

Board Staff Interrogatories  
Horizon Utilities Corporation  
2008 Electricity Distribution Rates Application

**RATE BASE**

1. Ref: Exhibit B/ Tab 1/ Schedule 1

Please confirm that Horizon Utilities has no projects for which a Leave to Construct under section 92 is required. If there are projects for which a leave to construct is required then please provide a listing of these projects.

2. Ref: Exhibit B/ Tab 1/ Schedule 1

- a. Please provide Horizon Utilities' Code of Business Conduct.
- b. For the years 2002 to 2008 inclusive, please provide a table listing the following (use actual dollars in years where available, or expected or planned or projected dollars, or % where indicated):
  - I) Net income
  - II) Actual Return on Equity (%)
  - III) Allowed Return on Equity (%)
  - IV) Retained Earnings;
  - V) Dividends to shareholders;
  - VI) Sustainment Capital expenditures excluding smart meters;
  - VII) Development Capital Expenditures excluding smart meters;
  - VIII) Operations Capital Expenditures;
  - IX) Smart meters Capital Expenditures;
  - X) Other Capital Expenditures (identify)
  - XI) Total Capital Expenditures including and excluding smart meters;
  - XII) Depreciation

3. Reference: Exhibit B/Tab 2/Schedule 1.

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Please provide a description of each item of 'Plant' included in the description for each account.

4. Ref: Exhibit B/ Tab 2/ Schedule 2

For each of the years 2006, 2007 and 2008, please provide:

- a. A comprehensive table of capital expenditures on a project basis, with a subtotal for those which exceed the materiality threshold, and a subtotal for the group of those which do not exceed the materiality threshold as well as the overall total;
- b. Please indicate, for each of the years 2006, 2007, 2008 of the table produced according to a) above,
  - I) How would the table be adjusted if the budget were required to be reduced by 25%?
  - II) What would be the consequences of the adjustment on each of the programs?

5. Reference: Exhibit B/Tab 2/Schedule 2

Please confirm that the continuity statement includes interest during construction and all overheads.

6. Reference 1): Exhibit B/Tab 3/Schedule 1/p.21, Exhibit B/Tab 3/Schedule 1/p.4

For each of the years 2006, 2007 and 2008 please provide

- a. The number of connections for each project corresponding to the "\$" (dollar) in Reference 1 - table, and the average \$ per connection for each project;
- b. A table listing the number of installations and connections in each category, for each of the years, including those described for 2008 in the text of Reference 2;

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- c. Details of the number of customer connections in each customer category for
  - I) new connections; and
  - II) service upgrade connections.

7. Reference Exhibit B/Tab 3/Schedule 1;

For each of the projects please provide the starting and in-service dates.

8. Reference: Exhibit B/Tab 3/Schedule 1/Page 7

The text indicates that “Horizon Utilities maintains its distribution plant according to an assessment that uses a combination of time based and condition-based maintenance methodology”

- a. Please explain how long the utility has been using this methodology and provide a detailed description of the assessment processes.
- b. Please provide information on the costs and benefits of this methodology vs. the prior methodology that Horizon was using.
- c. Please demonstrate the criteria according to which the individual 2008 renewal expenditures are justified.
- d. Please provide the individual project economic evaluations for all renewal projects, including customer load data for projects ascribed to overloading.

9. Ref: Exhibit B, Tab 3, Schedule 1, page 9

The evidence states that “Each year 20% of Horizon Utilities’ wood poles older than 25 years are tested and rated to determine when they should be replaced or retested”

- a. Please provide the latest test result as mentioned above and the total number of poles that require replacement in the next 5 years.

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- b. Please provide capital expenditures for wood pole replacement in 2006 & 2007.
- c. Please provide variance analysis for 2006 Board approved, 2006 actual, 2007, and 2008 expenditure.

10. Ref: Exhibit B, Tab 3, Schedule 1, page 12

In regard to the Halson Substation Feeder conversion project,

- a. Please provide further details of the Halson conversion and explain the nature of this project. What is the voltage of the existing station?
- b. Was this program previously approved by the Board?
- c. Please provide the total cost for this project.
- d. Please provide the planned budget and actual cost for this project for 2006 Board approved, 2006 actual, 2007, and 2008 including a variance analysis.
- e. Please clarify the decommissioning phase of this project which will happen in 2008.
- f. Will the switching equipment remain on the property? Will the property be disposed of?
- g. Describe the existing system and the 27.6 kV system on how the 27.6 kV distribution voltage is arranged to feed the existing loads.
- h. Please indicate the source of the supply.

11. Ref: Exhibit B, Tab 3, Schedule 1, page 15

In regard to the Horning M50 – new feeder project,

- a. Please provide the total cost of this project when it is completed as well as the cost in 2008.
- b. Please provide data or information demonstrating that the Mohawk Transformation Station is overloaded.

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- c. Please provide load growth data including actual load growth from 2002 to 2006 and forecast growth from 2007 to 2017 for Mohawk Transformation Station if a load growth study on this station has been conducted.
- d. Please provide engineering support documentation including single line diagram proving that no other station has load balancing and/or load transfer capability in order to defer investment for the Horning M50 – new feeder project Mohawk Transformation Station.

12. Ref: Exhibit B, Tab 3, Schedule 1, page 34

- a. Please indicate if the ERP project was presented to the Board in a previous proceeding. If it was, then please provide a copy of all the pre-filed evidence relating to the ERP project filed in any previous proceeding.
- b. Please confirm that Horizon is proposing to add approximately \$4.7 million to its rate base in 2008 for the ERP software solution.
- c. Please provide the confidential IFS agreement as mentioned at page 30 to the Board, in accordance with the confidentiality practices of the Board.
- d. Please indicate if the amounts in table 11 represent the total cost of the ERP project, or just the amount due in 2008 to be paid to the vendor? What is the total amount of the entire project?
- e. Please provide the planned budget and actual cost for this project for 2006 Board approved, 2006 actual, 2007, and 2008 including a variance analysis.
- f. Please provide a table listing the expected capital expenditure of this project by year from 2009 to 2012.
- g. Please provide a table listing the “Estimated Cost Savings” and “Estimated Process Improvement Benefits” by year from 2006 to 2012 for this project.

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13. Ref: Exhibit B, Tab 3, Schedule 1, page 34

Please provide a copy of the smart meter implementation plan, if any. How does HUC propose to deal with costs associated with stranded meters?

14. Ref: Rate Base

In the audited financial statements under *note 2* regarding the amalgamation, there is a table that indicates the fair value of net assets of St. Catharines Hydro.

Please provide a continuity table that shows the gross and net fixed asset book values of each distributor before amalgamation and the history of changes in fixed assets of the amalgamated distributor from March 1, 2005 through December 31, 2006. [Please use the combined net book values of each distributor before amalgamation, plus capital expenditures, less disposals and depreciation from that date immediately before amalgamation in the above rate base calculation. No appraisal increments should be included in rate base.]

