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December 20, 2007

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2007-0697
Horizon Utilities Corporation – 2008 Electricity Distribution Rate Application

Please find enclosed the Interrogatories of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Cameron McKenzie
Horizon Utilities Corporation

Horizon Utilities Corporation (Horizon)
2008 Electricity Rate Application
Board File No. EB-2007-0697

VECC's Interrogatories

Question #1

Reference: i) Exhibit A/Tab 1/Schedule 13, page 1

a) Please explain why Hamilton Utilities Corporation is considered an affiliate of Horizon while St. Catherines Hydro Inc. is not – as they are both "owners" of Horizon Utilities Corporation.

Question #2

Reference: i) Exhibit A/Tab 1/Schedule 13, page 2

a) Please confirm that all services provided by Horizon to any of its affiliates are addressed in the "Master Services Agreement". If not please identify what other services are provided, who the recipient affiliates are and provide a copy of the service agreement.

Question #3

Reference: i) Exhibit B/Tab 1/Schedule 1, page 8 (lines 21-23)

a) Please confirm that the "variance threshold" referred to is 1% of total net fixed assets.

b) Please "describe" those projects in 2006 and 2007 with costs in excess of $100,000 and, in each case, identify the total capital cost and project pool it falls into.

Question #4

Reference: i) Exhibit B, Tab 1, Schedule 1, Appendix A

a) Is the Distribution System Capital & Maintenance Programs document produced annually as part of the planning process?
    - If not, what was the basis for capital and maintenance planning in 2006 and 2007?
    - If yes, please provide the comparable document for 2006 and 2007.

Question #5

Reference: i) Exhibit B, Tab 1, Schedule 1, Appendix A, page 3

a) Please provide the network performance targets “set” by Horizon for 2005, 2006 and 2007.

b) Please provide the actual results for each the three performance indices for 2005 and 2006.

c) Please provide Horizon’s minimum performance standards, as set by the OEB.

Question #6

Reference: i) Exhibit B, Tab 1, Schedule 1, pages 4-10
ii) Exhibit B, Tab 1, Schedule 1, Appendix A, pages 5-6

Preamble: Reference (i) describes the various project pools used by Horizon in its capital planning process. Reference (ii) describes a prioritization process used by Horizon in its capital planning, but also indicates that certain projects are not included in the ranking process and find their way directly into the capital budget.

a) Please provide a schedule that identifies the project pools where prioritization and ranking is involved to determine spending levels for 2008 versus those where all identified capital projects were included.

b) With reference to part (a), for those project pools where ranking and prioritization was involved please identify for each project pool:
- The two projects with the lowest ranking/priority that were <u>included</u> in the 2008 budget. In each case, please discuss the consequences of not proceeding with the project in 2008.
- The top two projects, in terms of ranking, that were <u>excluded</u> from the 2008 budget. In each case, please discuss the consequences of not proceeding with the project in 2008.

Question #7

Reference: i) Exhibit B, Tab 1, Schedule 1, Appendix A, pages 5-10

a) With respect to the “renewal benefit” score please explain:
- What is the difference between the “total value of the assets being replaced” and the “total project cost”. If the project involves replacement of existing assets why aren’t the two be the same?

- Why the "renewal benefit" score is an appropriate basis for prioritizing capital projects.

b) Please provide the Project Priority Scores (including the Security Risk Score and Renewal Benefit Score components) for each of the projects discussed on pages 7-10.

Question #8

Reference: Exhibit B, Tab 1, Schedule 1, pages 7-10 and pages 23-29

a) Do the projects listed in Section 1 (pages 7-10) include the consideration of the needs and projects associated with substation capital improvements and transformer asset renewal?

b) Please set out the total spending on (each of) substation capital improvement and transformer asset renewal in 2006, 2007 and 2008.

Question #9

Reference: Exhibit B, Tab 1, Schedule 1, Appendix B

a) Please provide a schedule that sets out the total capital budget, by department, for 2008. Where Appendix B provides a more detailed breakdown of a department's budget, please also report in the requested schedule.

b) Please include in the response to part (a), the departmental capital budgets for 2006 and 2007. Please provide at the same level of detail (within each department) as provided for 2008.

