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June 15, 2011

Delivered by E-mail and Courier

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

Dear Ms. Walli:

Re: EB-2010-0131
Horizon Utilities Corporation
Application to the Ontario Energy Board for Electricity Distribution Rates and Charges as of January 1, 2011

We are counsel to Horizon Utilities in the above-captioned matter. On May 20, 2011, Horizon Utilities delivered its reply submission in this proceeding in confidence, and advised that it would be filing a redacted version of the reply for placement on the public record. Please find accompanying this letter Horizon Utilities' redacted reply.

Horizon Utilities' redacted Reply submission:

Horizon Utilities is in receipt of the Board's letter of June 10, 2011, in which it expressed its concern with parties' failure to file redacted versions of their submissions in a timely manner. Horizon Utilities apologizes to the Board for its delay in filing its redacted submission. It has at all times understood (as was acknowledged in its cover letter to the confidential version of the document) that a public version of the document is required and would be filed. It has attempted throughout this proceeding to maximize the transparency of its Application and the material in support thereof, requesting confidentiality only in limited circumstances. In keeping with that approach, and with the Board's *Practice Direction on Confidential Filings*, the public version of the reply contains a limited number of redactions – these relate to material filed in confidence and/or references to portions of the hearing that were conducted *in camera*. To be clear, Horizon Utilities is not waiving the confidentiality of any of the material filed in confidence in this proceeding.

Corrections to the Reply:

In the course of reviewing the confidential reply for redactions, Horizon Utilities identified a small number of references that must be corrected:

- Footnote 30 (at page 23, para. 58) refers to page 12 of the Board staff submission. The correct reference is to page 11 of that submission;

- Footnote 37 (at page 25, para. 63) refers to page 12 of the Board staff submission. The correct reference is to page 42 of that submission, and only the words “front line” should have been in quotation marks in the first line of paragraph 63 of the reply;

- Footnotes 114, 116 and 121 (pages 90 and 91) refer to Horizon Utilities’ responses to SEC Interrogatory No. 29. The correct references are to SEC Interrogatory No. 30;

- The second bullet of paragraph 265 (page 96) contains a reference to SEC Interrogatory 18(f). The correct reference is to SEC Interrogatory 18(e);

- Footnote 169 (at page 103, para. 285) refers to Horizon Utilities’ response to Interrogatory “SEC a”. The correct reference is to SEC Interrogatory No. 32; and

- Paragraph 430 (at page 147) contains a quote from the Board’s letter of April 15, 2010 on rate year/fiscal year alignment. The emphasis in that paragraph is Horizon Utilities’.

Horizon Utilities must also correct a typographical error in the text of paragraph 445 (page 151) of its reply. That paragraph should have read:

445. The Application complied with Board’s filing requirements, and throughout the course of the proceeding, Horizon Utilities has strived to meet the procedural deadlines set by the Board and to ensure that the Board has access to a full, complete, and accurate evidentiary record upon which to make its decision. Horizon Utilities submits that no party could have anticipated the delay that would be caused by the Board’s determination of the preliminary issue on early rebasing. The Board had never initiated such a proceeding before 2010.

The redacted version of the document contains this corrected text. There are no redactions on that page, but we will provide replacement copies of the page in confidential unredacted format to the Board and to those individuals that executed the Board’s form of Confidentiality Undertaking.

Assistance to certain other parties with respect to redactions of submissions:

As the Board will be aware from the cover letter to the SEC submission, counsel to SEC asked that Horizon Utilities review the submission and provide proposed redactions. More recently (this week), counsel to AMPCO made a similar request.

As the Board wrote in its letter of June 10th,

> “Parties are required, pursuant to section 6.3.2 of the Board’s *Practice Direction on Confidential Filings*, to make every effort to prepare their submission so that the entire document can be placed on the public record. Where it is necessary to make specific reference to confidential information the party filing the submission should either file a public redacted version along with a confidential version or file an appendix to the public document that contains the confidential information.”

While the Board's Practice Direction on Confidential Filings does not require an applicant to review another party's submission to determine what redactions should be made to ensure that confidential material is not released, Horizon Utilities has honoured the requests in both cases.

Horizon Utilities anticipates that it will have an opportunity to make submissions to the Board in the event that the Board is considering changes in the redactions currently shown in the public versions of the submissions.

Should you have any questions or require further information about the Horizon Utilities reply or the foregoing, please do not hesitate to contact me.

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky
JCS/ac
Encl.

cc. Keith Ritchie, Ontario Energy Board (electronic version only)
John G. Basilio, Horizon Utilities Corporation (electronic version only)
Indy J. Butany-DeSouza, Horizon Utilities Corporation (electronic version only)
Intervenors of Record (electronic version only)

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~~NOT TO BE PLACED ON THE PUBLIC RECORD~~

EB-2010-0131

IN THE MATTER OF the *Ontario Energy Board Act,* 1998, being Schedule B to the *Energy Competition Act,* 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2011.

REPLY SUBMISSION OF HORIZON UTILITIES CORPORATION

DELIVERED MAY 20, 2011

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EB-2010-0131

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REPLY SUBMISSION OF HORIZON UTILITIES CORPORATION

DELIVERED MAY 20, 2011

A. INTRODUCTION

1. Horizon Utilities Corporation ("Horizon Utilities") is the successor corporation to Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. Horizon Utilities owns and operates the electricity distribution systems located in the City of Hamilton and the City of St. Catharines.

2. The hearing on Horizon Utilities' 2011 forward test year Cost of Service electricity distribution rate application took place on April 7, 8, 11 and 14, 2011. At the end of the third day of the hearing, the Board established the following deadlines for written argument:

    a. Horizon Utilities was to file its Argument-in-Chief by April 21, 2011. It did so.

    b. Board staff were to file their submissions by May 2, 2011. By letter dated May 2, 2011, Board staff advised that their submission would be late, and that they anticipated filing that submission by Wednesday, May 4, 2011. It was delivered during the afternoon of May 4th.

    c. Intervenors were to file their submissions by Friday, May 6, 2011. The submission of the School Energy Coalition ("SEC") was delivered by e-mail early in the morning of Friday, May 6, 2011. The Vulnerable Energy Consumers Coalition ("VECC") submission was received early in the evening of May 6th, and the Energy Probe submission was received late that evening. The Consumers

Council of Canada ("CCC") requested and received an extension to Monday, May 9, 2011 and, in keeping with that request, delivered its submission during the afternoon of May 9th. Horizon Utilities understands that the Association of Major Power Consumers in Ontario ("AMPCO") delivered a copy of its submission in confidence and only to the Board on Thursday, May 5, 2011, but did not provide a copy to Horizon Utilities until Tuesday, May 10, 2011.

3. By a letter dated May 10, 2011, Horizon Utilities advised that, while it was working diligently to meet the Board's deadline for its reply submission, the timing of the responding submissions, numbering over 250 pages, created challenges in doing so, and that Horizon Utilities anticipated delivering its reply no later than May 20th. Horizon Utilities has met that timeline.

4. In this submission, Horizon Utilities will summarize the Board staff and intervenor positions (collectively referred to as the "Parties") on the various matters addressed in the Application, and will provide its reply submissions. Horizon Utilities also relies upon its evidence and submissions in its Argument-in-Chief, subject to any modifications set out in this Reply.

5. Any matters raised by Board staff or intervenors that are not dealt with specifically by Horizon Utilities in this Reply Submission should not be viewed as acquiescing to their positions. Where Horizon Utilities has not dealt with such matters, Horizon Utilities continues to assert the related positions provided in its evidence.

6. In suggesting a certain adjustment with respect to a specific matter, some parties have also made submissions on the associated dollar impacts on other affected areas. Horizon Utilities will deal with the direct impacts of the issues as appropriate but does not believe that it is necessary or helpful to deal with the indirect impacts commented on by the parties, as these would flow naturally in the normal course. This is an approach that has been followed, for example, by Energy Probe in its submission.[1]

[1] Energy Probe, p.2 of 56

B. GENERAL COMMENTS:

- **Volume and clarity of the Application material:**

7. As discussed in Horizon Utilities' Argument-in-Chief, Horizon Utilities has been open, transparent, and cooperative in its communications with the Board and participants. Horizon Utilities filed over 2,000 pages of comprehensive pre-filed evidence including models for its load forecast, revenue requirement, cost allocation, and rate design. In the fall of last year, Horizon Utilities responded to approximately 50 interrogatories from Board Staff and intervenors on the preliminary issue of whether the Application should proceed. In this year, after the Board determined that the Application could proceed, Horizon Utilities responded to approximately 600 interrogatories from Board Staff and intervenors on the merits of the Application itself. Horizon Utilities thereafter responded to approximately 200 Technical Conference Questions in advance of the Technical Conference conducted on February 25, 2011, and approximately 30 Undertakings given during the Technical Conference and oral hearing. Horizon Utilities has worked diligently to respond to all requests for information within the Board's deadlines; consequently, there is considerable comprehensive evidence on the record in this proceeding.

8. Board staff have acknowledged the volume of material that Horizon Utilities has provided in support of its Application[2], as has SEC.[3] Certain parties to this proceeding have suggested, however, that the evidence was confusing, in part due to numerous updates to the evidence prior to and during the hearing. Horizon Utilities cannot agree with these assertions. Horizon Utilities' evidence in this proceeding – both as originally filed and as updated – was prepared in accordance with the Board's Filing Requirements, and is in a conventional format. Parties had opportunities to obtain clarification of the evidence through the rounds of interrogatories and technical conference questions, and during the hearing. Moreover, Horizon Utilities' evidence updates were necessary. Its March 14, 2011 update, for example, was necessitated by significant changes in circumstances related to two of its Large Use customers. As discussed in the Argument-in-Chief,[4] had that update not been made, Horizon Utilities would have been in a position similar to that

[2] Board staff Submission, p2
[3] SEC Submission, p18, paragraph 2.1.26
[4] Argument-in-Chief, at para. 33.

in which it was following its 2008 Electricity Distribution Rate ("EDR") Cost of Service Decision – that is, with an almost immediate deficiency of actual loads relative to forecast loads on which its rates were based. Not only did Horizon Utilities address the loss of load from these two customers since the filing of the Application, but it proposed to return to its customers a portion of the additional revenues recovered in the event that the baselines for the those customers turned out to be low; and it incorporated anticipated load from a new Large Use customer. This update was necessary and was handled by Horizon Utilities in a manner that was both transparent and fair to its ratepayers. Such revised evidence should not have been confusing as the related narrative, schedules, and analyses were provided to all parties in the same prescribed form and manner as that used in the Application. All parties would be familiar with this manner of presentation.

9. The April 13, 2011 update to the non-Large Use load forecast, to cite another example, was provided in response to an undertaking (J3.3) in which Horizon Utilities was asked to reconcile its non-Large Use load forecast with the updated measures and assumptions for Compact Fluorescent Light bulbs ("CFLs"). Having been specifically requested to do this, and having determined that the load forecast did not use the updated assumptions, and having identified two other necessary corrections, an update to that forecast was entirely appropriate. It was not created arbitrarily by Horizon Utilities for the end of the hearing; on the contrary, it was the reasonable response to a request made by an intervenor near the end of the hearing. To raise the issue, as one of the intervenors (VECC) did, and to then raise concerns about the fact that the evidence has been updated by the Applicant when it is properly answering the request, is simply not appropriate.

10. Similarly, parties have suggested that evidence, especially on human resources, came too late in the process and did not allow for testing. With respect, Horizon Utilities rejects assertions of this kind given many opportunities for parties to test such evidence prior to the oral proceeding. This Application has been the subject of three rounds of interrogatories and a Technical Conference. Only after this lengthy discovery process did the oral hearing – another opportunity for the testing of Horizon Utilities' evidence – take place. The suggestion that Horizon Utilities' evidence in this proceeding could not be properly tested is inconsistent with the many opportunities presented to parties during

the process to do so. On the comments with respect to human resources evidence, which are further discussed below, aside from the reasonableness of Horizon Utilities' approach to calculating and illustrating employee numbers and compensation in this Application, that methodology for calculating and illustrating employee numbers and compensation in this Application is consistent with the plain reading of the Board's Filing Guidelines Requirements and is the same methodology used by the Applicant in its 2008 EDR application. With respect to human resources evidence, any submission of confusion or reasonableness of evidence is not appropriately attributed to Horizon Utilities where it has prepared material in compliance with Board filing requirements, that may be subject to some level of interpretation, and where other LDCs prepare similar information based on somewhat different interpretations of such.

11. Moreover, at no point did Horizon Utilities delay the progress of this proceeding. Despite the delayed receipt of Intervenor Interrogatories and/or Technical Conference Questions, on more than one occasion and from more than one intervenor, Horizon Utilities filed its responses on time. This included responses to the voluminous Technical Conference questions, in respect of which there was a limited amount of time allowed for responses in advance of the Settlement Conference.

- **The nature of the current proceeding:**

12. Certain intervenors (EP p.3, 44, 47, VECC p.1, SEC p.3, CCC p.4) have suggested that this Application should have involved little more than a load forecast correction. With respect, this misrepresents both the Board's Decision on Horizon Utilities' Z-factor application (EB-2009-0332) that gave rise to the current Application, and the Board's Decision on the preliminary question in the current proceeding.

13. At page 17 of the Z-factor decision, the Board stated:

> "The Board notes the importance of assessing the actions taken by a distributor to deal with customer load loss in the context of their overall impact on the utility, including the overall financial impacts on the utility. The Board believes that the most appropriate approach for a distributor to take under such circumstances is to file a cost of service application."

14. On December 15, 2010, in its Decision on the preliminary question in the current proceeding, the Board did not place any restrictions on the Application. In a finding

similar to that set out in the preceding paragraph, the Board indicated that it "concurs with Horizon's analysis of EB-2009-0332, that load loss and volatility should be explored in a comprehensive cost of service review."[5]

15. The Board has allowed Horizon Utilities to proceed with a cost of service application, and this is a rebasing proceeding, not a Z factor or IRM application. The suggestion now that all that the Board should do is fix the Large Use load problem ignores the Board's determination in the Z-factor proceeding and would ignore the broader past operational implications on the manner in which the utility was managed during this difficult period; that is, the deferral of necessary expenditures that are best addressed alongside the load forecast in a comprehensive cost of service application.

16. Similarly, it is inappropriate for VECC and CCC to be reintroducing argument on the preliminary issue now on the basis of whether an off-ramp test was met.[6] This matter has been dealt with by the Board. It was plain from the evidence advanced by Horizon Utilities on the preliminary issue that it did not meet the strict off-ramp test – that is, its return on equity was not less than 300 basis points below its Board-approved ROE in a historical IRM year. This fact, acknowledged by Horizon Utilities, did not deter the Board from allowing this Application to proceed, and it should not now prevent Horizon Utilities from receiving the relief sought in this Application. In fact, the very issue facing the Board in considering the preliminary issue was whether Horizon Utilities should be permitted to rebase notwithstanding that the ±300 basis point threshold had not been met. That issue has been considered and determined, and the Board is dealing with this matter as a comprehensive cost of service application.

17. Parties have made inferences about the need to treat this Application differently. Horizon Utilities submits that this would be an incorrect approach. The fact is that certain material estimates and assumptions in the previous 2008 cost of service application were proven false by actualities; and this has had a persisting and material adverse implication to Horizon Utilities in its ability to manage as contemplated at the time of such application. Horizon Utilities requires a full rebasing to correct the adverse conditions arising from matters underlying its previous application in order to provide for

[5] Decision on Preliminary Issue, at p.7.
[6] CCC submission, at p.3; VECC submission, at p.35

the investment and costs provided in this Application, some of which has been deferred, in the best interests of its customers. These matters are well documented in the previous Z-factor application, this Application, and the Decision on the preliminary issue with respect to this Application. The Board has determined that this Application should proceed as a cost of service application for the 2011 Test Year – it is no longer an "early" rebasing application; it is simply a rebasing application, and should be considered by the Board with no pre-existing limitations or restrictions as suggested by intervenors. Such limitations or restrictions would effectively leave Horizon Utilities in the same position as that necessitating this Application.

- **Suggestions to deviate from conventional rate making policy**

18. Certain parties based their recommendations on revenue requirement on averages and comparisons with other utilities. Horizon Utilities respectfully submits that it would be inappropriate for the Board to treat this as a mechanistic approach to updating rates based on average expenditures of Horizon Utilities or average increases in revenue requirements of other distributors. Doing so ignores the fundamental nature of a cost of service application – that is, a determination of the revenue necessary for this distributor to provide safe, reliable, service to its customers on a sustainable basis. In this regard, Horizon Utilities is concerned about the arbitrary approaches being proposed by both Board Staff and Intervenors. The use of mechanistic tools such as envelopes, top down approaches, historical averages, and percentage increases granted to other utilities in areas such as capital and OM&A expenditures and other revenue ignores the voluminous evidence on the record in this proceeding that justifies Horizon Utilities' revenue requirement and that was required by the Board in its Filing Requirements. With respect, if the outcome of this cost of service proceeding is to be an arbitrary percentage change in revenue requirement, the cost of service process could be greatly simplified.

19. Horizon Utilities wishes to make it clear that its objection to the use of arbitrary and mechanistic measures in determining an appropriate revenue requirement and rates cannot be taken to mean that Horizon Utilities is, as SEC suggests, "proposing to spend as if its resources are unlimited". On the contrary, the Application represents a reasonable assessment by Horizon Utilities of its needs for the Test Year. Horizon

Utilities is taking a pragmatic approach and has provided evidence and testimony that it has considered the amount and pace of investment and operating cost in the context of both customer costs and managing utility related risks related to safe, reliable, and sustainable service delivery. For example, Horizon Utilities' Asset Management Plan identifies immediate and ongoing investment needs. However, in an effort to balance rate payer costs and interests in safe, reliable, and sustainable utility service delivery, Horizon Utilities is taking a paced approach to increases in capital investments[7]. Similarly, Horizon Utilities rejects SEC's baseless characterization of the Application as Horizon Utilities' attempt to catch up on spending in a cost of service year. There has been no evidence advanced that Horizon Utilities deferred spending in the IRM years in order to increase spending in the cost of service year. In fact, and despite a managed level of deferral in relation to financial prudence, the evidence will show that necessary capital expenditures in the distribution system and otherwise have increased through the IRM period. Furthermore, Horizon Utilities has made such investments despite its resulting profitability being materially below the regulated return on equity in all of these years. Horizon Utilities submits that it has continued to demonstrate clear focus on its customers in supporting a safe and reliable distribution system notwithstanding that its financial circumstances to do so were not sustainable or adequate with reference to the Board's own targets for financial performance provided in the "*Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*" (EB-2009-0084) dated December 11, 2009. However, deferred expenditures become more urgent as time progresses, particularly with respect to the replacement of supportive fleet, systems, technologies, processes, etc., that are either at the end of productive life, inefficient, or no longer supportive of service delivery. The revenue requirement proposed for the Test Year is necessary to allow Horizon Utilities to address needed expenditures identified in the Z-factor proceeding and in this Application that have been deferred due to losses in distribution revenue due largely to reductions in load since the 2008 EDR Decision.

20. Board staff included in their submission a quote from the Standard and Poor's ("S&P") credit rating analysis:

"Nevertheless, HHI expects that it would have some flexibility to reduce dividends in times of financial stress…..We believe the LDC could also temporarily defer, for a year

[7] Exhibit 2, Tab 1, Schedule 3, Appendix 2-1, p13, Figure 2

or so, a small portion (about C$5 million to C$7 million) of its maintenance capital expenditure without compromising service levels".8

21. In the context of its broader argument, Horizon Utilities interprets that Board Staff uses this S&P excerpt to suggest that it could defer or continue to defer costs without compromising service levels. However, S&P does not actually define in its report the meaning or extent of "compromising service levels". In times of such financial stress, the context of which Horizon suggests would be extreme, the level of compromise would be very significant, likely sustained for an indeterminate period, and not supportive of customer interests in the adequacy, reliability, and quality of service contemplated by the objectives of the Board.

22. Horizon Utilities submits that this specific analysis of S&P offered by Board Staff in entirely unsuitable for the Board to make a determination of an appropriate level of maintenance capital expenditures and should be disregarded for the following reasons:

23. The objective of the S&P report, and credit rating reports in general, is to provide creditors and prospective creditors an assessment of the ability of an issuer to satisfy its debt or other financial obligations to such. The intent of the report is entirely directed towards creditor/ investor interests in priority over all other interests;

24. The context of the S&P excerpt offered by Board Staff reflects flexibility under "financial stress" i.e., actions Horizon Utilities could take in extreme financial circumstances to ensure that its financial commitments are satisfied in advance of, and in priority to, utility investment and operational requirements in the best interests of ratepayers. In these circumstances, the interests of creditors are not aligned to the interests of ratepayers and do not reflect how Horizon Utilities would or should operate its business under normal (i.e., "not stressed") financial conditions.

25. The Application submitted by Horizon Utilities does not reflect a proposal to operate under such financial stress or to self-create such conditions. Further, one of the guiding objectives of the Board is facilitating the maintenance of a financially viable electricity industry. As such, Horizon Utilities does not expect that the Board would render a decision that would result in the conditions described in the S&P report excerpt offered

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[8] Board staff Submission, Page 11 of 81.

by Board Staff. As such, Horizon Utilities submits that the actions suggested by S&P in the excerpt offered by Board Staff are irrelevant to the Board's determination on the Application;

26. Horizon Utilities has submitted this Application and related investment requirements on the basis of operational prudency i.e., that which is required to operate its business on a sustainable basis in the best interests of providing safe, reliable, and cost effective distribution of electricity. The circumstances described in the excerpt offered by Board staff represent conditions that do not support sustainability and favour short-term measures to ensure creditor interests are satisfied in priority to ratepayer interests;

27. Horizon Utilities submits that the Board's objectives with respect to the Application recognize a broader balancing of interests in setting just and reasonable rates including protecting the interests of consumers with respect to the adequacy, reliability, and quality of electricity service.

- **Procedural standards of fairness:**

28. As a matter of procedural fairness, Horizon Utilities is also concerned that Board staff and intervenors have asserted that the Board has ruled similarly in other decisions or that a specific proposal is consistent with Board policy without providing references to the policy or the applicable decisions. Horizon Utilities is entitled to the specific standards employed by parties in arguing against its evidence or objectives of its Application, in order to properly and fully respond to the Board within the various aspects of this proceeding. Generic statements by Board staff or a party that its proposal is consistent with past decisions of the Board or Board policy without references are not appropriate and are contrary to the September 2006 Board Process Report and general conventional regulatory procedural principles. For example, at page 9 of their submission, Board staff comment on the Effective Date for Rates as follows: "In recent decisions on applications that were filed late, the Board has established effective dates subsequent to the release of the Board's decisions and after standard rate order process can be implemented". If there are specific past rate cases that Board staff and/or intervenors are considering in making their submissions, they should be identifying them

so that Horizon Utilities can review and assess the appropriateness of those circumstances in the present case.

C. RELIEF SOUGHT

29. As discussed in its Argument-in-Chief, Horizon Utilities submits that its proposed revenue requirement has been determined appropriately and has been supported through an application that conforms to the Board's Filing Requirements; that its proposed capital and OM&A programs for the 2011 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are fair and reasonable.

30. The relief requested by Horizon Utilities in this Application was set out in the Argument-in-Chief. The adjustments provided in the Horizon Utilities' response to Undertaking J3.3 and filed in the Revenue Requirement Work Form ("RRWF") on April 15, 2011 indicate that Horizon Utilities' Total Revenue Requirement is $108,099,607 and Revenue Deficiency is $20,721,653.

31. Since that time, in considering the submissions in this matter, there are certain adjustments to which Horizon Utilities has agreed that should be incorporated into the Draft Rate Order. These are as follows:

- LEAP costs. As detailed in the Board staff submission, an expense in the amount of 0.12% of the 2011 Board Approved distribution revenue, less $55,000 that has already been included, will be added to OM&A expenses.[9]
- Cost of Power. Horizon Utilities agrees with the approach taken by Energy Probe in their calculation of the Cost of Power.[10] Once the final 2011 load forecast has been approved by the Board, Horizon Utilities will calculate the Cost of Power using this calculation methodology.
- Management Fees. Horizon Utilities has agreed that Management Fees expenses in the amount of $784,515 should not be included as an OM&A expense and included in the calculation of the Working Capital Allowance and the Rate Base. The amount

[9] Board staff Submission page 52
[10] Energy Probe submission Page 13 of 56 and Appendix B.

shall be recorded in an account such as account #4390, which excludes the amount from OM&A, working capital allowance and Rate Base impacts.[11]

- Opening Rate Base. Horizon Utilities has agreed to use the actual fixed asset continuity schedule as of December 31, 2010 in the amount of $305MM as the opening Test Year rate base for purposes of calculating the Rate Base.[12]
- Small Business Tax Credit. Horizon Utilities agrees to include the Small Business Tax Credit in the amount of $36,250 it the calculation of the PILs.[13]

32. Parties' submissions on revenue requirement components make reference of course to the amounts that are included and reflected in the Applicant's submission in the Argument-In-Chief. Horizon Utilities will do the same for consistency.

33. Horizon Utilities would also like to note that the Smart Meter Funding Adder increase from $1.56 to $2.14 (EB- 2010-0292 Decision and Order dated March 8, 2011) has been incorporated into the RRWF and requires no further adjustment.

34. Horizon Utilities will also include in its Draft Rate Order the Late Payment Penalty Rider which, it is anticipated, will be approved concurrently with this Application.

[11] Oral Hearing transcript Day 2 April 8, 2011 beginning at page 6.
[12] Oral Hearing transcript Day 1, April 7, 2011 page 41
[13] Oral Hearing transcript Day 2, April 8, 2011 page 12

D. ISSUES

35. As noted in the Argument-in-Chief, there is no Board-approved Issues List for this proceeding. As with its Argument-in-Chief, Horizon Utilities has followed the order of matters addressed in the Board's Filing Guidelines and its Application in preparing this submission. This approach is consistent with that of the Board staff and intervenor submissions. Horizon Utilities has identified matters to be addressed in each of these areas below:

1. Administration
2. Rate Base
    - Opening Rate Base
    - 2011 Capital Expenditures
    - Horizon Utilities' Asset Management Plan
    - Stranded Assets
    - Non-Distribution Capital (General Plant)
    - PPE/Customer
    - The Operational Data Store
    - Working Capital Allowance
3. Operating Revenue
    - Non-Large Use Load Forecast
    - The GS > 50 to 4,999 Class and kW to kWh Ratios
    - Large Use Load Forecast
    - Other Revenue
4. Operating Costs
    - OMERS
    - Comparability of OM&A Expenditures
    - Headcount Methodology
    - 2011 Hires
    - Retirements and Advance Hires
    - IST and Regulatory Headcount
    - Vacancies and New Hires
    - Green Energy Act Plan

- Regulatory Costs
- Low Income Energy Assistance Program

5. Cost of Capital and Capital Structure
6. Calculation of Revenue Deficiency or Surplus
7. Cost Allocation
    - Alternative Service Delivery for Large Use Customers
8. Rate Design
    - Fixed/Variable Splits
    - Loss Factor
9. Deferral and Variance Accounts

36. The submissions that follow have been organized according to these categories. Horizon Utilities has also addressed general matters, such as alignment of the rate year to the fiscal year and the effective date of its proposed rates at the end of the reply submission, section 10.

1. Administration

37. As discussed in the Argument-in-Chief, Horizon Utilities submits that its Application contains all elements required by the Board’s Filing Requirements, and that it has addressed all outstanding requirements from its previous cost of service application (EB-2007-0697). No parties have raised any issues to the contrary.

2. Rate Base

- **Opening Rate Base:**

38. Horizon Utilities has calculated its rate base as required by the Board – that is, as an average of the balances at the beginning and the end of the 2011 Test Year plus a working capital allowance. Horizon Utilities commences recording depreciation in the month related assets come into service. The working capital allowance is 14% of the sum of the cost of power and controllable expenses based on Horizon Utilities' Lead/Lag Study, a reduction from the 15% level underlying its current rates. Horizon Utilities' 2011 Test Year Rate Base is $375,220,769 and reflects all updates through the course of this proceeding including the adjustments shown in response to Undertaking J3.3.

39. Horizon Utilities has computed the average fixed assets included in rate base for 2011 Test Year of $315,023,558 (Exhibit 2, Tab 2, Schedule 1, Pg. 1, Table 2-1). The average fixed assets in rate base for 2011 was computed based on the 2010 Bridge Year forecast closing fixed assets of $307,418,809 and 2011 Test Year closing fixed assets of $322,628,306.

Submissions of the Parties:

40. SEC (p.29), Energy Probe (p.5) and VECC (p.2) have proposed that the computation of the 2011 rate base be amended to reflect a revised computation of the average fixed assets for 2011 based on the following:

- Use the 2010 actual closing net book value of assets of $304,891,417 in the computation of the average net book value for the year;
- Increase the amount of CWIP closed to rate base in 2011 by $2,841,193, which represents the amount by which CWIP increased in 2010 over the amount originally forecast for 2010; and
- Adjust the 2011 Test Year depreciation to reflect the lower capital expenditures closed to rate base in 2010 using the half year rule.

Horizon Utilities' Reply:

41. Horizon Utilities, in its oral hearing testimony, acknowledged that reflecting a reduction in the test year opening rate base to reflect the 2010 actuals, in addition to increasing the 2011 fixed asset additions to reflect the increase in CWIP in 2010 that is expected to be closed to rate base in 2011, was a fair approach.[14]

42. Horizon Utilities disagrees with the position taken by SEC[15] that the impact of the adjustments noted above would be to reduce the rate base by about $1.42 million. The impact to the average fixed assets for the 2011 Test Year would be a reduction of approximately $1.1MM as shown in the following table:

Opening Fixed Assets in Rate Base, January 1, 2011	304,891,417	Energy Probe TC #1, Pg. 3
2011 Fixed Asset Additions	43,992,098	Ex. 2, Tab 2, Schedule 2, Pg. 5, Figure 2-12
2010 increase in CWIP Transferred to Fixed Assets	2,841,193	Tr. 1, Pg. 41
2011 Depreciation	(28,782,602)	Ex. 4, Tab 2, Schedule 13, Pg. 3, Table 4-35
Net change in Fixed Assets	18,050,689	
Adjusted Closing Fixed Assets in Rate Base, December 31, 2011	322,942,106	
Adjusted Average Fixed Assets in Rate Base - 2011 Test Year	$ 313,916,762	
Average Fixed Assets in Rate Base - 2011 Test Year, as filed	$ 315,023,558	

43. While Horizon Utilities recognizes that the change in opening fixed assets for 2011 may have an impact on depreciation expense for 2011, the impact on such would not be material. As noted in the oral hearing, there were a number of larger projects towards the year-end that were not completed, and, thus, remained in CWIP. Horizon Utilities expects these projects to be closed in the early part of 2011.[16] As Horizon Utilities commences depreciation in the month that the asset is capitalized (Ex.4, Tab 2, Schedule 13, Pg. 5), the impact to depreciation expense for the 2011 Test Year would not be material. By way of illustration, if Horizon Utilities were to adjust depreciation expense using the ½ year rule, as proposed by Energy Probe in its submission[17], and assuming a useful life of 25 years on the assets, the adjustment to depreciation expense

[14] Tr. Vol. 1, p. 41
[15] SEC p.29
[16] Tr . Vol. 1, p. 40
[17] Energy Probe, p.5

would be approximately $22,000 ($1,106,796 (which is the difference in average rate base computed above) divided by 25 years * ½ year).

44. Horizon Utilities agrees that the calculation of the average fixed assets for the 2011 Test Year should be reduced by approximately $1.1MM. This is one of the adjustments Horizon Utilities has agreed to make as a result of the Board Staff and Intervenor submissions – this is set out in the "Relief Sought" section of this reply.

- **2011 Capital Expenditures:**

45. Horizon Utilities has planned for $43,992,099 in capital expenditures for the 2011 Test Year (excluding smart meters).[18] As discussed in the Argument-in-Chief, Horizon Utilities included in its Application extensive evidence in support of its 2011 Capital Expenditures, including Horizon Utilities' Asset Management Plan[19] ("AMP").

Submissions of the Parties:

46. Board staff submit that while an extensive AMP is corroborative support for a capital plan, it is not sufficient in and of itself and that there is a disconnect between Horizon's proposed capital expenditures for 2011 and its resources. Board staff further submits that the misalignment between demand and capital plans is exacerbated by the load forecast updates where Horizon Utilities has reduced its load forecast but has not altered its 2011 capital program at all. Staff suggest that there is "some redundancy between the ODS and the current ERP/GIS… Horizon may want to address this point" (p13). Board staff recommend reducing non-distribution capital expenditures by $3.2 million.