## **OPERATING REVENUES**

15. Ref: Exhibit C/ Tab 2/Schedule 2/ Pages 1 to 6

At Schedule 2, pages 1 to 6, the HUC explains how it developed its 2008 load forecast. Staff understands the methodology as:

- o Determination of 2008 forecasted customer count for each customer class,
- o Determination of the weather-normalized retail energy for each customer class for 2004,
- o Determination of the 2004 retail normalized average use per customer ("retail NAC") by dividing each of these weather-

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- normalized retail energy values by the number of customers/connections in each class existing in 2004,
- o applying the 2004 retail NAC to the 2008 Test Year without modification, and
- o Determination of the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value by the 2008 forecasted customer count in that class.

Please confirm that the above accurately captures Horizon's load forecasting methodology. If it does not, then please clarify in detail explaining the methodology used.

16. Ref: Exhibit C/ Tab 2/ Schedule 2/ Page 1

At Schedule 2, page 1, HUC explains its derivation of the customer count for the various customer classes. For the General Service >50 to 5,000 kW customer class, HUC relies on a 2% annual growth for 2007 and 2008. 2004 and 2005 (growth of 9.25% and 0.39% respectively) were judged to be anomalies. The rationale for removing these values from the trend analysis and simply assuming a 2% annual growth is not clear.

- a. Please provide detailed justification for rejecting the 2004 and 2005 values and explain the selection of the 2% annual growth assumption.
- b. Please estimate the 2007 and 2008 values if the 2004 and 2005 values had not been eliminated from the growth analysis.

17. Ref: Exhibit C/Tab 2/Schedule 2/Page 2

At Schedule 2, page 2, the HUC states: "By using the latest Hydro One forecast that is specific to Horizon Utilities, the 2004 weather normalized data has been used to forecast the required information for the 2007 Bridge Year and the 2008 Test Year."

Please explain:

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- a. What was the Horizon Utilities-specific forecast data that Hydro One used,
- b. How was the 2004 weather normalized data used, and
- c. What was the “required information” that is referenced?

18. Ref: Exhibit C/Tab 2/Schedule 2/Page 5&6

At Schedule 2, page 5, the HUC states: “While total normalized consumption for each class will change from year to year due to changes in customer numbers, average normalized customer consumption will be consistent from year to year.” In line with this statement, in Schedule 2, page 6, Table 4, the Applicant shows the Average kWh/Customer for Residential, GS<50 kW and GS>50 kW classes to maintain the same value from 2002 to 2008.

- a. Please confirm that no reduction in consumption in the forecast is expected during the 2006 to 2008 period as a result of Horizon Utilities’ CDM activities.

19. Ref: Exhibit C/ Tab 2/ Schedule 2/ Page 1-6, Exhibit C/ Tab 2/ Schedule 2/Appendix A, 1st table

At Schedule 2, pages 1 to 6, the Applicant determines the “retail NAC” which, as outlined in the previous interrogatories, does not appear to adequately weather-normalize the energy usage in historical years and did not allow for the possible change in energy usage per customer over the 2002 – 2008 period. In the first table in Appendix A, the Applicant summarizes the calculation of its load forecast incorporating the constant retail energy assumption. The minimal weather normalization and the constant retail NAC assumption could potentially lead to forecasting errors.

- a. Please file a data table for the historical years 2002 to 2006 that show:

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- I) the actual kWh for each customer class in each year,
  - II) the weather normalized kWh for each customer class in each year (where, for the three customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year and not rely on results for any other year),
  - III) the values of the weather conversion factors used,
  - IV) the customer count for each class in each year,
  - V) the Average kWh / Customer for each class in each year based on the weather corrected kWh data in item ii. above, and
  - VI) as a footnote to the table, the source(s) of the weather correction factors.
- b. Please file an updated version of Schedule 2, page 6, Table 4 for the historical years 2002 to 2006, the Bridge Year 2007 and the Test Year 2008:
- I) utilizing the weather corrected Average kWh / Customer values for each class in each year obtained in (a) v. above for the historical years 2002 to 2006,
  - II) including 2007 and 2008 projections for the weather corrected Average kWh / Customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) in each year, and
  - III) for each of the weather-sensitive classes, describe in detail the trend analysis performed in (ii) above
- c. Please file an updated version of the first table in Appendix A:
- I) utilizing the weather corrected and other data determined in (b) above, and

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- II) utilizing the 2007 and 2008 customer count forecasts for the GS>50 to 5,000 kW class as developed in response to interrogatory 16 (b).

**REVENUE OFFSETS AND SPECIFIC SERVICE CHARGES**

20. Ref: Exhibit C, Tab 3, Schedule 1

Please provide an explanation of each variance from 2006 Actual versus 2008 Test to explain the overall decrease in “Other Distribution Revenue”.

Please reconcile the various amounts included in “Specific Service Charges” and “Other Distribution Revenue” between Exhibit C, Tab 1, Schedule 2 Page 1 of 1 and Exhibit C, Tab 3, Schedule 1 Page 1 of 1.

21. Ref: Exhibit I, Tab 1, Schedule 4 Page 3 of 3

Horizon Utilities Corporation is proposing a new specific charge called “Credit Card Convenience Charge” in the amount of \$15.00. Please confirm that the costs which Horizon Utilities Corporation will be recovering through this charge has not been included in operating expenses so that they will not also be recovered through the base revenue requirement.

**OPERATING COSTS**

22. Ref: General Question on OM&A Expenses

Please confirm that HUC has not made changes to the company’s accounting policies in respect to capitalization of operating expenses and/or has not made any significant changes to accounting estimates

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used in allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

23. Ref: Exhibit D/ Tab 2

The following table was modified by Board staff to review HUCs OM&A expenses. Note rounding differences may occur, but are immaterial to this question. Board staff notes that HUC is forecasting increases to OM&A before Energy Conservation and Property Taxes by \$9.5 million or 29.4% from Actual 2006 to the Test Year 2008.

*Board Staff Table 1*

	2006 Actual	Variance 2007 Brg / 2006 Act	2007 Bridge	Variance 2008 Tst / 2007 Brg	2008 Test	Variance 2008 Tst/ 2006 Act
Operations Expense	\$ 6,932,390	\$ 893,472 2.8%	\$ 7,825,862	\$ 168,488 0.4%	\$ 7,994,350	\$1,061,960 3.3%
Maintenance Expense	\$ 5,405,357	\$ 437,353 1.4%	\$ 5,842,710	\$ 1,226,969 3.1%	\$ 7,069,679	\$1,664,322 5.1%
Billing and Collection	\$ 7,533,580	\$ 63,906 0.2%	\$ 7,597,486	\$ 189,139 0.5%	\$ 7,786,624	\$ 253,044 0.8%
Community Relations	\$ 390,903	\$ 109,040 0.3%	\$ 499,943	-\$ 22,525 -0.1%	\$ 477,418	\$ 86,515 0.3%
General and Administration	\$12,084,417	\$ 5,103,917 15.8%	\$17,188,334	\$ 1,335,516 3.4%	\$18,523,850	\$6,439,433 19.9%
<b>Total OM&amp;A</b>	<b>\$32,346,647</b>	<b>\$ 6,607,688</b> 20.4%	<b>\$38,954,335</b>	<b>\$ 2,897,586</b> 7.4%	<b>\$41,851,921</b>	<b>\$9,505,275</b> 29.4%
Energy conservation	\$ 1,645,980	-\$ 808,237	\$ 837,743	-\$ 573,120	\$ 264,623	-\$1,381,357
Property Taxes	\$ 443,632	\$ 114,324	\$ 557,956	\$ 16,733	\$ 574,689	\$ 131,057
<b>Total OM&amp;A</b>	<b>\$34,436,258</b>	<b>\$ 5,913,776</b>	<b>\$40,350,034</b>	<b>\$ 2,341,199</b>	<b>\$42,691,233</b>	<b>\$8,254,975</b>

