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January 6, 2010

Delivered by Courier and E-mail

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Horizon Utilities Corporation – Z-factor Application
Board File No. EB-2009-0332**

We are counsel to Horizon Utilities Corporation (“Horizon Utilities”) in the above captioned matter. In our letter of December 2, 2009, Horizon Utilities provided the basis for its request that certain of its responses to Board Staff and intervenor interrogatories be maintained in confidence. A copy of that letter is enclosed for the Board’s reference.

We have received copies of correspondence from counsel to Consumers Council of Canada (“CCC”), School Energy Coalition (“Schools”), U.S. Steel Canada Inc. and Vulnerable Energy Consumers Coalition (“VECC”), and from the consultant to Energy Probe, with respect to Horizon Utilities’ confidentiality request. For the most part, counsel to CCC and VECC and the consultant to Energy Probe have adopted the submissions of counsel to Schools. We also note that counsel to U.S. Steel Canada has argued forcefully for the maintenance of confidentiality in respect of all Large Use Customers’ electricity usage statistics, as the disclosure “could be expected to prejudice their competitive position, as well as their economic and financial interests, by enabling like companies to develop a clearer picture of both current competitive cost advantages and future cost management priorities.” Horizon Utilities supports the submissions of counsel to U.S. Steel Canada in this regard, and suggests that as a Large Use customer, U.S. Steel Canada is in the best position among the intervenors to comment on the importance of confidentiality with respect to Large Use customer load information and projections.

With respect to the oral hearing in this matter, counsel to U.S. Steel Canada has submitted that “all aspects of these hearings pertaining to facts, whether they be historical, current or forecast, regarding any and all Large Use Customers, including the Subject Customer, be held ‘in camera’, in keeping with the Ontario Energy Board’s Practice Direction on Confidential Filings (section 6.2); that is, not be broadcast or made available to any individuals or organizations not bound by signed confidentiality declarations specific to EB-2009-0332.” Counsel to Schools has suggested that the entire



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hearing be conducted *in camera*. No intervenor has disputed this approach. An oral hearing in this matter is now scheduled for January 28, 2010, and Horizon Utilities agrees that it is not only appropriate but essential that the hearing be conducted on an *in camera* basis. Horizon Utilities does not believe that it will be possible to conduct any portion of the hearing in public, as confidential information related to the Subject Customer and other members of the Large User class is essential to the application and will likely be referred to throughout the hearing.

Horizon Utilities filed the following responses in confidence, in accordance with the Board's *Practice Direction on Confidential Filings* (the "Practice Direction"):

Board Staff: #1; #2(a); #3; #4; #5; #6; #8(b); and #10(b) and (d)

CCC: #7

Energy Probe: #2(a)

School Energy Coalition: #1; #4; #5; #14 and #15

U.S. Steel Canada Inc.: #4

VECC: #3(b) and (c); #4; #5(b); and #9

Responses in respect of which confidentiality had been claimed that may be made public:

Horizon Utilities has considered the comments of the intervenors with respect to confidentiality, and has determined that it can waive its confidentiality request in respect of its responses to the following interrogatories, subject to the redactions discussed below. Copies of these responses (redacted as necessary) are enclosed with this letter:

- **Board Staff #5(a)-(c) (in part) and VECC #9 (in part):**

With respect to Board Staff #5(a)-(c) (in part) and VECC #9 (in part), portions of the responses provide information concerning deferral of capital projects and levels of cash required to operate. Horizon Utilities is prepared to make those portions of its responses to Board Staff #5(a)-(c) and VECC #9 relating to information concerning deferral of capital projects and levels of cash required to operate public. Redacted versions of Horizon Utilities' responses to Board Staff #5(a)-(c) and VECC #9 accompany this letter.