47. Board staff (page 15 of 81) do not refer to the past specifically but propose an envelope reduction to 2011 capital expenditures of $5.5 million. VECC (p3), Energy Probe (p7), SEC (p35) and CCC (p7) take the position that a reasonable approach for setting 2011 capital expenditures is to use past capital spending as a basis.

48. Energy Probe asserts (on p7) that the capital additions should be $40.5MM (2007-2010 average increased by 3%), plus a $2.841 million adjustment for CWIP. By addressing the Capital Expenditure in a staged approach, Horizon Utilities submits that the backlog

[18] Exhibit 2, Tab 2, Schedule 2, Page 5
[19] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1

of Renewal investment required can be brought back to a sustainable level[20]. If Horizon Utilities were to proceed based on historic spending levels, the required level of investment to address the growing backlog would continue to escalate to unsustainable expenditure levels[21]. Furthermore, any delay to the investment in Renewal spending will continue to exacerbate conditions on the system that have led to reduced reliability through increased equipment failures.[22] Energy Probe refers to the Board's Decision in the Burlington Hydro rebasing application in support of this approach. Energy Probe would also have the Board reduce Fleet capital by $107,550 to reflect Energy Probe's proposed removal of 6.6 FTEs. Finally, Energy Probe would eliminate premiums paid for hybrid vehicles.

49. VECC proposes two possible options: Option 1 would use a 3-year average of Horizon Utilities' capital expenditures, yielding a 2011 Test Year value of $41,106,029. Option 2 would assume that the $3.7 million "optimism" in 2010 capital additions carries into 2011, for a total 2011 capital expenditure of $41,866,864.

50. SEC submits that Horizon Utilities' Asset Management Plan, because it is "inconsistent" with the Kinectrics Report prepared during the Hamilton Hydro/St. Catharines Hydro merger approximately six years ago, does not provide evidentiary support for the proposed 2011 capital spending. SEC used the Board's 2009 Yearbook, and submitted that some "modest" increase in capital expenditures is justified, proposing a value of $38,980,051 based on a 2 year average (2009 and 2010 plus CWIP).

Horizon Utilities' Reply:

51. Capital investment, particularly in the area of infrastructure renewal, is an immediate requirement for Horizon Utilities. The sustainment of historical investment levels for asset renewal will simply not be sufficient to reduce Horizon Utilities' backlog of end-of-life assets

52. Horizon Utilities has continued significant work in reviewing the condition of its system since its last cost of service application and has confirmed that a significant amount of incremental renewal work will be required for the next several years. The replacement

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[20] Exhibit 2,Tab 1, Schedule 3 Appendix 2-1 p 17, Figure 6
[21] Exhibit 2,Tab 1, Schedule 3 Appendix 2-1 p 17, Figure 7
[22] Horizon Utilities' responses to SEC Interrogatory 22 & 25

of end of life assets is critical to the continued delivery of reliable electricity service to Horizon Utilities' customers. Without the increased capital investments proposed in this Application, the proportion of Horizon Utilities' assets at end of life will continue to increase, which will require increased reactive maintenance costs and will contribute to persisting levels of reduced system reliability.

53. The capital expenditures proposed for the 2011 Test Year are necessary to enable Horizon Utilities to maintain acceptable standards of safety, reliability, performance indices, and customer satisfaction by providing for the recovery of the increased renewal requirements described in Horizon Utilities' Application and in the AMP. Horizon Utilities submits that any reduction in its proposed capital program will result in increased reactive operating and maintenance expenditures of infrastructure at the end of its useful life; impair its ability to pursue cost efficiency through systems and process replacement and innovation; and impair the delivery of more effective and sustainable customer service.

54. Horizon Utilities has provided for capital investment in its Application to address an immediate and ongoing requirement for infrastructure renewal of its electricity distribution system. Horizon Utilities has concluded that a significant increase in renewal infrastructure investment is required in comparison to prior years.[23]

55. Since its last rebasing, Horizon Utilities has continued to perform highly detailed analysis of the condition of its assets; a significant undertaking given the thousands of discrete components with each category of asset having unique performance requirements, level of criticality, and usage/deterioration characteristics. Horizon Utilities' most recent AMP includes certain asset condition assessments, primarily focused on the most critical components of the distribution system infrastructure: the substations. Substations are critical infrastructure in a distribution system since these are source points for the conveyance of electricity to large geographic areas with many customers.[24] The results of these asset condition investigations indicate a serious and immediate need to invest in the replacement of this critical infrastructure.[25]

[23] Exhibit 1, Tab 2, Schedule 1, p.4
[24] Exhibit 1, Tab 2, Schedule 1, p.9
[25] Exhibit 1, Tab 2, Schedule 1, p.13

56. In its response to SEC Interrogatory 22, Horizon Utilities provided a graph outlining the number of equipment failures sustained from 2005 to 2010. Both primary cable failures and distribution transformer failures have increased over this period. Primary cable failures in particular are at their highest level ever with 57 outages incurred in 2010. This represents a 24% increase from 2007. Furthermore, in response to SEC Interrogatory No. 25, Horizon Utilities provided a graph outlining the number of customer hours affected by all material and equipment breakdown. Once again, the 2010 value of 82,330 customer hours with equipment failure is an all-time high and represents a 73% increase compared to the level just 4 years ago in 2007. Substation transformer failures (substations affect a larger percentage of customers[26]) have increased significantly. In response to Energy Probe Technical Conference Question 12, Horizon Utilities provided a chart highlighting 7 different substation transformer failures since 2007. The sharp increase in substation transformer failures in the last four years is a clear indication of aging assets that are now beyond end of useful life and the condition of these assets are failing at an unacceptable rate. It must be noted that seven substation failures within four years is an alarming rate for an electric utility. Substations are designed to be inherently reliable given the critical purpose they serve[27].

57. Horizon Utilities also provided evidence to support a growing backlog of assets beyond end of life[28]. Past investment levels for asset renewal have simply not been sufficient to reduce this backlog of assets that remain in service but are at the end of their productive life. The replacement of end of life assets is critical to the continued delivery of reliable electricity service to Horizon Utilities' customers. It is a well-accepted and understood principle of reliability engineering or failure analysis that the mean time between failures exponentially increases as assets are kept in service beyond the design life or useful life of the asset. In consideration of the rapid escalation of failures from 2008 to 2010, it is critical to begin this increased investment as soon as possible in order to avoid a rapidly escalating deterioration of system reliability and a much costlier approach to replacement of these assets under a reactive rather than controlled and planned approach as is being recommended as part of Horizon Utilities' AMP.

[26] Exhibit 2, Tab 1, Schedule 3, p.15 and Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, SACA report, p.3
[27] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1-I, p.2, 4 & 5
[28] Exhibit 2, Tab 1, Schedule 3, p.2-5

58. Horizon Utilities submits that an extensive AMP, such as the one it has undertaken and provided in the Application, is the best tool available to a utility to determine the conditions of its assets and to determine when those assets need to be replaced based on engineering assessments. Horizon Utilities also appreciates that a utility must consider its resources (inclusive of time, money, and people) on how best to move forward with the AMP findings towards addressing the renewal of its assets. Horizon Utilities submits that the proposed 2011 capital expenditures recognize both the inescapable fact that assets need replacing based on engineering practicalities of lifespan and the realities of limits to resources. Horizon Utilities' evidence[29] confirms that it has taken the findings of its AMP and proposed a prioritized, prudent, and steady level of capital investment increases from current levels over a number of years, rather than a sharp one-time stepped increase, to mitigate customer rate impacts and allow the utility to adjust its resources (time, money, and people) as Board Staff have suggested in their submission.[30] In fact, Horizon Utilities has proposed this measured pace of renewal despite the increased risk of asset failure for assets that have been categorically determined to be beyond designed end of life. Furthermore, at this pace of renewal capital investment, Horizon Utilities' backlog of assets beyond useful life will continue to increase for several years before stabilizing and eventually reducing many years further out.

59. The technical data and engineering conclusion of the AMP demonstrates that further deferral of Horizon Utilities' capital renewal plans would be irresponsible and contrary to the interests of its customers in safe, reliable, and sustainable electricity distribution service. Horizon Utilities has already deferred capital investments,[31] and, in consideration of the number of assets that are already beyond end of life, the result is clear: investment at a historic capital expenditure level only exacerbates the aging infrastructure problem by allowing the backlog of end of life assets to continue to grow, which is why Horizon Utilities must increase its investments in renewing its assets now[32]. Otherwise, a failure to address the investment provided in the Application will relegate Horizon Utilities' customers to a future of declining reliability and a more costly future as

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[29] Exhibit 2, Tab 1, Schedule 3, p.6
[30] Board Staff submission, p.12
[31] Board IR 5 and CCC IR 1 and [redacted]
[32] Exhibit 2, Tab 1, Schedule 3, Figure 2-1

the utility shifts from a controlled investment plan to a reactive mode of repair/replacement that will result in annual step increases to costs and ultimately customer rates: As Horizon Utilities has noted, "Failure to renew assets as planned will put Horizon Utilities in a situation where we are jeopardizing reliability and public safety, and Horizon Utilities is concerned that we will not have the ability to sustain the reactive renewal of these assets when the failure rates continue to climb."[33]

60. Board Staff and intervenors have suggested that, with a declining load forecast, Horizon Utilities' should correspondingly adjust its capital investment plans. Horizon Utilities submits that this might be a reasonable expectation if Horizon Utilities' capital program were largely based on increasing capacity. However, the majority of Horizon Utilities' capital program is for renewal of its assets and not for increasing capacity.[34] Assets will need to be replaced when they are due to be replaced, either in a planned manner or reactively post failure. Simply put, the cities of Hamilton and St. Catharines are older cities, in the Ontario context, with an increasingly higher proportion of electrical assets in need of replacement. While overall load and load forecasts may indicate declining consumption, the devices used to convey electricity to the homes and businesses of Horizon Utilities' customers must be prudently maintained and replaced as required lest the inevitable occurs – they stop conveying electricity. Horizon Utilities has indicated throughout the Application that the decline in reliability, which is related to the increasing percentage of assets being utilized beyond their end-of-life, is the driver for increase in capital spending that needs to be undertaken immediately.[35]

61. Horizon Utilities acknowledges that, among the Board's objectives with respect to electricity under section 1 of the *Ontario Energy Board Act, 1998*, it is expected to "protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service." Horizon Utilities respectfully submits that the artificial maintenance of low rates to the detriment of reliability is unsustainable and exposes customers to greater risk of severe and frequent service interruption. The prudent response requires an appropriate level of investment that balances risk with customer impacts irrespective of load forecasts. At Horizon Utilities' current level of renewal

[33] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, p.11
[34] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, Figure 3
[35] Exhibit 2, Tab 3, Schedule 2, p.13

investment, the ratio of assets beyond end of life to total assets, and the risk of failures and outages, will continue to increase. It is important to take steps now to reverse this trend which allows some graduated management of the cost implications for Horizon Utilities' customers.[36]

62. Horizon Utilities addresses its staffing levels later in this submission, however a brief comment is warranted here, in the context of capital projects.

63. Board staff suggest[37] that FTE employment is not focused on "front-line workers". This is not the case – 50% of planned hires (13 of 27 FTE positions) are to directly support the construction and maintenance of the distribution system and more specifically represent additional trades hires. Horizon Utilities detailed in its Workforce Labour Strategy that a key consideration in the number of apprentice hires was the ability to effectively and safely integrate them into the workforce. Horizon is contemplating the ratio of apprentices to 1st Class Line Maintainers and Supervisors on an ongoing basis and must balance that with its need for workforce renewal. One of the strategies to manage the increase in capital work while balancing the available workforce is the use of third party contractors. Third party contractors are key enablers to for Horizon to be able to achieve its targeted construction of asset renewal projects. Contractors allow Horizon Utilities to more efficiently roll out the construction program due to the unique timing requirements of much of the renewal work. The construction work program is not "flat" and is typically seasonal. Timing can be dictated by system loading factors (Horizon Utilities' response to VECC Interrogatory 28). It is not prudent Human Resource practice to hire based on these fluctuations in demand. Contractors offer a solution to efficiently complete this peak work load activity, and play an important role in allowing Horizon Utilities to control its labour costs and avoid overstaffing.

64. In its general comments earlier, Horizon Utilities raised substantial concerns about parties' submissions for the Board to rely on methods that have little to do with a cost of service review. This is a case in point. Horizon Utilities cannot agree, as parties would have the Board do here, that determining spending levels utilizing historical averages that do not reflect more current information or trends is appropriate for a determination of

[36] Ex2/T1/S3/pg. 5
[37] Staff submission, at p.12

future requirements that are the subject of recovery in this Application. Horizon Utilities has compiled evidence in the AMP that supports the necessity for an increase in capital spending. As noted in the AMP, "Failure to renew assets as planned will put Horizon Utilities in a situation where we are jeopardizing reliability and public safety, and Horizon Utilities is concerned that we will not have the ability to sustain the reactive renewal of these assets when the failure rates continue to climb."[38] Horizon Utilities respectfully submits that forecasting spending based on the specific immediate needs of the utility is far more accurate, and is the appropriate approach in a cost of service proceeding.

65. Horizon Utilities submits that the total capital expenditures for 2011 of $43,992,099[39] which comprises of $34,783,221 in distribution capital expenditures and $ 9,208,878 in non-distribution capital expenditures is supported by its evidence and represents the required investments that are driven by the requirement for renewal of the distribution system, and also reflects required investments in information technology, communications equipment, and facilities upgrades for assets that have reached their end of useful life and are equally necessary to support the delivery of an electricity distribution business to its customers.[40]

- **Horizon Utilities' Asset Management Plan**

66. Horizon Utilities has developed an Asset Management Plan ("AMP")[41] using industry recognized asset management practices and principles to assist in identifying and prioritizing capital renewal expenditures. Utilizing load forecasts, system planning requirements, and condition and age assessment studies, Horizon Utilities has formulated a Capital Expenditure ("Capex") Forecast for the next twenty years. A substantial proportion of these investments are for renewal of existing distribution assets identified from the asset management studies that have been undertaken since 2008[42]. These studies have identified that Horizon Utilities has a significant backlog of

[38] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, page 11
[39] Exhibit 2, Tab 2, Schedule S4, p1
[40] Exhibit 2, Tab 2, Schedule S4, p3
[41] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1
[42] Ex.2/T3/Sch 2/Appendix 2-1-E and Ex.2/T3/Sch 2/Appendix 2-1-F

distribution assets beyond end of life, which need to be renewed at a faster pace than previously anticipated[43].

Submissions of the Parties:

67. In their final arguments, Board staff and intervenors contest the rate at which Horizon Utilities has been focused on renewal and the impact it has on reliability. In addition, the necessity for a revised AMP, as opposed to a one-time study, was questioned. [redacted]

Horizon Utilities' Reply:

68. Failure to renew these assets as planned will put Horizon Utilities in a situation where it is jeopardizing reliability and public safety[44], and Horizon Utilities is concerned that it will not have the ability to sustain the reactive renewal of these assets when the equipment failure rates are continuing to climb.[45]

69. In order to balance distribution system risks and customer rate impacts, Horizon Utilities' capital plan provides for managing the renewal of end of life assets over a 20 year period. Even with the proposed levels of expenditure in this application, there is still a significant level of end of life assets at the end of 20 years.[46]

70. Board staff state that "there is no evidence that Horizon is 'harvesting' its assets to the point of risking safety, quality and reliability of its system" [47]. Horizon Utilities strenuously disagrees with the suggestion that no evidence exists that asset performance is deteriorating. The AMP itself and supporting interrogatory responses to SEC (discussed

[43] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1; VECC IR# 16 and Exhibit 1, Tab 2, Schedule 1, p. 4
[44] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1-L
[45] Response to SEC interrogatories 22 and 25
[46] Exhibit 2, Tab 1, Schedule 3, p.3
[47] Board Staff submission, p.11

below) (Horizon Utilities' response to SEC interrogatories 22 and 25) provides considerable evidence to the contrary. An examination of asset (i.e. equipment) failures identifies evidence to support that, not only is equipment aging, but also that the continued deferral of renewal capital expenditure is adversely affecting reliability (reference response to SEC interrogatories 22 and 25).

71. In its response to SEC Interrogatory 22, Horizon Utilities provided a graph outlining the number of equipment failures sustained from 2005 to 2010. Both primary cable failures and distribution transformer failures have increased over this period. Primary cable failures in particular are at an unacceptable level. More particularly, they are at their highest level ever with 57 outages incurred in 2010, representing a 24% increase over 2007 outages.

72. Furthermore, in response to SEC Interrogatory 25, Horizon Utilities provided a graph outlining the number of hours of outages experienced by customers as a result of all material and equipment breakdown. Once again, the 2010 value of 82,330 customer hours of outages with equipment failure is an all-time high and represents a 73% increase compared to the level just 4 years ago in 2007.

73. Substation transformer failures (substations affect a larger percentage of customers[48]) have increased significantly. In response to Energy Probe Technical Conference Question 12, Horizon Utilities provided a chart highlighting 7 different substation transformer failures since 2007. The sharp increase in substation transformer failures over the last four years is a clear indication of aging assets that are now beyond end of useful life and the condition of these assets are failing at an unacceptable rate.

74. Referring to the AMP (Exhibit 2, Tab 3, Schedule 2, Appendix 2-1-L, Page 9), the actual reactive renewal expenditure has increased from a level of \$2.4MM in 2007 to a level of \$3.2MM in 2009. This increase in reactive renewal is directly correlated to end of life assets that are failing and are being replaced under emergency conditions at a premium cost.

[48] Exhibit 2, Tab 1, Schedule 3, p.15 and Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, SACA report, p.3

75. Horizon Utilities submits that a shift to focus more spending on the Renewal portion of the Distribution Capital Budget being projected going forward in 2011 and beyond accurately reflects the outcomes of the studies performed within the AMP (p.3). Intervenors have suggested that the increase in Distribution Capital expenditure is not "significant" (for example, see SEC Final Argument para. 3.4.8). The table below (reproduced form the response to Board staff Interrogatory 6) presents the Renewal portion of the capital budgets from 2007-2012. From this table, it is clear that there has been a significant increase in expenditures on renewal, both actual and projected. This increase is a direct result of findings contained in the AMP.

	2007	2008	2009	2010	2011	2012	2013
Renewal	$8,353,000	$8,795,000	$12,010,000	$12,016,915	$19,734,731	$20,163,983	$22,342,007

76. Further, the Vansickle TS expansion project was an expenditure of $7.3MM over three years (from 2008 to 2010) to address capacity requirements in St Catharines.[49] These former Capacity expenditures have been re-prioritized for Renewal expenditure now that this project has been completed.

77. Similarly, from Horizon Utilities' response to Board Staff Interrogatory No.6, the Customer Demand portion of actual capital budgets from 2007-2012 has increased significantly in 2010 due to a large volume of customer work, [redacted][50]. Horizon Utilities has forecasted that 2011 and 2012 will return to historic expenditure levels and thus the excess has been allocated to Renewal.

78. As Horizon Utilities has indicated above and in its broader evidence, the focus of the increase in distribution capital expenditures relates to the renewal of aging infrastructure and assets that are already beyond end of life.

79. At page 13 of the Board staff submission, Staff question the necessity to conduct another AMP immediately after having just completed an AMP. Horizon Utilities submits

[49] Ex2/T3/S1, page 13, line 21
[50] [redacted]

that, as indicated in the evidence[51], the AMP is not a study meant to be completed at one time in its entirety, but represents a continuous measurement and planning process based on ongoing condition of distribution system asset assessments and other investment requirements. This is in fact a plan that evolves with time and requires continuous updating as new information on assets becomes available. This new information may come in the form of updates from maintenance reports, operating experience of staff during the normal course of using the system, and the use of new techniques, diagnostic capabilities, or methods that may not have been previously tried to better assess the conditions of the assets. It is also important to note that a distribution system contains thousands of discreet components of equipment. It is not possible to individually test, inspect, or assess all devices, materials, and equipment in service in any given year. For practical reasons, the process is a continuous function for a utility.

80. At the oral hearing Horizon Utilities staff stated[52] that its employees continue to work on Asset Management; this is a continuous process. Specifically, employees with requisite technical knowledge continue to refine these plans including the 20 year CAPEX graph contained in the AMP. It was this work that the witness was referring to during oral testimony. The refining of this data will provide an updated snap-shot of Horizon Utilities' asset base along with current replacement costs that vary due to demand for a variety of reasons (i.e. contract labour and economic activity, price of aluminum and copper wire, etc.). This information is required to be regularly updated and re-evaluated so that Horizon Utilities can perform effective planning of asset renewal, particularly in the near term years as they relate to budgets and revenue requirements of the utility. As noted in the 2009 Long Term Load Forecast and Station and Feeder Analysis[53], "the Load Forecast and Station and Feeder Analysis will be re-forecasted and analyzed in 2011". This is true for not only the load forecast, but also the Capex model. In 2009, many assessments and plans were completed and developed. However Horizon Utilities has many more which need to be undertaken. Horizon Utilities submits that its continuous review and reassessment of priorities based on the latest and best

[51] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1, Figure 1
[52] Tr. Vol 1, p.159, line 8 to p.159, line 24
[53] Exhibit 2, Tab 3, Schedule 2, Appendix 2-1-D, Page 1

engineering and operating information of its assets provides the greatest value and is in the best interests of its ratepayers.

81. Horizon Utilities has prepared an AMP in accordance with Chapter 2 of the Board's Filing Requirements. In fact, Horizon Utilities has gone beyond merely formulating a plan but has subscribed to a philosophy of continually reviewing and managing the condition of its assets, and re-prioritizing work to provide the greatest value to its customers.

82. At section 3.3.8 (b) of SEC's submission, a statement is made that calls into question the credentials and expertise of Asset management personnel responsible for preparing the AMP. Horizon Utilities retained Navigant Consulting, an industry recognized consultant in Asset Management, to assist with the initial scope and development of the AMP. While the overall analysis in the AMP is conducted by Horizon Utilities' staff, many of the individual assessments have been performed by qualified third party experts and experts have been utilized to assist with the development of the AMP.

83. Horizon Utilities retained Acumen Engineering Solutions Incorporated (AESI), another industry expert, in the past to perform their Substation Asset Condition Assessments. [redacted]

84. [redacted]

[redacted]

[redacted] The result is that the 2009 AMP has age data for all major assets (poles, distribution transformers, station equipment, cables and conductors, and civil assets) [59] and digital copies of inspection results. Therefore, Horizon Utilities was able to form a far more accurate conclusion on the age and conditions of the assets. [redacted]

85. [redacted]

86. As provided in response to comments to Board staff earlier in this submission regarding refinements of the Capital expenditure ("Capex") forecast, a Capex forecast based on asset age data is but one component of an AMP. Utilizing age data in conjunction with manufacturer and industry life expectancies provides a full basis for generating a budgetary forecast for expenditures. It should be noted that this is precisely why

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[redacted]

59 Exhibit 2, Tab 3, Schedule 2, Appendix 2-1-I page 1

Horizon Utilities continues to refine and update the Capex model, and other asset assessments regularly. It is fundamental to provide a clear picture of the health of the assets and required level of expenditure to provide its customers with a safe and reliable distribution system on a sustainable basis.

87. Horizon Utilities submits that it has provided significant evidence in the AMP to address the many challenges of an aging infrastructure in a manner that is both realistic and achievable. The detailed and comprehensive AMP is current, based on complete asset information, utilizes best engineering practices and principles, and, therefore, validates Horizon Utilities distribution system investment requirements. A deferral of the proposed expenditures outlined in the AMP creates significant risk of more frequent and severe failures jeopardizing reliability and, potentially, public safety. Horizon Utilities' primary concern is that it will not have the ability to sustain the reactive renewal of these assets based on the failure rates observed and documented in this proceeding.[60]

- **Stranded Assets**

Submissions of the Parties:

88. At page 5 of its submission, AMPCO submits that "its members have expressed to their representatives significant concerns with respect to the absolute costs attributed to the Large Use Class. Whether stranded assets, particularly in St. Catharines, are included in these costs was questioned. The proposed costs do not seem to reflect reality to AMPCO members."

Horizon Utilities' Reply:

89. Horizon Utilities provided oral testimony on a similar submission in relation to two Large Use customers that were the subject of the March 14th evidence update.[61] As load from such a specific Large Use customer declines or ceases to exist, the related connecting distribution assets are not automatically removed from service since these assets serve multiple customers. For all assets, Horizon Utilities must still inspect, maintain, and repair these systems on a regular basis irrespective of the amount of load that is running

[60] See Horizon Utilities responses to SEC interrogatories 22 and 25.
[61] Tr. Vol 3 pp. 169-170

through these cables and duct and manhole systems. The operating and maintenance costs are fixed regardless of load. Even if some assets are not used in the same fashion, they cannot be rendered "not useful", a conventional test in rate setting.

- **Non-Distribution Capital (General Plant)**

Fleet Expenditures

90. Horizon Utilities fleet expenditures are required to maintain vehicles, related equipment and personnel necessary for safe and dependable fleet operations that support maintenance and capital activities for the distribution system. Horizon Utilities' fleet consists of approximately 143 vehicles. The 2011 budget for transportation includes the procurement of 12 new vehicles.[62] The new vehicles consist of 9 replacements of end-of-life vehicles and the addition of 3 small vehicles to support increase in work demand[63].

Submissions of the Parties:

91. Board staff and Energy Probe submit that the Board should deny recovery of the $5,000 - $7,000 premium that Horizon spends on hybrid vehicles.

92. Additionally, Energy Probe submits that the Board should reduce Fleet capital additions by $107,550 over the three year period from 2011 to 2013 to reflect it suggestion that the advanced hiring is overstated by 6.6 FTEs.

Horizon Utilities' Reply:

93. Horizon Utilities does not agree that a reduction of $107,550 in fleet is warranted, and does not understand the reference to 6.6 FTE's. Of the 12 vehicles planned to be procured during 2011, only 3 (2 - crew support and 1 - pickup truck) are additions to the current fleet to support the activities within Construction & Maintenance Services (reference VECC TC #14). The increase in headcount in 2011, for the Overhead and Underground departments within the Construction & Maintenance division is 5 FTEs (reference Ex4/T2/SC6/page 2/table 4-3). Although the overall addition to the fleet is 3

[62] *Ibid.*
[63] VECC IR #22 and VECC TC #14 and Technical conference transcript page 28

vehicles, these are not directly related to new apprentices. One vehicle is required to support a new supervisor position that was created in 2010 to better support the Lines group in St. Catharines as there was an extremely high employee to supervisor ratio. Supervisors require a vehicle in order to visit multiple crews in the field, and the other 2 crew cab support vehicles are to increase flexibility to support increase in demand of work[64].

94. With respect to hybrid vehicles, Horizon Utilities proposes to acquire 3 hybrid vehicles in the 2011 Test Year. The acquisition of vehicles powered by alternative energy sources is consistent with Horizon Utilities' 2010-2014 Vehicle Replacement Plan, a copy of which was provided in response to SEC Interrogatory 21(d). Among the objectives of that plan is increasing Horizon Utilities' fleet inventory with vehicles powered by alternative sources of energy. At page 7 of the Plan, Horizon Utilities set out the benefits of acquisition of hybrid and electric vehicles:

> "Horizon Utilities is committed to be a leader in environmental initiatives and has identified its fleet as an area of focus to support our environmental social and community responsibilities. During this five year Vehicle Replacement Plan, Horizon Utilities will make every effort to replace 10% of its existing fleet with vehicles powered by alternative sources of energy, with the goal to reduce GHG Emissions and Carbon Footprint.
>
> Benefits of Hybrid and Electric Vehicles:
>
> - Reduce operating costs
> - Reduce fuel consumption
> - Longer vehicle life cycle
> - Operate PTO while stationary 4 + hours per day
> - Reduce idling times
> - Improve operating environment (quieter, lower emissions)
> - Reduce carbon footprint (if mandated)
> - Green image - Community and social responsibility
> - Improve air quality
> - Reduce GHG emission (Global Warming)
> - Reduce dependence on foreign oil
> - Support sustainability initiative - Global Reporting"

95. With a fleet of approximately 143 vehicles, the acquisition of 3 hybrid vehicles with a premium of approximately $5,000-$7000[65] per vehicle is admittedly a modest step

[64] Response to VECC Technical Conference Question 14
[65] Tr. Vol. 2, p.2, lines 5-7

toward this goal. It is, however, an appropriate one. Horizon Utilities observes that it is not alone in planning to increase its complement of alternative fuel vehicles.

96. While there is a premium for the capital cost of a hybrid vehicle, Horizon Utilities submits that the premium costs are offset with fuel savings over the life of the vehicle. Horizon Utilities is committed to its social and environmental responsibilities which are in the interests of its communities and its customers, the ratepayers. Therefore, Horizon Utilities pursues avenues to reduce GHG emissions and to reduce its carbon footprint where possible and appropriate – in this case, the pursuit of 3 small alternative fuel vehicles is possible at a minimal premium; it is environmentally and socially responsible; and it is most appropriate. Horizon Utilities firmly believes that there is rate payer benefit and community benefit to the purchase of hybrid vehicles as it has proposed in this Application, and their purchase should be supported by the Board. This modest step is consistent with provincial initiatives related to reduction of emissions and the promotion of green initiatives, including the government's plan to close all coal-fired generation facilities by 2014; the promotion of a move to a low carbon economy through the *Green Energy and Green Economy Act, 2009*; and the inclusion of the promotion of renewable generation and CDM, and the facilitation of the smart grid, in the Board's objectives under the *Ontario Energy Board Act, 1998*. Those objectives do not explicitly speak to carbon neutrality, but Horizon Utilities submits that they originate from the Province's policy to reduce its carbon footprint and promote a clean energy economy in Ontario.

97. Finally, Horizon Utilities submits that the incremental capital cost of these hybrid vehicles, in isolation of fuel saving and other environmental benefits, is not material, and that it is not appropriate that the Board's resources be taken up considering an expenditure with a value of only a few thousands of dollars (and an impact on revenue requirement of a fraction of that). Horizon Utilities submits that the recent Decision of the Board in the case of Ontario Power Generation ("OPG") (EB-2010-0008) is instructive in this regard. In that Decision, the Board stated:

> "…issues must be prioritized to ensure that the most significant issues, in terms of dollars and/or in terms of principle, are adequately investigated to ensure an appropriate outcome. The Board and the process are best served by the thorough investigation of the highest priority issues."

98. The Board went on to say that issues that are not of "sufficiently high priority in terms of the dollars" should not be a focus.

99. For all of the reasons set out above, Horizon Utilities respectfully submits that its expenditures related to the hybrid vehicles are minimal, and they are appropriate.

- **PPE/Customer**

Submissions of the Parties:

100. SEC attempts to use a comparison of PPE/Customer[66] (Property, Plant and Equipment or Fixed Assets) to argue that Horizon Utilities' proposed level of capital spending is unnecessary.

Horizon Utilities' Reply:

101. Horizon Utilities, like SEC, finds value in the data provided in the OEB's annual Yearbook of Electricity Distributors data. However, Horizon Utilities has at the beginning of its Reply expressed concern by intervenors using such comparisons to recommend setting rates. In this instance specifically, Horizon Utilities does not accept that, when examining assets per customer and operating cost per customer, Ontario's LDCs lend themselves to the simple comparisons and groupings suggested by SEC.

102. SEC compares Horizon Utilities to the LDC average to challenge Horizon Utilities' claim of having a low level of assets per customer when compared with Ontario's other large LDCs. This approach, in Horizon's view, fails to acknowledge unique operational differences between the larger LDCs like Horizon, which are generally connected to Ontario's transmission grid, and the smaller LDCs, which are generally embedded in another or host distributor. There is a serious weakness in SEC's submission that "the situation at Horizon is not extreme," which relies for evidence on the statement that "forty-four LDCs have PPE/Customer that is lower than the Applicant's"[67]. The SEC view fails to recognize that LDCs whose systems are connected to transmission stations have more asset functions than LDCs that are embedded in other host distribution LDCs. In the archetype of the former, the transmission connected LDC would own the all distribution feeders and distribution stations downstream from a high-voltage transmission station (and thus be expected to have higher PPE/Customer given broader

[66] Horizon notes that in the SEC submission, paragraphs 3.3.13-3.3.17, p.31-32, SEC uses Net PPE and PPE interchangeably and that the data cited in paragraph 3.3.17 is actually Net PPE not PPE.
[67] SEC submission, para. 3.3.17, p.32.

functionality of rate base). In the archetype of the latter, the embedded LDC would not own distribution feeders and stations (and thus be expected to have lower PPE/Customer given more limited functionality of rate base). The embedded LDC would simply take power on its side of a meter point with the host distributor and pay LV (low-voltage) charges for the upstream distribution feeders and stations owned by the host LDC.