*Exhibit D, Tab 2, Schedule2, Page 2*

The following table was created by Board staff to review HUCs OM&A forecasted expenses from the evidence provided in the application's Exhibit D Tab 2 schedule. Note rounding differences may occur, but are immaterial to this question.

*Board Staff Table 2*

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	2007	2008
Opening Balance OM&A Expenses	\$ 32,346,647	\$ 38,954,335
Salaries and expenses	\$ 2,279,134	\$ 2,099,966
Tree Trimming	\$ -	\$ 950,000
ERP 2006	\$ 1,650,000	-\$ 1,650,000
ERP 2007	\$ -	\$ 1,351,920
ERP Set-up Outside Services	\$ 1,600,000	-\$ 1,600,000
Regulatory Outside Services	\$ 625,000	-\$ 625,000
Unexplained Difference	\$ 453,554	\$ 2,370,700
Closing Balance OM&A Expenses	<u>\$ 38,954,335</u>	<u>\$ 41,851,921</u>
Energy conservation	\$ 837,743	\$ 264,623
Property Taxes	\$ 557,956	\$ 574,689
Total Operating, Maintenance and Admin	<u>\$ 40,350,034</u>	<u>\$ 42,691,233</u>

*Exhibit D, Tab 2, Schedule 2, Page 2*

The following table was created by Board staff to review HUCs OM&A forecasted expenses from the evidence provided in OM&A Cost Table in Exhibit D Tab 2 schedule 2. Note rounding differences may occur, but are immaterial to this question.

*Board Staff Table 3*

	2006 Actual	Variance 2007 Brg / 2006 Act	2007 Bridge	Variance 2008 Tst / 2007 Brg	2008 Test	Variance 2008 Tst / 2006 Act
5605 Executive salaries & expenses	\$ 1,537,735	\$ 454,551	\$ 1,992,286	\$ 15,044	\$ 2,007,330	\$ 469,595
5610 Management salaries & expenses	\$ 2,677,674	\$ 1,083,902	\$ 3,761,576	\$ 575,347	\$ 4,336,923	\$ 1,659,249
5615 General administrative salaries & expenses	\$ 2,752,772	\$ 740,681	\$ 3,493,453	\$ 1,509,575	\$ 5,003,028	\$ 2,250,256
5625 Administrative Expense Transferred Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and expenses	<u>\$ 6,968,181</u>	<u>\$ 2,279,134</u>	<u>\$ 9,247,315</u>	<u>\$ 2,099,966</u>	<u>\$ 11,347,281</u>	<u>\$ 4,379,100</u>
		32.7%		22.7%		62.8%

- a. Please confirm that HUC agree with the three tables prepared by Board Staff presented above. If HUC does not agree with the tables above, please clarify in detail.
- b. *Board Staff Table 3* shows that HUC 2008 Salaries and expenses are forecasted to increase by \$4.4 million or 62.8% from 2006. *Board Staff Table 2* shows the increases by year as expense drivers. Please prepare similar styled driver tables as *Board Staff Table 2* above for each account group that segregate or provide the

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driver details with references to supporting evidence. Please consider but do not limit to the following example of drivers.

- I) Forecasted current labour economic and progression (if applicable) adjustments by year by account group.
  - II) Forecasted staffing changes (i.e. due to economic changes (customer growth, call growth) or other than economic changes (new project)) by year by account group.
  - III) Pension or other benefit adjustments by year by account group with explanation.
- c. Please provide a detailed headcount of planned changes to personnel during 2007 and 2008. This request should include number of employees, job descriptions, reason for hiring and related budget amount. Please identify timing considerations for planned changes.
- d. In HUC's evidence, there is a detailed discussion with respect to the ERP project. On *Board Staff Table 2* above Board staff has identified ERP drivers as provided by HUC in the application. Please confirm that HUC agrees with the drivers as identified. If HUC does not agree with the table please clarify in detail why HUC does not agree with the table and prepare an amended table.
- e. In *Board Staff Table 2* Board staff has identified an "Unexplained Difference" cost driver in the amounts of \$0.5 and \$2.4 million for 2007 and 2008. Please explain in detail the reasons for this variance and clearly identify the drivers of this variance. .

24. Ref: Exhibit D/ Tab 2/ Schedule 1 Page 18

HUC is proposing to recover the ERP system capital and operating expenses based on a uniform average annual revenue requirement over a six year period. This is being proposed by HUC to offset a potential over recovery of \$657,000 during two periods of IRM

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regulation or the next five years. HUC is proposing to include the six year average annual revenue requirement of \$1,351,920 in 2008 for this project.

- a. Please provide detailed calculation supporting the \$657,000 potential over recovery.
- b. In Appendix A for the calculation of revenue requirement please provide calculations supporting amortization and grossed-up PIL's for each year presented.
- c. Please discuss what the normal capitalization process would be for the ERP system project. More specifically please discuss how HUC would have accounted for this system capital had the company not made this proposal.
- d. Please advise all 2007 transaction values for the ERP system that have been included in the opening balances of this application. Include all calculations if applicable.
- e. Please advise all 2008 transaction values, both capital and operating, HUC would have included in this 2008 Cost of Service application if they had not proposed the \$1,351,920. Please confirm that HUC has excluded these values from the application.
- f. The federal government announced in an Economic Statement on October 30, 2007 that the federal income tax rates for corporations will be reduced. The changes are expected to be approved before the House rises, and the new income tax rates would be effective January 1, 2008. In HUC's 2006 electricity distribution rate (2006 EDR) applications, an effective tax rate of 36.12% was used. The new federal income tax rate for larger companies will be 19.5% for 2008 and the Ontario income tax rate is 14%, the new combined income tax rate will be 33.5% - a difference of 2.62% from the 36.12% level. Please provide a revised Appendix A along with the

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amortization and PIL's calculations as requested above reflecting this change in the income tax rate.

25. Ref: Exhibit D/ Tab 2/ Schedule 2/ OM&A Costs Table

Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Include in this listing the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether HUC considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

**PURCHASE OF SERVICES OR PRODUCTS**

26. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 1 and 2

Under Table 1, 2007 Bridge Year, Horizon Utilities Corporation ("HUC") documents purchases from FibreWired for internet connectivity, PC Technical Support Services, and Telephone Support.