- **Board Staff #10(b) (in part):**

In its response to this interrogatory, Horizon Utilities has provided a chart indicating (by class of customer) numbers of customers, kWh billed, distribution revenue, average kWh billed per customer and average distribution revenue per customer from 2007 to 2010. The response does not explicitly reveal customer-specific information, with the exception that the text of the response indicates the percentages of the Large User Class load for which the Subject Customer has accounted, and these values have been redacted. Horizon Utilities has also redacted the Large User information from the table provided in response to this interrogatory, consistent with its maintenance of other information related to the Large User Class in confidence. In light of the small number of Large Use customers, Horizon Utilities is concerned that the information in the table could be used to ascertain data related to individual customers. The table provided in the response also reveals forward-looking information with respect to Horizon Utilities' loads and



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distribution revenues, and for the reasons discussed in our previous correspondence and below, Horizon Utilities has redacted those portions of the response that deal with forecast information.

- **VECC #5(b):**

In its response to this interrogatory, Horizon Utilities discusses actions that it undertook to reduce costs and to help offset the impact of the reduced revenue for the period May 1, 2008 to April 30, 2009. Horizon Utilities accepts that this response may be made public.

Responses in respect of which the confidentiality request has not been challenged:

- **Board Staff #3:**

In its response to this interrogatory, Horizon Utilities has provided monthly load data for all large volume customers. Counsel to Schools has accepted that “While none are identified...it may be possible to guess their identities, and this may provide a competitive disadvantage to the companies whose information is listed.” No other party has disputed Horizon Utilities’ confidentiality request in respect of this response, and Horizon Utilities requests that the Board confirm that this response will remain confidential.

- **Schools #15:**

In its response to this interrogatory, Horizon Utilities has provided information on the Subject Customer’s participation in conservation and demand management programs. While Schools suggests that this information might already be public, Schools has accepted the confidentiality of this response, and no other party has disputed Horizon Utilities’ request for confidentiality. Horizon Utilities notes that to its knowledge, the information disclosed in its response to this interrogatory is not public, and requests that the Board confirm that this response will remain confidential.

- **U.S. Steel Canada #4:**

Schools has accepted the confidentiality of this response, as it necessarily identifies the Subject Customer. No other party has disputed Horizon Utilities’ confidentiality request in respect of this response, and Horizon Utilities requests that the Board confirm that this response will remain confidential.

- **CCC #7:**

In the case of this interrogatory, the confidentiality request has not been challenged by Schools, but it has been challenged by CCC. The response includes materials provided to Horizon Utilities’ Board of Directors as it considered filing the Z-factor application. Schools accepts that “The fact that it is a Board of Directors report suggests to us that it should be given confidential treatment in this case.” CCC submits that the material should be public. Horizon Utilities submits that the material provided in confidence to its Board of Directors is, and should remain confidential. As discussed in our previous correspondence, the material includes information with respect to the Subject Customer,

and its public disclosure would necessarily identify the Subject Customer. Additionally, Horizon Utilities submits that as the Board of Directors of an Ontario *Business Corporations Act* corporation, its Board of Directors is under no obligation to conduct its meetings in public. A requirement that it publicly disclose the information requested in this interrogatory would have the effect of opening its meetings and its deliberations to the public, contrary to principles of corporate law. Horizon Utilities requests that the Board confirm that this response will remain confidential.

Responses in respect of which the confidentiality request is disputed:

With regard to the balance of the responses in respect of which confidentiality is claimed, Horizon Utilities reiterates its submissions of December 2nd and its support for the submissions of counsel to U.S. Steel Canada.

- **Board Staff #2(a) and #6; Schools #1, #4, #5 and #15; and VECC #3(b) and (c)**

In our letter of December 2nd, the relevant interrogatories were grouped according to the applicable grounds for Horizon Utilities' confidentiality request. Schools has also grouped Horizon Utilities' interrogatory responses. With respect to the group that Schools characterizes as providing "updated information with respect to the Subject Customer's load and costs to serve" (Board Staff #2 and #6; Schools #4, #5, and #15; and VECC #3 [Horizon Utilities notes that with respect to Board Staff #2 and VECC #3, only the responses to Board Staff #2(a) and VECC #3(b) and (c) were provided in confidence]), Horizon Utilities has noted previously that Schools has accepted the confidentiality of the information contained in Horizon Utilities' response to Schools #15.