103. Horizon Utilities, like most other large LDCs, is almost exclusively transmission connected in a sector where many if not most LDCs are largely or fully embedded in a host distributor. When compared to all LDCs, Horizon Utilities may appear to have a higher average PPE/Customer, but this basis for comparison, as noted above, fails to acknowledge that most of the lower PPE/Customer LDCs referenced by SEC are embedded in other distribution LDCs. However, when Horizon Utilities is compared to large LDCs, which are largely transmission connected, it actually has low assets per customer, a point which has been acknowledged by SEC.[68]

104. The inference from paragraph 3.3.17 of SEC's Final Argument is that Horizon Utilities could be more efficient, but this cannot be concluded from the data provided by SEC in that paragraph. While OM&A will be discussed elsewhere in this submission, Horizon Utilities notes that, at $165 per customer, it actually has the second lowest OM&A per customer of the 44 LDCs identified by SEC as having lower assets per customer in 2009, where the average of the 44 LDCs is $262 and the highest is $521. Horizon Utilities finds it noteworthy that Hydro Hawkesbury, one of Ontario's smallest LDCs, has the lowest OM&A per customer at $145 and also has the lowest Net PPE/customer at $360 (compared to Horizon's $1,374).[69]

105. Given that Horizon Utilities is largely transmission connected, and owning distribution stations and feeders back to numerous Hydro One Networks Inc. transmission stations, SEC's suggestion that Horizon is not currently efficient is entirely incorrect and based on incomplete analysis as it fails to isolate for material differences in the functionality of

[68] SEC submission, para. 3.3.16, p.32.
[69] All data in this paragraph is sourced from 2009 Yearbook of Electricity Distributors, August 25, 2010, which is the source provided in EB-2010-0131, the SEC submission at para. 3.3.17, p.32.

distributor embedded versus transmission connected LDCs and it does not provide any analysis with respect to comparative OM&A per customer.

- **The Operational Data Store**

106. Horizon Utilities has included an initiative called Enterprise Data Warehouse/Operational Data Store ("ODS") as part of its 2011 Capital Expenditures: with a 2011 capital cost of $350,000 for computer hardware and $990,494 for software. The scope of the project is to implement new server and storage hardware, database software, data management tools, analytical tools, reporting tools, and associated implementation services to support, design, develop and implement a cost-effective, common single enterprise data warehouse repository that integrates data from multiple applications and devices including (for example) Industrial and Financial Systems ("IFS"), Customer Information System ("CIS"), Supervisory Control and Data Acquisition ("SCADA"), Outage Management System ("OMS"), Geographic Information System ("GIS") and Advanced Meter Infrastructure ("AMI").[70]

Submissions of the Parties:

107. At page 13 of their submission, Board staff state:

> "As Board staff interprets the description of this project, the purpose of this ODS system is to provide a single enterprise data warehouse integrating data from multiple applications (including GIS) for shared use across departments and for more effective planning both for operational and business planning decisions.[19]
>
> During the oral hearing, Horizon's witness testified that the ODS is separate from and provided different functionality from the ERP, while acknowledging that ERP data, such as the GIS, was one source of the data for the ODS data warehouse.[20]
>
> In Board staff's view, there appears to be some redundancy between the ODS and the current ERP/GIS systems which were analyzed to prepare the 2011 capital plan based on the AMP data. The ODS is, in part, another hardware and software tool for mining the data. Horizon may want to address this point in their reply argument.

108. No intervenor made a submission on this initiative.

[70] Exhibit 2/Tab 3/Schedule 1/p. 89)

Horizon Utilities' Reply:

109. Horizon Utilities testified at the oral hearing[71] that there is no redundancy among its GIS, ERP, and proposed ODS systems. There may be a flow of data between the systems that permits the completion of transactions specific to each system. For example, the ERP system utilizes a subset of information from the GIS system (asset ID, description, in service date, etc.) to complete finance-related transactions related to the asset; such as depreciation and inventory management. However, this is not a redundancy. Only one system is performing the desired action.

110. The ODS will provide a cost-effective, common, single enterprise data warehousing repository that integrates large volumes of data currently collected across multiple applications (IFS, CIS, SCADA, OMS, GIS, AMI and others) to feed corporate and grid management dashboards, asset management plans, grid load analysis, grid optimization, grid self-healing systems, conservation & demand management programs, and general business analytics all supported with a common set of drill-down analytics and reporting tools.[72] SCADA and smart meters alone generate more than 2 billion transactions per year.

111. Integrated data from the different operational systems referred to in this section will improve asset management capabilities, overall system reliability, system management, and system optimization; all of which are supportive of improving cost efficiency and effectiveness. As noted in the prefiled evidence[73], the data will otherwise be captive in individual operational systems that were not designed for, and are incapable of, integrating and consolidating data from other systems; particularly with respect to the volume of data. In this regard, the ODS is necessary now to address this deficiency which is otherwise an obstacle to more efficient and effective data and distribution system management.

112. An example of the opportunities created by the ODS include coupling hourly meter information between smart meters connected to individual transformers, which can determine overloading and provide predictive failure information based on usage.

[71] TR. Vol. 1/pg. 67 line 24 to pg. 68 - 19
[72] *Ibid.*
[73] Exhibit 2/Tab 3/Schedule 1/p.91/Lines 26-30

Additionally, ODS can be utilized to ensure that power quality incidents that are often precursors to material breakdown and inadequate grounding, which can lead to overheating and premature failures, are properly recorded and monitored. By leveraging the ODS, Horizon Utilities can address the accurate loading of feeders and lateral wires and cables on an hourly basis, which will avoid overloading, to better time capital investments in capacity at a much more local level than previously possible and provide opportunities to reduce system losses.

- **Working Capital Allowance**

113. Based on its Lead/Lag Study, Horizon Utilities has proposed a working capital allowance of 14% of the sum of the cost of power and controllable expenses, a reduction from the 15% level underlying its current rates. Horizon Utilities retained Navigant Consulting to perform the Lead/Lag study, a copy of which is provided at Exhibit 2, Tab 4, Schedule 1, Appendix 2-3 of the Application.

Submissions of the Parties:

114. The main criticism by the parties with respect to the study's conclusions was the determination of the service lag and the revenue lag. Board staff stated that they are "not persuaded" by the resulting 14% working capital allowance and proposed a reduction to 13%. Energy Probe suggested a reduction to 13.6%. Energy Probe also suggested moving the costs associated with providing management services from OM&A costs and including the costs in account 4380 (expenses for non-utility operations), which would be an offset to the management fee revenue recorded in account 4390 - the adjustment to OM&A costs would lower the Working Capital Allowance. SEC and VECC support Energy Probe's submissions.

Horizon Utilities' Reply:

115. Horizon Utilities was directed by the Board in the 2008 EDR Decision dated October 3, 2008 (EB-2007-0697) to complete a Lead/ Lag study for purposes of the its next rebasing application. Horizon Utilities engaged Navigant Consulting ("Navigant"), a third party consultant with specific expertise in this very technical area, to support the

completion of its Lead/Lag study. As noted in the Oral Hearing[74], the witness (from Navigant) has assisted over 15 utilities in the preparation of such studies and prepared the Lead/Lag studies referenced by Board staff in their submission for Toronto Hydro and Hydro One. Based on the Lead/Lag study completed by Navigant and filed as part of the Application[75] and as updated on March 14, 2011, Horizon Utilities submits that 14% is appropriate for purposes of calculating the Working Capital Allowance.

116. There were comparisons made to the results from the Hydro One[76] (11.9%) and Toronto Hydro[77] (12.9%) Lead/Lag studies. Horizon Utilities' Lead/Lag study has been prepared based on Horizon Utilities' own circumstances and data from its operations. The Lead/Lag studies for Hydro One and Toronto Hydro have prepared based on their circumstances and data from their operations. It would appear to be counterintuitive that Horizon Utilities would be specifically directed by the Board to conduct its own Lead/Lag Study, and yet be asked to adopt a WCA factor that is based on other utilities' studies without any evidentiary support for such. If an arbitrary WCA is to be allocated to Horizon Utilities, Horizon Utilities respectfully submits that such should be the WCA that the Board applies to all utilities in the absence of a Lead/Lag study, i.e. that of 15%.

117. In arriving at the 13% recommendation, Board staff relied solely on the use of revenue weighting for the service lag component of the overall revenue lag. However, as noted in its response to Undertaking J1.3 (iii), Horizon Utilities stated:

> *"…if revenue-weighting were to be used on the service lag component of the overall revenue lag, the same revenue-weights must to be applied to all other components of the overall revenue lag as well, i.e., billing, collections, and payment processing, since this paints a more full picture of "when the utility is getting all its money". In Horizon Utilities' case, using revenue-weights on the billing and payment processing lags has no impact on Horizon Utilities' overall revenue lag and the working capital requirement, since the un-weighted lag days are the same for both bi-monthly and monthly customers."*

[74] Transcript Vol.1, Pg. 27, line 5
[75] Ex2/T4/S1, Appendix 2-3
[76] EB-2009-0096
[77] EB-2007-0680

118. A revised Table was also provided as part of this response which clearly demonstrates that there is a marginal, if any, impact to the 14% WCA factor if all components of revenue lag, i.e., service, billing, collections, and payment processing, were to be revenue weighted; which is the appropriate and consistent approach if a revenue weighting methodology were to be adopted. In its reply submission, at p.12, Energy Probe makes reference to Undertaking J1.3, part (iii) and *"…accepts these calculations as appropriate"* [Emphasis Added].

119. The use of customer weighting for the service lag is an appropriate and commonly used methodology and in fact has been used in the Lead/Lag studies conducted on behalf of Hydro One and Toronto Hydro.[78] Horizon Utilities respectfully submits that since the methodology used by Horizon Utilities is consistent with the approach used by Toronto Hydro and Hydro One, the results of Horizon Utilities'' study should be acceptable, as in the case of Toronto Hydro and Hydro One. Horizon Utilities submits that there is no basis for applying a different approach to its study especially considering customer weighting has been used by Hydro One and Toronto Hydro and the resulting percentages have been used by the Board in determining the appropriate WCAs for those utilities.

120. Horizon Utilities respectfully disagrees that the WCA has been overstated. As per the Revenue Requirement Work Form filed in the response to Undertaking J3.3 on April 15, 2011, the revised WCA is $60.2MM as compared to $61.9MM, a difference of $1.7MM. There is no change to the WCA percentage of 14%.

121. Horizon Utilities does not agree with Energy Probe's computation of the WCA at 13.6% and the assertion that the overall dollar amount of the WCA has been overstated in comparison to the updated Navigant Report. Such assertion appears to be based on the following:

- Use of revenue weightings for the Service Lag and Collection Lag instead of customer weighting

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[78] See Hydro One - EB-2009-0096 Exhibit D1-1-4, page 6, and Toronto Hydro - EB-2007-0680, Exhibit D1-T14-S01-WCA LEAD LAG STUDY, page 8.

In this regard, as previously noted, Horizon Utilities' evidence does not support the need to change the weightings for the Service Lag and Collection Lag.

- Updating of the revenue weightings to match the 2011 proposed revenue by rate class (billing determinants);

  Horizon Utilities respectfully submits that it is extremely late in this proceeding to be suggesting a change to the computation of the revenue weightings for purposes of computing the service lag and revenue lag and to introduce new evidence to this proceeding. If the Board were to consider requiring Horizon Utilities to update the Lead/Lag Study to reflect 2011 data as suggested by Energy Probe, Horizon Utilities would need to update all of the data and the weightings used in the Lead/Lag Study, including all of the underlying computations for the revenue lags and expense lags. It would simply be inappropriate to request that Horizon Utilities update only a portion of the data in the Lead/Lag Study. As Energy Probe notes at page 13 of its submission, adjusting the data in a Lead/Lag Study is "rarely done". Horizon Utilities respectfully submits that there is no basis for doing so here, nor does it support the introduction of new evidence.

122. Horizon Utilities agrees with the following changes to the amount of the WCA based on intervenor submissions:

- Cost of Power calculation as provided by Energy Probe in the amount of \$378,819,503 as compared to \$382,184,837.

- Exclusion of \$784,515 in management fee costs from OM&A and inclusion as expenses for non-utility operations.

123. Based on the changes noted above, Horizon Utilities respectfully submits that there is no overall change to the WCA Percentage of 14% as evidenced in the following tables:

Table 1: WCA computation, as filed (March 14, 2011)

Line	Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses	Working Capital Requirement
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Cost of Power	72.84	32.77	40.07	10.98%	$ 395.7	$ 43.4
2	OM&A Expenses	72.84	13.74	59.10	16.19%	47.5	7.70
3	PILS	72.84	34.44	38.40	10.52%	6.1	0.64
4	Interest Expense	72.84	(62.74)	135.57	37.14%	10.1	3.75
5	Debt Reduction Charge Amount	72.84	28.27	44.57	12.21%	31.4	3.84
6	Total					490.8	$ 59.4
7	GST						3.3
8	Total - Including GST						$ 62.7
9	Working Capital as a Percent of OM&A incl. Cost of Power						14.1%

Table 2 WCA Computation, adjusted for Cost of Power and OM&A

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses	Working Capital Requirement
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Cost of Power	72.84	32.77	40.07	10.98%	$ 378.8	$ 41.6
OM&A Expenses	72.84	13.74	59.10	16.19%	46.7	7.6
PILS	72.84	34.44	38.40	10.52%	6.1	0.6
Interest Expense	72.84	(62.74)	135.57	37.14%	10.1	3.7
Debt Reduction Charge Amount	72.84	28.27	44.57	12.21%	31.4	3.8
Total					473.0	$ 57.4
GST						3.3
Total - Including GST						$ 60.7
Working Capital as a Percent of OM&A incl. Cost of Power						14.3%

Notes:

(1) Cost of Power adjusted to $378.8MM

(2) OM&A expenses reduced by $0.8MM

124. Energy Probe also proposed a change to the deemed interest rate on the $116MM long-term debt note from 7.0% to 6.1%. Horizon Utilities respectfully submits that changing the rate of interest on the $116MM long-term debt instrument from 7% to 6.1% would not have an impact on the WCA percentage used to compute the WCA on Cost of Power and OM&A, as illustrated in the table below.

Table 3

Description	Revenue Lag Days	Expense Lead Days	Net Lag Days	Working Capital Factor	Expenses	Working Capital Requirement
(A)	(B)	(C)	(D)	(E)	(F)	(G)
Cost of Power	72.84	32.77	40.07	10.98%	$ 378.8	$ 41.6
OM&A Expenses	72.84	13.74	59.10	16.19%	46.7	7.56
PILS	72.84	34.44	38.40	10.52%	6.1	0.64
Interest Expense	72.84	(62.74)	135.57	37.14%	9.0	3.36
Debt Reduction Charge Amount	72.84	28.27	44.57	12.21%	31.4	3.84
Total					472.0	$ 57.0
GST						3.3
Total - Including GST						$ 60.3
Working Capital as a Percent of OM&A incl. Cost of Power						14.2%

Note:

(1) Assumes interest on $116MM note reduced from 7% to 6.1%; reduction of $1.1MM.

3. Operating Revenue

125. Evidence with respect to Horizon Utilities' operating revenue, including the methodology related to its load forecast, can be found at Exhibit 3 of the Application.

126. The largest source of regulated revenue for the Test Year is the Base Revenue Requirement, which is predicated on the load forecast. Horizon Utilities has provided substantial evidence in support of its load forecast for the Test Year. On April 13, 2011, Horizon Utilities provided Undertaking J3.3, which provided an update to its load forecast for all customer classes, other than Large Use, to address three CDM-related matters as follows:

a. The Decision of the Board in Horizon Utilities' most recent LRAM/SSM Application (EB-2009-0158) and the OPA 2006 – 2009 Final Report (a copy of which was filed in response to Undertaking No. J3.4) in which the assumptions and measures for CFLs were revised from a 4 year life and 104 kWh per year to an 8 year life and 43 kWh per year (as referenced in Horizon Utilities' response to Technical Conference Undertaking No. JT1.2);

b. The impact of OPA program measures that did not have persistence into 2011; and

c. A double counting issue that Horizon Utilities determined in the course of responding to Undertaking J3.3. In formulating its response, Horizon Utilities determined that some of the impacts of the 2006 OPA programs were double counted in calculating the 2011 Load Forecast as initially filed. Those programs included the Every Kilowatt Counts program and the Fridge Bounty program.

127. In making the revisions set out above, the CDM activity variable was corrected for the entire period covered by that variable (2005 – 2011), and the revised load forecast was prepared. In the absence of that correction, inaccurate CDM values would have remained in the forecast.

128. At the close of the hearing on April 14, 2011, the Panel requested that Horizon Utilities "*confirm that that the rate order previously approved by the Board with respect to LRAM reflects the most recent OPA data for all years. This is of interest to the Board, as it*

relates to the LRAM claim in this application." As discussed in the Argument-in-Chief, Horizon Utilities has reviewed its previous LRAM/SSM application (EB-2009-0158) and the Board-approved rate order in that proceeding, and confirms that the rate order does reflect the most recent OPA data for all years.

129. The revised load forecast model was filed in conjunction with Horizon Utilities' response to Undertaking J3.3. Horizon Utilities submits that these adjustments represent both necessary and appropriate corrections to the original load forecast, prepared in compliance with the Board's Filing Requirements, and that the resulting revised forecast should be accepted by the Board. Both Non-Large Use and Large Use load forecasts are discussed below.

- **Non-Large Use Load Forecast:**

130. Horizon Utilities' original non-Large Use load forecast was 4,127.6 GWh. With the update set out in its response to Undertaking J3.3, that forecast is reduced to 3,991.0 GWh, a change of 3.3%. Horizon Utilities' CDM value is 75.25 GWh, which is 25% of its target of 281.42 GWh.

Submissions of the Parties:

131. There are two common elements investigated in both Board staff and Intervenor submissions regarding the non-Large Use load forecast: the overall value (in GWh) of the non-Large Use load forecast that should be used in establishing Horizon Utilities' rates; and the appropriate percentage of Horizon Utilities' CDM target (10% or 25%) to be incorporated into the forecast. Horizon Utilities will address both of these matters in its submissions below.

132. Board staff stated at page 18 of their submission that Horizon Utilities' approach to the load forecast is appropriate and reasonable. However, Board staff suggests using the original 2011 weather-normalized purchased load forecast of 4,127.6 GWh as it may be a more realistic forecast despite the errors of the CDM variable in the regression model. Board staff submits the Horizon Utilities' model exhibits counter intuitive results which only came to light with Undertaking J3.3 and the updated load forecast.

133. With respect to the appropriate portion of the CDM target to be factored into the forecast, Board Staff observe[79] "that Horizon has also factored in the CDM targets that are now a condition of a distributor's license into the 2011 weather-normalized load forecast. Horizon Utilities has done so by assuming that 25% of the target is achieved in the 2011 year." Staff note that in "other Cost of Service applications for 2011 rates, an approach of ramping up savings so that 100% of the target is achieved cumulatively over the four years (i.e. 10% in the first year, 20% in the second year, 30% in the third year and 40% in the fourth year, cumulating to 100%) is a more realistic approach that has been approved by the Board in rate applications for other utilities." Board staff go on to state:

> "Board staff acknowledges that this is not a straightforward issue. The CDM license condition also has a kW target, and concurrently achieving the kWh and kW targets relies on assumptions about load profiles. Nonetheless, Board staff submits that Horizon's assumption of achieving 25% of the target in the 2011 rate year is an ambitious aim that further lowers the load forecast and hence puts upward pressure on rates. An adjustment to achieve the savings cumulatively as has been approved in other 2011 Cost of Service applications may be more realistic."

134. Energy Probe submits that Horizon Utilities' Regression formula is wrong. Energy Probe would add 40.356 GWh to the forecast, and would reduce the proposed CDM reduction to 28.142 GWh (10% of Horizon Utilities' target, rather than the 25% proposed in the Application). The resulting Energy Probe version of the forecast is 4,267.5 GWh (4,255.3-28.142+40.356)

135. VECC and SEC support Energy Probe's recommendations. VECC also speaks to a number of revisions to the non-large use load forecast – specifically, that the model was revised twice and the forecast sales for 2010 and 2011 were revised three times. VECC argues that the updated regression model is not sufficiently robust or its development well enough understood to be used to forecast 2011 volumes.

Horizon Utilities' Reply:

136. With respect to the load forecast itself, Horizon Utilities submits that, in the context of OEB rate regulation for electricity distributors, the multivariate regression analysis model represents an evolved and more sophisticated approach for load forecasting compared to the previous average use per customer model. In recent years, the regression model

[79] Board Staff submission, at p.30

has actually become the norm. In the very recent past, most of the 2010 and 2011 cost of service filers have used a multivariate model. The model used by Horizon Utilities is the same model used by the majority of distributors. It is the basis upon which the Board has set rates for these distributors, including those of Horizon Utilities in its last rebasing in 2008. Board Staff acknowledge[80] that the multivariate approach has generally been preferred to the previous approach.

137. In the present context, at a simple level, a multivariate regressions analysis attempts to explain the level and variations in load demand by the levels and variations in a number of variables that are thought to influence load demand. The explanatory variables employed are: Heating Degree Days, Cooling Degree Days, Number of Days in the Month, Spring/Fall flag, Ontario Real GDP, and CDM Activity.

138. The CDM Activity variable, an explanatory variable in the model used by Horizon Utilities, was first used in Cambridge North Dumfries Hydro's 2010 cost of service application (EB-2009-0260). In that case, the regression analysis assigned a negative coefficient on population (in other words, as population increased, load declined), which was counterintuitive. In order to address this issue VECC requested in interrogatory #14(c) their interrogatory #14(c) to Cambridge North Dumfries that a revised load forecast be developed based on a regression model that included a CDM flag. The CDM flag was an increasing number from 1 to 60 starting in January 2006 through to December 2010 and represented the increasing activity in CDM over that time. This produced a regression analysis that did not have a negative coefficient on the population variable.

139. In the case of Horizon Utilities, this same type of variable was used in the load forecast which represents the increasing activity in CDM over the period January 2005 to December 2011. However ,the variable was modified to reflect, on a monthly basis, incremental CDM results achieved by Horizon Utilities in each year. As a result, the variable was not an increasing number from 1 to 84 (i.e. the number of months from January 2005 to December 2011) but an increasing monthly number reflecting the CDM results which indicates increasing activity in CDM.

[80] Board Staff submission, at p.19.

140. In the forecast presented in response to undertaking J3.3. which is discussed in detail below, the CDM activity variable has a t-statistic of -5.64 and the Rsquare of the equation used in the load forecast is 92.3%. This means the resulting formula from the regression analysis, which predicts monthly purchased power, fits well with the actual monthly purchased power data; and one of the main contributors to this fit is the CDM activity variable. In other words, if a line was drawn showing the actual monthly purchased power data and another line was drawn showing the monthly predicted purchased power values, the two resulting lines would be very close and the CDM activity variable is a major contributor to this closeness.

141. The Rsquare of original equation used for the load forecast in the application was 91.9% and the Rsqaure of equation used for the load forecast in response to Undertaking J3.3 was 92.3%. Horizon Utilities recognizes that this is a marginal improvement in the "fit" of the equation but the response to Undertaking J3.3 provides an equation with a better fit which in turn suggests the forecast from Undertaking J3.3 is a better forecast.

142. VECC is correct in its submission that the design of the CDM activity variable suggests that for each 1 GWh of CDM saving achieved there is a reduction in purchases of 3.2 GWh. Since the CDM activity variable is a major contributor to the "fitness" of the resulting equation, this suggests to Horizon Utilities that there are other indirect reductions in purchases that are not included in the measured CDM results. These additional reductions could be associated with a conservation mindset in the Horizon Utilities service area; as well, some local economic conditions could be providing additional reductions. In addition, the measured CDM results are net of free ridership assumptions. Free ridership reflects an assumption that for each CDM program a certain proportion of the measured results would have happened even if the CDM program were not implemented. For example, people will replace their lights with CFLs even if there was not an incentive to do so. Based on the most recent report of the OPA entitled “Estimated allocation of 2006-2009 provincial conservation results to Local Distribution Company service territories - update to December 2010”, received in January 2011 and filed as part of the response to undertaking J3.4, the free ridership assumptions can range from 0% to 90%. This suggests to Horizon Utilities that there is a significant amount of CDM savings that are not included in the "net" measured CDM results that would contribute to reducing the power purchased amount. With the

implementation of TOU pricing it is reasonable to assume such indirect reductions will continue and could possibly increase.

143. Information demonstrating the historical accuracy of the load forecast has been filed by Horizon Utilities as prescribed in the Filing Requirements. Parties did not raise concerns about the specification of the model until the very end of the oral proceeding.

144. The second issue raised by Board Staff and certain intervenors is that there is a "relatively high" correlation between CDM Activity and Ontario Real GDP and therefore the results of the model should not be relied on by the Board. The core of this position is that the model should not be relied on because of the perceived presence of multicollinearity between two explanatory variables, CDM Activity and Ontario Real GDP. This was specifically Energy Probe's position. VECC also questioned the robustness of the model along similar lines, as did Board Staff.

145. As long as there is more than one explanatory variable in the regression equation (which is the case here), and since there are only two directions that data points can move (i.e. either up or down), some explanation variables do more in the same direction over time. This means that in a multivariate regression exercise, there would always be some degree of multicollinearity, as is the case here. There is no evidence before the Board that the 0.785 correlation level between these two explanatory variables is problematic. If the correlation was at the level of 1.0 (perfect correlation), there would indeed be a problem with the regression equation and the specification of the such may have to be re-thought. However, this is not the case with respect to the regression underlying the Horizon Utilities load forecast.

146. The question then is whether the Board should be concerned about the 0.785 correlation. Horizon Utilities offers the following submissions in this regard:

- First, there is no evidence before the Board that the 0.785 correlation level between Ontario Real GDP and CDM Activity is statistically problematic.

- Second, while multicollinearity reduces (statistically) the t-statistics for both interdependent variables, the t-statistics in fact here are statistically significant and, as Board Staff notes, the updated regression is marginally better than the original R2 and F-statistics. This suggests that if there is multicolinearity, it is not problematic here.

- Third, the submissions of parties simply raise a multicollinearity concern without proposing a different specification of the regression equation during the discovery process. Given the timing of the issue being raised, Horizon Utilities is being put in the untenable position of responding to a concern, rather than an alternative specification for the model. Those concerns should have been raised at the appropriate time to allow Horizon Utilities to respond by testing any contrary evidence or approaches.

- Fifth, this is not a case of burden of proof by the Applicant in the conventional sense. All the Applicant has done is employ a regression model which has been used many times by distributors in rate application cases before the Board, including Horizon Utilities' last rebasing case. Were the Board not to rely on the results of this regression model, it would be singling Horizon Utilities out. Should the Board feel that there is room for experimentation with respect to the inclusion of the Ontario Real GDP and CDM Activity in any model used for forecasts placed before the Board, the Board could initiate that experimentation in a generic process. Board Staff have alluded to that at page 29 of their submission.

147. With regard to the accusation that Mr. Bacon should have known about multicollinearity, it is unfortunate that during the questioning by Mr. Buonaguro of Mr. Bacon that the term multicollinearity was not defined. The level of multicollinearity within a regression analysis is measured by the level of correlation between the independent variables used in the regression analysis. Mr. Bacon is familiar with the process of reviewing the correlation of independent variables used in a regression analysis since this analysis was requested by Board staff in Haldimand County Hydro's 2010 cost of service rate application. Mr. Bacon provided support to Haldimand Hydro County in that application. The problem is he did not know that this process was termed "multicollinearity". Without knowing the definition of the term it was not prudent on Mr. Bacon's part to answer question in this regard.

148. Board staff are correct that the term multicollinearity was presented in their written submission in the Cambridge & North Dumfries Hydro 2010 cost of service application [EB-2009-0260] and that Mr. Bacon did provided support to Cambridge & North Dumfries Hydro in this proceeding. However, the Board staff submission was dated February 26, 2010. The Board issued revised Filing Requirements for cost of service applications dated June 28, 2010. In particular the Board increased its requirements in respect of statistics of the regression equation as follows:

> *"Statistics of the regression equation(s) (coefficient estimates and associated t-statistics, and model statistics such as R^2, adjusted R^2, F-statistic, or Root-Mean-Squared-Error, etc.) Explanation for any resulting unintuitive relationships (e.g. negative correlation between load growth and economic growth, load growth and customer growth, etc.) Explanation of modeling approaches and alternative models tested would be beneficial, if available*."[81]

149. In the Filing Requirements dated June 28, 2010, there is no requirement to review the correlation between the independent variables and no mention of the need to review multicollinearity notwithstanding that Board Staff introduced the term four months before the new Filing Requirements were released. There is a requirement to review the correlation between the dependent variable (i.e. load growth) and the independent variables (i.e. economic growth and customer growth) which is done on a regular basis. Horizon Utilities would suggest that if multicollinearity should be reviewed on an ongoing basis then it should be included in the next version of the Filing Requirements. However, Horizon Utilities would suggest that a cost/benefit review be conducted before such requirements are included.

150. Board staff also mentioned that Mr. Bacon was involved with the Chatham-Kent Hydro [EB-2009-0261] proceeding and once again Board staff are correct. However, in reviewing the transcript of the Technical Conference for Chatham-Kent Hydro the word "multicollinearity" or "collinearity" does not appear. There was a discussion on the correlation of independent variables during the Chatham-Kent Hydro technical conference which Mr. Bacon was involved in but the term multicollinearity or collinearity was not used. As a result, Board staff is incorrect in stating in their submission that the

[81] Source: Ontario Energy Board Chapter 2 of the Filing Requirements for Transmission and Distribution Applications June 28, 2010, Section 2.4.1 Load and Revenue Forecasts, Page 14, Under the title " Multivariate Regression Model', Second Bullet.

issue of collinearity was discussed in the Chatham-Kent Hydro technical conference since the term does not appear in the transcript.

151. Board staff also mentioned that Ms. Butany-DeSouza also acknowledged that Mr. Bacon was not a load forecast expert. This is a misreading of the transcript. In this regard, Ms. Butany-DeSouza was referring to Mr. Shepherd, and not Mr. Bacon.

152. Horizon Utilities is in complete agreement with paragraph 29 of the CCC submission which states:

> *"The Council notes that, in most cost of service applications, the load forecast tends to be a contentious issue. The Council submits that it would be useful for intervenors, the LDCs, and the Board to undertake a consultation process to deal with load forecasting methodologies. The outcome of that process may not be to establish a single methodology for load forecasting, but rather establish a set of principles that should guide an LDC in the development of its forecasting methodology. As new CDM programs are rolled out and the potential impacts from those programs grow, it would be useful, for example, to establish a consistent approach to making CDM adjustments. In the absence of a Board policy to guide load forecasting these issues will continue to be contentious"*

153. With regard to the VECC submission, there are incorrect statements in that submission. In paragraph 3.6 of its submission VECC states:

> *"During the course of the proceeding this model was revised three times in order to reflect revisions to the historical CDM activity variable and projections for 2010 and 2011 regarding the persistence of the savings associated with previous year programs The following table summarizes each of the forecasts presented and some of the key parameters associated with the underlying regression model"*

Context/ Reference	**Forecast 2011 Purchases**	**2011 CDM Activity**	**Regression Coefficients**	
			CDM	**GDP**
Initial Appl.	4,127.6 GWh	167.1 GWh	-0.37	1,331,306
IRs/Tech Conf	4,063 GWh	167.1 GWh	-0.38	1.014,366
Tech Conf Undertaking	4,121 GWh	154.3 GWh	-0.38	1,014,366
April Update	3,991 GWh	145.2 GWh	-0.49	826,128

Sources: Initial Application – Exhibit 3, Tab 2, Schedule 2, pages 2-6

IRs/Tech Conference – VECC #2 b) & c) and VECC TC #1 a) & f)
Technical Conference Undertaking – JT1.2
Oral Hearing Undertaking – J3.3

154. The information presented in the above table reflects the 2011 forecast for Horizon Utilities for Non-Large Use Customers. The manner in which the above table along with the explanation in paragraph 3.6 of the VECC submission is presented suggests that Horizon Utilities revised the forecast for 2010 and 2011 three times during the course of proceeding. This is simply not the case. In all cases the forecast reflects a response to a VECC interrogatory or undertaking during the Technical Conference or oral hearing. Horizon Utilities did not formally change its load forecast for non-Large Use customers until the response to undertaking J3.3 was prepared.