On page 2, HUC states that its FibreWired division is being sold to an unrelated third party and upon the completion of that transaction in 2007, HUC will no longer be purchasing internet connectivity services from an affiliate.

a. How will HUC acquire these services specifically:

- I) Name of the company(s) that will be providing internet connectivity, PC technical and telephone support services and the rationale to switch to this service provider.
- II) Annual dollar value for each service and a variance analysis of showing the cost of the new contract vs. prior contract as well as an explanation for the cost increase(s).

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- III) Description of specific methodology used in determining the price.

27. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 3

- a. In regards to Table 2 (2006 Supplier List), HUC has disclosed expenditures equal to or greater than \$250,000. Please provide the following information:
  - I) The identity of each company transacting with the Applicant
  - II) A summary of the nature of the activity transacted for each company.
  - III) Annual dollar value, in aggregate, of all transactions
  - IV) Description of specific methodology used in determining the price.
- b. Please provide reasoning if an inclusive list of all expenditures cannot be provided.

28. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 4

- a. In regards to Table C (2007 Supplier List), HUC has disclosed expenditures equal to or greater than \$125,000. Please provide the following information:
  - I) The identity of each company transacting with the Applicant
  - II) A summary of the nature of the activity transacted for each company.
  - III) Annual dollar value, in aggregate, of transactions
  - IV) Description of specific methodology used in determining the price.
- b. Please provide reasoning if an inclusive list of all expenditures cannot be provided.

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29. Ref: Exhibit D/ Tab 2/ Schedule 6/ Page 3 and 4

For each specific methodology used in determining the price of the service/product, please provide a detailed description of the methodology.

**SHARED SERVICES**

30. Ref: Exhibit C/ Tab 3/ Schedule 2/ Page 4

In Table 2, HUC identifies the allocators used for each shared service department. Please provide a rationale outlining how each of these allocators was chosen.

31. Ref: Exhibit C/ Tab 3/ Schedule 2/ Appendix A

An unsigned, draft copy of the Master Services Agreement for Shared Services was filed. Please provide the expected date by which the Master Services Agreement for Shared Services will be officially signed and filed with the Board.

**EMPLOYEE COMPENSATION**

32. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average employee compensation totals, by employee category for 2005 to 2008. Please provide an expanded version of this table showing Historical Board Approved data for 2006 and Historical Actual data for 2006.

33. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of the number of employees from 2005 to 2008.

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- a. Please provide the rationale and justification for the increase from 14 to 17 executive positions, from 2006 to 2008.
- b. Please provide the rationale and justification for the increase from 39 to 44 management positions, from 2006 to 2008.

34. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average yearly overtime amounts by employee category from 2005 to 2008. Please provide the rationale and justification for the two-year increase of 14% in average yearly union overtime, from \$3,177 to \$3,636.

35. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of the number of average yearly incentive amounts by employee category from 2005 to 2008.

- a. Please provide the rationale and justification for the two-year increase of 12% in executive incentive compensation, from \$24,394 in 2006 to \$27,207 in 2008.
- b. Please provide the rationale and justification for the two-year increase of 25% in non-union incentive compensation from \$5,482 in 2006 to \$6,856 in 2008.

36. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 10, Table 3 provides a comparison of average yearly benefits by employee category from 2005 to 2008.

- a. Please provide the rationale and justification for the two-year increase of 27% in executive benefits from \$20,346 in 2006 to \$25,883 in 2008.

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- b. Please provide the rationale and justification for the two-year increase of 21% in management benefits from \$14,198 from 2006 to \$17,120 in 2008.
- c. Please provide the rationale and justification for the two-year increase of 22% in non-union benefits from \$13,502 in 2006 to \$16,433 in 2008.

37. Ref: Exhibit D / Tab 2 / Schedule 7

On Page 8 of 9, Table 3 provides a breakdown of the total salary, wages and benefits charged to O&M from 2006 to 2008. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.

38. Ref: Exhibit D / Tab2 / Schedule 7

On Page 9 of 10, Horizon provides an overview of its current accounting treatment of post-retirement benefits. Please provide specific details on all assumptions used in calculating employee future benefits. Please describe any deviation, if any, in Horizon's accounting policy from CICA Guidelines regarding pension and post-retirement benefits.

39. Ref: Exhibit D / Tab2 / Schedule 7

On Page 10 of 10, Tables 4 and 5 provide a comparison of pension amounts and post-retirement benefits for 2006 to 2008 indicating increases in costs. Please state whether Horizon has a plan to address these increasing costs? If yes, please describe in detail how HUC plans to address these increasing costs and file a plan if available.

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**CORPORATE COST ALLOCATION**

40. Ref: Exhibit D / Tab 2 / Schedule 5 / Page 1

As defined in the November 14, 2006 Filing Requirements for Transmission and Distribution Applications, Corporate Cost Allocation is an allocation of costs for corporate and miscellaneous shared services from the parent to the utility. This is not to be confused with the allocation of the revenue requirement to rate classes for the purposes of rate design.

Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications, Applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please file the specific information requested in the Filing Guidelines (referenced above). If HUC is unable to provide this information please explain why it is unable to do so.

**TAXES**

41. Ref: Amount of PILs in 2008 Test Year Revenue Requirement:

I) For the 2005 and 2006 tax years, please provide copies of the following:

- a. Actual signed federal T2 tax returns and supporting schedules;
- b. Actual signed Ontario CT23 tax returns and supporting schedules;
- c. Financial statements that were submitted with the tax returns for each tax year to the Ministry of Finance; and

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- d. Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for each tax year.

42. Ref: Exhibit D/Tab 3/Schedule 3/Page 1 Capital Cost allowance for 2006

No OEB RRR 2.1.8 SIMPIL filing is required for the 2006 tax year. Please provide the 2006 Schedule 8 from the distributor's 2006 T2 tax return.

43. Ref: Future payments in lieu of taxes

In the 2006 audited balance sheet there is an asset of \$4,208,000 for future payments in lieu of taxes. Is this future PILs asset related to an appraisal increment in the fixed asset values of \$274,054,000? Please show how this future PILs asset was calculated.

## SMART METERS

44. Ref: Exhibit B /Tab 3 /Schedule 1 /Page 24

On "Table 9: Smart Meter Costs – Rate Based", Horizon Utilities indicates that it will install 50,000 smart meters in 2007 for a capital cost of \$8,444,605 and 80,000 smart meters in 2008 for a capital cost of \$10,962,329.

- a. Has Horizon Utilities installed smart meters in 2006? If so, please provide the number of smart meters installed in 2006;

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In “Table 2 – Fixed Asset Continuity Schedule: 2007 Bridge Year” under “Exhibit B /Tab 2 /Schedule 1 /Page 2”, Horizon Utilities shows an amount of \$7,117,061 for smart meter additions in 2007.

- b. Please explain the reason for the difference between \$8,444,605 for capital budget and \$7,117,061 for the fixed asset additions in 2007. Which of the two amounts would be consistent with the 50,000 planned smart meter installations in 2007?