Question #10

Reference: Exhibit B, Tab 2, Schedule 1, page 3

Preamble: The last time Horizon's rates were based on a "cost of service" type approach was for 2006. In that process, rate base was determined by making various adjustments to 2004 year end actual values. Horizon is currently seeking approval for its 2008 rate base.

a) Please provide a continuity schedule for Horizon's Net Plant, Property and Equipment that:
   - Starts as of December 31, 2004.
   - Also shows separately:
     - Opening gross book value, accumulated depreciation and net book value

- Annual depreciation charges
- The capital expenditures during the year
- The in-service asset additions during the year
- Year end assets under construction (CWIP)
- Year end gross book value, accumulated depreciation and net book value

Question #11

Reference: i) Exhibit B/Tab 3/Schedule 1, pages 20-21

a) Does Horizon plan work on Wholesale Meter Verification for IESO Compliance so that it is completed in the year of the meter expiration date?

b) Please list the Wholesale Meter Verification projects delayed from 2007 to 2008 and, in each case, indicate the meter expiration date and estimated cost.

c) Does the 2008 capital budget for "Wholesale Meter Verification for IESO Compliance" include all the deferred projects from 2007? If not which projects were not included and why?

d) Please list all the additional projects included in 2008 and the meter expiration date and cost associated with each.

e) Given the difficulty in scheduling upgrades with Hydro One Networks, why is it reasonable to assume that 2008 spending which is more than double the 2007 spending can be accomplished?

Question #12

Reference: i) Exhibit B, Tab 3, Schedule 1, pages 26-41

a) Please provide a schedule that sets out the capital spending for 2006, 2007 and 2008 for the following project pools:
   - Facilities (i.e., Buildings and Fixtures)
   - ERP Software
   - Other Computer Hardware and Software
   - Transportation and Related Equipment
   - Communication Equipment

Question #13

Reference: i) OEB Staff Information Request #4 a)

a) In responding to the OEB Staff request please organize the presentation according to the “project pools” discussed Exhibit B, Tab 1, Schedule 1.

Question #14

Reference: i) Exhibit B, Tab 3, Schedule 1, page 35

a) Please provide a schedule that breaks down the revenue requirement for each year into OM&A, return on capital and depreciation as well as benefits.

b) Please reconcile any differences between the “benefits” used to calculate Table 12 and those identified in Exhibit B, Tab 3, Schedule 1, Appendix E, page 19.

c) Please indicate the average in-service capital (i.e., rate base) associated with the ERP for each year displayed in Table 12.

d) Please explain the revenue requirement impact in 2007, given the project goes into service in March 2008.

Question #15

Reference: i) Exhibit B, Tab 3, Schedule 1, Appendix A, page 32
ii) Exhibit B, Tab 3, Schedule 1, Appendix E, page 19
iii) OEB Staff Information Request #12 g)

a) Please explain the reason for the difference in “benefits” as between references (i) and (ii).

b) In responding to OEB Staff request #12 g), please explain any material (>10%) variation in the benefits now projected versus those identified in Reference (ii).

Question #16

Reference: i) Exhibit B, Tab 3, Schedule 1, Appendix E

a) On page 3, total “capitalized costs” are quoted as $8-9 M. However, in Exhibit B, Tab 3, Schedule 1, Table 11, the capital cost is quoted as $4.7 M. Please reconcile.

b) Why is the life of project assumed to be 5 years – for both the hardware and the software (page 3)?

Question #17

Reference: i) Exhibit B, Tab 3, Schedule 2, page 1
ii) Exhibit B, Tab 3, Schedule 1, page 4

a) Please confirm that the capital contributions discussed in Reference (i) are with respect to Customer Demand projects as discussed in Reference (ii). If not, please explain.

Question #18

Reference: i) Exhibit B, Tab 3, Schedule 3, page 1

a) Please describe Horizon's capitalization policy with respect to overheads (e.g., Administrative and General costs):
   - Are such costs capitalized?
   - If so, how is the amount determined?
   - Please provide the derivation of the amount capitalized for 2008.
   - If not, what cost, other than direct attributable project costs, are capitalized and how are the amounts to be capitalized determined?

Question #19

Reference: i) Exhibit B, Tab 4, Schedule 1, pages 2-3

a) Please provide the assumptions underlying the cost of power (power purchased and WMS charges) for 2006, 2007 and 2008 (e.g., what are the purchased kWh's and average cost of power/WMS charge per kWh)?

b) Please reconcile the increase in Network and Connection charges with the rate decrease that were effective November 1, 2007.