155. As outlined in its response to Undertaking J3.3 Horizon Utilities has made adjustments to the Load Forecast (for all customer classes excluding Large Use customers) to incorporate the revised assumptions and measures for CFLs at an 8 year end of life and 43 kWh per year (as referenced in Horizon Utilities' response to Technical Conference Undertaking No. JT1.3). Further, Horizon Utilities also reflected the impact of OPA program measures that did not have persistence into 2011. Through its review in preparing its response to Undertaking J3.3, Horizon Utilities identified that some of the impacts of the 2006 OPA programs were double counted in calculating the 2011 Load Forecast. Such programs included the Every Kilowatt Counts program and the Fridge Bounty program. Horizon Utilities submits these changes provide the correct values to be used in the CDM activity variable which was a concern raised by Energy Probe in their submission. Horizon Utilities clarifies that it only revised its proposed load forecast for non-Large Use customers from the value of 4,127.6 GWh in the original application to 3,991 GWh in response to undertaking J3.3 when the CDM activity variable was corrected to reflect the items discussed above.

156. In paragraph 3.11 of VECC's submission, VECC states:

> *"Horizon's other explanation for the size of the coefficient is that it may be picking up the effects of other factors such as economic conditions. This is a common problem in statistical analysis known as "multicollinearity" and arises when a correlation exists between the various explanatory variables used in a regression analysis. However, when Horizon's expert was asked about the issue the response was that he did not*

know it well enough to address questions on the topic. VECC notes that this issue has been identified and explained by other electricity distributors seeking to include a CDM activity variable in their load forecast regression model. VECC also notes that the presence of multicollinearity can undermine the robustness of the regression model for forecasting purposes if the changes in forecast values for the (correlated) explanatory variables are materially different, which is the case for Horizon's 2011 forecasts of CDM activity and economic growth.

157. In the VECC submission there is a reference to the Niagara Peninsula Energy Inc. ("NPEI"), 2011 Cost of Service application (EB-2010-0138), and in particular, to Exhibit 3, pages 32-35 of that application. On the referenced pages there is a discussion on the CDM Energy Saved Explanatory Variable and Multicollinearity. VECC's implication is that Mr. Bacon, as a consultant to NPEI, was aware of the multicollinearity issue. Mr. Bacon can confirm that he was not aware of this evidence until it was outlined in the VECC submission. Mr. Bacon's involvement in that application was limited to initial training on the use of various models and templates in order for NPEI to independently prepare and support its application. Mr. Bacon was not involved in preparing the evidence for Exhibit 3 nor did he review it or assist in responding to any interrogatories related to Exhibit 3. As a result, Mr. Bacon was not familiar with the evidence on multicollinearity outlined in the NPEI proceeding.

158. For all of the above reasons, Horizon Utilities requests that its load forecast for the non-Large Use class as set out in its response to Undertaking J3.3 be accepted for purposes of setting 2011 rates. There is no evidence before the Board to support a higher number. There is no reason that the Board should not accept the results of the model which corrects for an input error – it would be contrary to Board practice to not accepting a correction of this kind.

159. With respect to the appropriate value for CDM, Horizon Utilities submits that, in its load forecast, Horizon Utilities included an estimate of 75 GWh of CDM incremental energy savings for 2011. The estimate, which is approximately 25% of Horizon Utilities' CDM GWh target, is supported by Horizon Utilities' CDM strategy, filed with the Board in November 2010 (Board File No. EB-2010-0215), to which an addendum was filed with the Board on February 16, 2011.

160. Board staff notes (this is supported by VECC, CCC, and Energy Probe) that the assumption that Horizon Utilities used of 25% of their CDM target as an estimate for

year one (2011) energy savings contrasts with the interpretation of the CDM target, with respect to kWh as being the cumulative savings (i.e. 10% in the first year, 20% in the second year, 30% in the third year and 40% in the fourth year, cumulating to 100%) which has been used in other rate filings. Board staff acknowledge, and Horizon Utilities concurs with their assessment, that estimating the achievement of CDM targets as a condition of license is not a straightforward issue.

161. Horizon Utilities submits that its 2011 GWh savings estimate, contained within its CDM strategy, is based on a comprehensive review and market analysis of Horizon Utilities' customer base and market potential. As indicated on pages 60 of the Oral Hearing transcript dated April 11, 2011, Horizon Utilities confirms that the assumptions used in its CDM strategy were formed based on business planning efforts completed in conjunction with Navigant Consulting. That business planning effort noted the recognition of the achievable CDM potential within Horizon Utilities' service territory. With the implementation of Tier 1 OPA-Contracted programs, Horizon Utilities estimates the delivery of approximately 92 GWh of incremental energy savings in 2011.[82] As indicated during the Oral Hearing, Horizon Utilities has OPA commercial program uptake; in many instances this includes pre-approved, program applications for the Electricity Retrofit Program ("ERIP") on file. Such applications are estimated to achieve 95.4 GWh of energy savings in 2011.

162. Horizon Utilities CDM strategy and its review of its 2011 OPA commercial program applications support the inclusion of 75 GWh of incremental energy savings in Horizon Utilities' load forecast.[83]

163. Horizon Utilities observes that in the Board's Decision on Hydro One Brampton's 2011 cost of service application, the Board stated:

> "The Board is of the view that CDM targets will be achieved on an incremental, staged basis and that any adjustment to the test year's rates should be commensurate with the quantum of forecast savings for the test year. The Board is also inclined to defer imputing a larger impact arising from CDM initiatives into the test year load forecast until a true-up mechanism has been developed. The Board therefore agrees with Board staff's observation that a true-up mechanism is likely required to address any revenue

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[82] Tr. Vol. 3. p.61
[83] Horizon Utilities CDM Strategy (EB-2010-0215), filed November 1, 2010; addendum filed February 16, 2011

deficiency or sufficiency over the IRM period resulting from the implementation of CDM programs intended to achieve HOBNI's cumulative target. However, the Board will not establish a true-up mechanism at this time as this is a generic issue that is likely to be applicable to all rate regulated distributors and should be determined in that context."

164. Horizon Utilities anticipates that regardless of whether the Board determines that 10% or 25% is the appropriate level of CDM-related savings to be incorporated into its load forecast, any true-up mechanism determined by the Board on the generic basis contemplated in that Decision will be available to Horizon Utilities.

- **The GS >50kW to 4,999 customer class and kW to kWh ratios:**

165. In the Application, Horizon Utilities used a kW/kWh factor of 0.2727% in forecasting the 2011 kW for the General Service 50 to 4,999 kW class (see the table below). That value represented the average kW/kWh factor for this class from 2003 to 2009.

166. When this factor was used in the original Application to forecast the 2011 kW for the General Service 50 to 4,999 kW class, the result was 4,856,870 kW (i.e. 1,781,012,385 kWh times 0.2727%). When the factor was used in the updated load forecast provided in response to Undertaking J3.3, the resulting kW 2011 forecast for the General Service 50 to 4,999 kW was 4,714,763 kW (i.e. 1,728,901,613 kWh times 0.2727%). Horizon Utilities submits that this is an appropriate approach to preparing the kW forecast for this class. It is also consistent with the approach taken for the other non-Large Use customer classes.

Submissions of the Parties:

167. Energy Probe has raised a concern with Horizon Utilities' approach to forecasting the 2011 kW for this class.

168. Energy Probe submits that, based on Horizon Utilities' response to Energy Probe interrogatory 11(a), there is a statistically significant trend in the kW to kWh ratio over the period 2003 to 2009. When this trend is continued to 2011 the resulting kW/KWh factor is 0.2928%. When this factor is used to forecast the 2011 kW for the General Service 50 to 4,999 kW class the result is 5,214,803 kW (i.e. 1,781,012,385 kWh times 0.2928%). Energy Probe recommends that the Board adopt the trend methodology for the GS 50 to

4,999 rate class, with the result being that the 2011 kW value for this class will increase and Horizon Utilities' revenue deficiency will decrease by $622,840.

Horizon Utilities' Reply:

169. Energy Probe was the only party to make submissions on this matter. Horizon Utilities has prepared the following table containing relevant information for this matter and its reply.

Year	General Service 50 to 4,999 kW - kW/kWh Ratio	Source
2003	0.2617%	1
2004	0.2661%	1
2005	0.2677%	1
2006	0.2730%	1
2007	0.2715%	1
2008	0.2807%	1
2009	0.2882%	1
2010	0.2872%	2
Average 2003 to 2009	**0.2727%**	1
Average 2003 to 2010	0.2745%	2
EP submission – trend analysis	**0.2928%**	3
1 - Application Table 3-20		
2 - Response to Energy Probe 11d		
3 - 5,214,803 kW (Energy Probe 11b) / 1,781,012,385 kWh (2011 Forecast for GS 50 to 4999 kW Class, Application Table 3 -24)		

170. Horizon Utilities respectfully submits that the factor of 0.2928% proposed by Energy Probe is not a reasonable assumption for 2011. Over the period 2003 to 2010 such a factor has never been achieved. The trend analysis used by Energy Probe to determine the 2011 factor is highly subjective to the upward movement in the factor in 2008 and 2009, and Horizon Utilities submits that the 2008 and 2009 factors have been influenced by the economic conditions in these years.

171. Horizon Utilities submits that typically, when there is an economic downturn, the kWh will decline more than the kW for a customer. That is because on a monthly basis, the measured kW occurs within one hour of the month, but the measured kWh represent the

accumulated usage for every hour in the month. As a result, when there is a decline in business for a General Service 50 to 4,999 kW customer and usage is reduced, the kWh will decline more than the kW since kWh are measured over a much longer period of time, and that, in turn, will increase the kW/kWh ratio.

172. From 2007 to 2008 the factor moves upward from 0.2715% to 0.2807% and in 2009 the factor moves upward again to 0.2882% which, in Horizon Utilities' submission, is resulting from the economic downturn. However, the slight improvement in the economy in 2010 results in the factor moving marginally downward to 0.2872%. As a result, assuming a factor of 0.2928% in 2011 would suggest that the economic conditions of 2008 and 2009 will continue into 2011. However, the lower 2010 factor suggests that this is not the case. Horizon Utilities submits that the acceptance of such a high ratio, as advanced by Energy Probe in its submission, is neither reasonable or appropriate as this level of ratio has never been achieved, is counterintuitive relative to recent economic trends and their impact on these ratios, and would be contrary to a declining trend in the prior year.

173. Horizon Utilities submits that a more reasonable approach would be to base the factor on average conditions over a historical period of time, as it has done in this Application. The resulting factor of 0.2727% has been determined on a more "normalized" approach, and Horizon Utilities submits that, unlike the kW forecast favoured by Energy Probe, Horizon Utilities' 2011 kW forecast for the 50 to 4,999 class is more consistent with historical outcomes and is more realistically achievable.

- **Large Use Load Forecast:**

174. Horizon Utilities provided a 2011 load forecast estimate for its Large Use customer class based on actual 2009 results, when it submitted its Application on August 26, 2010. [84] The 2009 demand values were adjusted to consider the actual load growth in the first six months of 2010 compared to the first six months of 2009. At that time, Horizon Utilities made every attempt to provide the most reasonable and realistic Large Use load forecast based on the best information available. Since that time, the 2011 load forecast for the Large Use customer class has been updated, based on more current information.

[84] Exhibit 3, Tab 2, Schedule 2, p.15

On March 14, 2011 Horizon Utilities submitted an updated load forecast for its Large Use customer class. That update reflected more current information than was available at the time of preparation and filing of Horizon Utilities' Application. Specifically, Horizon Utilities had available the actual 2010 consumption and demand values.[85] For purposes of the 2011 Large Use customer class load forecast, Horizon Utilities proposes to use the actual 2010 data for 10 of its 12 Large Use customers. Two Large Use customers are dealt with individually and uniquely, because their consumption and circumstances have a material impact on the 2011 load forecast for the Large Use class as a whole.

175. One Large Use customer is currently experiencing a sustained lockout with an uncertain end. and lockout that began in November 2010.[86] For purposes of the 2011 Large Use Customer load forecast, Horizon Utilities has used the actual demand for January and February 2011, and for the months of March to December 2011, is using the average of the most recent three months of actual demand.[87]

176. Another Large Use customer has marginal load currently and a permanent shutdown is imminent[88]. For purposes of the 2011 Large Use load forecast, this customer's consumption has been eliminated.

177. The load implications resulting from conditions provided in the preceding two paragraphs are marginally offset by the introduction of a new Large Use customer in Horizon Utilities' service territory. This customer purchased, late in 2010, a portion of the facilities of an existing Large Use customer[89].

Submissions of the Parties:

178. In its submission, Board staff had no issue with Horizon Utilities' general approach, but was concerned that the update filed on March 14, 2011 produced a forecast that, in its view, is lower than what would otherwise be expected for 2011. Board staff also suggested an option for Horizon Utilities to develop and update the 2011 forecast for the

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[85] Updated Evidence Exhibit 3, Tab 2, Schedule 2, p.15
[86] Board staff interrogatory 15 b) and AMPCO Technical Conference Question 5 a).
[87] Updated evidence March 14, 2011 Exhibit 3, Tab 2, Schedule 2, p.15-16
[88] AMPCO Technical Conference Question 5 c)
[89] Board staff interrogatory 15 b)

Large Use customer class based on an extrapolation of actual demand to date as part of the draft Rate Order.

179. The submissions of other intervenors suggest a similar concern of under estimation of the load for 2011 for the Large Use customer class. For example, Energy Probe submits that Horizon Utilities has under estimated the forecast the Large Use customer class volumes and further suggests that Horizon Utilities has failed to take into account any growth in volumes at the remaining 10 Large Use customers and that it would be reasonable to expect some level of growth in the volumes consumed by the 10 Large Use customers over their 2010 actual levels of consumption on the presumed basis that the economy improves.

180. VECC's comments parallel the comments made by Energy Probe. Their view is that the forecast is conservative as it fails to take into account the economic growth forecast for 2011.

181. SEC is suggesting that the Board has seen only "anecdotal" evidence of specific customers shutting down, locking out employees, or making other business changes – that the Board has seen no evidence that the industrial nature of Hamilton and St. Catharines, and the load that flows from it, are trending downward or have experienced some sort of intrinsic drop. SEC submits that the Large Use customer load forecast that is appropriate is the average of the last three years, as adjusted to take account of the anomalies described.

182. AMPCO has acknowledged that there have been marginal declining loads in the Large Use customer class since 2008 that may put financial pressure on the utility and states that Horizon Utilities has not projected any growth for the remaining Large Use customers and that it is likely that Horizon Utilities has underestimated its 2011 load forecast. AMPCO also submits that attributing zero load to the Large Use customer which has shut down, while such is actually at 15% of its pre-shut down load, is unfair and inaccurate. Notwithstanding its submission that "Large Users have been significantly impacted by the economic downturn" AMPCO supports the arbitrary approach for load forecast for the Large Use class put forward by SEC (the three year average load forecast).

183. CCC has made no comments with regards to the Large Use customer class load forecast.

Horizon Utilities' Reply:

184. Horizon Utilities submits that the Large Use, and more broadly larger user or GS>50, customer load forecast is of critical importance to Horizon Utilities, given its previous material realization of load and revenue loss from the Larger Use customer class.[90] Horizon Utilities' history of loss of load and subsequent loss of revenue was well documented in Horizon Utilities' Z Factor Application (EB-2009-0332) and was addressed by the Board in considering the Preliminary Issue in the current Application. As discussed at paragraph 50 of Horizon Utilities' Argument-in-Chief, "In the Decision on the Z-factor Application, the Board indicated at page 9 that it 'is in agreement with staff and intervenors that Horizon has not demonstrated that the revenue losses experience are an event genuinely external to the regulatory regime for which the management of the Applicant could not plan'." Incorporating the most recent information to form the forecast for this class allows Horizon Utilities to plan, to a certain extent, for Large Use customer revenue volatility and to avoid the severe mismatch between anticipated and actual loads and revenues. The inability to produce a reasonable and sustainable forecast would result in a situation similar to 2008 and 2009, which precipitated the filing of the Z-Factor Application. Furthermore, limiting management's flexibility to forecast in this manner is prohibitive of ability to plan and manage load related risks to revenue. As the Board stated in its decision on the Preliminary Issue "load loss and volatility should be explored in a comprehensive cost of service review" – Horizon Utilities submits that the use of more current information for these three customers is appropriate in the circumstances of this Application and allows management to properly plan to address revenue related risks in this customer class.

[90] In Exhibit 1, Tab 2, schedule 1 page 6 of 17 Horizon Utilities states that the need for this Cost of Service Application is 'Material and persisting shortfalls in revenue, relative to its Board approved Base Revenue Requirement which is adversely affecting its ability to finance….. principally related to a decline in consumption in the larger General Service classes'.

The revised evidence at Exhibit 3, Tab 2, Schedule 2, pages 15 and 16 of 21 discusses all the specific large use customer issues, including changes in load, the permanent shutdown of one customer and the lockout of another customer.

185. Horizon Utilities submits that its load forecast is reflective of the best information available, including recent material updates as of April 13th, to support a reasonably predictive load forecast most suitable for Board purposes in setting distribution rates. In this regard, the load forecast includes consideration for the unique circumstances of its Large Use class and, in particular, two of its existing Large Use customers. SEC has claimed that the “Board has seen anecdotal evidence of specific customers shutting down, locking out employees, or making other business changes”. Such statement is completely without basis. Horizon Utilities has submitted clear, and not “anecdotal”, evidence in response to interrogatories such as publicly available information and statements from specific Large Use customers that have direct adverse implications for Horizon Utilities’ load.

186. Having submitted publicly available and specific evidence on adverse events impacting the identified Large Use customers, it is unclear to Horizon Utilities what other evidence would be expected to support its treatments in its load forecast. The persisting load shortfalls for these customers is monitored on an ongoing basis and is also supportive of related treatments in Horizon Utilities’ load forecast. Similarly, intervenors have noted that the Horizon Utilities is understating the load forecast by dropping the load of the Large Use customer that faces the imminent permanent shut down to zero. Horizon Utilities identified in its response to VECC Interrogatory 39 on the Revised Evidence that the load for this customer has reduced their consumption to the point where such consumption is not material. At its current consumption levels, this Large Use customer’s demand is below Large Use levels, and that customer will soon not meet the definition of a Large Use customer as defined in Horizon Utilities’ Conditions of Service (the definition is based on demand over a 12 month period).

187. Horizon Utilities’ provided updated load forecast data to support the predictability of its Large Use customer load forecast. The forecast was updated when it became clear that the information, upon which the original forecast was based, had changed materially. Certain parties submitted that the 2011 forecast seems low as there is no allowance for Large Use customer growth. Further, Board staff have submitted that, following the Decision of the Board on this Application, Horizon Utilities should develop an updated 2011 forecast for the Large Use customer class based on an extrapolation of actual demand to date on the basis that this may be the only mechanism that will provide

comfort to all parties that the Large Use customer class load forecast is fair and reasonable. As Board staff state, "Unfortunately, neither the Board nor any other party can forecast what will – or is even likely to – happen at this time".

188. Horizon Utilities submits that the information it has used in the updated Large Use load forecast submitted represents the best information and most realistic outlook for a forecast that must endure through the next four years. Horizon Utilities does not oppose Board staff's suggestion of extrapolation of the actual demand, if that is a proposition that the Board may be inclined to consider. However, Horizon Utilities cannot anticipate the length of any delay that will be caused by the this option in receiving a Board order to implement the new rates, and how such delay may influence a decision on the requested effective date of January 1, 2011. Horizon Utilities therefore wishes to qualify its non-opposition of Staff's option being subject to the implementation and effective date concerns noted.

- **Other Revenue:**

189. The Application provides for a test year forecast of Other Operating Revenue of $5,481,969 (rounded for the purposes of this discussion to $5.5MM). This compares to Other Operating Revenue in prior years of $7.3MM in 2007, $7.3MM in 2008, $6.1MM in 2009 and $5.6MM for the 2010 Bridge Year (Exhibit 3, Tab 3, Schedule 1, Page 1, Table 3-25).

190. The reallocation of the costs in the amount of $784,515 associated with providing management services to affiliates, from OM&A to account 4380, as proposed during the Oral Hearing process and further discussed above in the context of the Working Capital Allowance, results in a revised value of $4,697,454 for Other Operating Revenues for the 2011 Test Year. Horizon Utilities has agreed to this adjustment.

191. The following table provides for the revised Other Operating Revenue by fiscal year on the same basis as 2011:

	2008 Actual	2009 Actual	2010 Bridge	2011
Other Operating Revenue	7,344,652	6,083,647	5,601,659	5,481,969
Less: Management fees	(908,446)	(763,411)	(761,365)	(784,515)
	6,436,206	5,320,236	4,840,294	4,697,454

Submissions of the Parties:

192. Board Staff support Horizon Utilities' calculation of $4.7MM in Other Operating Revenue but have suggested that the Board could require Horizon Utilities to provide further detailed information on the actual time allocation of executive, managers and staff involved in providing services to non-distribution affiliates, as a method of ensuring no subsidization of the non-distribution activities of affiliates by Horizon Utilities' rate payers.

193. Intervenor submissions have suggested various methodologies to be used to derive the 2011 Test Year forecast for Other Operating Revenue including:

(a) Increase the 2011 Test Year revenue by the amount that the 2010 Actual revenue was greater than the original 2010 Bridge Year (VECC 3.24, p.13);

(b) Increase 2011 Test Year revenue to reflect the 2010 Actual revenue plus or minus the following adjustments (Energy Probe p.31):

- Decrease of $100,000 to reflect a normalized value for Revenues from Merchandising;
- Decrease of $166,960 to reflect the loss of rental revenue due to the forecasted loss of a tenant; and
- $47,270 increase to reflect 2011 Test Year increase in account 4390 miscellaneous non-operating income.

(c) 2011 Test Year revenue equal to 2010 Actual revenue less the lost rental revenue (CCC p.9); and

(d) 2011 Test Year revenue equal to three year average over the period 2008 to 2010, with two adjustments (SEC, p.14):

- Removal of rental income from the City of Hamilton; and
- Removal of management fees from affiliates.

Horizon Utilities' Reply:

194. Horizon Utilities respectfully submits that information with respect to the services provided to affiliates has been provided as part of this Application. As noted in Exhibit 4, Tab 2, Schedule 11, Pg. 1, Pursuant to a Services Agreement dated May 1, 2009 (Exhibit 3, Tab 3, Schedule 3, Appendix 3-3), between Horizon Utilities, Hamilton Utilities Corporation and Hamilton Hydro Services Inc. Horizon Utilities provides low-level, back office, transactional support services, health and safety support for safety investigations, human resources and payroll, supply chain management and information systems support. Also, pursuant to a Services Agreement dated January 1, 2007 (Exhibit 3, Tab 3, Schedule 3, Appendix 3-4), Horizon Utilities also shares certain corporate services with its affiliates that provide non-wires related activities, including Horizon Holdings Inc. and Horizon Energy Solutions Inc. Shared services include low-level, back office, transactional support services, finance and accounting, health and safety support, human resources and payroll, supply chain management and information systems support. Non-wires related activities, carried out by the business units, include water and sewer billing. Horizon Utilities collects inter-company management fees in respect of the services provided to its affiliates.

195. Horizon Holdings Inc., the parent company to Horizon Utilities, also provides strategic management services to Horizon Utilities Corporation through its Business Development Group.

196. With respect to the issue with respect to the time allocation of staff involved in providing services to non-distribution analysis, Horizon Utilities respectfully submits that the allocation of time is only one methodology used to allocate costs for providing services to its affiliates. As outlined in Section 6 of the Master Service Agreement (Appendix 3-3, Schedule A and B), costs are allocated based on the nature of the service being provided and the appropriate cost driver. Examples of cost drivers include:

- Low-level, back office, transactional support services (i.e. accounting) is to be allocated in proportion to the estimated time spent;

- Human resources and Health & Safety support services is to be allocated as the proportion of the actual average annual number of employees;

- Information system costs are to be allocated in proportion to the average number of personal computer users; and

- Billing and Customer Services is to be allocated as the proportion of the actual number of bills issued;

197. Horizon Utilities respectfully submits that the Service Level Agreements with its affiliates provide for an appropriate methodology for the allocation of costs based on the services provided and are in place to ensure that there is no subsidization of the non-distribution activities of affiliates by Horizon Utilities' ratepayers.

198. Horizon Utilities disagrees with the intervenor submissions of adjustments proposed to the 2011 Test Year Other Operating Revenue for the following reasons:

(a) The use of 2010 Actual revenue as an exact proxy for the 2011 Test Year revenue is not appropriate. Certain events and/or circumstances giving rise to higher than anticipated other revenue in 2010 may not reoccur in 2011. The following specific evidence has been provided with respect to non-recurring other revenue:

- Interest income - 2010 Actual revenue includes $55,044 on account of interest income. Horizon Utilities is currently drawing on its intercompany credit facility and does not expect to earn interest income in 2010;
- Gain on disposition of utility property – while 2010 Actuals include realized gains of $99,313, Horizon Utilities has not identified or planned for any specific asset disposals in 2011 and, as such, has not included any such amounts in the 2011 Test Year; and

- Merchandising – 2010 Actual revenue of $151,374 represented approximately three years of invoicing and revenue for services rendered over prior years (Response to EP Technical Conference Question #5).

(b) One needs only to look at historical data to demonstrate this point. In particular, the comparison of the 2009 Actual revenue to 2008 Actual revenue clearly shows a decline in other revenue of $1.1MM over a one year period.

(c) The use of a three year average in determining an appropriate amount for Other Operating Revenue would result in a significant overstatement. In particular, the inclusion of the 2008 Actual revenue would not be appropriate in the computation of the average due to various non-recurring revenues, including:

- Non-recurring one-time regulatory revenue adjustments in 2008 (including LRAM/SSM and recoveries of OMERS costs following the end of the contribution holiday[91]) as a result of regulatory recoveries for amounts previously written off for financial reporting purposes;
- One time revenues for administration charges applied to external invoices;
- One time revenues from the sale of property; and
- OPA Program bonus.[92]

(d) As documented in the above noted table, Other Operating Revenues in the fiscal years following 2008 have been materially lower than the $6.4MM recorded in 2008.

199. For all of the above reasons, Horizon Utilities submits that its approach to the determination of Other Operating Revenues is appropriate.

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[91] Exhibit 3, Tab 1, Schedule 2, Page 3
[92] Exhibit 3, Tab 3, Schedule 3, Pages 1-5)

4. Operating Costs

200. Horizon Utilities' OM&A costs from 2007 Actual through the 2011 Test Year are set out in Table 4-1 of the Application, at Exhibit 4, Tab 2, Schedule 1, Page 1. Drivers for the OM&A costs were set out at Table 4-2 of that Exhibit. In the adjustments filed on April 6, 2011[93], Horizon Utilities adjusted its proposed Test Year OM&A to amend the amortization period for the recovery of regulatory costs from three to four years. Such resulted in a change to OM&A of approximately $80,000 (these are summarized in Horizon Utilities' response to Undertaking J3.3a). This adjustment to regulatory costs is reflected in the revenue requirement calculation set out in the RRWF filed on April 15, 2011.

201. Horizon Utilities is requesting Operations, Maintenance, and Administration ("OM&A") costs for the 2011 Test Year of $47,457,279, which represents a reduction of $80,000 from the original amount requested of $47,537,239 to reflect the amortization of regulatory costs over four years as opposed to three years as originally proposed. The OM&A amount excludes the amount of $337,800 for property taxes, which is reflected as a separate expense on the RRWF.[94]

Submissions of the Parties:

202. Board staff submit that Horizon Utilities' employee complement and compensation are overstated. Board staff suggest that the Horizon Utilities request fails to account for efficiencies. Staff propose an envelope reduction of $5 million (all inclusive) from Horizon Utilities' OM&A budget. Energy Probe relies on the Board's Decisions in the Burlington Hydro and Hydro One Brampton cases to recommend $40.6 to $41.4 million as a starting point before certain other adjustments, up and down. VECC suggests that the "…most significant component of the OM&A is compensation and benefits, the information on the record is deficient especially in respect of average compensation in terms of allowing for a meaningful comparison." VECC goes on to suggest that the degree of "opacity" in the FTE component at this late stage of the proceeding precludes any sort of bottom up or line item approach and recommends a top down envelope approach, not exceeding $42,684,9899 (inclusive of LEAP funding and OMERS related

[93] Horizon Utilities' Response to VECC Interrogatory 37 e), filed April 6, 2011
[94] Horizon Utilities' RRWF, filed April 15, 2011

increases). SEC suggests that Horizon Utilities' response to Undertaking J2.3 was provided "too late to be of much use" and suggests a range of possible OM&A values – a top down approach, at 3% over 2010 actual, for a value of $40.7 million; the midpoint based on the escalation from 2008, for a value of $41.1 million; [redacted] In the end, SEC proposed $41.1 million. CCC submits that Horizon Utilities' OM&A level should be between $40MM-$42MM (p12).

Horizon Utilities' Reply:

203. The revised OM&A of $47,757,439 represents an increase of $8,139,924 over the 2008 Board Approved OM&A. Since 2008, Horizon Utilities has incurred, and is forecast to incur within the period covered by this Application, the following cost increases[95]:

- Approximately $3.7MM of wage and price inflation estimated at a cumulative growth rate of 3% per year. Wage inflation in collective agreements has exceeded such rate of growth. Such inflation represents just over half of the OM&A increase provided within this Application;

- An increase in organizational capacity of 60 headcount resulting in an $5.5MM overall cost to Horizon Utilities of which $2.8MM is allocated to OM&A. The requirement for such capacity is driven by skilled trade retirements, information systems resources, and other operations and administrative capacity. Such capacity requirements are further elaborated on in the Application;

- Required business investments aggregating $3.9MM to address: the delivery, sustainability, and risk management of business processes and systems required to support new regulated process or to replace such at the end of productive life; regulatory compliance including health and safety; and productivity improvements.

204. The aggregate of the cost increases noted above is $10.4MM or $2.4MM in excess of the increase in OM&A sought in this Application. Such excess represents OM&A efficiency gains of Horizon Utilities, and other non-recurring expense items, since 2008.

[95] Exhibit 1, Tab 2, Schedule 1, p.14

[redacted]

205. While Horizon Utilities recognizes that the increase in OM&A is significant, as noted in the Application [Exhibit 1, Tab 2, Schedule 1, Pg. 8], Horizon Utilities has been deferring certain capital investments and OM&A since 2009, almost immediately after its Rate Order was accepted in the 2008 EDR COS Application. Further, in its response to VECC Interrogatory 9 in relation to Horizon Utilities Z-factor Application (EB-2009-0332), Horizon Utilities stated that:

> *"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."*

206. At page 8 of the Z-factor Application, Horizon Utilities wrote:

> Horizon Utilities submits that the loss of distribution revenue for the rate years 2008 and 2009, in the amount"…"is significant to its regulated operations and cash flow. This has made it necessary for Horizon Utilities to review its expenditures in order to determine which projects may be deferred without incurring any significant 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…"

207. While Horizon Utilities recognizes that it did not provide detailed examples of operational efficiencies and productivity gains, Horizon Utilities respectfully disagrees with the position that Board Staff have taken that Horizon Utilities has not substantiated efficiencies from previous years. As noted previously, Horizon Utilities' position is that in fact it has recognized $2.4MM in efficiency gains over the period 2008 to 2011.

208. Board Staff have proposed a reduction of $5MM to OM&A based on an envelope approach. The proposal is based on a $3.3MM reduction in expensed compensation, a lower non-labour inflation adjustment and continued efficiency gains.

[redacted]

209. Based on the Board Staff proposal, OM&A would be $42,757,439 or only 8.7% higher than the 2008 Board Approved OM&A, which in Horizon Utilities' submission will render the utility unable to sustain its existing operations or provide any means for the utility to continue to invest in organizational capacity and business investments required to ensure the safe delivery, sustainability, and risk management of business processes and systems or to replace such at the end of productive life; manage regulatory compliance; and implement productivity improvements.

210. Horizon Utilities further submits that the 8.7% difference in actual compensation between 2009 and 2010 takes into account progressions, inflation, and annual merit increases[97]. However, it also takes into account the variance in compensation costs relating to FTEE's. That is, although the year end headcount of employees is equal at the end of both of these years, vacancies were more prevalent in 2009, resulting in a lower overall compensation cost. As provided in the Application evidence, in 2009 and into 2010 Horizon Utilities deferred hiring to mitigate the impact on its revenue relative to a significant downward shift in the economy and its distribution revenues, specifically with respect to larger use customer loads of Horizon Utilities.[98] A component of these deferrals was in respect of filling vacancies.