In “Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year” under “Exhibit B /Tab 2 /Schedule 1 /Page 3”, Horizon Utilities shows an amount of \$10,573,416 for 2008 smart meter additions.

- c. Please explain the reason for the difference between \$10,962,329 for capital budget and \$10,573,416 for the fixed asset additions in 2008. Which of the two amounts would be consistent with the 80,000 planned smart meter installations in 2008?

In the 2nd paragraph of page 5 of “Exhibit B /Tab 1 /Schedule 1 /Appendix B /2008 Department Budget Details: 20-59 Smart Metering”, Horizon Utilities states: “The smart meter budget also contains all Commercial & Industrial meters to be exchanged with a new Smart Interval Meter.”

- d. Please provide the budgeted number of Commercial & Industrial Smart Interval Meter installations and the associated amount of capital expenditure for 2008.

In “Table 1 – Rate Base Variances” under “Exhibit B /Tab 1 /Schedule 2 /Page 1”, Horizon Utilities provides, as a component of the 2007 Test Year Rate Base amount (\$345,476,843), the amount of \$562,861,727 for year-end 2007 Gross Fixed Assets. The smart meter addition amount of \$7,117,061 in “Table 2 – Fixed Asset Continuity Schedule:

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2007 Test Year” is consistent with the total Gross Fixed Assets closing balance of \$562,861,727.

- e. Please confirm that the smart meter addition of \$7,117,061 in 2007 is the amount included in Horizon Utility’s 2007 rate base. If not, please provide the appropriate amounts of smart meter addition (capital expenditure) and the rate base for 2007.

In “Table 1 – Rate Base Variances” under “Exhibit B /Tab 1 /Schedule 2 /Page 1”, Horizon Utilities provides, as a component of the 2008 Test Year Rate Base amount (\$362,942,366), the amount of \$603,434,772 for year-end 2008 Gross Fixed Assets. The smart meter addition amount of \$10,573,416 in “Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year” is consistent with the total Gross Fixed Assets closing balance of \$603,434,772.

- f. Please confirm that the smart meter addition of \$10,573,416 in 2008 is the amount included in Horizon Utility’s 2008 rate base. If not, provide the appropriate amounts of smart meter addition (capital expenditure) and the rate base for 2008.
- g. Please confirm if the proposed smart meter addition (capital expenditure) amounts for 2007 and 2008 will meet the “minimum functionality” criteria which formed the basis in the Board’s August 8, 2007 Decision with Reasons in EB-2007-0063 to allow the recovery of smart meter capital costs.
- h. In that Decision (EB-2007-0063), the Board determined that there were fourteen cost categories in relation to “minimum functionality” which were set out in Appendix “A” of this decision. If any of the proposed capital costs for 2007 and 2008 are outside of these fourteen cost categories, please describe these costs and why Horizon Utilities is seeking to recover them. Please provide a breakdown of total smart meter capital costs for 2007 and 2008 in

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terms of “minimum functionality” and “outside of minimum functionality”.

45. Ref: Exhibit E /Tab 1 /Schedule 4

On page 2 and “Table 2 – 2006 Smart Meter Deferral Account Balance”, Horizon Utilities provides an amount of \$100,262 for “2006 Revenue Requirement for 2006 Smart Meters” which recovers only incremental operating expense.

- a. Please confirm that this implies that no smart meters were installed in 2006, since Table 2 includes no capital expenditures for 2006. If smart meters were installed in 2006, please provide the number of smart meters installed in 2006 and why no capital expenditure amount is included in Table 2.

On page 3 and “Table 3 – 2007 Smart Meter Deferral Account Balance”, Horizon Utilities provides an amount of \$1,628,340 for “2006 Revenue Requirement for 2006 Smart Meters”.

- b. Please confirm whether the amount of \$1,628,340 should be “2007 Revenue Requirement for 2007 Smart Meters”. If not, please provide reasons why it is for 2006.

In this table Horizon Utilities uses an amount of \$7,648,143 for “Smart Meter Fixed Net Book Value” which is consistent with \$7,949,832 for “Smart Meter Gross Fixed Assets Cost” as at December 31, 2007 according to the table on page 4: “Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance”.

- c. Please explain the difference between \$7,949,832 for “Smart Meter Gross Fixed Assets Cost” on Table 4 and \$7,117,061 for fixed asset additions & closing balance in 2007 according to “Table 2 – Fixed Asset Continuity Schedule – 2007 Bridge Year” under “Exhibit B /Tab 2 /Schedule 1 /Page 2”.

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In the 1st paragraph of page 1 of “Exhibit E /Tab 1 /Schedule 4”, Horizon Utilities states: “Horizon Utilities participated in the OEB’s Combined Smart Meter Proceeding (OEB File No. EB-2007-0063) in June and July of 2007. During that proceeding Horizon Utilities undertook, as did the other LDCs that participated in the proceeding, to recalculate its smart meter variance account balances using the revenue requirement methodology as opposed to tracking capital and operating costs in two separate variance accounts for future recovery. Horizon Utilities agrees with the revenue requirement methodology, which involves tracking the recovery of smart meter revenues against the revenue requirement for the smart meter program as if these costs been included in rate base.”

And in the 2nd paragraph, Horizon Utilities adds: “As a result of the undertaking, Horizon Utilities has changed its method of recording the smart meter variances. The balance in the smart meter variance now reflects the revenue requirement calculated for the years 2006, 2007 and the four months ending April 30, 2008; the revenues recovered through the smart meter rate adder; and the recalculation of carrying costs.” Then, Horizon Utilities summarized on “Table 1 – Smart Meter Deferral Account Balance for Recovery” amounts of “over-recovery” for 2006 (\$612,165, as calculated in Table 2), for 2007 (\$228,006, as calculated in Table 3), and for the first 4 months of 2008 (\$329,820, as calculated in Table 4), representing “Total Smart Meter Over-Recovery for Disposition” of \$1,169,991.

Horizon Utilities used the total over-recovery amount of \$1,169,991 in order to calculate a credit rate rider amount of \$0.42 per month per metered customer for 2008 in “Table 1 – Class Specific RDVA Rate Riders” under “Exhibit E /Tab 1 /Schedule 6 /Page 1”.

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- d. Please confirm whether the revenue requirement calculations on Table 3 (for 2007) and Table 4 (for the first four months of 2008) pertain only to smart meters installed in 2007. If not, please explain whether 2008 smart meter installations are also included in the revenue requirement calculations on these two tables and why.

According to “Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance”, Return on Rate Base is calculated properly only for the first four months of 2008 (the Deemed Debt and Deemed Equity per annum rates are divided by 3). According to “Table 3 – Fixed Asset Continuity Schedule: 2008 Test Year” under “Exhibit B /Tab 2 /Schedule 1 /Page 3”, the closing Net Fixed Asset balance for 2007 is brought forward into 2008.