Question #20

Reference: i) Exhibit C, Tab 1, Schedule 2, page 1

a) Please confirm whether any of the rates used for 2006 through 2008 include the rate "adders" for smart meters.

b) If the response to (a) is yes, please indicate, by class, the revenue from the smart meter adder for any year where the rates included the "adder".

Question #21

Reference: i) Exhibit C, Tab 1, Schedule 3

a) Please confirm whether the monthly customer charges used for 2006, 2007, and 2008 in Tables 2, 3, 4 and 5 all include/excluded the Smart Meter Adder. If not, please correct and present on a consistent basis.

b) With respect to page 6, does the reference to transformation costs include both line transformers and substations? If not, how does this impact on Horizon's proposals?

Question #22

Reference: i) Exhibit C, Tab 1, Schedule 4, page 1

a) Again, please confirm if the smart meter adder has been treated consistently in all years (i.e., excluded from the revenue per kilowatt-hour calculations for all years or included for all years). If not, please re-do on a consistent basis.

Question #23

Reference: i) Exhibit C, Tab 2, Schedule 2

a) Does Horizon have any explanation for the anomalous growth rates observed for the GS>50 -> 5,000 class in 2004 and 2005?

b) For the 12 Large Users assumed to continue through to 2008, please provide their aggregate usage (kWhs and kW) for 2002 through 2007 inclusive.

c) Please confirm that for all years 2002 through 2007 inclusive, the weather normalized loads for residential are less than the actual loads except for 2004.

d) If the response to (d) is yes, has Horizon pursued with Hydro One Networks the reasonableness of this result? If not, why not?

Question #24

Reference: i) Exhibit C, Tab 3, Schedule 2, page 1

a) With the elimination of Fibre Wired in 2008, please explain why the % of Corporate Management Team (Table 3) allocated to the other affiliates (e.g., HUC, Hamilton Community Energy and Hamilton Hydro Services) did not increase over 2007.

b) Please explain the increase in Retail Services Revenue between 2006 and 2007 and why the 2007 value can not be maintained going forward.

Question #25

Reference: i) Exhibit D, Tab 1, Schedule 1, Table 1
ii) Exhibit D, Tab 2, Schedule 2, page 1
iii) Exhibit D, Tab 2, Schedule 3, page 1

a) Between 2006 and 2007 Total Operations expenses increase by almost $900,000 or almost 13% but are not addressed in the variance analyses. Please provide the reasons for the significant increase.

b) Please explain the 64% increase in spending on Maintenance for Underground Conductors and Devices between 2006 and 2008.

c) Please explain the more than 50% increase in spending on Maintenance for Line Transformers between 2006 and 2008.

d) Please explain the 47% increase in Bad Debt Expense between 2006 and 2008.

Question #26

Reference: i) Exhibit D, Tab 1, Schedule 1, Table 1
ii) Exhibit D, Tab 2, Schedule 1, pages 1-22

a) Please provide a schedule that indicates how the cost for the organization as discussed in Reference (ii) relates to the various cost accounts set out in Reference (i).

Question #27

Reference: i) Exhibit D, Tab 2, Schedule 3, pages 2-4

a) Please provide the Business Case supporting Horizon's move to a three-year trim cycle for the entire City of Hamilton.

b) If St. Catherines is now on the second year of a three year cycle and plans to continue on a three year cycle, please explain why tree trimming costs increase by almost 20% in 2008.

c) By how much is “reactive tree trimming” in the Hamilton area assumed to fall in 2008 as a result the shorter trim cycle? Has this savings been incorporated into the budget for 2008?

d) With respect to the chart on page 3, how many “grids” are there in the Hamilton area in total and how many are to be “trimmed” in 2008? Also, with respect to the chart, please provide the annual spending on tree trimming for 2001 through 2005 inclusive.

Question #28

Reference: i) Exhibit D, Tab 2, Schedule 7, Table 3

a) Horizon’s total compensation increases by almost 12% between 2006 and 2008, although the number of FTEs remains constant (i.e., 373). Please explain the reasons for the significant increase of roughly 3x inflation.