211. In arriving at the OM&A level of $42.757MM, Board Staff have expressed concern about Horizon Utilities' estimates of inflationary pressures and a lack of evidence to support the inflationary pressures. Horizon Utilities has provided evidence on the record with respect to the actual annual salary and benefit increases since 2008, which were in excess of 3% per annum (Energy Probe Interrogatory #24; VECC Interrogatory #18, [redacted]).

212. Horizon Utilities has reviewed the Board Staff approach used to support its submission for its proposed level of OM&A of approximately $42.8MM (Board Staff p. 38); in particular taking into consideration the inflationary pressures. Based on the Board Staff approach, Horizon Utilities computes a result of $44.0MM [redacted]

[97] Board Staff Final Argument p.43
[98] Exhibit 1, Tab 2, Schedule 1, p.6

[redacted]). The result computed by Horizon Utilities is $1.2MM in excess of the result computed by Board Staff.

213. Specifically, the approximate $44MM result computed by Horizon Utilities follows an approach similar to that suggested by Board Staff to: i) incorporate inflationary factors since the 2008 EDR; ii) reflect the increase in organizational capacity that has occurred since 2008 (i.e. new positions added in 2009 and 2010); and iii) <u>exclude</u> the required Test Year (2011) increases in organizational capacity and new business investments as provided in the Application. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

214. As previously noted, the $44MM of OM&A provided in the above table and derived using a similar approach proposed by Board Staff is exclusive of additional OM&A requested for the Test Year: which comprises (with reference to the above table) $1.749MM of 2011 New Headcount and $3.862MM of New business requirements (excluding headcount). In other terms, an OM&A value of $44MM does not provide any financial scope for necessary and additional OM&A contemplated for the Test Year as provided in the Application and broadly including: continued investment in the labour workforce strategy, information technology, regulatory requirements, productivity improvement initiatives, and other requirements outlined throughout this Application.

215. Continuing with the above analysis, based on the Board Staff approach, the addition of these incremental 2011 Test Year OM&A requests would bring the total OM&A to a level of approximately $49.6MM (refer to line in table labeled "Computed level of OM&A based on inflationary factors"). However, Horizon Utilities is only requesting Test Year OM&A of approximately $47.5MM in its Application, which clearly substantiates the achievement of $2.1MM of productivity efficiencies and represents a cumulative average annual productivity factor of 0.8% per year (based on a Board approved 2008 Revenue Requirement of $86.6MM).

216. In fact, Board Staff acknowledged that ***"Horizon's cost constraints in 2009 and 2010 contain examples of various efficiencies****… [Emphasis Added]."* (Board Staff Submission Pg. 39)

217. It is the expectation of the Board in its IRM that a "Group 2" LDC, such as Horizon Utilities, achieve an annual Total Productivity Factor of 1.12%; or 0.32% of additional annual productivity in excess of that actually achieved by Horizon in each year over the past three years. This might suggest that Horizon Utilities has underachieved on the Total Factor Productivity expectation in IRM by $0.8MM in aggregate over three years. However, Horizon Utilities submits that this is a very good result considering its challenges articulated in its Z-factor application and within this Application with respect to its revenue shortfalls through the past IRM period. Horizon Utilities also submits that this analysis is supportive of its overall request for $47.5MM of Test Year OM&A; particularly considering the level of productivity achieved under some revenue-related financial duress, the level of past cost deferral, and requirements for real growth, as outlined in the evidence, for CapEx (renewal), supporting human resources, and other investments/ re-investments in productivity based, risk-based, or regulatory based initiatives.

218. Horizon Utilities respectfully submits that an OM&A level of $47.5MM in the Test Year is required to sustain its core operations at its current operating level, taking into consideration the inflationary factors since 2008, as well as to enable it to invest in organizational capacity and new business requirements elaborated in evidence provided throughout this proceeding.

219. Intervenors have suggested various approaches and computations to derive the 2011 Test Year forecast for OM&A. Suggested approaches include:

- Application of an inflationary factor over the 2009 or 2010 OM&A expenditure levels;
- Application of an inflationary factor on the OM&A per Customer;
- Application of a 10% increase over the two year period (2009-2011) based on previous decisions by the Board (Hydro One Brampton EB-2010-0132 and Burlington Hydro EB-2009-0259)

220. Horizon Utilities respectfully disagrees with the approaches noted above based on the following:

- Applying an inflationary factor to the 2009 or 2010 levels of OM&A to derive the 2011 OM&A is inappropriate as the 2009 and 2010 OM&A levels reflect significant expenditure deferrals that the utility has implemented as a result of the significant revenue shortfalls; it is necessary to address these deferred expenditures for reasons provided in the Application and the other evidence in this proceeding.
- The intervenors' approaches ignore the significant evidence that Horizon Utilities has provided in this proceeding to support the requirements of the utility to invest in its labour workforce strategy, information technology, regulatory requirements, and productivity improvements.
- Horizon Utilities' circumstances are unique. It would not be appropriate to apply the principles used in the Burlington Hydro (EB-2009-0259) and Hydro One Brampton (EB-2010-0132) cases to the circumstances at Horizon Utilities. As noted in Exhibit 1, Tab 2, Schedule 1, p.4, Horizon Utilities' service territory has a number of unique features that make its operations different from other utilities including:
    - Horizon Utilities is one of a very small number of LDCs that are wholly or even largely connected at transmission voltages, and have corresponding capital and maintenance responsibility for distribution feeder lines and distribution stations.
    - Horizon Utilities' service territory covers two of Ontario's most industrial cities: Hamilton and St. Catharines. Horizon Utilities' customer and load profiles differ from those of other LDCs because of the extent of Horizon Utilities' industrial

load. Only 30 of Ontario's 80 LDCs have customers in the "Large Use" category and the average number of Large Users for such LDCs is six and the median is three. Horizon Utilities has twelve Large Use customers, while only two LDCs have more Large Use customers.

- Horizon Utilities has the largest average Large Use customer consumption (kWh) of any LDC. The average consumption of all Ontario large users is 48,289,486 kWh (as of 2008), but the average consumption of Horizon Utilities' Large Use customer class is three times greater at 145,665,275 kWh and the next highest average Large Use consumption is just over 100,000,000 kWh annually[100]. Consequently, Horizon Utilities also bears the largest concentration risk with respect to Large Use customers with related revenue and credit loss risks. Horizon Utilities experiences a greater level of exposure to adverse economic conditions compared to other LDCs, and certainly more so than most suburban LDCs, which are generally servicing a more diverse customer base.
- Horizon Utilities is also shaped by the characteristics of its service territories compared to Ontario's other LDCs because LDC boundaries, with few exceptions, are municipally delimited. As a result, there are older municipalities with low growth rates, like Horizon Utilities, and newer LDCs in suburban municipalities with comparatively higher growth rates. This difference is very much reflected in the differing OM&A needs of LDCs, with new suburban LDCs not confronted by current OM&A challenges, infrastructure renewal challenges, and related capital expenditure increases as LDCs in older municipalities. The municipal boundary delimitation between LDCs also results in conditions in older communities, like Hamilton and St. Catharines, where infrastructure renewal is funded from existing customers rather than from new customers. The same issue arises in the maintenance costs related to underground assets. Not only does Horizon Utilities have one of the highest percentages of underground plant of any LDC, but it also has among the oldest underground systems. While underground systems are thought to be lower cost than overhead systems, the costs of maintaining underground systems naturally vary by the age of the system.

[100] Exhibit 1, Tab 2, Schedule 1, p.3

221. As has been stated numerous times throughout this proceeding, Horizon Utilities maintained a stable level of OM&A costs from 2008 to 2010 due to a prudently managed level of cost deferral efforts in response to material distribution revenue shortfalls. Such cost deferrals were undertaken with due consideration for risks to the distribution network, employee and public safety, and customer service delivery and were temporary in nature. In 2011, the utility has an immediate requirement to increase OM&A spending in order to sustain its operations. Horizon Utilities submits that it must continue the execution of its workforce renewal strategy, carry out operational system reviews and continuous improvements, along with complying with regulatory requirements. (Exhibit 4, Tab 1, Schedule 1, p.1).

- **OMERS**

222. Horizon Utilities has requested approval to establish a new deferral account to track increases in the Ontario Municipal Employees Retirement System ("OMERS") pension contribution increases announced for 2011, 2012, and 2013. As the increase in OMERS is only included for the 2011 Test Year (as confirmed by Horizon Utilities in its response to Board Staff Interrogatory #52) and the increases in future years should be recorded in a deferral account for future disposition (Exhibit 9, Tab 1, Schedule 1, p. 5). Horizon Utilities' view is that this is the same approach that the Board adopted in handling the OMERS contribution holiday which ended December 31, 2002. On February 15, 2005 the Board introduced a new deferral account for cash pension contributions, Account 1508 – Other Regulatory Assets, Sub-account Pension Contributions for 2005 and subsequent years.

Submissions of the Parties:

223. Board Staff have proposed that Horizon Utilities amortize the known increases for the 2011 to 2014 period over the IRM period. In response to Board Staff Interrogatory #52, Horizon Utilities stated that it would be open to this alternative approach, provided there is a mechanism for a future true-up, if such was required, as a result of changes implemented by OMERS beyond what is currently forecast. Based upon the known incremental contribution increases of 1% in 2011, 1% in 2012 and 0.9% in 2013, and assuming a 0.9% increase in 2014, the average annual contribution level expensed to

OM&A for the period 2011 through 2014 would be $2,149,654. This represents an increase of approximately $351,000 to OM&A in the 2011 Test Year (Board Staff Interrogatory #52(d)). Energy Probe has submitted that the amortization approach is appropriate and also noted that this approach would mirror the approach taken by the Board in the Hydro One Brampton Decision. (Energy Probe, p.35). VECC acknowledges in its submission that Horizon Utilities' approved OM&A be inclusive of LEAP funding and OMERS related increases. (VECC p.16).

Horizon Utilities' Reply:

224. Horizon Utilities has considered the submissions of Board Staff, Energy Probe and VECC and respectfully requests that the approved OM&A for the 2011 Test Year be increased by $351,000.

225. Horizon Utilities confirms that it is prepared to adopt the approach proposed by Board Staff, and therefore confirms that a variance account, as originally requested, to address the increases in the OMERS contribution will not be necessary.

- **Comparability of OM&A Expenditures:**

Submissions of the Parties:

226. With respect to the issue around the "remapping" of expenditures as a result of the ERP implementation in 2008, SEC asserts[101] the following:

- it is not possible for the Board to identify from the empirical data where in fact the changes in spending are occurring;
- the differences were sufficiently confusing that the utility itself was limited in their explanation;
- it was only learned through cross examination that four months of 2008 actuals were on a remapped basis; and
- the record is not clear on where costs were moved from.

[101] SEC submission, paras. 2.1.8 – 2.1.13

Horizon Utilities' Reply:

227. While Horizon Utilities understands that one methodology that may be used to compare spending year over year is to do a comparison of expenditures category by category, this is not the only methodology. In fact, Chapter 2 of the Board's Filing Requirements specifically requires the following tables and variance analysis to assist the Board and Intervenors in understanding the operating costs included in the Application:

- Summary of OM&A Expenses by major category (Operations, Maintenance, Billing and Collection, G&A, etc.);
- Detailed Account by Account; and
- OM&A Cost Driver – this schedule in particular is designed to provide an explanation for the material changes in costs year over year.

228. In addition, a quantitative and qualitative variance analysis is to be prepared for year over year from the previous rate base year to the test year.

229. Horizon Utilities has complied with all of the Filing Requirements in this regard and has provided extensive evidence throughout this proceeding on its OM&A expenditures.

230. Horizon Utilities acknowledges that the ERP implementation in 2008 has resulted in some difficulty in comparing OM&A expenditures on a line by line basis, and such was acknowledged by Horizon Utilities in its original application. Specifically, at Exhibit 4, Tab 2, Schedule 9, Pages 1-2 of the Application, Horizon Utilities noted the following:

> *The implementation of the ERP system, and resulting migration from the former AS400 based system, occurred on* ***September 2, 2008*** *[Emphasis Added]. An expected outcome of the implementation (common with similar implementations) was that the change in mapping and allocation of certain costs to specific OEB accounts would have an impact on variance analysis at the account level for the year prior and subsequent to the implementation year. One of the most significant areas affected by this change is the recording of wages and benefit costs between Operations, Maintenance, and General Administration.*
>
> *The Board, intervenors, and other readers of the Application will experience, for certain OEB accounts,* ***some difficulty in a direct variance analysis at the account level for 2008 over 2007 and 2009 over 2008*** *[Emphasis Added].*

This is being addressed within the variance analysis by grouping, where appropriate, certain of the accounts that have been impacted by the change in the account mappings and allocations and then providing an overall variance analysis on the group of accounts *[Emphasis Added]. In addition, the overall OM&A driver table (Table 4-2), provides for an overall variance analysis on total OM&A expenditures year over year.*

231. Horizon Utilities disagrees with SEC's assertion that it is not possible for the Board to identify from the empirical data where in fact the changes in spending are occurring. There is extensive evidence on the record with respect to the OM&A expenditure variances year over year and specifically within the 2011 Test Year. In particular, as noted above, Horizon Utilities has clearly documented the significant OM&A cost drivers from 2008 through to the 2011 Test Year as part of the OM&A Driver Table (Exhibit 4, Tab 2, Schedule 5, Pg. 2, Table 4-2) and through detailed qualitative variance analysis on each of the significant drivers identified.

232. Similarly, Horizon Utilities disagrees with SEC's assertion that the differences in OM&A expenditures by OEB category were sufficiently confusing that the utility itself was limited in their explanation. Horizon Utilities has filed extensive variance analysis throughout this proceeding on its level of OM&A expenditures.

233. Horizon Utilities is surprised by SEC's comment that it only learned through cross examination that four months of actual 2008 data was on a remapped basis. As noted in the excerpt from the initial application, and reproduced above, the ERP implementation occurred on September 2, 2008. Horizon Utilities was very forthcoming about the timing of the impact on the remapping of accounts.

234. Horizon Utilities disagrees with SEC's assertion that the record is not clear as to "where costs were moved from". Horizon Utilities can cite numerous examples throughout this proceeding whereby it has provided evidence on the record as to changes in account groupings and related variance analysis. The following are specific examples within the Application:

- Exhibit 4, Tab 2, Schedule 9, p.1-2

Prior to the ERP implementation, all supervisory and management position costs, including operations and maintenance management personnel, were recorded in general and administration OEB accounts (Accounts 5610 and 5615).

Subsequent to the ERP implementation, wages and benefits for operations and maintenance personnel are being directed principally to the Operations Supervision and Engineering, other Operations Labour accounts, and Meter expenses based on the key responsibilities and activities that are being performed by the employee.

- Exhibit 4, Tab 2, Schedule 9, p.9, Table 4-8

In order to illustrate the overall variances attributable to labour costs, and to remove the impact of a change in the methodology for recording labour costs to various OEB Accounts *[Emphasis Added], Table 4-8 found below, summarizes the various OEB Accounts specifically related to OM&A labour costs, including contract labour and outside services fees (professional and other consulting services).*

[Table not reproduced]

- Exhibit 4, Tab 2, Schedule 9, p.13, Table 4-16

Significant variances in 2009 include higher labour and benefit costs, offset by a decrease in tree trimming costs.

Higher labour and benefit costs reflect:

- *Reallocation of wages and benefits from Administrative and General Expenses principally to Operation and Supervision (Account 5005), Overhead Distribution Labour (Account 5020) and Meter Expenses (Account 5065);*
- *Wage and benefit increases under the collective bargaining agreement; and Hiring of new full-time staff and filling of certain vacant positions;*

Please refer to Table 4-16 for the labour variance analysis for 2009 Actuals.

[Table not reproduced]

235. In its reply submission, SEC cites an example with respect to Office Supplies and Expenses in an attempt to demonstrate that the information provided is not comparable. The documented evidence with respect to the example cited, along with the testimony provided by the witness[102], clearly demonstrates that Horizon Utilities has, in fact, provided a significant amount of evidence with respect to OM&A variances, and, Horizon Utilities has demonstrated that “it was not limited in their explanations”. For example:

- Exhibit 4, Tab 2, Schedule 9, Page 29 and Response to VECC Interrogatory #28

[102] Tr. Vol.2, p.88-89

Office supplies and expenses (Account 5620) will increase by $1.7MM from 2008 Actuals to 2011 Test Year. This account includes all of the information technology costs, including wages and benefits for information technology staff, net of amounts allocated to capital expenditures. Since 2008, Horizon Utilities has invested in internal systems and processes in order to build the foundation to support: replacement of technologies that are beyond their useful life; enabling processes arising under regulatory requirements; and managing business risks associated with data management, cyber security, and the protection of customer information. These activities are also central to improving operational efficiency and effectiveness. Costs associated with supporting and maintaining technology investments are a significant driver in Horizon Utilities' OM&A expenses. Details of specific information technology projects to be completed in 2011 are also provided in Table 4-9, IT Enablers.

- Horizon Utilities' response to Energy Probe Interrogatory #25(e) also provides a detailed explanation as to the variance in Office Supplies (Account 5620) from 2010 Bridge to 2011 Test Year.

236. In any event, the Office Supplies budget is not material to the Application or the Revenue Requirement and is a relatively benign example used by SEC with respect to its global comments on comparability

237. Accordingly, Horizon Utilities reiterates that has provided detailed and comparable data with respect to its OM&A expenditures between 2008 and 2011 and rejects the submissions of SEC on this matter.

- **Headcount Methodology**

238. In its Application, Horizon Utilities submitted an Employee Complement and Compensation analysis in accordance with the Board's Filing Requirements (Table 4-25). Horizon Utilities completed Table 4-25 in a manner that meets the OEB Filing Requirements and that is consistent with its previous (2008) EDR Cost of Service Application.

Submissions of the Parties:

239. Board staff submitted (page 43) that, given that Horizon had no change in year-end headcount from 2009 to 2010, they were surprised to see an increase of 8.7% in total compensation SEC questioned (page 17) the quality of Horizon Utilities' information provided in Table 4-25 of Exhibit 4 and suggests that "much confusion" has resulted

because personnel data was set out on a basis that, in SEC's view, was not comparable to other utilities. SEC further submits (page 18) that the purported issue was further complicated by the fact that students are not included in the Table 4-25, although SEC did acknowledge in the oral hearing (Tr.2:152) that if Horizon Utilities had included summer students, the impact would have been small. SEC further submits (page 18) that Horizon Utilities "unlike other utilities, includes in its Executive category all personnel down to a director level which increases their numbers and reduces their average compensation in the category." VECC expresses a related concern in respect of Table 4-25 (page 15) and more particularly under line items related to averaging compensation. VECC submits that Horizon Utilities' information is deficient and VECC is requesting that the Board limit Horizon Utilities' increase in OM&A expenses to 10% over the two-year period 2009-2011.

Horizon Utilities' Reply:

240. Horizon Utilities filed Table 4-25 in a manner consistent with the OEB's Filing Requirements and its previous cost of service application. There was no exception taken by Board staff or intervenors on the approach used by Horizon Utilities in its preparation of this table in its 2008 cost of service application. Horizon Utilities therefore submits that it was reasonable and appropriate that those approaches be maintained in this proceeding.

241. As such, Horizon Utilities submits that the comparability, confusion, and related quality comments in the submission of SEC are not appropriately attributed back to Horizon Utilities but, rather, to the manner in which LDCs in general file this information. Horizon Utilities submits that the fact that LDCs take varying approaches to satisfying the Board's Filing Requirements, as they relate to this table, should not be a basis for arbitrary denial of recovery of costs that have been supported in the Application.

242. Horizon Utilities rejects SEC's commentary that Horizon Utilities "does appear to have a lot of Vice-Presidents"[103]. This commentary is baseless. SEC has not provided any reasonable evidence to support such an assertion.

[103] SEC Submission, paragraph 2.1.21

243. SEC has not established whether other utilities include director level or other senior level executives other than vice-presidents in the Executive category of Table 4-25 [2.1.21]. In fact, all SEC has done in this regard is demonstrate that Horizon Utilities has taken a different approach with respect to Table 4-25 than Toronto Hydro [2.1.21]. It is clear LDCs take somewhat different approaches in the preparation of this and other information required in the OEB filing requirements, which is the practical reason comparability may, at times, be difficult. This was discussed in Horizon Utilities' response to Undertaking J2.4, and is addressed below.

244. Horizon Utilities will further address the allegations of confusion between the term "FTE's" and the term "Headcount". Horizon Utilities interprets an FTE as a Full Time Employee, and Horizon Utilities uses this term interchangeably with the term "Headcount", which was addressed during the oral hearing[104]. In simple terms, an FTE represents an employee headcount as provided for at year-end for each of the years shown in Table 4-25. This use of FTE is an accepted human resources practice. It is used in the determination of Horizon Utilities' budgets, counts, and reports on its employee complement: by number of employees.

245. Certain parties to the Application have misinterpreted Horizon Utilities' input into Table 4-25. For example, SEC has suggested that the inputs into Table 4-25 should be based on Full Time Equivalent Employees ("FTEEs") – SEC explains that conceptually, one person would do the job every day for a year, and it does not have to be either the same person or the same job in that year.[105]

246. The Board's Filing Requirements (at section 2.5.4 - Employee Compensation Breakdown) are not explicit with respect to a requirement to report on an FTEE basis, nor does it provide a definition of an FTE. Further, Horizon Utilities refers the Board to its Table 4-25 which is a required form and which corresponds to the Board's template for Appendix 2-K of the Filing Requirements and submits that the Board's template specifically calls for the reporting of "Number of Employees" specific to full and part time employees. Horizon Utilities interprets the Board's specific request that information be provided based on the 'number' of employees to represent the number of Full Time

[104] Tr.2, p.26
[105] SEC Final Argument p.17 para. 2.1.16

Employees or Headcount at the end of each of the years set out in the Appendix. This approach is the same one used by Horizon Utilities in its 2008EDR Cost of Service Application, and was not raised as a problem by parties or the Board.

247. In Response to Undertaking J2.4, Horizon Utilities indicated that both Toronto Hydro and Hydro Ottawa have provided their own interpretations to the Filing Requirements such that their respective Appendix 2-K forms are inconsistent with that of Horizon Utilities and, in addition, inconsistent with each other's in relation to the position levels that are included in each category and to the inclusion of students (in the case of Hydro Ottawa, its Appendix 2-K does not include summer students).[106]

248. Horizon Utilities has provided evidence[107] that, at the end of 2008, it had in excess of a 10 per cent vacancy rate due to a failed merger with Guelph Hydro Electric Systems Inc. This resulted in higher than normal vacancies at the onset of 2009 which were filled throughout the course of the year. Horizon Utilities therefore submits that the vacancy level reduction in 2010 has resulted in the appearance of a higher than average increase in overall compensation. In fact, the organization was under some duress in 2009 as a result of an intention not to fill certain positions in anticipation of a merger in order to provide the employees of both organizations with the best opportunity possible to continue in the new organization with minimal severances.

- **2011 Hires:**

249. Horizon Utilities has proposed 27 new hires for 2011. Of these, thirteen are trades related hires, directly involved in the construction and renewal of distribution system plant. However, all of the proposed hires support Horizon Utilities' regulated distribution business, and the need for each of these 2011 positions is addressed at length in Horizon Utilities' evidence.

Submissions of the Parties:

250. Board staff submit (page 42) that, based on testimony given during the Oral Hearing, it appears that many of Horizon Utilities' 2011 positions are positions that do not support

[106] J2.4
[107] Exhibit 4, Tab 2, Schedule 10, p.13

capital and operations projects, and that Staff consider to be "beyond core business functions". SEC has provided similar comments to those of Board Staff. SEC submits (p.26) that Horizon Utilities' human resources evidence suggests almost all of the increases in 2011 represent increases in activities that are outside the core needs of the utility.

Horizon Utilities' Reply:

251. Horizon Utilities submits that in order to provide for a sustainable electricity distribution utility, it needs to invest in a measured and timed workforce renewal plan.[108] Horizon Utilities demonstrates support for this need and has proposed thirteen new planned hires in 2011 which are directly related to the utility's planned capital investment and renewal requirements. This represents one half of the total planned hires in 2011.[109] Such employees are considered trades, or, as SEC has described them, 'tool-in-hand': a person in a utility who actually goes out and does things, goes out and repairs a line or works on a substation.[110] In order to meet Horizon Utilities' distribution needs, it relies on a highly skilled core of technical and trades staff to perform the majority of the work.[111] Horizon Utilities views all new hires in 2011 as 'core' insofar as they support the regulated business. Horizon Utilities submits that, while some of the positions being hired in 2011 may not be trades persons, all of the roles have direct impact on and relationship to the utility distribution business. As an illustrative example of this submission, Horizon Utilities identifies such relationships in reference to the six positions specifically considered by Board staff (p.42). In doing so, Horizon Utilities clarifies that, in referring only to these six positions, it is in no way acknowledging that the other non-trades positions are in any way unnecessary or peripheral to the utility. Rather, Horizon Utilities is addressing these positions in response to Board Staff having identified them in their submission.

- **Capital Projects Financial Analyst**

  Horizon Utilities' Capital Project department is accountable for the design of capital projects, project planning, and management of the distribution capital

[108] Exhibit 4/T1/S1 pages 3 of 4
[109] Exhibit 4/T1/S1 page 3 of 4
[110] Transcript 2:140
[111] VECC IR28

budget.[112] The Capital Projects Financial Analyst position will provide analysis of construction & maintenance activities, contractor costing analysis, and project estimating.[113] Some of the responsibilities of this role are currently being performed by the Supervisors in the Utility Operations Engineering Design group.[114]

- **Specialist, Commodity Management**

The Specialist, Commodity Management position is part of Horizon Utilities Procurement group under its Supply Chain Management department. The Procurement department is responsible for negotiating purchasing agreements, has early involvement in capital projects, and has responsibility for the timely procurement of materials.[115] Horizon Utilities' yearly purchasing requirement is approximately $45MM; the addition of this position will allow further strategic focus to procurement. Further, with a planned expansion of its capital programs, the demands on procurement resources will continue to increase.[116]

- **IFS Subject Expert**

Horizon Utilities' Information & Systems Technology (IST) department is responsible for providing enterprise and departmental systems, solutions, and services foundational for supporting operational requirements.[117] The IFS Subject Expert reports into the IST department, and is required to support the continued expansion of the use of the Enterprise Resource Planning (ERP) system, a system extensively used by all operating groups in the issuance of job orders and project costing and tracking for the capital and maintenance programs. The addition of this position will also reduce Horizon Utilities' reliance on third party consultants currently supporting the system and as such would result in cost savings.[118]

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[112] Exhibit 4, Tab 2, Schedule 3, p.1
[113] Exhibit 4, Tab 2, Schedule 10, p.20
[114] Response SEC Interrogatory #29
[115] Exhibit 4, Tab 2, Schedule 3, p.3
[116] SEC Interrogatory #29
[117] Exhibit 4, Tab 2, Schedule 3, p.10
[118] Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(j), p.39-40

- **Financial Advisor**

The Financial Advisor position reports into the Finance, Planning, Reporting and Control (FPRC) department. The FPRC department is responsible for all accounting functions, preparation of budgets and forecasts, all regulatory reporting and compliance with applicable distribution codes and legislation governing financial practices.[119] The Financial Advisor is required to support ongoing business and financial analysis, the integration and reconciliation of regulatory accounting requirements, and the implementation of the Budget and Forecast software solution.[120] Currently, some of these functions are performed by the Director, Budgeting & Business analysis and the Vice President Finance. The volume of work required is beyond the full time capacities of these two positions.[121]

- **Data Warehouse Specialist**

In 2011, Horizon Utilities has included an initiative called Enterprise Data Warehouse/Operational Data Store ("ODS") as part of its 2011 capital expenditures. The scope of the project is to implement new server and storage hardware, database software, data management tools, analytical tools, reporting tools, and associated implementation services to support, design, develop, and implement a cost-effective, common single enterprise data warehouse repository. This repository will integrate data from multiple distribution function applications and devices such as the ERP, SCADA, OMS, GIS and AMI).[122] Such systems are the backbone of the utility distribution business, related to its networking operating functions, customer services, metering functions and supporting operational systems.

Reporting into the IST department, this position is responsible for the design, development, implementation, and support of the ODS.

[119] Exhibit 4, Tab 2, Schedule 3, p.10
[120] Exhibit 4, Tab 2, Schedule 10, p22
[121] SEC Interrogatory 29
[122] Exhibit 2, Tab 3, Schedule 1, p.89

- **Manager Documents & Records**

Currently there is no resource accountable for this function at Horizon Utilities. Individual departments manage their own paper and electronic records and documents. While Horizon Utilities has a Record Retention Policy for physical documents it lacks a system that will allow for the efficient and effective management of records and documents.[123] The Manager Documents & Records is responsible for developing standards and procedures for records maintenance, consistent with relevant statutes, regulations, and general business requirements, and related compliance across all departments of Horizon Utilities. This position is responsible for storage of material such that information is contained in a highly secure format and readily accessible to authorized Horizon Utilities personnel.[124]

252. In addition to the positions defined above, the remaining 2011 hires are integral and supportive of the distribution business. It is crucial that Horizon Utilities continues to acquire new skilled trades, including apprentices, to continue to support its operations. Horizon Utilities' Regulatory department and its employees are engaged in, as an example, regulatory rate filing activities, and support billing and finance functions in the completion of month-end and quarter-end reconciliations.[125] Horizon Utilities IST department, as an example, provides administrative direction and support for daily operational activities of engineering related systems.[126] IST delivers implementation and ongoing applications software support for applications systems utilized by engineering, operating, and construction departments.[127]

253. Horizon Utilities submits that it has provided sufficient support throughout its Application and on the record of this proceeding for the fact that all twenty-seven 2011 new positions are key contributors to activities within the regulated distribution business, and that expenditures related to those positions should be approved by the Board.

[123] SEC IR#29
[124] Exhibit 4, Tab 2, Schedule 10, p.20
[125] Exhibit 4, Tab 2, Schedule 10, p.22
[126] Exhibit 4, Tab 2, Schedule 10, p.17
[127] Exhibit 4, Tab 2, Schedule, 10, p.18

- **Retirements and Advance Hires:**

254. Horizon Utilities' comprehensive Workforce Labour Strategy and Plan[128] (WLSP) provides short to longer-term outlooks[129] relative to when employees will potentially exit trades/technical positions. The WLSP provides assumptions on when employees will exit positions based on attrition, proposed retirements, and movement within the organization[130]. The Plan overlays the employee supply issue with the demands of the business, such as Horizon Utilities' required increasing investment in capital renewal over the same time periods[131]

255. Horizon Utilities' WLSP provides retirement assumptions based on the employees' potential retirement at the point they are eligible for an unreduced pension, in accordance with the eligibility criteria provided through its pension fund, OMERS.

256. Energy Probe requested in its IR#50 that Horizon Utilities provide a table showing the number of employees eligible for retirement without penalty in each year, the number who actually took retirement and the resulting percentage of those retiring compared to those eligible to retire without penalty. Horizon Utilities responded to this request plainly and directly within its response to IR#50. Horizon Utilities further provided its approach in determining the average, in response to Energy Probes TC#14.

Submissions of the Parties:

257. Energy Probe submits that the calculation provided is flawed. Energy Probe further submits that the 'flawed' approach was used, as a key assumption, by Horizon Utilities in determining its requirements for advance hires.

Horizon Utilities' Reply:

258. Horizon Utilities submits that its methodology is not flawed. Horizon Utilities used an acceptable approach to provide the average as requested by Energy Probe in IR#50 "using the average % over the period". Horizon Utilities acknowledges that there are

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[128] Exhibit 4, Tab 2, Schedule 6, Appendix 4.2
[129] Exhibit 4, Tab 2, Schedule 6, Appendix 4.2 p.2
[130] Exhibit 4, Tab 2, Schedule 6, Appendix 4.2 p.3 Table Summary of Staffing Changes and Recruitment Plans
[131] Exhibit 4, Tab 2, Schedule 6, Appendix 4.2 p. 3

alternate approaches in providing the information. However, Horizon Utilities argues that the methodology it used is a fair and acceptable approach.