With respect to the balance of these questions, Horizon Utilities submits that any further information that would allow for the identification of the Subject Customer should remain confidential. As acknowledged by Schools, the Subject Customer has requested that Horizon Utilities maintain certain information in confidence. Horizon Utilities understands that certain information in the Application is public by virtue of its having been included in the Application as initially filed. However, having received the Subject Customer's request, Horizon Utilities is not prepared to make further information regarding the Subject Customer public in the absence of an Order of the Board to do so.

If, as suggested by Schools, an *in camera* oral hearing is appropriate in these circumstances, then the maintenance of confidentiality in respect of these responses is equally appropriate. With respect to Schools #1, Schools submits that this interrogatory relates to when the Applicant learned of the drop in the Subject Customer's load, and suggests that there is nothing confidential in the response. Horizon Utilities submits that the response reveals information concerning the Subject Customer and that its publication could reasonably be expected to enable other parties to identify the Subject Customer.

While Horizon Utilities understands that the Board's preference is that all material relating to an application be placed on the public record, Horizon Utilities also submits that the Practice Direction has been developed by the Board because it is not always possible to do so. Parties with an interest in this Application have had an opportunity to



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intervene based on a public application and a Notice of that Application, and five have done so. Counsel and consultants to those parties have had an opportunity to review the confidential information in this proceeding by delivering executed copies of the Board's form of Declaration and Undertaking, and there is therefore no prejudice to them in maintaining the confidentiality of these responses. Horizon Utilities has considered whether it is possible to maintain confidentiality in respect of only portions of these responses, and has determined that it is not, as information specific to the Subject Customer is integral to these responses. Accordingly, Horizon Utilities requests that the Board confirm that these responses will remain confidential.

- **Board Staff #1, #4, #5, #6, #8(b), #10; Energy Probe #2; VECC #4, #5(b), #9:**

Schools has identified these interrogatories as relating primarily to forward-looking information regarding the Applicant and its financial performance. Schools suggests that this information is not confidential. We have already addressed Board Staff #5(a)-(c) (in part) and #10(b), and VECC #5(b) and #9 (in part) above, and those responses are being made public, subject to redactions in respect of Board Staff #5(a)-(c) and #10(b) and VECC #9. In fact, there are few responses (fewer than those set out by Schools) that relate to Horizon Utilities' forward-looking financial information. Several of those listed by Schools pertain to Subject Customer-specific information (Horizon Utilities notes that Board Staff #6 was also in Schools' list of interrogatories relating to the updated information with respect to the Subject Customer's load and costs to serve, and has been discussed in the preceding paragraphs). The interrogatories that are properly characterized as relating to Horizon Utilities' forward-looking financial information are set out in Group 3 in our letter of December 2nd, and include Board Staff #4, #5(a)-(c) (in part), #5(d), and #10(b) (in part); Energy Probe #2(a); Schools #14; and VECC #9 (in part).

With respect to Board Staff #1, Horizon Utilities submits that in its response, it has provided actual and forecasted load data for the Subject Customer for the period of July 2009 to April 30, 2011. For the reasons discussed previously with respect to the protection of the privacy of the Subject Customer, this information should remain confidential. Similarly, Horizon Utilities is concerned that its responses to Board Staff #8(b), and to Schools #14 would allow for the identification of information specific to the Subject Customer, and maintains its request that this material remain confidential.

With respect to Board Staff #4, portions of #5(a)-(c), #5(d) and portions of #10(b); Energy Probe #2; and VECC #9 (in part), the responses discuss Horizon Utilities' total anticipated revenue deficiencies and the years in which Horizon will not reach its maximum allowable return on equity due to the loss of revenue from the Subject Customer. Horizon Utilities understands that in the context of a forward test year cost of service distribution rate application, an applicant may be required to publicly disclose information regarding such deficiencies. This, however, is not such an application. Horizon Utilities, which is currently in an IRM period, will not be rebasing until 2011. Horizon Utilities submits that the public disclosure of its future oriented financial information outside of the context of a forward test year cost of service application could reasonably be prejudicial to Horizon Utilities with respect to its financial stakeholders including its shareholders, lenders, and rating agency, and this could cause undue economic loss and be injurious to Horizon Utilities. Horizon Utilities can state that it



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expects its revenues to decline by an amount exceeding the forgone revenue relating to the Subject Customer. This is clear from its Application. However, the particulars of that decline are most appropriately addressed in confidence. As with all other responses in respect of which confidentiality is claimed, individuals that have delivered the Board's form of Declaration and Undertaking have access to this information, and they are not prejudiced by its confidentiality.

