Inc. In the absence of such savings, such
17 respective Actual ROEs would have been materially lower.

18 However, the 2008 Return on Equity includes amounts outside the scope of Revenue
19 Sufficiency/ Deficiency for that particular year such as:

- 20 • The recognition of an LRAM/ SSM recovery of \$0.9M related to conservation and
21 demand management activities undertaken in the [2005 and 2006] fiscal years;
- 22 • The recognition of recovery of a regulatory variance account in respect of \$1.4M of
23 unrecovered OMERS costs related to prior fiscal years;

- The recognition of \$2.1M of Smart Meter revenue, which is the subject of a separate recovery mechanism through Board approved variance accounts.

In the absence of recognition of such amounts in the 2008 fiscal year, the reported Return on Equity would have been 6.11%

Response to Part (b)

Horizon Utilities' response to this Interrogatory is being provided in confidence.

Response to Part (c)

The monthly service reliability indices from January 2007 to September 2009 are shown below.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>YTD Sept 2009</u>
SAIDI	0.935167	1.014876	1.4944875	1.35427216
SAIFI	1.439519	1.590595	1.8044102	2.06319583
CAIDI	0.649638	0.638048	0.8282415	0.65639535

The reliability indices varied from 2006 to September 2009. The indices are a function of many factors including (for example) weather related influences, loss of supply by transmitter, maintenance programs, and tree trimming programs. It is usually not possible to correlate a change in the indices to any single event. The loss in distribution revenue and subsequent reduction in capital expenditures and maintenance expenditures may not be the direct cause of any one event or series of events that impact the reliability indices but will, in conjunction with other factors mentioned above, influence the indices. Such impacts may not appear in the current year, but the impacts of reduced maintenance and reduced capital projects will eventually appear as an erosion of the reliability indices. As discussed in the Application, a material loss of revenue such as that experienced by Horizon Utilities in respect of the Subject Customer will, if not addressed, reduce the funds available to Horizon Utilities for system maintenance and other distribution-related expenditures.

- 1 **Response to Part (d)**
- 2 Horizon Utilities' response to this Interrogatory is being provided in confidence.