259. Horizon Utilities further submits that its approach in determining its requirement for advance hires, within its WLSP, did not utilize the average percentage as requested in the table in response to Energy Probe IR#50. Horizon Utilities' submits that the hiring of advance employees, as provided in evidence (WLSP, p.3) used the following combined key assumptions in determining its requirements over 2010 to 2014:

a. Employees will retire when they can receive their pension without penalty;

b. Historic non-retirement attrition rates apply to the future;

c. Additional labour requirements to support increased distribution capital project spending will be split equally between Horizon Utilities' workforces and contractors;

d. The Distribution Capital Program will increase by $3MM per year starting in 2010.

260. Further, in determining Horizon Utilities' increase in headcount requirements over the same time period (2010 – 2014), and as provided in evidence, (WLSP page 3) requirements were based on:

a. Requirement of additional personnel to design and construct the increase in capital work;

b. Directly replacing employees leaving the company based on retirement and attrition;

c. Advance hiring for certain positions that require extensive training or apprenticeships.

- **IST and Regulatory Headcount**

261. As noted in the evidence[132], Horizon Utilities has continued to incur capital and operating expenditures in operational systems and technologies since its 2008 EDR Application. Such investments have been driven primarily to replace outdated or end of life technologies that create risk or impede productivity[133], by new regulatory requirements[134], and by the requirement to better enable the necessary and evolving processes within the regulated electricity distribution business.[135]

Submissions of the Parties:

262. CCC submits (page 11) that Horizon Utilities' OM&A (2010-2011) budget of 17% has not been supported by the evidence. CCC's submission is based in part on its position (page 10) that Horizon Utilities has not justified the rationale for an increase of 13 headcount in its Information Systems & Technology ("IST") department since 2008. SEC takes a similar position to that of CCC and references the 13 headcount increase within the IST department in its final argument (page 26). SEC goes so far as to say the human resource evidence suggests that the increases (in headcount) are almost all in support of positions of various types, and represent increases in activities that are, in many cases, outside the core needs of the utility. SEC goes on to state that Horizon Utilities added five new Regulatory people from 2009 to 2010[136].

Horizon Utilities' Reply:

263. Horizon Utilities submits that its business requirements articulated in the Application support the additions to the IST department. Horizon Utilities rejects SEC's assertion that non-trades additions to Horizon Utilities' employee complement are unnecessary, and Horizon Utilities respectfully requests that the Board do the same. The proposed additions in areas such as IST are equally important to Horizon Utilities' distribution business as any other necessary position.

[132] Exhibit 4, Tab 1, Schedule 1, p.3, lines 24 to 25
[133] Exhibit 4, Tab 1, Schedule 1, p.1
[134] Exhibit 4, Tab 1, Schedule 1, p.3, lines 18 to 20
[135] Exhibit 4, Tab 1, Schedule 1, p.3, lines 11 to 12
[136] SEC Submission, p26, paragraph 2.4.12

264. Horizon Utilities further submits that it has provided sufficient evidence and supporting rationale to justify its continued investment in its IST department since its 2008 EDR application. In the paragraphs that follow, Horizon Utilities provides a summary of the rationale for IST investment (including investment in IST related headcount) as taken from the evidence, from 2008 to 2011.

265. Since 2008, the main drivers for IST investment and costs and the resulting need for supportive additional headcount are as follows:

- The introduction of regulated business process changes such as, Time-of-Use, MDMR, Customer Standardization Codes, and LEAP have required a significant investment in enhancements to customer facing systems (CIS, Bill Presentment, Phone Systems, etc.) and the supporting technology infrastructure[137];
- The replacement of 25 year old internally programmed business applications that were no longer supportive of Horizon Utilities' business processes and were impeding productivity and creating organizational risk as stated in the business case for ERP previously filed in Horizon Utilities' 2008 EDR proceeding (EB-2007-0697) and filed as evidence in the current proceeding in response to SEC IR 18(f);
- The new and increased business requirements to provide support for mobile work force by automating collections and service order processes in the Customer Connections area to increase efficiency and effectiveness, improve customer service levels, and to meet regulated time requirements for completion of work;[138];
- The new and increased requirements related to cyber security management[139] to mitigate security risks identified in a third-party cyber security assessment filed confidentially in response to SEC IR 30 (f);
- The new requirements to manage an overwhelming increase of data now generated by many distribution system devices, including Smart Meters, to support productivity

[137] LEAP and Customer Service Standardization (EB-2007-0722);
Time of Use consultation (EB-2010-0364); OCEB (EB-2011-0009)
[138] Exhibit 1, Tab 2, Schedule 2, Appendix 1-9 (j), pg. 9
[139] E1/T2/S2/Appendix 1-9 (j)/p. 9

improvements and business process efficiencies, as provided in prefiled evidence[140] and in response to SEC IR 30 (g).

266. At the start of 2008, the IST department consisted of 11 Full Time Employees[141] (FTE's/Headcount) focused primarily on the maintenance of the CIS and legacy internally developed business applications that preceded the ERP as noted above. Seven of these positions continue to support CIS and related systems within the distribution business as identified in the Business Applications function on the IST Department Org Chart provided at Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(j), p.26.

267. The introduction of a new Enterprise Resource Planning (ERP) system in September 2008 required a new set of technical skills to provide support for distribution business process owners in the areas of systems analysis, business process design, process flow modeling, testing, training, user and system support, core application management, security management, data analytics, and reporting. A new function, Business Projects[142], consisting of 4 FTE's, was created in 2009 to provide these services to Horizon Utilities' distribution business units. The following positions were created: Manager Business Projects, Business Projects Specialist, Report and Data Analyst, and System Administrator. Despite these costs and investments, Horizon Utilities anticipated savings from the implementation of this new ERP system and, as a novel approach in its 2008 cost of service application, made such savings available to ratepayers in its 2008 electricity distribution rate application in advance of making the related approved investments. At pages 9 and 10 of its Decision on Horizon Utilities' 2008 EDR application, the Board wrote:

> *The Board accepts Horizon's ratemaking treatment, as originally proposed. Although it is novel and departs in some respects from traditional ratemaking, the Board finds that it is appropriate in the circumstances. It balances the significant costs incurred with a timely recognition of the benefits. This provides a benefit to customers at the beginning of a new IRM period.*

268. In May 2009, certain outsourced network and technical support services ("Technical Services") were brought in-house to Horizon Utilities. This action resulted in annual net

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140 E2/T3/S1/p. 89-91
141 CCC TC#5
142 E4/T2/S2 page 6

savings of $259,000[143] after consideration for additional new staffing requirements. Two positions replaced the outsourced Technical Services: Manager Technical Services and Network Administrator. The Technical Services[144] function provides desktop and network support, telephone system support, telecommunications support, distribution business disaster recovery and business continuity. Developing a thorough understanding of and a core competency in management of the distribution network was required to ensure responsive support and management of technologies that could affect Horizon Utilities' billing processes.

269. In May 2009, Horizon Utilities conducted a third-party cyber security assessment of its network operating environments. A copy of that report was provided in response to SEC Interrogatory 30 (f). As a result of the assessment several risks were identified. In 2010, a Cyber Security function was created in order to proactively address these information risks, including risks to personal and customer information, and to provide expertise to manage cyber security on an ongoing basis. This function consists of a Manager IT Security and a Security Analyst. The function is responsible for establishing and managing security policies, procedures, monitoring, testing, and user training for all distribution business functional areas and all segments of Horizon Utilities' distribution network (Corporate LAN/WAN, SCADA network, AMI network, Wi-Fi and mobile computing).[145]

270. In February 2010, a third PC Technician was added to meet the requirement for support services at four Horizon Utilities sites and the introduction of mobile technologies for distribution field staff.[146]

271. In 2011, an additional FTE: IFS Subject Matter Expert[147] will be added. This position is required to support the continued development of the ERP system to deliver additional business process efficiencies and increased staff productivity. This function is currently being performed entirely by a contract resource. The introduction of an ERP system in 2008 makes this an ongoing requirement and thus requires a full time resource on staff

[143] E4/T2/S5 page 2
[144] E4/T2/S2 page 6
[145] Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(j), pg. 9 and E4/T2S6 page 13
[146] Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(j), pg. 26
[147] Exhibit 1, Tab 2, Schedule 2, Appendix 1-9(j), pg. 39-40

as stated in response to SEC IR 30 (a). This will be more cost effective than continuing with contracted resources.

272. In 2011, Horizon Utilities will develop an Enterprise Data Warehouse/Operational Data Store ("ODS") as part of its 2011 Capital Expenditures[148]. The ODS, the need for the system, and the significant merits of the project, are discussed in the Rate Base portion of this submission. The scope of the project is to implement new server and storage hardware, database software, data management tools, analytical tools, reporting tools, and associated implementation services to support, design, develop, and implement a cost-effective, common single enterprise data warehouse repository that integrates data from multiple applications and devices (including, among others, IFS, CIS, SCADA, OMS, GIS, and AMI).[149]

273. The ODS will provide improvements in customer service, outage response, public safety and outage communication; especially in prolonged, large scale utility distribution outages[150]. Such technology will also provide load analysis, electricity load management, electricity loss analysis and reporting not available with Horizon Utilities current systems. In order to provide the required technical skills to support the distribution business and ongoing operation of the system the IST department will be expanded by 3 FTE's in 2011 as follows: a Manager Engineering Applications[151], a Data Warehousing Specialist[152], and an Engineering Applications Support Analyst[153]. As stated in Horizon Utilities' response to SEC Interrogatory No. 30 (a), the existing IT staff does not have the required expertise or the capacity to support these initiatives. These initiatives will not be possible without incremental support staff to focus on the implementation and support of the new engineering applications environment.

274. Horizon Utilities submits that its evidence in this proceeding related to systems and technologies supports not only the investment in 9 FTEs/Headcount from 2008 to 2010, but also supports the investment needed now in 2011 for 4 incremental IST FTE's.

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148 E4/T2/S6 page 29
149 Exhibit 2/Tab 3/Schedule 1/pg. 89
150 E4/T2/S6 page 30
151 Exhibit 1/Tab 2/Schedule 2/Appendix 1-9(j)/pg. 33-34
152 Exhibit 1/Tab 2/Schedule 2/Appendix 1-9(j)/pg. 37-38
153 Exhibit 1/Tab 2/Schedule 2/Appendix 1-9(j)/pg. 35-36

275. Horizon Utilities respectfully submits that it simply cannot wait four more years (the next cost of service application) to make this transition and begin to utilize the data currently being generated for the benefit of its customers. The identified FTEs are fundamental to making this transition. Horizon Utilities submits that the IFS Subject Matter Expert is also required now to support continued business process improvements, and Horizon Utilities reiterates that this approach is more cost effective than continued reliance on consultants.

276. SEC notes that headcount in Regulatory increased by 5 people from 2009 to 2010. During the Oral Hearing, the witness for Horizon Utilities mistakenly agreed that there were five new hires in Regulatory over the period stipulated with an additional two proposed for 2011. The correct information is on the record in this proceeding. In response to CCC Technical Conference Question 5, Horizon Utilities provided a table with year-over-year changes in department headcount. Horizon Utilities confirms that, in that table, the Regulatory department consisted of 6 FTE's in 2008 and remained at 7 for 2009 and 2010; and 2011 reflects the 2 additional FTE's Horizon Utilities is requesting to add within this Application. Therefore, the Regulatory department has increased by only one FTE from 2008 to 2010 and proposes to add two FTE's in 2011.

- **Vacancies/New Headcount**

277. In its Application, Horizon Utilities filed an Employee Complement and Compensation analysis in accordance with the Board's Filing Requirements[154]. Horizon Utilities has provided within Appendix 2-K year-over-year changes in Full Time Employee (FTE)/Headcounts representing new positions. Horizon Utilities has further provided a detailed breakdown of new hires in each year[155] which aligns in numbers to headcount in Appendix 2-L.

Submissions of the Parties:

278. Board Staff submit (page 42) that, although it is prudent for Horizon Utilities to plan for and actualize new hiring, it must temper its hiring plans with what it can actualize. Board Staff further suggests that the proposed 2011 headcount of 428 is unsupported. Energy

[154] Section 2.5.4 OEB Filing Requirement for Transmission and Distribution Applications
[155] Exhibit 4/T2/S10 page 14

Probe submits (page 41) that using a 4 year average increase in employee base would be appropriate and suggests the Board only allow for an increase of 6 employees in 2011. Both CCC (page 9) and SEC (page 23) question the hiring of new positions in 2010, indicating that Horizon Utilities has not yet hired 'many' of the positions expected to be added in 2010. SEC further suggests that Horizon Utilities has put forth false evidence, even during the oral hearing, that its real figure for additional headcount in 2011 is 42 and not 27 as provided by Horizon Utilities in Table 4-5.

Horizon Utilities' Reply:

279. Horizon Utilities' evidence, as provided in Appendix 2-K, is representative of actual employee headcounts in 2007 through to 2009, and budgeted headcount for 2010 and 2011. Such evidence has been completed in compliance with the requisite Board Filing Requirements.[156]

280. In the following table, Horizon Utilities has set out a year-over-year accounting of all new hire positions[157], and a reconciliation of those positions hired in the year they were budgeted. All of the information provided below is on the record in this proceeding. Applicable references are set out in the table.

Year	# FTE/ Headcount[158]	# Union Budgeted in the Year[159]	# Non-Union Budgeted in the Year[160]	Total # Budgeted in the Year	# Hired in the Year Budgeted[161]	Comments
2007	367 Actual					
2008	368 Actual		1	1		Hired in May 2009
2009	386 Actual		18	18	19	Inclusive of above
2010	401 Budget	8	7	15	15	
2011	428 Budget	14	13	27	3	
	TOTAL	22	39	61	37	

[156] Section 2.5.4 OEB Filing Requirement for Transmission and Distribution Applications
[157] Appendix 2-K, Table 4-25
[158] Appendix 2-K, Table 4-25
[159] Table 4-26,
[160] Table 4-26
[161] Table 4-26

281. As provided in the evidence, in 2008 Horizon Utilities was involved in merger discussions with Guelph Hydro Electric System Inc. In anticipation of a successful merger, Horizon Utilities adopted a temporary hiring freeze in an attempt to minimize potential layoffs and terminations that would otherwise have resulted from the merger. This resulted in an unusually high vacancy rate of 10%, primarily in the non-union group.[162] In 2009 and into 2010, Horizon Utilities undertook cost deferrals to mitigate the impact on its revenue in relation to a significant downward shift in the economy, and specifically large use customer loads of Horizon Utilities.[163] Part of these deferrals were in respect of filling vacancies.

282. Horizon Utilities fully executed hiring on its 2009 budgeted positions (18 of 18 positions). As such, Horizon Utilities ended the fiscal year with an actual headcount of 386 positions.

283. In 2010, Horizon Utilities once again fully executed hiring on its 2010 budgeted positions (15 of 15 positions). Horizon Utilities ended the fiscal year with an actual headcount of 386 positions.[164] Horizon Utilities has clearly executed and actualized on its recruitment of its budgeted positions in the year 2010.

284. In 2011, Horizon Utilities has yet to execute on its entire 2011 budgeted positions (3 of 27 hired). Horizon Utilities confirmed at the oral hearing, that it anticipated hiring all of its 2011 hires in 2011.[165] Horizon Utilities rejects suggestions that the timing of hires in 2011 is the result of Horizon Utilities' inability to actualize on its recruitment requirements. It further submits that it has provided a clear explanation of year-over-year hires, relative to vacancies and that such are not one and the same, as recognized by Board Staff in their final argument[166]. Horizon Utilities submits that such evidence clearly explains and refutes SECs statement that Horizon Utilities continued, even during the oral hearing, to talk about the number of additions in 2011 as being 27, when they

[162] Exhibit 4 Tab 2 Schedule 10 page 13
[163] Exhibit 1, Tab 2, Schedule 1, Page 6 of 17 (Point 1 and 2)
[164] Undertaking J2.4
[165] Tr. Vol 4 pages 48-49
[166] Final Argument Board Staff page 42

were aware that the real figure was 42.[167] The table provided above clearly establishes that Horizon Utilities is requesting 27 new positions in 2011 and not 42.

285. In conclusion, Horizon Utilities has provided substantial evidence relating to its new hires since 2008[168] with clear justification for each new position being recruited and hired in 2011[169]. Horizon Utilities submits to the Board that none of this evidence suggests new hires are related to an increased customer base.

286. However, certain parties (VECC, CCC and SEC) submit that the level of OM&A increases associated with additional employees is significant for a utility with little or no customer growth[170]. Horizon Utilities submits that the drivers that are forcing the utility to make significant investments in its human resources are not related to customer growth nor has Horizon Utilities used increased customer base as justification of new hires. The drivers are, in fact: an aging workforce, increased investment requirements resulting from a need to renew distribution system infrastructure, and other specific needs articulated above and in the evidence. Horizon Utilities' aging workforce is an issue that is common and persistent across the energy sector.[171] This factor drives headcount and cost irrespective of customer growth in Horizon Utilities. Horizon Utilities has identified and provided evidentiary support for its capital renewal plan. Regardless of customer base, the assets require significant increased investment. Methodical, planned, and responsible approaches were undertaken to address both of these critical issues – namely the Workforce Labour Strategy and Plan and Horizon Utilities' Asset Management Plan. As SEC observed during the oral hearing in the context of aging assets, increased maintenance becomes "sometimes not the right thing to do. The right thing to do when assets reach the end of their age is replace the assets".[172]

287. In fact, Horizon Utilities has provided substantive evidence in its Application relative to the age of its assets[173]. Through Horizon Utilities' Asset Management program it has

[167] Final argument SEC page 23 section 2.3.5
[168] E4/T2/S10 pages 11 and 14.
[169] E4/T2/S10 pages 16 to 23 and Response to Interrogatory SEC a
[170] Final arguments for VECC page 15, CCC page 9-10 and SEC page 26 section 2.4.13
[171] WLSP page 6
[172] Transcript 2.111
[173] Page 21 and 22 of the Asset Management Plan

identified those assets that are past their useful life, and provided trending over the next 20 years of required replacement of its distribution plant.[174]

288. However, to execute on its Workforce Labour Strategy, and its capital renewal plans, investment in human resources will have to increase in 2011 and beyond, to meet the critical need of addressing Horizon Utilities' aging infrastructure and its aging workforce.

- **Green Energy Act Plan**

289. Horizon Utilities has requested a prudency review and approval of its Basic Green Energy Act Plan[175]. The Ontario Power Authority's approval letter in respect of the Plan has been included at Exhibit 4, Tab 2, Schedule 6, Appendix 4-4. As noted in its Argument-in-Chief, Horizon Utilities wishes to clarify one matter in respect of this Plan – as discussed during the oral hearing, Horizon Utilities confirms that it seeks approval of its proposed expenditures in the Plan for the 2011-2014 period[176]. Horizon Utilities requests $530,000 upfront costs as OM&A. Ongoing costs are also set out in the GEA Plan.

290. Horizon Utilities' Basic GEA Plan includes capital and operating expenditures for activities related to the connection of renewable generation facilities, and for certain Smart Grid activities. The expenditures include capital investments, full-time staff additions, and consulting support.

Submissions of the Parties:

291. Board Staff made the following submissions (pages 48 to 52):

- The activities in the GEA Plan seem to fall within the scope of permitted initiatives in the Board's *Filing Requirements: Distribution System Plans Filing under Deemed Conditions of License* (EB-2009-0397), dated March 25, 2010;
- Horizon Utilities should recover GEA Plan expenditures through the implementation of a rate rider in 2011, and a funding adder and deferral account for 2012 through 2014;

[174] Page 12 and 13 of Asset Management Plan
[175] Tr. Vol 2, Page 53
[176] Tr. Vol.2, at Pages 54-55

- The Board should defer making a finding of prudence for certain GEA Plan expenditures until Horizon Utilities' next cost-of-service rebasing proceeding;
- Horizon Utilities should adopt the direct benefit percentages approved for Hydro One Networks; and
- Ongoing OM&A costs should be removed from the GEA Plan and recovered through normal distribution OM&A expenses.

292. Aside from the aforementioned issue of ongoing OM&A costs, no party to the proceeding challenged the prudence of the expenditures in the GEA Plan.

Horizon Utilities' Reply:

293. Horizon Utilities makes the following submissions in reply:

- Finding of Prudence and Cost Recovery

294. In requesting a finding of prudence for GEA Plan expenditures from 2011 through 2014, Horizon Utilities is seeking the Board's approval of the planned activities and expenditures in Horizon Utilities' GEA Plan.

295. Horizon Utilities submits that if the Board finds that the costs associated with Horizon Utilities' GEA Plan are prudent, that it should approve the recovery of such in the Test Year, rather than through a funding adder as suggested by Board Staff.

- Direct Benefit Percentages

296. Horizon Utilities agrees that it should adopt the direct benefit percentages approved by the Board for Hydro One Networks and as set out in Horizon Utilities' response to Board staff Interrogatory 36.

- Upfront vs. Ongoing Costs

297. Horizon Utilities submits that its GEA Plan does not include ongoing OM&A costs related to the connection of the forecasted renewable generation facilities.

298. In the cross-examination referred to by Board Staff, there was no clear distinction made between ongoing OM&A costs, including full-time staff additions, specifically related to the connection of renewable generation facilities and ongoing OM&A costs related to Smart Grid activities[177]. Horizon Utilities did indicate in the cross-examination that the full-time staff additions are for ongoing work, but did not mention that the ongoing work is not related to the connection of renewable generation facilities[178]. Horizon Utilities submits that the ongoing OM&A costs that are included in the GEA Plan are for Smart Grid activities. Further explanation is provided as follows.

299. For the purpose of clarity, Horizon Utilities presents the following table based on the *Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09,* EB-2009-0349, dated June 10, 2010, and the Board's *Filing Requirements: Distribution System Plans Filing under Deemed Conditions of License* (EB-2009-0397), dated March 25, 2010:

Type of Cost	Eligible for Provincial Recovery?[179]	Applicable Deferral Account[180]
Initial capital investment costs and upfront OM&A costs required to connect a renewable generation facility, including such costs for Renewable Enabling Improvements	Yes	Account 1531 – Renewable Generation Connection Capital Deferral Account Account 1532 – Renewable Generation Connection OM&A Deferral Account
Ongoing OM&A costs required to maintain the connection of a renewable generation facility	No	N/A
Smart Grid capital investments and OM&A related to such investments	No	Account 1534 – Smart Grid Capital Deferral Account Account 1535 – Smart Grid OM&A Deferral Account

177 Tr. Vol. 2, p. 59, Lines 19 to 27
178 Tr., Vol. 2, p. 59, Lines 19 to 27
179 *Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09,* EB-2009-0349, dated June 10, 2010, Page 3
180 *Filing Requirements: Distribution System Plans Filing under Deemed Conditions of License* (EB-2009-0397), dated March 25, 2010, Pages 22-24

300. From the above table, it is clear that ongoing OM&A costs related to the connection of renewable generation facilities are not eligible for provincial recovery and cannot be recorded in deferral accounts.

301. The table below, taken from Horizon Utilities' GEA Plan[181], lists the OM&A costs in the GEA Plan.

Projects	2011 ($000s)	2012 ($000s)	2013 ($000s)	2014 ($000s)	2015 ($000s)
Renewable Connections	0	0	0	0	0
Renewable Connections Enablers	50	100	100	100	100
Smart Grid Investigations	200	300	300	300	300
Customer Engagement & Communication	80	40	40	40	40
Feeder Automation	100	100	100	50	50
Substation Automation	100	100	100	100	100
Grand Total	**530**	**640**	**640**	**590**	**590**

302. The Renewable Connections Enablers project includes upfront OM&A related to the connection of renewable generation facilities, and ongoing OM&A related to studying how a Smart Grid can help enable renewable generation. The Renewable Connections Enablers project does not include any ongoing OM&A related to maintaining the connections of renewable generation facilities. Horizon Utilities therefore submits that some of the OM&A costs for this project are eligible for provincial recovery, and all of the OM&A costs for this project can be recorded in the deferral accounts. Consequently, the OM&A costs for this project should remain in the GEA Plan.

303. The OM&A costs for the Smart Grid Investigations, Customer Engagement & Communication, Feeder Automation, and Substation Automation projects are for Smart Grid planning exercises, studies, education and training, and can be directly related to future Smart Grid capital investments. Therefore, Horizon Utilities submits that these costs can be recorded in Account 1535 and should not be removed from the GEA Plan.

[181] Exhibit 4, Tab 2, Schedule 6, Appendix 4-3, p.7

- **Regulatory Costs**

304. Horizon Utilities identified in the Application that it expected to incur $960,000 of Regulatory Costs for its completion.[182] These were identified in the Application as "one-time" costs, and were amortized over a three year period. In its response to VECC interrogatory 37 e), Horizon Utilities accepted that the amortization period for these costs should be over four years (the 2011 Test Year and three subsequent years of IRM), and not three. Horizon Utilities' witness confirmed the amortization of Regulatory Costs over a four year period during the oral hearing[183].

Submissions of the Parties:

305. Neither Board staff nor any of the intervenors had issue with the Regulatory Costs or its amortization over four years versus three, with the exception of CCC. In its submission (at p.11), CCC noted that these costs appeared "excessive, when compared with the regulatory costs for comparable LDCs."

Horizon Utilities' Reply:

306. CCC has not identified any comparable utilities in its comments, so that it is difficult for Horizon Utilities to attempt to draw comparisons. However, Horizon Utilities submits that, in any event, what is relevant here is whether the costs it has included in this Application are reasonable. This issue is similar to those addressed in other areas of this submission – it is not appropriate to simply apply percentages or arbitrary values from other proceedings in determining what is appropriate in this Cost of Service Application.

307. In its Application, Horizon Utilities identified its Regulatory costs as they relate to this proceeding. Those costs, which are part of the Regulatory Department's budget and business plan, recognized the possibility of an oral hearing in this proceeding, a procedural step not anticipated or reflected in the regulatory costs for the 2008 EDR Cost of Service Application (EB-2007-0697), and reflected a reasonable expectation of the Regulatory Department's need for external assistance with the preparation and

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[182] Exhibit 4, Tab 2, Schedule 7, p.1
[183] EB-2010-0131, Transcript, Volume 2, p.87

carriage of the Application. In its responses to interrogatories, particularly in its response to Board staff Interrogatory 40, Horizon Utilities provided significant detail on the nature of these costs, both for the Bridge Year and the Test Year.

308. Horizon Utilities agrees with Board staff and Intervenors that this has been a lengthy and involved process. Among the elements of this proceeding were the following:

- Preparation of the Application;
- Consideration of the preliminary issue of 2011 rebasing – this included interrogatories and submissions (and by Board staff's estimate, added 1½ months to this proceeding);
- Responses to hundreds of interrogatories on the Application following the Board's determination to allow this Application to proceed;
- Responses to over 200 Technical Conference questions;
- The Technical Conference;
- A two-day Settlement Conference;
- An update to the Large Use evidence resulting from circumstances beyond Horizon Utilities' control;
- Interrogatories on the updated Large Use evidence;
- A multi-day hearing, including Undertaking responses; and
- Written submissions on the Application.

309. The Board's Decision will be followed by the preparation of the Draft Rate Order.

310. Horizon Utilities submits that the costs included in its Application are commensurate with the nature of this proceeding and they are reasonable in the circumstances of this proceeding.

- **Low Income Energy Assistance Program**

311. Horizon Utilities did not include any costs associated with the Low Income Energy Assistance Program ("LEAP") in its Application submitted August 26, 2010. Subsequent to the filing of the Application, however, the Board released its letter regarding LEAP, indicating that the funding should be computed as 0.12% of the Board-approved distribution revenue requirement.

Submissions of the Parties:

312. Board Staff submitted that the expenses associated with LEAP should be included in OM&A expenses in the amount of 0.12% of 2011 distribution revenues, the final amount of which will be determined by the Board. Based on the latest Total Revenue Requirement figure of $108,099,607, provided in response to Undertaking J3.3, the LEAP funding would be $129,720. As Horizon Utilities included a total of $55,000 in OM&A costs that relate to Winter Warmth programs, only the difference of $74,720 needs to be included when the draft rate order is filed. Energy Probe has submitted that the costs associated with LEAP should be added to the base OM&A expenses. VECC has submitted a figure for OM&A that is inclusive of LEAP funding. CCC suggests that Horizon Utilities' OM&A level for 2011 should be between $40 and $42MM, with Horizon Utilities to manage its operations within that budget.

Horizon Utilities' Reply:

313. Horizon Utilities submits that the costs associated with LEAP are discrete and should not be included in the envelope of costs that may be approved by the Board, but should be added to whatever OM&A costs the Board may determine to be appropriate. The LEAP costs were not contemplated at the time of the initial filing of the Application and are clearly not part of the historical costs upon which some intervenors base their envelope of OM&A costs.

5. Cost of Capital and Capital Structure

314. In its Cost of Service Application, Horizon Utilities used the Deemed Short Term Debt Rate and Return on Equity ("ROE") that were applicable at the time of the Application. The rates were 2.07% and 9.85%, respectively. For the long term debt rate, Horizon Utilities used the weighted average of rates applicable to its funded debt. Horizon Utilities acknowledged that the Board would be adjusting the Cost of Capital parameters for January 1, 2011 filers and that Horizon Utilities would update such parameters once they were available.

315. In its letter dated November 15, 2010, the Board issued the Cost of Capital Parameter Updates for 2011 Cost of Service Applications for Rates Effective January 1, 2011. In that letter, the Board set the Deemed Short Term Debt Rate, the Deemed Long Term Debt Rate and ROE at 2.43%, 5.48%, and 9.66%, respectively.

316. The Long Term Debt rate that Horizon Utilities used in its Application was the weighted average cost of debt of two debt instruments. The first is a $116 Million promissory note (the "Note") payable to Hamilton Utilities Corporation, an affiliate of Horizon Utilities, bearing interest at 7.0%. The Note is due July 31, 2012. Horizon Utilities requested a debt rate of 6.1% with respect to the Note. This rate was approved in the Decision of the Board in Horizon Utilities' 2008 Cost of Service Application; there have been no changes to the terms of such fixed rate, non-callable note since the Decision or its issuance on February 28, 2005.[184] Horizon Utilities requested that, effective with the time of such refinancing of the Note in its next scheduled Incentive Rate Mechanism adjustment, its Long-Term Debt rate be adjusted by substituting the rate on the new note.

317. In response to SEC Interrogatory 33, Horizon Utilities addressed the issue of its intent on the proposed adjustment to the long term debt rate on the $116MM note at the time of its renewal in July, 2012 and on the mechanism proposed to implement such adjustment.[185] Horizon Utilities noted in the response that it is unaware of a regulatory basis to make such an adjustment, but that the proposal was offered as a means of balancing ratepayer and utility interests, given that the note is material to the capital structure of

[184] Exhibit 5, Tab1, Schedule 1 Page 2 of 3.
[185] SEC Interrogatory 33

Horizon Utilities and will be renewed during the IRM period covered by this rebasing application.

318. The second long term debt instrument is a $40 Million promissory note obligation to its parent company, Horizon Holdings Inc., which was issued July 21, 2010 at a rate of 4.89%[186], a lower rate than the forecast 4.92% rate used in the original Application. The new interest rate of this note has been included in all subsequent calculations of revenue deficiency and total revenue requirement and has been incorporated into the Revenue Requirements Work Forms. The weighted average Long Term Debt Rate including this adjustment is 5.79%.

319. Horizon Utilities has used a deemed capital structure of 56% long term debt, 4% short term debt and 40% equity.

Submissions of the Parties:

320. No intervenors opposed Horizon Utilities' deemed capital structure of 56% long term debt, 4% short term debt and 40% equity.

321. With respect to the cost of capital parameters, parties linked this issue, to varying degrees, to the issues of rate year fiscal year alignment and with the effective and implementation dates of the new rates. In this section, Horizon Utilities will address the submissions of the parties on the narrow issue of the appropriate cost of capital parameters, and below in these submissions Horizon Utilities will summarize and reply to the parties arguments in respect of the rate year fiscal realignment and the appropriate effective date for implementing rates. On the cost of capital, Board staff submits at the bottom of page 56 of its submissions that the rate of 6.1% for the existing debt is a reasonable proxy rate of this debt instrument on which to set just and reasonable base rates for the IRM period. Board staff indicates that the other applicable cost of capital parameters (ROE and short-term debt) be calculated using data 3 months in advance of the effective date of rates.

[186] Horizon Utilities responded to SEC Interrogatory 34, advising of the final rate on the $40MM promissory note from 4.92% to 4.89% and providing a copy of the final signed note.