With respect to Board Staff #10(d), Horizon Utilities notes that its response reveals specific distribution revenue information concerning the Subject Customer for 2008, 2009 and 2010. As with other information specific to the Subject Customer, and further to its previous submissions and those of U.S. Steel Canada, Horizon Utilities submits that it would not be appropriate for the Board to require public disclosure of any information that would enable competing companies to develop a clearer picture of both current competitive cost advantages and future cost management priorities for the Subject Customer.

With respect to VECC #4, and VECC #9 (in part), Horizon Utilities notes that its responses include actual and forecasted Subject Customer data. Horizon Utilities reiterates its previous submissions with respect to the need to maintain the confidentiality of this information.

For all of the foregoing reasons and those set out in our correspondence of December 2, 2009, Horizon Utilities reiterates its request that those interrogatory responses in respect of which confidentiality was requested in our letter of December 2nd remain in confidence, with the exception of portions of Board Staff #5(a)-(c) and portions of #10(b); and VECC #5(b) and portions of VECC #9.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original signed by James C. Sidlofsky

James C. Sidlofsky
JCS

Encls.

cc. John G. Basilio, Horizon Utilities Corporation
Indy J. Butany-DeSouza, Horizon Utilities Corporation
Intervenors of Record

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December 2, 2009

Delivered by Courier and E-mail

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Horizon Utilities Corporation – Z-Factor Application
Board File No.EB-2009-0332**

We are counsel to Horizon Utilities Corporation (“Horizon Utilities”) in the above captioned matter. As we advised in our cover letter to the public versions of Horizon Utilities’ responses to the interrogatories of Board Staff and the intervenors in this matter, delivered by e-mail yesterday, Horizon Utilities is filing the following responses in confidence, in accordance with the Board’s *Practice Direction on Confidential Filings* (the “Practice Direction”):

Board Staff: #1; #2(a); #3; #4; #5; #6; #8(b); and #10(b) and (d)

CCC: #7

Energy Probe: #2(a)

School Energy Coalition: #1; #4; #5; #14 and #15

U.S. Steel Canada Inc.: #4

VECC: #3(b) and (c); #4; #5(b); and #9

Horizon Utilities has grouped the responses into three categories for the purpose of addressing the grounds for this request:

Group 1: Confidential Customer Information

Interrogatories:

Board Staff: #1; 2(a); #3; #6; #8(b); and #10(b) and (d)

CCC: #7

School Energy Coalition: #1; #4; #5; and #15

VECC: #3(b) and (c); and #4

In these interrogatories, Horizon Utilities has been asked to provide certain information with respect to the Subject Customer. This includes:

Calgary • Montreal • Ottawa • Toronto • Vancouver

- Revenue deficiency information [Staff 1, 6, 10(b) and (d); CCC 7; Schools 4, VECC 4];
- Load information [Staff 6; Schools 1, 5; VECC 3(b) and (c)];
- Information related to the cost of servicing the Subject Customer [Staff 2(a)];
- Bill impacts related to the Large User Class if the revenue decline related to the Subject Customer were allocated entirely to that class [Staff 8(b)]; and
- Information related to the Subject Customer's conservation and demand management activities [Schools 15].

In Board Staff Interrogatory #3, Horizon Utilities has been asked to provide monthly load information not only for the Subject Customer, but for all of its Large Use customers.

While we have broken this group of interrogatories into the bulleted categories set out above for the Board's assistance, Horizon Utilities submits that all of these interrogatories require disclosure of the Subject Customer's load information, both past and anticipated. While Horizon Utilities had included historical and projected load information for the Subject Customer in its Application, Horizon Utilities has been advised by the Subject Customer of its concerns with respect to the release of information of that kind.