- e. Please confirm if by bringing forward the closing Net Fixed Asset smart meter balance for 2007 into 2008, Horizon Utilities has included this balance in its 2008 rate base. If so, is the return on the smart meter component of the 2008 rate base based on annual rates of deemed debt and deemed equity and therefore the return calculated on the first four months of 2008 (with respect to 2007 smart meters) in “Table 4 – January 1 to April 30, 2008 Smart Meter Deferral Account Balance” (for the purpose of calculating the credit rate rider of \$0.42) results in a duplication (or overlap) with the return on the smart meter component of the 2008 rate base? If not, please explain why it does not result in duplication or overlap with the return on the smart meter component of the 2008 rate base.

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**LOSS FACTORS**

46. References: Exhibit D, Tab 2, Schedule 9, Page 1, Exhibit D, Tab 2, Schedule 9, Page 2, Exhibit I, Tab 1, Schedule 4, Page 3, Exhibit A, Tab 1, Schedule 12, Page 1

The 1st reference provides calculations for distribution loss factors (DLF) and Supply Facilities Loss Factor (SFLF) for 2002 to 2007. The 2nd reference provides DLF and total loss factor (TLF) presumably for 2008 as the TLF values match the values provided in the 3rd reference which is the Proposed Tariff of Rates and Charges Effective May 1, 2008. The 4th reference provides a summary of host and embedded utilities.

- a. In the 1st reference, Table 1 provides values for each of  
“Distribution Loss Adjustment Factor (5-year avg.)” as 3.81% and  
“Supply Facility Loss Adjustment Factor (3-year avg.)” as 0.67%.
  - I) Please explain the calculation method used to obtain the averaging and specify which 5-year and 3-year period was utilized for the averaging calculation for DLF and SFLF respectively.
  - II) Please explain the rationale for using different averaging periods (5-year and 3-year) for DLF and SFLF.
- b. In the 1st reference, Table 1 has a footnote which includes the text  
“...default loss factor for primary metered customers with demands > 5,000 kW is 1.0000”. In the 2nd reference, Table 3 provides the DLF for primary metered customers > 5,000 kW as 1.0100.
  - I) Please explain which value is correct.
  - II) Additionally, please explain the reason why the values provided in Table 3 for DLF for primary metered customers > 5,000 kW and DLF for secondary metered customers > 5,000 kW are identical, i.e. 1.0100.

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- c. In the 1st reference, both Tables 1 and 2 provide SFLF ranging from 1.0062 (0.62 %) to 1.0075 (0.75%) for the period 2002 to 2007, and proposed factor of 1.0067 (0.67%) for 2008.
- I) Given that Horizon's service area is partially embedded in the Hydro One Networks Inc. (HONI) distribution system (4th reference), please explain if these SFLF values which are significantly higher than the industry norm of 1.0045 include losses that occur in the HONI distribution system.
  - II) If the above is correct, please provide a breakdown of losses that occur in the embedded and non-embedded points of supply.
  - III) Additionally, in Table 2, please explain the source of "Wholesale kWh IMO Losses" and "Wholesale kWh IMO No Losses", e.g. are these actual metered amounts or deemed metered amounts from engineering estimates or a combination.
- d. In the 1st reference, Table 1 indicates that the observed DLF for 2005 and 2006 is respectively 1.0350 (3.50%) and 1.0435 (4.35%). Please provide an explanation for this increase.

## **RETAIL TRANSMISSION RATES (RTR)**

47. Ref: Retail Transmission Rates  
The Wholesale Network Transmission Rate will decrease 28% effective November 1 2007.
- I) For each rate class, please provide a revised RTR – Network Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the revised RTR – Network Service Rate for each

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rate class should equal the amount paid for the Wholesale  
Transmission Rate.)

The Wholesale Connection Transmission Rate will decrease 18% and the Wholesale Transformation Connection Transmission Rate will increase 7% effective November 1 2007.

- II) For each rate class, please provide a revised RTR – Line and Transformation Connection Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the RTR - Line and Transformation Connection Service Rate for each rate class should equal the amount paid for the Wholesale Connection Transmission Rate and the Wholesale Transformation Connection Transmission Rate.)

Deferral and Variance Accounts 1584 & 1586

Utilities have been required to provide information on Account 1584 RSA NW and 1586 RSVA CN to the Board as part of the quarterly RRR filings. The Board may need confirmation of the actual balances in these accounts in order to set a rate rider for the RTS rates.

- III) What are your current balances for Accounts 1584 RSA NW and 1586 RSVA CN?
- IV) Please explain how your balances in Accounts 1584 RSA NW and 1586 RSVA CN have trended or fluctuated since January 1 2005.
- V) Assuming your RTR – Network Service Rate for each rate class is revenue neutral, please provide the rate riders you would recommend beginning May 1 2008, and the duration in months for each rate rider, to reduce the balance in Account 1584 RSVA NW to a \$0 balance. Please provide an explanation for the recommended duration of the rate riders.

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- VI) Assuming your RTR - Line and Transformation Connection Service Rate for each rate class is revenue neutral, please provide the rate riders you would recommend beginning May 1 2008, and the duration in months for each rate rider, to reduce the balance in Account 1586 RSVA CN to a \$0 balance. Please provide an explanation for the recommended duration of the rate riders.

## **COST OF CAPITAL**

48. Ref: Exhibit F / Tab 1 / Schedule 3 and Appendix A – Long-term Debt and Promissory Note

Horizon Utilities states that its “only long-term debt is embedded debt in the form of a Promissory Note in favour of Hamilton Utilities Corporation.” It is further stated that “...the interest rate on the Promissory Note is 7.00%”. The Promissory Note has been restated and replaced in 2002 and most recently on February 28, 2005. A copy of the Promissory Note is included in Appendix A to the schedule. Horizon Utilities states that “... the latest Promissory Note dated February 28, 2005, and included in Appendix A, reflects an amendment to the terms of the Promissory Note with respect to the frequency of interest payments. No other terms were revised.”  
[Emphasis added]

Page 1 of the Promissory Note included in Appendix A states that the Interest Rate Per Annum is 7.0%. Schedule “A” to the 2005 Promissory Note states that Hamilton Utilities Corporation issued Senior Unsecured Debentures at a rate of 6.25%.

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Schedule "B" to the Promissory Note is a copy of the prior 2002 Promissory Note, which states, under Interest, that "[t]he outstanding Principal Amount of this Promissory Note shall bear interest from the Interest Commencement Date at the Permitted Rate". Schedule "A" to the 2002 Promissory Note defines the Permitted Rate as follows:

"Permitted Rate" means the debt rate which the Ontario Energy Board or its successor may, from time to time, permit Hamilton Hydro Inc. ("WiresCo") pursuant to the OEB's Electricity Distribution Rate Handbook and WiresCo's distribution rate order issued by the OEB. As of the date of this Promissory Note, the Permitted Rate is seven percent (7.0%) per annum.

Similar definitions are provided with the copy of the 2001 Promissory Note also included in Appendix A.