322. SEC submits that the ROE and short term debt rates should be those set out in the Board's letter of March 3, 2011 applicable to distributors with a May 1, 2011 effective date. Those figures would be 9.58% for ROE, and 2.46% for short term debt. On the Long Term Debt Rate for the $116MM promissory note, SEC submits that the applicable Long Term Debt Rate should be 5.32%, the current Deemed Long Term Debt Rate, not the 6.1% rate approved by the Board in the 2008 rebasing Decision. However, SEC submits that if the Board were to decide to delay implementation of the new cost of capital parameters, it should maintain the 6.1% to be consistent with other decisions and decisions by the Supreme Court of Canada on cost of capital cases.

323. Energy Probe suggests that the cost of capital parameters, including the Board's deemed rate for long term debt, be based on what the Board will find as the commencement of the rate year.

324. VECC submits that the appropriate application of the Board's cost of capital policy, in terms of the relevant date for the calculation of cost of capital parameters that are set by the Board, is the proposed first day of the approved rate year, not the ultimate effective date of the rates within that year. On the Long Term Debt Rate for the $116MM promissory note with Hamilton Utilities Corporation, VECC submits that such should be the Board's deemed debt rate for 2011, as set out in the Board Letter of cost of capital parameters for May 1, 2011 rates, 5.32%.

325. CCC submitted that a new ROE only apply in 2012 as part of the 2012 IRM process. Regarding Horizon Utilities' $116 MM note maturing on July 31, 2012, CCC shares the view of SEC that the deemed debt rate of 5.32% should be used to calculate the new cost of debt on the basis that this is consistent with the manner in which Horizon Utilities' rates were set in 2008.

Horizon Utilities' Reply:

326. Elsewhere in this Reply Argument, Horizon Utilities makes submissions on the reasons why it should be permitted to align its rate year with its fiscal year starting January 1, 2011 and that the effective date should be January 1, 2011. The submissions below deal with the cost of capital issues raised by the parties opposing Horizon Utilities' proposals.

327. Horizon Utilities submits that the date of implementation of a rate order is not typically a driver for what ought to be the appropriate cost of capital parameters to apply to an application. These are two entirely different concepts.

328. Rather, in Horizon Utilities' submission, there are two prime considerations for the Board in this case.

329. Firstly, the cost of capital values should be set based on the applied for effective date in the Application. Any other option aligned to certain intervenor submissions on this issue should be interpreted as obvious attempts by parties to achieve one goal and one goal only: to reduce rates no matter how unfounded and baseless a position may be.

330. Second, changes in capital parameters should not be selective. There is clearly "cherry picking" here by some parties. One cannot validly argue that some capital parameters should be updated and others should not. Horizon Utilities submits that SEC was correct in this regard in its comments relating to other decisions by the Board and decisions by the Supreme Court of Canada.

331. When the Board provided for alignment of the rate year with the fiscal year, it did not contemplate a transition in the manner the parties argue. The same parties did not argue for a transition in the case of Hydro One Brampton (EB-2010-0132), for example. Principles should not change so readily and opportunistically. The fact that rates in that case were decreasing rather than increasing is not a basis for arguing for a different treatment here.

332. Certain parties invite the Board to find that, since this is an early rebasing application, it should be receive a different and more stringent treatment on the cost of capital. The arguments read as invitations for the Board to punish or discipline Horizon Utilities. This is wrong. In its decision on the preliminary issue, the Board did not say that. Horizon Utilities urges the Board to disregard the spite of such positions in its deliberations in setting just and reasonable rates.

333. As noted earlier, Board staff support the continued use of the 6.10% rate for the $116MM Promissory Note. Certain others did not. Horizon Utilities submits that the rate for this note was established as part of the Board's decision on Horizon Utilities' 2008

Cost of Service Rate Application (EB-2007-0697) for that proceeding and for going forward. In that proceeding, the issue regarding the note was that the 7% rate on the fixed rate non-callable note was not the market rate, as such arose due to the replacement of the same note dated February 2002. When this note was updated on February 28, 2005, it was not callable on demand and it was set with a fixed rate. As noted above, the Board decided to use the Deemed Long Term Debt rate by treating the note as a replacement note. The rate is fixed rate and the note is not callable in the test year. Certain parties, SEC most notably, simply misinterpreted or elected to misinterpret the Board's decision.

334. Horizon Utilities submits that the appropriate cost of capital parameters to use for this Application are those specified in the Board's November 15, 2010 letter. That letter applies "for use in the 2011 rate year cost of service <u>applications</u> for rates effective January 1, 2011." The letter indicates that the cost of capital parameters apply to <u>applications</u> that propose a particular effective date of January 1, 2011. It is clear, and it is not contested by any of the parties, that the Application is for rates effective January 1, 2011. The November 15, 2010 letter does not contemplate updating the cost of capital parameters based on the actual effective date approved by the Board. Furthermore, it has not been the Board's past practice, even where the Board has ordered a later effective date for rates than that requested by the applicant, to update the cost of capital parameters to reflect that later effective date. The Board has at all time set cost of capital parameters based on the applied for effective date. Horizon Utilities submits that there is no reasonable basis to depart from this approach now.

335. Horizon Utilities suggested a balancing mechanism to address the fact that this note will be reissued in July 2012[187]. Intervenors had varying positions on whether there should be a variance account as Horizon Utilities suggested, commencing with the adjustment of the rate following the Note's renewal in 2012. Horizon Utilities acknowledges that its proposal for a variance account mechanism is novel. The intent is nothing more than a genuine attempt to keep both the ratepayers and the shareholder harmless in this transaction. Horizon Utilities will follow the Board's direction in this regard.

[187] Tr. Vol. 3pp 84 - 85.

336. Horizon Utilities replies directly to the submissions of CCC in respect of the appropriate ROE below in this reply.

6. Calculation of Revenue Deficiency

337. Horizon Utilities calculated a revenue deficiency of $19,560,006 when it submitted its Application on August 26, 2010. [188] Changes to the deficiency have been documented in Horizon Utilities' response to Undertaking J3.3 such that the Revised Revenue Deficiency applied for is $20,721,653. The Table submitted with that response is reproduced on the next page to fully document the changes to the Revenue Deficiency.

[188] Exhibit 6, Tab 1, Schedule 1, p.1

	Revenue Deficiency	Total Revenue	Rate Base	Reference
As originally filed	$19,560,006	$108,707,939	$376,890,026	
# 1 Initial Change in Large Use Load Forecast	$209,367	$15,561	$237,762	Revised Evidence
As per revised evidence	$19,769,373	$108,723,500	$377,127,788	
#1 Update to Cost Allocation Model due to Large User Load Forecast change	$441,466	$0	$0	VECC Interrogatory on Refiled Evidence 44
#2 Cost of Power update due to Large User Load Forecast change	-$68,120	-$68,120	-$780,379	Energy Probe Revised Evidence Question 1
#3 Update to Cost of Capital Parameters.	-$345,160	-$345,160	$0	AMPCO Interrogatory on Revised Evidence 3
#4 Tax Updates	$510,726	$510,726	$0	Energy Probe Technical Conference Question 8
#5 Regulatory Costs	-$80,978	-$80,978	-$11,200	Board staff Interrogatory 40 Board staff Technical Question 9
#6 Interest Rate on Promissory Note	-$16,211	-$16,211	$0	School Energy Coalition Interrogatory 34
Total as per response to Questions on Refiled Evidence	$20,211,096	$108,723,757	$376,336,209	
#7 Inclusion of Apprenticeship Credits	-$526,829	-$526,829	$0	Energy Probe Technical Conference Question 8
Total Revised Evidence	$19,684,267	$108,196,928	$376,336,209	
#8 Reduced Load Forecast	$1,037,386	-$97,321	-$1,115,441	Oral Hearing Undertaking J3.3
Total Revised Evidence	$20,721,653	$108,099,607	$375,220,768	

338. Board staff stated that Horizon Utilities adhered to the Board's policy and practice and employed the Revenue Requirement Work Form ("RRWF") which forms part of the Board's Filing Requirements.[189] Board staff further commented that they take no issue with respect to Horizon Utilities' methodology for calculating the revenue requirement and revenue sufficiency/deficiency. Horizon Utilities acknowledges that the revenue deficiency would be subject to change based on the Board's Decision on this Application.

[189] Board staff Submission, p.57

7. Cost Allocation

339. As discussed in its Argument-in-Chief, at Exhibit 7, Tab 1, Schedule 1 of the Application, Horizon Utilities set out its proposal to continue a transition of the revenue-to-cost ratios of its customer classes directionally toward parity; to the extent practical, including consideration for individual class rate impacts. This represents a progression from the changes made to Horizon Utilities' revenue-to-cost ratios in its 2008 EDR application and the Board's decision thereon.

340. As discussed on Day 4 of the oral hearing, Horizon Utilities clarified its method of rebalancing revenue to cost ratios by starting with the movement of the Residential class such that it would seek to move the Residential class one-half of the way toward parity[190], and, thereafter, move the ratios for the other classes closer to parity. Horizon Utilities has proposed specific ratios for each rate class[191]. If the Board does not accept these proposed ratios, Horizon Utilities anticipates that the Board will direct the adjustment of such.

341. With respect to adjustments to the revenue to cost ratio for the Street Lighting class, Horizon Utilities has advised that it is undertaking a street lighting study and has requested that the Board allow Horizon Utilities to file the study and revise the revenue-to-cost ratio for this class in an upcoming IRM application.

Submissions of the Parties:

342. The proposal from Horizon Utilities reflects an overall movement of the rate class revenue to cost ratios closer to unity. The VECC option suggests the revenue to cost ratios for classes that are already within Board approved ranges should remain the same, except to absorb shifts in ratios for classes that are outside the Board's approved ranges, as those classes should move to the outer bounds of the Board's approved ranges

343. Of the six submissions, three are supportive of the proposal from Horizon Utilities and three support the VECC option. Board Staff, AMPCO, and CCC are supportive of the proposal from Horizon Utilities; but Board Staff and CCC caution against further

[190] Transcript, Vol 4, p.54, lines 18-25
[191] Exhibit 7, Tab 1, Schedule 2, Table 7-3

movement toward unity. Energy Probe, SEC, and VECC support the VECC option. AMPCO also expressed a concern about the "absolute costs" attributed to the Large Use class.

344. In paragraphs 6.7 and 6.8 of the VECC submission, VECC indicates that it does not support the Horizon Utilities' proposal on the ground that, per its interpretation of Board policy, a distributor should only endeavor to move its revenue to cost ratios closer to one if this is supported by improved cost allocation. In VECC's view there has been no improvement in the cost allocation study since the 2006 cost allocation informational filing was completed.

Horizon Utilities' Reply:

345. Horizon Utilities suggests that it is instructive to consider VECC's position in Horizon Utilities' 2008 EDR Application with respect to cost allocation. VECC made the following comments at paragraphs 8.4 to 8.6 of its submission on Horizon Utilities' 2008 EDR Application:

8.4 In terms of the methodology, Horizon uses the allocation of costs derived from the 2006 informational filing to establish the "100% Cost Allocation" case. It was by comparing the results of this allocation of the revenue requirement to that based Horizon's proposed "revenue shares" that the proposed revenue to cost ratios were calculated. However, this approach is only correct if the relative loads and customer counts for each customer class are the same in the 2008 forecast as they were for the 2006 informational filing. This is clearly not the case.

8.5 As result, Horizon's approach leads to some anomalous results

- *While the revenue to cost ratio for Large Users supposedly increases from 49.79% to 92.12% (i.e. by a factor of 1.85), the revenue allocation share only increases from 5.46% to 6.30% (i.e. by a factor of 1.15). What this means is that the proposed shift in revenue allocation will only increase the ratio for the Large User class from 49.79% to 57.45% - still well below the Board's Guidelines.*
- *While the revenue to cost ratio for GS>50 kW supposedly increases from 72.12% to 86.31% (i.e. by a factor of 1.20), the revenue allocation share only increases from 15.23% to 16.85% (i.e. by a factor of 1.11). What this means is that the proposed shift in revenue allocation will only increase the ratio for the LGS>50 kW class from 72.12% to 79.8% - just under the Board's Guidelines.*
- *While the revenue to cost ratio for Street Lights supposedly increases from 15.63% to 23.79% (i.e. by a factor of 1.52), the revenue allocation share increases by a factor of 1.71 (i.e. from 0.44% to 0.75%)*

- *While the revenue to cost ratio for USL supposedly increases from 34.24% to 88.05% (i.e. by a factor of 2.57), the revenue allocation share increases from 0.15% to 0.85% (i.e. by a factor of 5.67).*
- *While the revenue to cost ratio for Back-up Power supposedly increases from 50.98% to 65.84% (i.e. by a factor of 1.29), the revenue allocation share actually increases from 0.27% to 0.45% (i.e. by a factor of 1.67).*

8.6 Given the current circumstances, the correct starting point should be the revenue allocation factors arising from 2008 revenues at current (2007) rates. The underlying assumption is that revenues at current rates are consistent with the revenue to cost ratios arising from the 2006 Cost Allocation informational filing Furthermore, to be fully consistent, the revenue shares should be calculated using 2007 rates excluding the smart meter rate adder and the LV Charge adder, as neither of these were included in the 2006 Cost Allocation filing. Then to yield a desired increase in the revenue to cost ratio (e.g., roughly 85% for Large Users), the proportion of revenue allocated would need to be increased by the same factor.

346. As indicated by Horizon Utilities in its response to VECC Interrogatory 10, the revenue to cost ratio information used in the 2008 Cost of Service Application was based on the original cost allocation informational filing submitted by Horizon Utilities to the Board on March 30, 2007 (i.e. the 2006 cost allocation informational filing). The original cost allocation study was based on load data and accounting data from the 2006 EDR application. The 2006 EDR application was prepared using a historical test year approach which meant the 2004 cost structure was used to determine the rates approved in the 2006 EDR application. As a result, the revenue to cost ratio information which supported the 2008 Cost of Service Application was based on the 2004 cost structure.

347. It is clear that VECC had an issue with how Horizon Utilities prepared the cost allocation study for the 2008 Cost of Service Application. The main issue is that information from the 2006 informational filing, which was based on 2004 costs and volumes, was used in the 2008 Application. In VECC's view, this provided an incorrect starting point for the cost allocation study in that Application.

348. For the current Application, all the input data entered in the 2011 cost allocation study such as load data and accounting data is based on 2011 Test Year forecasts. The resulting revenue to cost ratios reflect revenues and costs that are on a 2011 basis and provide more accurate revenue to cost ratios than the method used in Horizon Utilities'

2008 EDR Application. At para. 6.2 of its submission in the current Application, VECC states:

> *In VECC's view Horizon has properly applied the Board's cost allocation methodology. VECC notes that the cost allocation was not updated to reflect the April 2011 revision to the load forecast for the non-Large Use classes. Subject to this update, the results are the appropriate starting point for any consideration of adjustments to customer class revenue to cost ratios.*

349. Horizon Utilities submits that there has been an improvement in its cost allocation study between the 2006/07 cost allocation filing that formed the basis for cost allocation in the 2008 EDR application and the study used in the current Application. VECC's comments in 2008 and 2011 also suggest an improvement has taken place, notwithstanding VECC's assertion to the contrary.

350. With the improvement in cost allocation from 2008 to 2011, Horizon Utilities reiterates its submission that an overall movement in revenue to cost ratios closer to unity is warranted. Horizon Utilities notes that this issue has been less clear than it otherwise may have been. Horizon Utilities submits that its proposal in response to Undertaking J3.7 remains its position. For clarity, such is set out below.

351. Horizon Utilities addressed the ratio for the residential customer class, first. As can be seen from Table 7-1 at Exhibit 7, Tab 1, Schedule 1, Page 3 of 3, the revenue-to-cost ratio for the residential customer class was 110.2% as per the 2011 Cost Allocation Model and 111.6% per the 2008 Board Approved ratios.

352. Horizon Utilities calculated the distance to move this customer class approximately halfway to parity. Horizon Utilities proposed a specific revenue-to-cost ratio for the residential class for 2011. With the remaining revenue requirement to be allocated to other classes, Horizon Utilities proposed specific revenue-to-cost ratios for 2011 to adhere to the overarching principle of bringing the revenue-to-cost ratios for each class closer to parity. The Board will of course make a decision on the proposed ratios for each rate class. It is Horizon Utilities' suggestion that the Board-approved revenue-to-cost ratios for 2011 would be specific ratios for each class.

353. With regard to the issue of streetlights, Horizon Utilities notes the following from page 24 of the Report of the Board on the Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219) dated March 31, 2011

> *The Board agrees with the recommendation expressed by a number of stakeholders that some aspects of the terminology surrounding the USL class (for example, the definition of a customer, an account, a device) and the associated modeling methodology require clarification. The Board also agrees that clarification of the issues raised by various stakeholders related to the terminology and methodology used to allocate costs to the Street Lighting class is necessary. The need for clarification is demonstrated by the significant impact of a change in methodology that was observed in the Kitchener-Wilmot Hydro case discussed above. The Board believes that these issues are best addressed in the context of a separate consultation process focused on the terminology and modeling methodology for the Street Lighting and USL classes.*

354. Later in the Report (at p.39), the Board states:

> *As noted in section 2.5.4, the Board will initiate a separate consultation process on the terminology and modeling methodology for the Street Lighting and Unmetered Scattered Load classes. Further details on this consultation will be communicated in the near future.*

355. In light of this pending consultation, Horizon Utilities is prepared to await the outcome of the consultation before addressing the issue of cost allocation for streetlights.

356. With respect to the AMPCO concern about the "absolute costs" attributed to the Large Use class, Horizon Utilities submits that AMPCO appears to be addressing the issue of whether certain costs, such as its characterization of certain St. Catharines costs as stranded costs and efficiencies arising from the St Catharines merger, have been reflected in the overall revenue requirement and attributed to the Large Use Class. Horizon Utilities submits that such costs and benefits are not directly attributable to the Large Use class. The cost attributed to the Large Use Class is simply based on an allocation of total revenue requirement proportionate with how the current revenue is attributed to each rate classes (by customer number and load) plus a specific movement in the revenue to cost ratio for the Large Use class from 63.9% to 91.2% consistent with Horizon Utilities movement to unity which AMPCO supports.

- **Alternative Service Delivery for Large Use Customers**

357. AMPCO (p.9) has further made submissions that conditions may exist for a business case for Large Users to consider alternative distribution service delivery resulting from the cost allocation approach taken by Horizon Utilities in the Application and the resulting impact on Large User distribution costs.

358. Horizon Utilities submits that its costs of serving this customer class are reflective of its cost allocation study, and that AMPCO's comments are not a basis for changes to the allocation proposed in this Application.

359. Horizon Utilities will briefly address the impracticality of AMPCO's comment that a business case may exist for alternate service delivery. The Hydro One transmission system is the only alternative delivery option to these customers. It would be impractical to connect to Hydro One's transmission system, particularly in the short to medium term. In certain cases, a Large Use customer may be technically able to connect directly to the transmission system. However, in most cases, this would be impractical from both financial and physical perspectives. Technically, the customer would need to either have the transmission provider build a new transformer station or construct it themselves at their own expense and on their own property. In addition to the new transformer station, the customer would need to arrange for the installation and connection of transmission lines from the existing overhead tower lines to their new substation. These costs are in all likelihood prohibitive towards seeking alternate service delivery; requiring extensive planning, and engineering design. Furthermore, extending transmission lines for connection purposes may be physically impossible due to right-of-way constraints in certain instances. Horizon Utilities does not believe that a practical and cost effective business case exists for an existing Horizon Utilities Large Use customer to undertake such work.

360. Horizon Utilities acknowledges that its customers are concerned about electricity costs. Similarly, as indicated previously, Horizon Utilities has demonstrated concern for its customers and a balanced approach towards such in the development of the Application and through the Application process. Horizon Utilities is not in a position to speculate on the point at which electricity costs would prompt a customer to consider leaving its

service area or undertaking the significant cost that a shift to transmission-connected service would require. Horizon Utilities submits, however, that the costs of providing distribution service that have been assigned to this class have been determined appropriately in a manner consistent with Board policy on cost allocation. The related rates to be charged to this class are reflective of aligning revenues with these costs with the proposed movement in the revenue to cost ratio and do not create unreasonable or inappropriate impacts.

8. Rate Design

361. As discussed in its Argument-in-Chief, Horizon Utilities' approach to rate design is set out at Exhibit 8 of the Application, and clarified in its response to Undertaking J3.7. Horizon Utilities' Schedule of Rates and Charges was filed as part of the Application, and an updated version was provided as part of Horizon Utilities' March 14, 2011 evidence update. The RRWF filed by Horizon Utilities on April 15, 2011 sets out new rates for the Residential and GS<50 kW classes reflecting the CDM-related revision to the load forecast discussed above. Changes to rates resulting from the CDM-related update to the load forecast have minimal impacts when the rates are compared to those resulting from the March 14, 2011 update. The following address fixed/variable splits for the non-Large Use rate classes; the fixed/variable split for the Large Use class; and Horizon Utilities' loss factors.

- **Fixed/Variable Splits:**

362. Horizon Utilities proposes to maintain its fixed/variable splits for all of its customer classes with the exception of the Large Use class. The reasons for the proposed treatment of the Large Use class are discussed in Exhibit 8 and summarized below. While the Monthly Service Charges ("MSCs") for Horizon Utilities' customer classes exceed the upper bound set out in the Board's November 28, 2007 Report on Cost Allocation for Electricity Distributors, the Board did not prohibit proposals for increases in MSC values. This approach is supported most recently by the April 4, 2011 Decision of the Board in Hydro One Brampton Networks Inc.'s ("HOBNI's") 2011 cost of service application (EB-2010-0132) where, at page 37 of the Decision, the Board accepted HOBNI's proposed increases in MSCs notwithstanding that in some cases the upper band of the MSC was exceeded, and referred to other applications in which similar increases were approved.

363. With the exception of the Large Use class, increases in MSCs proposed in this Application are driven by changes in the revenue requirement attributable to each customer class, and the existing fixed/variable splits are being maintained. With respect to the Large Use customer class, the current fixed/variable split is 34.3%/65.8%. Horizon Utilities proposes to increase the fixed proportion to the proportion of the next highest class – that is 49.4%, the current GS > 50 kW split.

- Fixed/Variable Splits for the Non-Large Use Rate Classes)

Submissions of the Parties:

364. With regard to the rate design for the Non Large Use rate classes, AMPCO, SEC, and Board Staff make no submission on this issue. Energy Probe supports the Horizon Utilities proposal which is to maintain the current fixed/variable split for the Non-Large Use classes. CCC suggests that the current monthly service charges be maintained.

365. VECC submits that the fixed charge for the Residential, GS<50, GS>50 and USL should be no greater than the ceiling established through the cost allocation methodology. In the case of the Large Use class, it should be set equivalent the 2010 value, which is already above the ceiling value for the class.

Horizon Utilities' Reply:

366. The submission from VECC reflects its interpretation of the Board's policy on rate design. However, VECC's explanation of how to implement their interpretation of the Board's policy is confusing. Pages 12 and 13 of the Report of the Board on the Application of Cost Allocation for Electricity Distributors (EB-2007-0667) dated November 28, 2007, regarding the issue of the Monthly Service Charge, provides the following:

> *"The Board considers it to be inappropriate to make significant changes to the ceiling for the MSC at this time, given the number of issues that remain to be examined. The appropriateness of the methodologies cited above, used to set the MSC is an issue that will be examined within the scope of the Rate Review. The Rate Review will also examine the role of rate design in achieving various objectives, including conservation of energy. Both of these undertakings will have determinative impacts on the fixed/variable ratio policy.*
>
> *In the interim, the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time"*

367. Based on the above, VECC suggests, at paragraph 7.3 of its submission, that:

> *"In VECC's view this means that if the monthly fixed rate* ***is currently less than the ceiling*** *then the proposed rate should not exceed the ceiling (even under the application of the current fixed variable split). When applied to Horizon this means*

that the proposed 2011 month service charges for Residential, GS<50, GS>50 and USL should not exceed the upper bound of the Board's policy range." (emphasis added)

368. The following table from the Application is used to evaluate which classes are currently less than the ceiling.

Table 8-8 Comparison Proposed Fixed Distribution Charge to Floor & Ceiling Charge

Customer Class	Current Monthly Fixed Charge	Proposed Monthly Fixed Charge	Floor Monthly Fixed Charge per Allocation Study	Ceiling Monthly Fixed Charge per Allocation Study
Residential	12.68	14.71	2.25	13.81
GS < 50 kW	27.45	33.87	4.06	21.05
GS >50	250.33	332.50	36.91	122.54
Large Use	11,151.32	26,699.15	265.84	722.23
Sentinel Lights	2.89	5.34	0.51	9.92
Street Lighting	1.97	2.98	0.52	9.85
USL	9.59	10.95	0.40	10.28

369. A review of the table indicates to Horizon Utilities those classes that are currently less than the ceiling are the Residential, Sentinel Lights, Street Lighting and USL not Residential, GS<50, GS>50 and USL as listed by VECC. As a result, Horizon Utilities is confused with the submission from VECC.

370. VECC (and to a certain degree CCC) is using its interpretation of the Board's November 2007 Report on Cost Allocation to promote its position that the fixed/variable split for the Non-Large Use classes should not be maintained. However, Energy Probe does support the maintenance of the fixed/variable split. Other parties made no submissions on this issue which suggests to Horizon Utilities that Board Staff, AMPCO and SEC do not disagree with the maintenance of the fixed/variable split for the Non-Large Use classes.

371. In Horizon Utilities submission, the Board's statement in its November 2007 Report that *"The Board considers it to be inappropriate to make significant changes to the ceiling for the MSC at this time, given the number of issues that remain to be examined"* is critical to this issue. Based on the evidence presented in the Application in Exhibit 8, Tab 1,

Schedule 1, Pages 4 and 5 and the response to VECC 11 it appears to Horizon Utilities that there are a "*number of issues that remain to be examined".* As a result, it would "*be inappropriate to make significant changes to the ceiling for the MSC at this time*". It is Horizon Utilities' view that significant changes are not being made to the MSC when the current fixed/variable ratio is maintained. Horizon Utilities submits this position is supported by the Decision of the Board on the Hydro One Brampton Networks Inc. 2011 cost of service rate application dated April 4, 2011. On page 38 of that Decision, the Board states:

> *"The Board accepts HOBNI's proposed MSC which maintains the current fixed/variable proportions. The Board notes that this is consistent with other decisions in which it has approved applications to increase MSC that were already above the cost allocation ceiling, provided that the increase would not result in a higher revenue from the fixed charge relative to the volumetric charge."*

- The Fixed/Variable Split for the Large Use Rate Class

372. With regard to the issue of the fixed variable split for the Large Use class it is Horizon Utilities proposal that the fixed/variable split be moved from the current level of 34.3%/65.7% to the current fixed/variable split of the GS > 50 kW class of 49.4%/50.6%.

373. As discussed in the Application and above, loads and distribution revenues from the Large Use class have declined significantly since Horizon Utilities' last Cost of Service application, while the costs of providing distribution service are largely fixed, such that they do not vary with consumption. In fact, this is characteristic of the nature of costs underlying electricity distribution service delivery; particularly in the short to medium term.

374. Large Use revenues have been the most volatile and susceptible to material decline with respect to past and persisting adverse economic conditions. However, the Large Use customer class has the lowest proportion of class revenue recovered through the MSC; which is very low considering the largely fixed nature of distribution costs. This condition results in a high level of risk and uncertainty with respect to Horizon Utilities' ability to recover the revenue allocated to this class. In the Decision on the Z-factor Application, the Board indicated at page 9 that it "*is in agreement with staff and intervenors that Horizon has not demonstrated that the revenue losses experience are an event*

genuinely external to the regulatory regime for which the management of the Applicant could not plan".

375. As Horizon Utilities submitted in its response to Undertaking J3.7, it is appropriate that the fixed proportion be increased as increasing the MSC is the only practical means within rate design for Horizon Utilities' management to plan for addressing this risk. Despite the proposed increase in MSC for the Large Use class, which is supportive of addressing this risk, Horizon Utilities submits that there remains a significant general risk of cost recovery within rate design related to the level of mismatch between the amount of fixed revenue and fixed costs.

Submissions of the Parties:

376. The following is a summary of the positions of Board Staff and the intervenors on this issue. Board Staff have suggested that the fixed/variable split for the Large Use Class should be moved halfway between the current level and the proposed level (i.e. 41.85% fixed and 58.15% variable). AMPCO and VECC suggest the current 2010 monthly service charge be maintained. SEC suggests that the proposed MSC is too high, but does not suggest a value. CCC and Energy Probe did not make a submission in regard to the fixed/variable split for the Large Use Class

Horizon Utilities' Reply:

377. Horizon Utilities' consistent position on this issue has been explained in detail in the evidence in Exhibit 8, Tab 1, Schedule 1, Page 5 to 8. Additional evidence on this issue is provided in response to AMPCO Interrogatories 15 and 16 and Board Staff interrogatory 47(b). The response to Board Staff interrogatory 47(b) summarizes the Horizon Utilities position and is replicated here for convenience.

> *"Horizon Utilities does not have any empirical data nor does it have analysis to support its proposal that the fixed charge revenue split for the Large Use and GS > 50 kW classes should be equal. However, as noted in Horizon Utilities' response to Board Staff Interrogatory #15, above, in rejecting Horizon Utilities' Z-Factor Application, the Board wrote:*
>
> *"…Horizon has not demonstrated that the revenue losses experienced are an event genuinely external to the regulatory regime for which the management of the*

Applicant could not plan and budget, and thus has failed to establish that a Z factor event has occurred." (at page 9)

378. The Board's expectation appears to be that utilities plan for such revenue volatility, and Horizon Utilities submits that an increase in the fixed component of the distribution charge is virtually the only means of planning against the a clear likelihood of ongoing revenue volatility that is grossly disproportionate to underlying cost causality.

379. With the Board's denial of Horizon Utilities' Z-factor application, Horizon Utilities reviewed alternatives that would assist it in better managing the volume risk associated with Large Use customers. At Exhibit 8; Tab 1; Schedule 1; Page 6 of 12, Horizon Utilities submits that the costs of providing distribution services are, for the most part, fixed, regardless of the level of consumption/demand, and that large declines in distribution revenue can result from significant reductions in commercial consumption when a significant component of such are recovered through a volumetric rate component (see also Horizon Utilities' Z-factor Oral Hearing transcript, January 28, 2010, p 66, line 27 – p.67, line 7).

380. As a result, Horizon Utilities considered proposing a 100% fixed charge in order to address the volume risk. Horizon Utilities submits there is support for such a position based on a statement that "The cost of energy distribution and customer care is driven in the short run, chiefly by customer growth and is largely fixed with respect to system use." (p.iii, paragraph 2) from the Executive Summary on the Review of Distribution Revenue Decoupling Mechanisms, commissioned by the Board and undertaken by Pacific Economics Group. In order to address the volume risk associated with the Large Use class Horizon Utilities considered:[192]

- a 100% fixed charge;
- a fixed charge that reflected the rate class with the highest proportion of fixed costs;
- a fixed charge that reflected the average proportion of fixed costs over all the rate classes; and
- a fixed charge that reflected the rate class with the lowest proportion of fixed costs.

[192] Horizon Utilities' response to Board staff Interrogatory 47(b)

381. In order to reasonably balance the need to provide greater certainty of recovery of Horizon Utilities' cost of providing service to its Large Use customers while maintaining opportunities to reduce the distribution component of their electricity bills through efficiency improvements and demand management activities, Horizon Utilities proposes to move the fixed/variable split for the Large Use customer class to the same proportions as the General Service < 50 kW customer class which is the rate class with the next lowest proportion of fixed costs.

382. This notwithstanding, Horizon Utilities submits that this proposal leaves the utility and its customers with disproportionate risk with respect to revenue volatility and that the fixed component should be much higher still. However, Horizon Utilities submits that its proposed approach represents a reasonable incremental means of addressing at least some of the revenue volatility in this class at this time, and requests that the Board approve the adjustment of the fixed/variable split for the Large Use class.

- **Loss Factor**

383. In the Application filed August 26, 2010[193], Horizon Utilities requested the Loss Factors shown below.

TABLE 8-20

Loss Factors

Description	Loss Adjustment Factor
Supply Facility Loss Factor	**1.0078**
Distribution Loss Factors:	
Secondary Metered Customer	
Total Loss Factor - Secondary Metered Customer <5,000kW	**1.0407**
Total Loss Factor - Secondary Metered Customer >5,000kW	**1.0179**
Primary Metered Customer	
Total Loss Factor - Primary Metered Customer <5,000kW	**1.0303**
Total Loss Factor - Primary Metered Customer >5,000kW	**1.0078**

[193] Exhibit 8, Tab 1, Schedule 3, Page 7, Table 8-20

384. These Loss Factors were calculated using a five year average based on the Modified Schedule 10-5: Determination of Loss Factors, Appendix 2-P in the Board's Filing Requirements.