The projection of the Subject Customer's load from July 2009 through April 2011 has been amended from that shown in the Application, and Horizon Utilities is not prepared to place the revised projection on the public record. Many of the interrogatories relating to the Subject Customer's projected load also pertain to the Subject Customer's historical load. Horizon Utilities submits that the further public disclosure of information regarding the Subject Customer's load (both historical and projected) could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interest of the Subject Customer since it may assist competitors in ascertaining its future plans with respect to its operations. Horizon Utilities submits that a similar risk exists with respect to the other large use customers whose load information is requested in Board Staff Interrogatory #3. The OEB's Practice Direction on Confidential Filings (the "Practice Direction") recognizes that these are among the factors that the Board will take into consideration when addressing the confidentiality of filings. They are also addressed in section 17(1) of the *Freedom of Information and Protection of Privacy Act* ("FIPPA"), and the Practice Direction notes (at Appendix C of the Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential. Horizon Utilities understands that the Subject Customer has requested that the information be kept in confidence.

Accordingly, Horizon Utilities requests that the Subject Customer's and other individual large use customers' load information as provided in Horizon Utilities' interrogatory responses be kept confidential.



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Group 2: Information regarding the business activities of the Subject Customer

Interrogatory:

U.S. Steel Canada Inc.: #4

In this interrogatory, Horizon Utilities has been asked to provide, in confidence, information pertaining to its understanding of the Subject Customer's business activities. Horizon Utilities cannot provide this information without disclosing the identity of the Subject Customer. Accordingly, Horizon Utilities requests that the information provided in response to this interrogatory be kept confidential.

Group 3: Future oriented financial information

Interrogatories:

Board Staff: #4; and #5

Energy Probe: #2(a)

School Energy Coalition: #14

VECC: #9

In these interrogatories, Horizon Utilities has been asked to provide certain future oriented financial information with respect to 2009, 2010 and 2011, including information related to shareholder returns and revenue sufficiency and deficiency. This information includes:

- Revenue deficiency calculations [Staff 4; VECC #9];
- Planned changes in capital projects and anticipated changes in cash flow and revenue sufficiency/deficiency [Staff 5];
- Projections with respect to Horizon Utilities' anticipated returns on equity [Energy Probe #2(a)]; and
- Changes in working capital calculations resulting from changes in the Subject Customer's characteristics [Schools 14].

Horizon Utilities submits that the public disclosure of its future oriented financial information could reasonably be prejudicial to Horizon Utilities with respect to its financial stakeholders including its shareholders, lenders, and rating agency. Such could cause undue economic loss and be injurious to Horizon Utilities. The OEB's Practice Direction recognizes that these are among the factors that the Board will take into consideration when addressing the confidentiality of filings. They are also addressed in section 17(1) of the FIPPA, and the Practice Direction notes (at Appendix C of the Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential. Accordingly, Horizon Utilities requests that the applicable interrogatory responses be kept confidential.

Horizon Utilities is prepared to provide copies of its responses to the interrogatories noted above to parties' counsel and experts or consultants provided that they have



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executed the Board's form of Declaration and Undertaking with respect to confidentiality and that they comply with the Practice Direction, subject to Horizon Utilities' right to object to the Board's acceptance of a Declaration and Undertaking from any person. In keeping with the requirements of the Practice Direction, Horizon Utilities is filing with the Board confidential unredacted versions of the responses to these questions. These have been placed in a sealed envelope marked "Confidential".

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original signed by James C. Sidlofsky

James C. Sidlofsky
JCS

cc. Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
Indy Butany-DeSouza, Horizon Utilities Corporation
Intervenors of Record

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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 CERTAIN BOARD STAFF AND
VULNERABLE ENERGY CONSUMERS COALITION ("VECC") INTERROGATORIES
PREVIOUSLY FILED IN CONFIDENCE**

DELIVERED IN CONFIDENCE DECEMBER 2, 2009

DELIVERED PUBLICLY (SUBJECT TO REDACTIONS) JANUARY 6, 2010

Board Staff Question 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.