- a. Please confirm that Hamilton Utilities Corporation has used the issued debentures at 6.25% to raise the funding for the debt associated with the Promissory Note for which Horizon Utilities Corporation pays interest at a rate of 7.0%.
- b. Please provide Horizon Utilities Corporation's explanation for why a 75 basis point difference, between the interest rate of the unsecured debentures and the interest rate that Horizon Utilities Corporation pays Hamilton Utilities Corporation, is reasonable.
- c. The definition of the 2002 and 2001 Promissory Notes suggests that the Permitted Rate could be altered based on what the Board could permit, and was initially set at 7.0%. This rate was the deemed long-term debt rate applicable to an electricity distributor of similar size to Hamilton Hydro Inc., as established by the Board in Table 3.1 of the original Electricity Distribution Rate Handbook issued in March 2000.

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- I) Under the terms of the original, 2001 and 2002 versions of the Promissory Note, did the Promissory Note attract a fixed or variable rate?
- II) The 2005 Promissory Note states that the interest rate applicable is 7.0%, but there is no definition of the Permitted Rate as per the predecessor Promissory Notes. However, Horizon Utilities states that only the frequency of interest payments was altered in the 2005 version of the Promissory Note. Is the interest rate of the current Promissory Note defined similar to the "Permitted Rate" of the predecessor Promissory Notes, or is it fixed? If the latter, please explain the reason for this change, and why Horizon Utilities does not consider this a change to the terms of the contract.

**DEFERRAL AND VARIANCE ACCOUNTS**

- 49. Exhibit A/Tab 3/Schedule 1/Appendix B/Page 2, Exhibit E/Tab 1/Schedule 1/Page 1

The total regulatory deferral and variance account balance in Table 1 on Exhibit E/Tab 1/Schedule 1/Page 1 of (\$7,278,859) for 2006 is not identical to the balance of (\$8,096,000) for 2006 on Exhibit A/Tab 3/Schedule 1/Appendix B/Page 2. Please state which balance is correct and provide the reasons for the different balances and also indicate how these were derived.

- 50. Exhibit E/Tab 1/Schedule 1/Page 5

- a. Please explain why rebate cheque costs pertaining to the Ontario Price Credit are not recorded according to the instructions stated in

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the Accounting Procedures Handbook (APH) and the December 2005 FAQs.

- b. Please restate what the balance would be if Horizon were following the December 2005 FAQs regarding the Ontario Price Credit.

51. Exhibit B/Tab 3/Schedule 3/Page 5

- a. Horizon stated that it “does not currently capitalize interest on funds during construction”. Please explain why HUC is not using the Board-prescribed interest rate, as per the Board’s letter to LDCs dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?
- b. Please recalculate and provide the impact on rate base, revenue requirement, and CWIP using the Board prescribed interest rate?

52. Exhibit E/Tab 1/Schedule 2/Page 2&3, Exhibit E/Tab 1/Schedule 3/Appendix A

- I) What interest rates are being used to calculate carrying charges for each regulatory deferral and variance account for the period, January 1, 2005 to present?
- II) Is Horizon using the Board-prescribed interest rate, as per the Board’s letter to LDCs dated November 28, 2006, for Board-approved deferral and variance accounts since May 1, 2006?
- III) If HUC is not using the Board-prescribed interest rate to calculate the carrying charges, please explain in detail what interest rate has HUC relied on for calculating carrying costs on deferral and variance accounts since May 1, 2006?
- IV) If HUC is not using the Board-prescribed interest rate to calculate the carrying charges since May 1, 2006, then please recalculate the balances using the Board-prescribed rate and clearly identify the impact of using the different interest rates?

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53. Exhibit E/Tab 1/Schedule 3/Appendix A

Horizon is applying for disposition of regulatory variance accounts as per schedule Exhibit E/Tab 1/Schedule 3/Appendix A. These totals do not correspond with totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements (RRR) for the period ending December 31st, 2006 plus interest accrued on those balances to April 30th 2008. Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit E/Tab 1/Schedule 3/Appendix A. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional. Please reconcile balances requested for disposition to those filed in 2.1.1 of the RRR.

54. Ref: Exhibit E/Tab 1/Schedule 3, 4, 5 and 6

Horizon has stated that for account 1555 Smart Meter Capital and Recovery Offset Variance Account and 1556 Smart Meter OM&A Variance Account that as result of OEB's Combined Smart Meter Proceeding (EB-2007-0063) in June and July of 2007 that "Horizon Utilities has changed its method of recording the smart meter variances. The balance in the smart meter variance accounts now reflects the revenue requirement calculated for the years 2006, 2007 and the four months ending April 30, 2008; the revenues recovered through the smart meter rate adder; and the recalculation of carrying costs."

However, guidance on the use of these accounts was provided in the APH. The APH states that Account 1555 is to record revenues for

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smart meter funding recovered by the fixed and/or variable rate charge for each class of customer, capitalized direct costs related to the smart meter program with carrying charge amounts to be calculated using simple, prescribed interest. Stranded Meters are to be recorded in a sub-account of 1555, with no carrying charges. Stranded Meter costs are defined to be “the pooled residual net book value cost of removed meters or meters held in reserve for replacement of in-service meters, less any net sale proceeds when received.”

And account 1556 is “to record incremental operating, maintenance, amortization and administrative expenses directly related to smart meters.”

For further guidance, please refer to the Accounting Procedures Handbook.

- a. Why is Horizon not following guidance provided in the APH for recording entries into accounts 1555 and 1556?
- b. How do Tables 2, 3, and 4 on ExE/Tab1/Sch4/Pg2-4 tie to the balances in accounts 1555 and 1556? How are the balances in each of 1555 and 1556 derived? Please tie Tables 2, 3, and 4 with the balances on Exhibit E/Tab 1/Schedule 5/Pg 1 and Exhibit E/Tab 1/Schedule 3/Appendix A.
- c. Please state why the December 31, 2006 balances for 1555 and 1556 on ExE/Tab1/Sch5/Pg 1 are not identical with the December 31, 2006 balances on the ExE/Tab1/Sch3/AppA. Which are the correct numbers? Please restate the appropriate schedules with the correct numbers, including ExE/Tab1/Sch6.
- d. In particular, why is return on capital and PILs included in Tables 2, 3, and 4 on ExE/Tab1/Sch4/Pg2-4 and which accounts (1555 and 1556) do each of the components on these tables relate to?

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- e. What regulatory precedent or order is there to support Horizon's current approach to accounting for 1555 and 1556? Please provide the exact reference.
- f. What would the balances of 1555 and 1556 be as of December 31, 2006 if Horizon was following guidance provided in the APH? Provide supporting a schedule of calculations and update the appropriate schedules.
- g. Did Horizon remove from the revenue requirement the incremental operating, maintenance, amortization and administrative expenses directly related to smart meters in this application included in 1556? If not, what is the amount in the revenue requirement that is associated with this and the total bill impact?