Question #29

Reference: i) Exhibit D, Tab 2, Schedule 1, pages 18-22

a) Please explain how the $4 million dollar cost of implementing and operating the ERP Solution (page 19) is related to the annual expenses set out in Table 1.

b) With respect to Table #1, the title reads “OM&A Expenses and Capital Expenditures Forecasts” but the total line in the table reads “Total ERP Operations, Maintenance and Administrative Expenses”. Please clarify whether or not the table includes capital spending.

c) Please provide an expanded version of Table #1 that shows expenses and cost savings separately by year.

Question #30

Reference: i) OEB Staff Information Request #37

a) Please outline the methodology used to determine the expenses that are not charged to operations.

Question #31

Reference: i) Exhibit D, Tab 2, Schedule 9, page 1

a) The loss factors calculated for 2006 (4.35%) and 2007 (4.62%) are materially higher than those in the preceding years, can Horizon explain what is leading to this increase?

b) Please confirm that the 2007 loss value is based, in part, on a forecast. How many months of actual data is reflected in the 2007 value?

c) Please explain why it is appropriate to base the proposed loss factor on forecast data.

Question #32

Reference: i) Exhibit E, Tab 1, Schedule 4, Tables 1 - 4
ii) Exhibit B, Tab 3, Schedule 1, page 21
iii) Exhibit A, Tab 1, Schedule 5, page 2

a) Please confirm that the amount for 2008 (Jan-Apr) in Reference (i), Table 1 is actually an "over recovery".

b) Please confirm that for the Application (i.e., rates effective May 1, 2008) all costs associated with Smart Meters have been included in the Distribution Revenue Requirement (e.g. capital in Rate Base, depreciation, operating expenses, etc.).

c) Please indicate the impact on the 2008 Revenue Requirement of including Smart Meters in the Base Distribution costs as opposed to treating it separately as a "rate adder".

d) With respect to Reference (i), Tables 2 – 4, please provide a schedule setting out the calculation of the Revenue Earned-Smart Meter Funding for each year.

e) With respect to Tables 2-4, please explain how the carrying costs for each year were established. Does the carrying charge for each year represent carrying costs forward to April 30, 2008?

Question #33

Reference: i) Exhibit G, Tab 1, Schedule 2, page 1

a) Please provide a schedule that sets out the derivation of revenue at existing rates for 2008, showing the billing quantities and rates used for each class. Please confirm whether the rates used in the calculation for each customer class included the smart meter rate adder.

<u>Question #34</u>

Reference: i) Exhibit H, Tab 1, Schedule 2, page 2

a) Please provide a schedule that sets out, based on the 2006 EDR and the cost allocation informational filing:
   - The transformers ownership discount received by each customer class (in terms of a lower rate)
   - The cost of the transformer ownership discount <u>allocated</u> to each customer class in the Cost Allocation Model.

b) Please confirm that for purposes of rerunning the Cost Allocation Model Horizon has:
   - Removed the inclusion of the Transformer Ownership Allowance as a “cost” to be allocated to customer classes via the Model, and
   - Reduced the revenues for those classes receiving the discount by the revenue reduction attributed to each class as a result of the Transformer Allowance discount.

c) If the recalculation was not done as outlined in (b), please provide re-run the model as described and provide the full results.

<u>Question #35</u>

Reference: Exhibit H, Tab 1, Schedule 2, pages 5-6

a) Please discuss the total bill impact on Unmetered/Scattered Load resulting from the Horizon proposal.

b) Please provide the class revenue shares and resulting R/C ratios by customer class for an alternative 2008 cost allocation proposal where by:
   - The allocation to Street Lighting, Sentinel Lights and Back-up/Standby Power is as proposed by Horizon
   - Revenue shares for GS <50; GS > 50; Large Use and Unmetered/Scattered Load are all set to achieve a 90% revenue to cost ratio
   - The Revenue share for Residential is set so as to permit recovery of the overall revenue requirement.

c) Please provide the average class total bill impacts for each customer class based on the preceding results.