- 1 c) Please provide the following:
- 2 i) an explanation as to what Horizon would view as a prudent level of regulated
- 3 cash flow for each of 2009 and 2010 and why.
- 4 ii) the level of cash flow for each of these years had the projects not been
- 5 postponed and with their postponement.
- 6 iii) In this context, please state how their postponement would bring the cash
- 7 flows to acceptable levels.
- 8 iv) the assumed financing mix that was used in assessing the impacts of
- 9 deferring these projects (approved or actual capital structure, 100% debt,
- 10 100% equity, or some other mix).
- 11 d) Please state in which years Horizon anticipates not achieving its maximum allowable
- 12 return on equity and provide the currently forecast levels for the relevant years.
- 13 Please state whether the loss of the large customer revenue is the only factor that is
- 14 leading to this underachievement, or, if there are other factors, please state what
- 15 they are.

16 **Response:**

- 17 5a) The following projects were deferred from fiscal 2009 to fiscal 2010 or beyond:

Description	\$ Amount	OM&A or Capital
ERP Implementation – Planning and Scheduling and Field Devices -Productivity Improvement	\$295,000	OM&A – Business Process Mapping, Definition, Training and development
Human Resources – New Hires and Filling of Vacant Positions - Skilled Trades/ Apprentices - Finance/HR	\$515,000	OM&A
Asset Management Planning	\$50,000	OM&A
GIS Technology Strategy	\$60,000	OM&A

Repairs and Maintenance - Facilities	\$230,000	OM&A
Communications	\$100,000	OM&A
Supply Chain Productivity Initiatives	\$100,000	OM&A
Various operating expense reductions	\$80,000	OM&A
	\$1,430,000	TOTAL OM&A
Depreciation expense	\$60,000	Impact of Capital Reductions
	\$1,490,000	TOTAL OPERATING
Computer hardware/software upgrades	\$173,000	Capital
Facilities upgrades	\$185,000	Capital
Other miscellaneous capital	\$318,000	Capital
	\$676,000	TOTAL CAPITAL
Smart Meter – Commercial Customers – Deferred pending approval of Smart Meter Adder	\$2,900,000	Other Capital

- 1
- 2 Please note that the capital expenditure deferrals of \$0.7MM are expected to be offset
- 3 by \$2MM in higher distribution system capital expenditures for 2009.
- 4 With respect to the Commercial Smart Meter capital expenditures, these expenditures
- 5 are a component of the Smart Meter variance accounts and are outside the scope of the
- 6 revenue sufficiency/deficiency.
- 7 As previously noted, despite these mitigation efforts, Horizon Utilities will not achieve its
- 8 regulated rate of return on regulated rate base.
- 9 Projects were selected for deferral based on whether or not such would result in any
- 10 significant business or operational risk to Horizon (e.g. reliability of the distribution
- 11 system, impact on customers) in the very short-term.

1 5b) Please refer to Horizon Utilities' response to VECC Question #9.

2 5 c) i) The "prudent" level of regulated cash flow is that which supports prudently
3 incurred electricity distribution expenditures, within the context of Board rate making
4 policies, while also recovering the full approved regulated cost of capital. Such level of
5 cash flow provides for the financing and operation of the regulated electricity distribution
6 business on a sustainable basis.

7 Specifically, for 2009 and 2010, Horizon Utilities would view the prudent level of
8 regulated cash flow to be that arising from its Board-approved 2008 cost of service
9 electricity distribution rate application ("2008 EDR") as adjusted through the third
10 generation incentive rate mechanism ("3GIRM"). Such cash flow is effectively the
11 amount of total Revenue Requirement expected from such rate making policy based on
12 assumptions underlying the determination of customer rates and other regulated
13 charges, including consumption forecasts.

14 The Revenue Requirement arising from the Board - approved 2008 EDR application
15 was \$93.4MM on a rate year basis.

16 On this basis, after considering actual and estimated 3GIRM adjustments and assuming
17 a modest level of customer growth at 0.5%, the prudent level of regulated cash flow/
18 Revenue Requirement is approximately \$94.1MM and \$94.9MM for the 2009 and 2010,
19 respectively.