55. Exhibit E/Tab 1/Schedule 3/Page 1

- a. Please provide the regulatory precedent and justification for Horizon proposing that the smart meter variance account balances be disposed of as a credit to the fixed distribution charge for all metered customers?
- b. Please provide the regulatory precedent for Horizon proposing that the smart meter variance account balances be disposed of over a period of one year, whereas the other deferral and variance account balances are being disposed of over a period of three years?
- c. Why are principal balances being forecasted for the smart meter variance accounts to April 30, 2008, whereas the other deferral and variance account balances are being disposed of with December 31, 2006 principal balances?
- d. How is Horizon accounting for its stranded meters?
- e. Please confirm that there is no reference in the Combined Smart Meter Proceeding that allows LDCs to recalculate its smart meter

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variance account balances using the revenue requirement methodology as opposed to tracking capital and operating costs in two separate variance accounts for future recovery.

## **CONSERVATION AND DEMAND MANAGEMENT**

56. Ref: Exhibit D /Tab 3/Schedule 3 and Ref: Exhibit D /Tab 2/Schedule 7

Horizon Utilities state that it will be maintaining a small CDM department for future programs, and that it has established a CDM function to develop and deliver CDM programs.

- a. Please confirm whether the “CDM department” referenced in Exhibit D/Tab 2/Schedule 3/page 4 is the same organizational group as the “CDM function” referenced in Exhibit D/Tab 2/Schedule 7/page 4. If these are not the same, please describe how the roles differ.
- b. Please confirm whether these future programs will be funded through distribution rates, or through the OPA.
- c. If funded through the OPA, how has Horizon Utilities allocated costs for the CDM department associated with OPA funded programs?
- d. If the CDM department will be used for both rate funded and OPA funded programs, please provide a breakout of funds that would be used for rate funded and non rate funded activities.
- e. The Report of the Board on Regulatory Framework for Conservation and Demand Management by Ontario Electricity Distributors in 2007 and Beyond EB-2006-0266 (“Report of the Board”) stated:

For CDM activities funded by the OPA, the direct costs and the proportional share of the indirect

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costs attributable to OPA-funded CDM activities should be removed from the distributor's distribution rates, and more appropriately recovered through the distributor's OPA-funded CDM activities. This is necessary to avoid double-counting, since all existing direct and indirect costs are included in distribution rates.

Please confirm and provide documentation that Horizon Utilities has followed the guidelines established in the Report of the Board regarding cost allocation for the CDM department, i.e. allocation of direct and indirect costs.

57. Ref: Exhibit D /Tab 2/Schedule 2

Please provide an itemized breakout and description of the \$264,623 expense captured in Account 5415 – Energy Conservation.

58. Ref: Exhibit J /Tab 1/Schedules 1 – 6

The Board's "Filing Requirements for Transmission and Distribution Applications" issued on November 14, 2006, outlines on page 39 the information that is required when filing an application for LRAM or SSM. Please provide the following:

- a. The kW or kWh impacts not adjusted for free riders. kW or kWh impacts net of free riders for each program and each rate class has been provided, however, the kW or kWh impacts not adjusted for free riders has not been provided ;
- b. Verification of participation levels; and
- c. Duration of the programs in years or months.

59. Ref: Exhibit J /Tab 1/Schedules 1 – 6

Please identify any programs that include measures not listed in the TRC Guide and/or programs where the inputs and assumptions (e.g. energy savings, free rider rates, equipment life, etc.) used by Horizon

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Utilities differ from those in the TRC Guide. For any such programs, please provide documentation supporting the inputs and assumptions used by Horizon Utilities.

60. Ref: Exhibit J /Tab 1/Schedule 3

Please provide the calculations, inputs and assumptions that were used to determine the LRAM amount. Please ensure that the free rider rates used for each program are included.

61. Ref: Exhibit J /Tab 1/Schedule 4

Please provide the calculations, inputs and assumptions that were used to determine the SSM amount. Please ensure that the free rider rates used for each program are included.

62. Ref: Exhibit J /Tab 1/Schedule 4

- a. Please confirm that there was no double counting of TRC benefits in the co-sponsored TAPS program with Enbridge. Please identify for Tables 1 – 3, which program includes the co-sponsored TAPS program.
- b. Please confirm whether Horizon Utilities has met the test of centrality established by the Board in RP-2005-0020/EB-2005-0523, and set out in the Board's TRC Guide.

## **COST ALLOCATION**

63. Ref: Large User Class Revenue to Cost Ratio, Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet I6 'Customer Data'

Annual Distribution Revenue from the Large User class is entered in the cost allocation model at \$2,770,821. Please confirm that the

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derivation of \$2,770,821 is the calculated class revenue at the gross rate, less a calculated amount of Transformer Allowance at \$0.60 per kW.

64. Ref: Rate Class Proportions of Total Revenue Requirement, Exhibit H / Tab 1 / Schedule 2 / page 6 (Table 5), and Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet O1 'Revenue to Cost Summary Worksheet'

The cost allocation summary in Sheet O1 shows in row 35 the revenue requirement for the Residential class at \$49,528,453, which is 56.34% of the total revenue requirement of \$87,899,641. The corresponding amount in the first column of Table 5 (headed "100% Cost Allocation") is 55.81%. The discrepancy for the residential class is about \$0.5 million. Please explain how the results in Table 5 are derived from the results of the cost allocation. Alternatively, if the first column in the table is not derived from this source, please identify the actual source and show the derivation.

65. Ref: Streetlighting Load Profile, Exhibit H / Tab 1 / Schedule 2 / page 8, and Exhibit H / Tab 1 / Schedule 2 / Appendix A / Sheet I8 'Demand Data'

Horizon Utilities suggests that a deemed profile for streetlights would yield a more accurate revenue to cost ratio for the streetlighting class. Please provide a brief description of how the deemed profile would differ from the load profile used for the data that was input to Sheet I8, and if possible provide an indication of how the outcome of the cost allocation would be affected by the difference.

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**RATE DESIGN**

66. Ref: Transformer Allowance, Exhibit 1 / Tab 1 / Schedule 3 / page 1, and Exhibit 1 / Tab 1 / Schedule 4 / page 2

- a. Please confirm that the current approved volumetric rate for the Large User class, at \$0.9236 per kW, is gross of the Transformer Allowance of \$0.60 per kW, and that all customers in this class receive the allowance.
- b. Please confirm that the volumetric rate being applied for, \$1.1107 per kW, is net of any transformer allowance, and that the effective increase in the rate as it would be experienced by all customers is an increase of approximately \$0.79 per kW.

67. Ref: Impacts, Exhibit I / Tab 1 / Schedule 1 / page 3 / Table 2

The impact on the total bill of two hypothetical Large Users is calculated, at 3.76% and 2.69%. Please provide the calculated impacts on Horizon Utilities' 12 actual Large Users. Note that it is not necessary to show the kWh and kW inputs to the calculation, nor to put the impacts in any particular order.

68. Ref: Exhibit I / Tab 1 / Schedule 6 / page 1

Horizon Utilities has designed the distribution rates so that the total bill impact will average no more than 3% in each rate class. Would the Applicant alter its distribution rate design to limit the impact to 3% in the event that its application for approval of Retail Transmission Service Rates together with the distribution rates in this application caused the impact to exceed 3%?