Question #36

Reference: i) Exhibit H, Tab 1, Schedule 2, page 6
ii) Exhibit K, Tab 1, Schedule 1, Appendix B – Cost Allocation
Based Calculations Worksheet

Preamble: The revenue requirement allocation factors set out in Reference (i) appear to be derived using the share percentages from the 2006 Cost Allocation Model as detailed in Reference (ii). However, these percentages reflect the 2006 loads/customer counts for each class. To the extent not all loads/customer counts increase by the same proportion between 2006 and 2008, the 2008 revenue requirement shares would be different using the Cost Allocation model..

a) Did the 2006 Cost Allocation Model include (as a cost) the LV charges from Hydro One Networks? If yes, what was the total cost included and how much was "allocated to each customer class? Also, if yes, based on the 2006 LV adder what is the revenue by customer class associated with LV charges?

b) If the response to (a) is yes, please provide the revenue to cost ratios and cost shares by customer class based on the 2006 EDR and the following revisions to the Cost Allocation Model (as proposed by Horizon in Exhibit H, Tab 1, Schedule 2, Appendix A):
   - Remove LV Charges from the "costs" to be allocated to customer classes
   - Reduce each customer class' revenue by the amount attributable to the LV charge adder.

c) If the response to (a) is no, why – in Reference (ii) – are the calculations done as if LV Charges were included in the 2006 Cost Allocation Model?

d) Please confirm whether the proposition put forward in the preamble above is correct. If not, please explain why.

e) If the response to (d) is affirmative, please update the cost shares for 2008 based on revenue to cost ratios of 100%.

Question #37

Reference: i) Exhibit I, Tab 1, Schedule 1, page 1
ii) Exhibit D, Tab 1, Schedule 1, page 1

a) Please indicate where the $196,399 in LV Charges is captured in the OM&A Expenses for 2008 (per Reference (ii)). If not included in OM&A, please indicate how the charges are included in the Total Service Revenue Requirement.

b) What were the LV Charges for 2006 and 2007 and how are they captured in the reported costs for each year?

Question #38

Reference: i) Exhibit I, Tab 1, Schedule 1, page 3

a) Please include a representative Unmetered/Scattered Load customer in Table 2.

Question #39

Reference: i) Exhibit I, Tab 1, Schedule 1, page 6

a) Please confirm that the fixed/variable splits derived from the 2006 EDR are based on total revenue for each class prior any reduction for transformer ownership allowance discounts – where applicable. If not, please explain.

b) Please confirm that under Horizon's revised Cost Allocation model the revenue requirement by customer class (for at least the Large User class) represents actual revenues (after consideration of transformer ownership). If not, please explain.

c) Based on (a) and (b), please explain how applying the 2006 EDR split for each customer class to 2008 class revenue requirements will "maintain" the historical split.

d) Please redo Table 5 based on revenue by class after allowance for the transformer ownership discount (i.e., excluding the transformer ownership allowance as a cost).

Question #40

Reference: i) Exhibit I, Tab 1, Schedule 1, page 6

a) Do the 2006 distribution rates used to determine the split between fixed and variable (Table 5) include an LV rate component? If so, should this component be removed as LV Charges for 2008 are addressed separately?

Question #41

Reference: i) Exhibit I, Tab 1, Schedule 1, page 7

a) Please provide a schedule that compares each customer class' 2007 monthly fixed charge (excluding smart meter rate adder) with the results of the three service charge calculations produced by the 2006 Cost Allocation model.

Question #42

Reference: i) Exhibit I, Tab 1, Schedule 1, pages 12-13

a) Please confirm that the rationale for eliminating the transformer ownership allowance for Large Users is that:
    - All customer in the class own their own transformation
    - No transformation costs are allocated to this customer class
    - Therefore there is no need to address the potential for intra-class cross subsidy that exists in cases where some customer in the class own their own transformer but others do not.

Question #43

Reference: i) Exhibit I, Tab 1, Schedule 6, pages 1-2

a) Please confirm that the average annual usage for a residential customer is approximately 8,000 kWh.

b) Based on a recent 12 consecutive months of actual billing data, please indicate the percentage of total residential customers that:
    - Consume less than 100 kWh per month
    - Consume 100 -> 250 kWh per month
    - Consume 250 -> 500 kWh per month
    - Consume 500 -> 700 kWh per month
    - Consume 700 -> 1000 kWh per month

Question #44

Reference: i) Exhibit J, Tab 1, Schedule 5, page 1

a) Please provide copies of any reports prepared by SeeLine Group Ltd. Regarding Horizon's claim for SSM and LRAM.

b) Please provide the terms of reference for SeeLine's work and indicate the basis under which they were contracted (e.g. sole source, RFP, etc.).