20 5 c) ii) Given that cash flows are affected by a variety of factors, including working
21 capital timing differences, a more direct approach to evaluating cash flow levels, with or
22 without postponement of projects, is to consider the difference between the prudent
23 level of regulated cash flow/ Revenue Requirement, based on that submitted in
24 response to question 5 c) i), above, and that which is forecast for the 2009 and 2010
25 fiscal years. Such difference represents a cash flow impairment relative to the amount
26 afforded by Board rate-making policy.

1 Such analysis requires converting rate year cash flow into fiscal year cash flow. On a
2 fiscal year basis, Horizon Utilities submits that the prudent level of cash flow
3 corresponding to the amount submitted in response to question 5 c) i) is \$93.9MM and
4 \$94.6MM.

5 **No Postponement**

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]

14 **With Postponement**

15 Horizon Utilities forecasts 2009 net operating and capital expenditure postponements of
16 \$1.5MM and \$1.6MM, respectively. Assuming a financing mix based on the approved
17 capital structure, these 2009 postponements mitigate the 2009 forecast cash flow
18 impairment by \$2.1MM.

19 5 c) iii) Such postponement does not bring cash flows to "acceptable" levels; it merely
20 mitigates cash flow impairments to the extent practicable, with due regard for managing
21 operational risks related to the regulated electricity distribution operations.

22 Horizon Utilities submits that "acceptable" levels of cash flow mirror its definition of
23 "prudent" level of regulated cash flow in response to 5 c) i). Horizon Utilities submits
24 that an "acceptable level" of cash flow provides for prudent capital and operating
25 programs and its full approved cost of capital which, in turn, supports the

- 1 creditworthiness and operation of its regulated operations on a sustainable basis.
- 2 5 c) iv) Horizon Utilities has assumed the Board-approved capital structure as a basis
- 3 for its financing mix in assessing the impacts of postponements noted in 5 c) iii).
- 4 5 d) **[FILED IN CONFIDENCE]**

Board Staff Question 10. Ref: Manager's Summary, p.15 [NOTE THAT HORIZON UTILITIES' RESPONSES TO PART (a) AND PART (c) WERE PREVIOUSLY FILED PUBLICLY]

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."

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

Response to Part (b)

	2007 Actuals	2008 Board Approved	2008 Actuals	2009 (Actuals for Jan - Oct)	2009 Projection for Nov & Dec	2010 Forecast	% Change 2010 vs Bd Approved
Residential							
Number of Customers	210,358	211,942	213,826	212,258			
kWh Billed	1,666,789,557	1,698,681,251	1,641,702,487	1,318,384,449			
Distribution Revenue	60,585,358	53,888,130	61,913,757	44,093,331			
kWh Billed per Customer	7924	8015	7750	6211			
Distribution Revenue per Customer	288	254	292	208			
General Service < 50 kW							
Number of Customers	18,069	17,927	18,005	17,948			
kWh Billed	617,778,984	633,227,762	598,551,375	476,989,501			
Distribution Revenue	9,691,784	10,366,375	10,060,829	8,849,855			
kWh Billed per Customer	34,190	35,323	33,244	26,576			
Distribution Revenue per Customer	536	578	559	493			
General Service > 50 kW							
Number of Customers	2,154	2,213	2,203	2,210			
kWh Billed	1,997,275,502	2,118,642,390	1,958,094,266	1,516,153,156			
Distribution Revenue	12,215,130	15,052,687	12,943,821	13,941,502			
kWh Billed per Customer	927,240	957,362	888,826.27	686,042			
Distribution Revenue per Customer	5,671	6,802	5,875.54	6,308			
Large user							
Number of Customers							
kWh Billed							
Distribution Revenue							
kWh Billed per Customer							
Distribution Revenue per Customer							

USL included in yearbook not included here	excl. WMP see actual 2008 878,343,177	USL included in yearbook not included here	actuals from dx revenue monthly usage cust counts	3rd quarter forecast revenue for Nov & Dec prorated by class	2010 Budget
transformer allow of 2,120,914.10 incl in LU revenue		transformer allow of 1,846,544.97 incl in LU revenue			

>50 kW distribution revenue includes standby revenue

Please note the reduction in Large User revenues when the projected 2010 distribution

1 revenue is compared to the 2008 Board Approved values.

2 In the recent past, the Subject Customer has accounted for [REDACTED] of the Large User
3 class load. In 2008 the Subject Customer accounted for [REDACTED] of the Large
4 User class load. In 2009, through October, the Subject Customer has accounted for
5 [REDACTED].

6 Horizon Utilities notes that there are reductions of approximately [REDACTED]% and [REDACTED]% in kWh
7 billed and kWh billed per customer, respectively, in the GS > 50kW class. However,
8 those reductions have not contributed to significant reductions in revenue. By contrast,
9 loss of load related to Large Users has had significant impacts on Horizon Utilities'
10 distribution revenues.

11 d) Please complete the table below:

12 **[RESPONSE PROVIDED IN CONFIDENCE]**

1 **VECC Question #5 [NOTE THAT ONLY HORIZON UTILITIES' RESPONSE TO PART**
2 **(b) HAD PREVIOUSLY BEEN FILED IN CONFIDENCE.]**

3 **Reference:** Manager's Summary, paragraph 2.7

4 b) What actions did Horizon take during the 2008 rate year (i.e. May 1, 2008 to April
5 30, 2009) to reduce costs and help offset the impact of this reduced revenue?
6 What were the associated capital and operating cost reductions for the 2008 rate
7 year?

8 **Response:**

9 b) Horizon Utilities does not maintain its financial records on a rate year basis, and,
10 as such, is not able to specifically identify actions undertaken on a rate year basis.
11 Horizon Utilities respectfully submits that the following actions to reduce costs and help
12 offset the impact of reduced revenue were undertaken by it in fiscal 2008:

- 13 • Deferral of training and development expenditures of approximately \$0.2MM; and
14 • Deferral of new hires and filling of vacant positions of approximately \$0.5MM.

1 **VECC Question #9**

2 **Reference:** Manager's Summary, paragraph 3.11

3 a) Please demonstrate that the short-fall in distribution revenue is required to "provide
4 the cash necessary to finance Horizon Utilities' investment in capital, operations and
5 maintenance".

6 **Response:**

7 The Board's Decision and Order with respect to Horizon Utilities' 2008 electricity
8 distribution rate application ("2008 EDR") provided for a Distribution Revenue
9 Requirement of approximately \$86.7 million. Such Distribution Revenue Requirement
10 was necessary to support the operating and capital programs set out in the 2008 EDR
11 application, to sustain a reasonable and prudent level of creditworthiness of Horizon
12 Utilities, and to support a regulated level of return on capital to support financial
13 sustainability.

14 The Distribution Revenue Requirement was effectively adjusted May 1, 2009 based on
15 the Third Generation Incentive Regulation Mechanism ("3GIRM"). Such adjustment to
16 Horizon Utilities' electricity distribution rates resulted in a revised Distribution Revenue
17 Requirement of approximately \$87.7 million.

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

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[REDACTED]

In the interest of prudence in maintaining a balance between distribution costs and risks, cashflow, and shareholder interests, Horizon Utilities targeted reductions in its 2009 operating program by \$2.0MM and its capital program by \$3.6MM. Such reductions largely represent deferrals of necessary expenditures in support of sustainable electricity distribution infrastructure. Such deferrals do not pose an immediate significant risk for Horizon Utilities, but must be addressed in due course.

Paragraph 3.11 of the Manager's Summary provides the impact of the Large User class only on 2009 Horizon Utilities' distribution revenue. The recovery sought by Horizon Utilities under this Application is only a portion of the total amount of distribution revenue shortfall forecast for 2009.

Consequently, the recovery sought under this Application is necessary to address a portion of the deferred expenditures on a priority basis. Horizon Utilities will address the remaining deferrals based on its 2010 financial performance and through a cost of service rate application for the 2011 rate year.