Submissions of the Parties:

385. Board Staff stated that Horizon Utilities' methodology for updating its Loss Factors complies with Board policy and practice and takes no issue with its proposal on this matter." VECC supported Horizon Utilities' proposal, noting that the loss factors over the past 5 years have been fairly consistent and exhibit no particular trends. Neither SEC CCC nor AMPCO had any comment on this issue.

386. Energy Probe on the other hand argued for a factor of 3.92%, basing the calculation on the average of the last three years shown in Table 8-19 for the period 2007 through 2009.

Horizon Utilities' Reply:

387. Horizon Utilities submits that the Loss Factor was calculated as per the Board's Filing Requirements using the preferred and widely accepted method of the Board. In the case where an Applicant has the choice between the Board's minimum and preferred requirement, it is Horizon Utilities' understanding that if the preferred option can be achieved without undue additional costs to customer then the preferred option should be pursued. In this case Horizon Utilities has been able to achieve the preferred 5 year option without significant additional cost to the customer. As a result, the loss factor as filed should be accepted.

9. Deferral and Variance Accounts

388. Horizon Utilities is seeking an order from the Board permitting it to clear the balances accumulated in its:

- Group 1 Deferral and Variance accounts from January 1, 2009 to December 31, 2009; and
- Group 2 accounts for the period of January 1, 2007 through December 31, 2009, with carrying charges through December 31, 2010.[194] Horizon Utilities submits that it has established the prudency of account balances in its Application.

389. In connection with the clearance of the Group 1 and Group 2 balances referred to above, Horizon Utilities requests approval to establish a new sub-account of Account 1595, Disposition of Regulatory Asset Balances. Horizon Utilities proposes that the balances in the deferral and variance accounts for which it is seeking disposition in this Application be transferred to the new sub account. The impact of settlements of these balances through rate riders would then be recorded in this account.

390. In its March 14, 2011 evidence update, Horizon Utilities proposed that Account 1572 would be used for the tracking of any additional net distribution revenues above the aggregate established baselines in the revised load forecast for the two Large Use customers identified in Exhibit 3, Tab 2, Schedule 2 of the revised Application. Horizon Utilities proposed that any net distribution revenue in excess of the aggregate of those baselines[195] be shared with its Large Use customers on a 50/50 basis. However, during the oral hearing, Horizon Utilities acknowledged that the treatment of the proposed customer share of the net distribution revenue in excess of the aggregate above the baseline would be determined by the Board panel dealing with a related future request of Horizon Utilities for disposition of the balance.[196]

[194] Exhibit 9, Tab 1, Schedule 1.
[195] Exhibit 3, Tab 2, Schedule 2, p.20, lines 1-4 and Table 3-24A, revised March 14, 2011
[196] Transcript, Vol 3, p.80

- Disposition of Account 1508

391. Horizon Utilities is seeking disposition of the amount of $ 1,013,273 in account 1508 – Other Regulatory Assets – as part of the Group 2 Deferral and variance accounts.

Submissions of the Parties:

392. Board staff suggest that this account has not been tested in any detail for prudence, and that Horizon Utilities "may wish" to file additional material as part of its draft Rate Order. More particularly, Board staff state:

> Board staff notes that Account 1508 – Other Regulatory Assets CDM Costs, with a December 31, 2009 principal of $442,504, and Account 1508 – Other Regulatory Assets Incremental Capital Costs, with a December 31, 2009 principal of $10,017, were not tested in any detail for prudence during the proceeding. Board staff submits that Horizon may wish to:
>
> - clarify the nature of each of these sub-accounts;
> - identify the Board decision or accounting order approving the establishment and use of these sub-accounts in Account 1508 – Other Regulatory assets. In particular, Horizon should confirm if Account 1508 – Other Regulatory Assets sub-account CDM costs pertains to $265,000 of CDM expenses ordered to be tracked in the Board's Decision with respect to Horizon's 2008 rates application; and
> - identify evidence on the record supporting the prudence of the amounts recorded in these two sub-accounts.

393. VECC submits that the allocation of the LV balance should not be on a distribution revenue basis, but rather, it should be allocated in the manner set out at Exhibit 8, Tab1, Schedule 1, page 1. The data should be 2011; not 2008 as may have been suggested by Board staff's interrogatory #53.

Horizon Utilities' Reply:

394. Horizon Utilities submits that the Account 1508 balances are supported by the evidence in this proceeding and that no further evidence is required in support of the prudence of these expenditures. Horizon Utilities is concerned that in a proceeding involving hundreds of interrogatories and technical conference questions, a Technical Conference and an oral hearing, it is now being suggested that prudence testing has not taken place.

395. Horizon Utilities submits that the nature of the amounts in Account 1508 – Other Regulatory Assets CDM Costs, with a December 31, 2009 principal balance of 442,504, and Account 1508 – Other Regulatory Assets Incremental Capital Costs, with a December 31, 2009 principal balance of $10,017 were clarified in the responses to Interrogatories as follows:

- *Other Regulatory Assets CDM Costs*

396. The amounts included in this sub-account are in relation to CDM costs incurred for non-OPA funded programs. Horizon Utilities' response to VECC Interrogatory 14 a), filed on January 24, 2011 stated:

3. Other Regulatory Assets CDM Costs

- *The costs recorded in this sub-account relate to the costs of maintaining a small department and the applicable carrying charges.*
- *The costs are for the period January 1, 2008 to December 31, 2009.*
- *Page 31 of the Board's decision on Horizon Utilities 2008 Electricity Distribution Rate Cost of Service Application (EB-2007-0697), states that "the proposed activities appear to be aligned with the intentions of the new OPA program. As a result, $265,000 will be removed from the revenue requirement. Horizon may track the expenses in account 1508 for potential future disposition, at which time the Board will examine whether the expenditures have been, or could have been, recovered through OPA funding."*

397. In response to VECC Technical Conference Interrogatory 5d), filed February 23, 2011 Horizon Utilities provided a breakdown of the costs by year and type of expense as follows:

CDM Expenses in Account 1508

	2008 Actual	2009 Actual
Labour	$126,027.00	$64,267.00
Travel	$2,254.00	$6,384.00
Training & Development	$16,274.00	$1,884.00
Office Supplies	$3,115.00	$801.00
Telephone/Communications	$12,002.00	$5,876.00
Legal/Consulting	$31,454.00	$155,522.00
Advertising/Marketing	$0.00	$16,642.00
Total	**$191,126.00**	**$251,376.00**

398. Horizon Utilities confirms that Account 1508 – Other Regulatory Assets sub-account CDM costs pertains to $265,000 of CDM expenses ordered to be tracked in the Board's Decision with respect to Horizon's 2008 rates application. The $265,000 in costs quoted in the Board's decision was later revised to $191,126, to reflect 2008 actuals, as shown in the above table.

399. In response to part (e) of the same Technical Conference Question (Question 5) Horizon Utilities described the specific programs to which these expenses relate:

"The above-noted costs in Account #1508 relate to Horizon Utilities' specific CDM programs. Such include the development and delivery of Horizon Utilities Demand Response offering, Horizon Utilities' Generation Conservation grade five education program, "Ask the Expert" customer inquiries program and staff training and development.

Horizon Utilities has included the Amended and Restated CDM Program Agreement between the Ontario Power Authority and Horizon Utilities for 2008 – 2010 with this response. This Agreement defines the programs for which Horizon Utilities was able to receive funding through the OPA. Such programs included the: Appliance Retirement Program, Electricity Retrofit Incentive Program, Residential Demand Response, Business Incentive and the LDC Community Fund. All costs related to these programs were funded by the OPA.

The costs in Account #1508 are not related to OPA-specific program schedules and are therefore not recoverable through the OPA."

- *Other Regulatory Assets Incremental Capital Costs*

400. The amount of $10,017 included in this sub-account represents charges from Hydro One Networks as explained in the response to VECC Interrogatory 14 a) filed on January 24, 2011:

2. Other Regulatory Assets Incremental Capital Cost

- *The costs recorded in this sub-account have been incurred for payments made to Hydro One for their new incremental capital ("Rider 5") charge and include the applicable carrying charges.*
- *The costs are for the period June 1, 2009 to December 31, 2009.*
- *The Accounting Procedures Handbook Frequently Asked Questions, October 2009, page 17; A18 states that "The Board has approved a sub- account of account 1508, Other Regulatory Assets, "Sub-account Incremental Capital Charges", for distributors to record the charges arising from the capital rate relief rider. Interest carrying charges, calculated on the monthly opening principle balance of this sub-account at the Board's prescribed interest rates, are*

applicable for amounts recorded in this sub-account. The distributor should include the balance in this sub-account for review and disposition as part of its next cost of service rate application"

401. Horizon Utilities used the allocation factor of Distribution Revenues for the balances in account 1508 as directed by the Board's EDVARR Report, dated July 31, 2009, Summary of the Default Allocation Factors, page 21.

402. VECC submits its view that Horizon Utilities has misinterpreted the Board's direction in its EDDVAR report. VECC submits that since the costs in question related to LV charges from Hydro One, the appropriate allocation factor is that used to allocate LV costs. Horizon Utilities disagrees with this position and submits that it has used the appropriate allocation factor as directed in the Board's EDDVAR report.

- Disposition of Account 1592

403. In its Application, Horizon Utilities requested a disposition of the Deferral and Variance accounts noted in Exhibit 9 of the Application, in accordance with the July 31, 2009 Report of the Board on the Electricity Distributors' Deferral and Variance Account Review (the "EDDVAR Report", EB-2008-0046). Horizon Utilities followed the guidelines in the EDDVAR Report using the default disposition period of one year. In its original Application, Horizon Utilities did not request disposition of Account 1592 - PILs and Tax Variances for 2006 and Subsequent Years.

Submissions of the Parties:

404. Board staff noted that Horizon Utilities did not seek disposition of Account 1592, nor did it seek disposition of account 1562, which tracks variances in PILs and taxes from October 1, 2001 to April 30, 2006. Board staff identifies that on the latter account, a proceeding is currently before the Board. With regard to account 1592, Board staff submitted the section of the Accounting Procedures Handbook pertaining to this account and indicated that the disposition of this account is being dealt with in Cost of Service Applications. Staff's submission was therefore that it is appropriate to address the disposition of the Account 1592 balance as of December 31, 2009 plus carrying charges in this Application. No other intervenor made submissions on this matter.

Horizon Utilities' Reply:

405. In its response to Board Staff Interrogatory 54, Horizon Utilities agreed to the disposition of Account 1592. Further, in its response to Board staff Interrogatory 55, Horizon Utilities provided details on the account 1592 balance to December 31, 2009 of ($1,089,186). Horizon Utilities also identified a higher principal balance of $1,017,175. Horizon Utilities submits that, consistent with its response to the aforementioned interrogatories, if the Board determines disposition of these balances, then such should be allocated among the customer classes, over a one year period and that the billing determinant for the rate rider for each customer class would be number of customers or connections, as appropriate.

- Disposition of IFRS Account

406. Horizon Utilities has requested the disposition of the balance in this account as at December 31, 2009, in the amount of $565,479. Deferred IFRS Transition Costs, representing the incremental one-time administrative costs related to the transition to IFRS incurred by Horizon Utilities as at December 31, 2009 plus carrying charges to December 31, 2010.

407. As required by the Canadian Accounting Standards Board, publicly accountable enterprises, such as Horizon Utilities, are required to transition from Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS, effective January 1, 2012 (this was revised from the original implementation date of January 1, 2011).

408. On July 28, 2009, the Board issued a Report of the Board "Transition to International Financial Reporting Standards" (EB-2008-0408). The purpose of the Report of the Board was "to examine the effects of the adoption of IFRS on regulatory accounting and rate making, to identify necessary changes to the Board's filing and reporting requirements and rate setting methodologies" (Pg. 5). One of the guiding principles for the Board was that "Future regulatory accounting and regulatory reporting requirements established by the Board will be aligned with IFRS requirements as long as that alignment is not inconsistent with sound regulatory rate making principles."

409. Horizon Utilities commenced its IFRS conversion project in 2008. The IFRS conversion project consists of four phases: 1) initial assessment; 2) detailed assessment; 3) design; and 4) testing and implementation. Phases 1 through 3 have been completed; Phase 4, testing and implementation, will continue throughout 2011.

410. As part of EB-2008-0408, the Board approved the establishment of a deferral account for incremental one-time administrative costs related to the transition to IFRS, and noted that such amounts in the account will be subject to a prudence review before disposition (Pg. 27).

411. Incremental costs incurred by Horizon Utilities up to December 31, 2009 include: third-party consulting costs, project management costs, information system and business process design costs, as well as training costs. Horizon Utilities has incurred additional one-time incremental administrative costs with respect to the IFRS implementation in 2010, and may have further transition costs in the 2011 Test Year.

Submissions of the Parties:

412. Board Staff noted that the levels of expenditure for Toronto Hydro and Horizon Utilities are high. Further, Board Staff assert that the costs incurred by Horizon Utilities are the highest for an electricity distributor (Staff submission p. 80). Consequently, Board staff have proposed that Horizon Utilities be permitted to recover only one-half of the balance in this account at the present time with the remainder to remain in the deferral account (Pg. 80). Board staff have noted that this is the same approach that they took to Toronto Hydro's disposition of the same in its most recent Cost of Service Application (EB-2010-0142).

Horizon Utilities' Reply:

413. Horizon Utilities disagrees with the approach proposed by Board Staff. Horizon Utilities submits that there are a limited number of Cost of Service Applications submitted presently that seek recovery of IFRS implementation costs. Therefore, the conclusion drawn by Board staff with respect to the level of costs incurred by Horizon Utilities is not adequately informed. Furthermore, the approach suggested is without clear basis other than reference to the approach taken with respect to Toronto Hydro.

414. Horizon Utilities submits that it has been managing the implementation of IFRS, and its respective costs, prudently and with due consideration for the ultimate impact of such costs on customer rates. The mechanism for recovery is through this Cost of Service Application. The prudency of costs incurred by Horizon Utilities should be evaluated on the specific circumstances in this Application; they should not be based on an arbitrary approach, as suggested by Board Staff.

- OMERS Variance Account

415. As discussed previously, Horizon Utilities had requested that its 2011 OMERS premiums be included in its 2011 revenue requirement, and had asked for a variance account to track increases in the OMERS pension contribution increases announced for 2011, 2012, and 2013.

Submissions of the Parties:

416. Board staff suggest that there should be no variance account, and that premiums should be amortized over a four-year period. Energy Probe and SEC have also opposed the establishment of a variance account.

Horizon Utilities' Reply:

417. As noted above, Horizon Utilities has considered the submissions of Board Staff, Energy Probe, and SEC and as a result, has requested that the approved OM&A for the 2011 Test Year be increased by $351,000. Assuming that this request is granted, no variance account will be required.

- Load Variance Account

418. As discussed above, Horizon Utilities has proposed that Account 1572 would be used for the tracking of any additional net distribution revenues above the aggregate established baselines in the revised load forecast for the two Large Use customers identified in Exhibit 3, Tab 2, Schedule 2 of the revised Application. Horizon Utilities proposed that any net distribution revenue in excess of the aggregate of those baselines[197] be shared

[197] Exhibit 3, Tab 2, Schedule 2, Page 20, lines 1-4 and Table 3-24A, revised March 14, 2011

with its Large Use customers on a 50/50 basis, but acknowledged during the oral hearing that the treatment of the proposed customer share of the net distribution revenue in excess of the aggregate above the baseline would be determined by the Board panel dealing with a related future request of Horizon Utilities for disposition of the balance.[198]

Submissions of the Parties:

419. Board Staff observe that one customer has been zeroed out but there is already consumption to date by that customer; and that the two customers whose incremental load would be the subject of the proposed variance account represent “only 20% of large use class”. Board staff question the necessity of a variance account, but submit that if the Board intends to permit a variance account, a more reasonable sharing would be 5% for the shareholder, 75% for other Large Use Customers, and 20% for other customers. Energy Probe submits that there should be no sharing of the excess revenues with Horizon Utilities and that if the Board needs to make a finding with respect to the allocation of excess revenue; it should go to all Horizon Utilities customers. VECC submits that the account should be expanded to include incremental revenue from Horizon Utilities’ new Large Use customer, and that Horizon Utilities should not be allowed to share in the incremental revenues. SEC and AMPCO have stated that the best approach, in their view, is to set a reasonable load forecast and to dismiss the notion of a variance account.

Horizon Utilities’ Reply:

420. Horizon Utilities submits that the approach it identified in order to deal with the loads of these two large use customers continues to be its position. As identified in the evidence and interrogatory responses, Horizon Utilities continues to experience revenue and load volatility in the Large Use customer classes. Horizon Utilities’ approach recognizes and utilizes the best information that it had at the time of making the update. Horizon Utilities submits that, had it known this information regarding these two Large Use customers prior to filing its Application in 2010, the load forecast for the Large Use customers would

[198] Transcript, Vol 3, p.80

have reflected such, and Horizon Utilities would have been entitled to all of the related net distribution revenue therefrom

421. In this case, Horizon Utilities has adopted a balanced approach that considers its customers as well as the risk that it must continue to bear in light of this volatility and in the ongoing need to serve these customers. Intervenors have suggested that the ROE compensates the utility for such risk. This is may have an element of truth in a conceptual sense, but only as a general proposition. If this proposition was applied in every case, there would not be a need for as many variance accounts as exist under Board authorization. Some variance accounts are sector wide, some are distributor specific. It is not the Board's policy to change the ROE depending on the number and nature of such accounts. Additionally, the elements of ROE are not so precise as to discretely address individual components of utility-related risk. It can equally be argued that ROEs for Ontario LDCs remain at the low end of a range of comparable global benchmarks. Horizon Utilities also submits this approach leaves it with all related investment and credit risks with respect to the two subject Large Use customers.

422. Whether or not a variance account should be authorized very much depends on the specific merits of a request. Horizon Utilities submits this is a unique circumstance. The circumstances surrounding these two customers are indeed unique, requiring a unique approach. Horizon Utilities submits that its proposal fairly balances the interests of ratepayers and the shareholder. Under the proposal, Horizon Utilities will bear all of the downside variable rate revenue risk, credit, and investment risks related to the two customers; on the upside, it will equally share upside variable rate revenue. Horizon Utilities submits that the 50/50 proposition is reasonable in these circumstances.

- Late Payment Penalty

423. Horizon Utilities' initial Application submitted August 26, 2010 made reference to the Late Payment Penalty ("LPP") Charge and indicated that recovery of costs from customers would be sought.

424. On October 29, 2010, the Board commenced the generic proceeding to determine if Affected Electricity Distributors, including Horizon Utilities, should be allowed to recover from their ratepayers, the LPP costs and damages incurred as a result of the court

settlement that addressed litigation against many of the former municipal electricity utilities in Ontario. On February 22, 2011, the Board issued its Decision and Order and determined that it was appropriate for the Affected Electricity Distributors, including Horizon Utilities, to recover the costs and damages associated with the LPP class action in their rates. The Decision went on to state that the costs will be recovered over a 12-month period starting May 1, 2011.

425. Consequently, in its Argument-in-Chief Horizon Utilities withdrew its request for a deferral/variance account in this matter as the approved rate riders make the deferral/variance account unnecessary. Horizon Utilities requests that the approved rate rider commence with the implementation date of rates. Horizon Utilities further requests that the time frame over which the rate rider is charged, be unchanged from the 12 months initially contemplated.

10. Rate Year Alignment, Effective Date and Implementation Date and the Next Rebasing Year

- **Rate Year/Fiscal Year Alignment:**

426. Horizon Utilities has applied for a rate year and fiscal year alignment pursuant to the Board's letter dated April 15, 2010 in the EB-2009-0423 proceeding allowing each distributor the discretion to apply to align its rate year with the fiscal year in a Cost of Service application. Horizon Utilities prepared its Application on the basis of rate year and fiscal year alignment, commencing January 1, 2011. The benefits to the utility and rate payer were set out in evidence at Exhibit 1, Tab 2, Schedule 1, Pages 15-17, and were summarized in the Argument-in-Chief.

Submissions of the Parties:

427. Board staff supports Horizon Utilities' request for rate year and fiscal year alignment, acknowledging in the last full paragraph at page 7 of its submissions the quality of the information provided by Horizon Utilities in support of its request for realignment as against prior requests from other utilities.

428. CCC (at paragraph 62) supports Horizon Utilities' proposed realignment if there are no adverse rate impacts, subject to concerns about the proposed effective date of January 1, 2011. SEC (at paragraphs 8.1.14-8.1.15), Energy Probe (at pages 53-54), and VECC (at paragraphs 9.18-9.19) all support the proposed realignment; but argue that the realignment should commence as of January 1, 2012. AMPCO (at paragraph 69) agrees with the submissions of "other intervenors", without identifying which intervenors, in particular. EP supports realignment in 2012 on the basis that Horizon Utilities' fiscal year realignment request occurred as part of an early rebasing application, and that as a result of this unique circumstance the Board should consider a unique response. VECC supports realignment in 2012 largely as a measure to mitigate the purported rate impacts of the realignment.

Horizon Utilities' Reply:

429. All of the parties support Horizon Utilities' request to realign its rate year with the calendar year. The area of disagreement is whether the realignment should take place

as of January 1, 2011 or on some later date. The intervenors have largely combined their submissions on the proposed realignment together with submissions on the proper effective date for rates – somewhat confusing the two issues. As a result, Horizon Utilities' submissions on the narrow issue of realigning its rate year should be read in conjunction with its submissions on the proper effective date below.

430. In its April 15, 2010 letter on rate year realignment, the Board states:

"All filings supported the idea that the Board allow each distributor the discretion to apply to align its rate year with the fiscal year as opposed to the Board prescribing a "generic" policy treatment. In addition, all filings suggested that any proposal for an alignment of the rate year with the fiscal year <u>be made in a Cost of Service application</u>. The Board concurs with these approaches.

The Board has concluded that it is appropriate to consider the merits of an alignment of the rate year with the fiscal year for a distributor on a case-by-case basis upon receipt of an application for that purpose. Such an application shall form part of a distributor's Cost of Service rate application. Any distributor applying for an alignment to be effective on January 1, 2011 is requested to file that application <u>as soon as possible</u>."

431. Horizon Utilities submits that it has complied with the Board's policy as expressed in its April 15, 2010 letter on rate year realignment. As of April 15, 2010 it was impossible for a utility to apply 9-months prior to the January 1, 2011 implementation date (i.e. April 1, 2010). The Board acknowledges this implicitly when it expressly allowed distributors seeking alignment on January 1, 2011 to file that application "as soon as possible." The Board did not set a hard deadline for when a utility must apply because its April 15, 2010 letter represented a late change to the rules beyond the 9 month specification. Horizon Utilities submits that it takes considerable time and effort to prepare a comprehensive cost of service rate application and that "[a]s soon as possible" for Horizon Utilities was August 26, 2010. The only utility that managed to apply any earlier was Hydro One Brampton Networks Inc., and its application was not very much earlier. Horizon Utilities submits that a January 1, 2011 realignment is the only proposed date that complies with the Board's requirement that "any proposal for an alignment of the rate year with the fiscal year be made in a Cost of Service application." Various intervenors have

proposed a January 1, 2012 realignment, which is outside of the scope of the current Cost of Service application. In effect, these intervenors are arguing that Horizon Utilities should include its rate year realignment in its January 1, 2012 3GIRM application – which directly contradicts the Board's express policy that the realignment proposal be made as part of a Cost of Service hearing.

432. Finally, Horizon Utilities submits that there is no credible evidence that deferring the rate year realignment will be successful in mitigating rate impacts, which is suggested by VECC and implied by CCC. With either a May 1, 2011 or a January 1, 2011 rate year, Horizon Utilities would be recovering its costs over a full 1-year period. Changing when that 1-year period starts and stops does not, in itself, constitute a rate impact mitigation strategy.

433. For these reasons, Horizon Utilities submits that the Board should approve its request for a January 1, 2011 rate year realignment.

- **The Effective Date of Horizon Utilities' 2011 Rates:**

Submissions of the Parties:

434. Board Staff (at page 8) argue that the effective date of Horizon Utilities' 2011 rates should be subsequent to the Board's decision in this case, not January 1, 2011. Board Staff go on to state:

> "Consideration of the preliminary issue of early rebasing required about 1.5 months of elapsed time. Horizon could not have known of the process by which the Board would consider this, as it was not known at the time of filing."

Accordingly, Board Staff (at page 9) suggests that the "Board may wish to consider an earlier effective date of May 1, 2011, […] commensurate with the timing of the filing in August 2010."

435. VECC (at paragraph 9.10) agrees with Board staff, that as a starting point an effective date should not be any earlier than May 1, 2011, and that in any event the Board should determine an effective date that is subsequent to finalization of the rate order. Energy Probe (at pages 54-55), SEC (at paragraphs 8.1.3-8.1.13), and CCC (at paragraphs 63-

66) all make similar arguments that the Board should set an effective date that is subsequent to finalization of the rate order.

Horizon Utilities' Reply:

436. In its December 15, 2010 Decision on the Preliminary Issue of Early Rebasing, the Board approved Horizon Utilities' request to make its current rates interim pending a final determination in this proceeding.

437. Horizon Utilities' interim rate request was made to provide sufficient time for all parties to complete the processes necessary for implementation of 2011 distribution rates, while preserving Horizon Utilities' ability to recover its approved 2011 revenue requirement in the event that final 2011 rates are not able to be implemented as of January 1, 2011.

438. Board staff and intervenors have noted that Horizon Utilities filed in August of 2010, which they allege is late for rates to be effective for January 1, 2011. Horizon Utilities submits that 2011 filers are in the "transition year" for addressing this issue as the proceeding for rate year alignment was only concluded on April 15, 2011. Horizon Utilities notes that such is only 2 weeks in advance of what parties argue should be the filing deadline for January 1 filers.

439. Further, on April 20, 2010, LDCs received the letter from the Board regarding early rebasing. In response to such, Horizon Utilities submitted a letter to the Board on May 28, 2010 in which it confirmed that it would be filing a 2011 cost of service distribution rate application. In that letter, Horizon Utilities wrote:

> *"Horizon Utilities respectfully submits that there must be some certainty with respect to the acceptance of its advance rebasing application including its application-related costs; not with respect to a specific amount, but with respect to the principle that such costs prudently incurred are recoverable through rates. The costs and efforts of preparing a rebasing application are significant and cannot be avoided in advance of the Board rendering a decision whether to accept such an application on an advanced basis."*[199]

440. Horizon Utilities received the Board's response to its letter on June 25, 2010. In that letter, the Board stated:

[199] Horizon Utilities' Letter to the Board, dated May 28, 2011, EB-2010-0131

"The Board is in receipt of your letter dated May 28, 2010. In your letter, you requested confirmation that Horizon has met the Board's criteria for advancing its rebasing application to provide for 2011 rates and will not otherwise be subject to a disallowance of prudently incurred application costs."

441. Horizon Utilities submits that it filed its Application within two months of receiving this response from the Board.

442. HOBNI did not face the same circumstances as Horizon Utilities, as it was already scheduled to file a cost of service application for 2011. However, Horizon Utilities notes that it was two months following the time that the Board issued its letter regarding rate year alignment (April 15, 2010) that HOBNI filed its application for 2011 rates, which included a request for a January 1st effective date. In Horizon Utilities' case, Horizon Utilities filed its Application approximately two months after receiving the Board's letter of June 25, 2010 regarding early rebasing. In the absence of a filing deadline in this transition year, LDCs were asked to file, as CCC noted "as soon as possible".[200] Both HOBNI and Horizon Utilities, based on their particular circumstances, did exactly that. Horizon Utilities submits that whether or not there were additional steps in its proceeding is not the fault of Horizon Utilities and as Board staff submits, the proceeding was "not delayed due to Horizon's updates".[201]

443. Further, intervenors have suggested that Horizon Utilities "should have known" that the board would have to deal with the preliminary issue first and that this would delay the proceeding. As Board staff note in their submission, "*Horizon could not have known of the process by which the Board would consider this, as this was not known at the time of filing, and was subsequently established by the Board in the consideration first for a rates application by Hydro Ottawa and then in this proceeding".*[202]

444. Horizon Utilities intended to file a Cost of Service in 2011 and had indicated such in the Manager's Summary of its Z-factor Application. It was working diligently in relation to the timeline set out by the Board for that filing. Horizon Utilities submitted its application for 2011 distribution rates to the Board on August 26, 2010, which was "as soon as possible" for Horizon Utilities in light of the Board's March 24, 2010 Z-factor Decision,

[200] CCC Submission, p19, paragraph 63
[201] Board staff submission, page 9
[202] Board staff submission, page 8

April 15, 2010 rate year realignment letter and April 20, 2010 and June 25, 2010 early rebasing letters. If the Board expected utilities to file by a specific date, it could have expressly stated a date in its April 15, 2010 letter, as it did this year in its March 1, 2011 letter for 2012 filers. The Board choose not to do so, leaving it open to the utilities responsible for doing the work necessary to prepare their application to file "as soon as possible."

445. The Application complied with Board's filing requirements, and throughout the course of the proceeding, Horizon Utilities has strived to meet the procedural deadlines set by the Board and to ensure that the Board has access to a full, complete, and accurate evidentiary record upon which to make its decision. Horizon Utilities submits that no party could have anticipated the delay that would be caused by the Board's determination of the preliminary issue on early rebasing. The Board had never initiated such a proceeding before 2010.

446. Notwithstanding Horizon Utilities' considerable effort to ensure that a full, complete, and accurate evidentiary record is before the Board, the regulatory calendar for the Board and the multitude of unique issues that arose during this proceeding have resulted in a much delayed implementation.

447. Horizon Utilities notes that Hydro One Brampton filed on June 30, 2011, just two months prior to Horizon Utilities, and its request for a January 1, 2011 effective date was approved by the Board. Intervenors have argued that the Board should adopt an effective date following its final rate order, which VECC estimates as August 2011 – almost 1 year after Horizon Utilities filed its Application with the Board. Horizon Utilities submits that this represents an entirely unfair differential treatment; in effect penalizing Horizon Utilities for the unique issues that arose during this proceeding.

448. Horizon Utilities believes that the Board's hearing process is fundamentally important and necessary to the implementation of just and reasonable rates, and that sufficient time for proper completion of these tasks should certainly be allowed. However, it is fundamentally unfair to in effect punish an applicant for missing a notional filing deadline when no such deadline was ever explicitly set by the Board.

449. Horizon Utilities submits that the Board should approve its requested effective date for rates of January 1, 2011. Horizon Utilities proposes to implement the approved final rates for 2011 beginning on August 1, 2011, together with a set of fixed term rate riders expiring January 1, 2012 to collect the forgone revenue for January to July 2011. The foregone revenue rate riders would have both fixed and variable components, and would be determined for each class based on the forecast billing units and the revenue forecast to have been collected from each class based on the Board approved 2011 rates as against the existing interim rates.

- **Deferring ROE until 2012**

Submissions of the Parties:

450. CCC argues at paragraphs 44-46 of its submissions that Horizon Utilities should not be entitled to update its cost of capital parameters to reflect an ROE for 2011 of 9.66%, and instead suggests that Horizon Utilities should only be entitled to update its ROE in 2012 based on the cost of capital parameters applicable at that future date.

451. CCC's argument is based on an alleged "windfall" arising from the use of the Board's up-to-date ROE parameters for a cost of service application. The argument is premised on an assumption that the old ROE of 8.57% should continue to apply because Horizon should not have filed a rebasing application until 2012. CCC supports its position by noting that Horizon Utilities has filed no evidence and made no arguments suggesting that it requires a higher ROE.

Horizon Utilities' Reply:

452. While it is true that Horizon Utilities was originally not scheduled to rebase until 2012, this changed when the Board permitted Horizon Utilities to exit the IRM plan and file an early rebasing application in 2011. In its December 15, 2010 Decision on the preliminary issue of early rebasing, the Board expressly stated in the last full paragraph of page 7 that a "comprehensive cost of service review" was appropriate. The Board thought an early rebasing was appropriate to review the issues of load loss and volatility, not in isolation, but in the context of a comprehensive cost of service review. CCC raised the spectre of a windfall ROE in submissions on the preliminary issue (refer to the first full

paragraph on page 4 of the Decision), and, despite this, the Board ordered a comprehensive cost of service review.

453. In a cost of service review, the Board's practice is to apply its policy as specified in its December 11, 2009 Cost of Capital report. The report reflects the culmination of the Board's efforts through three consultations on cost of capital policy since it began regulating electricity distributors in 1998. It is based on a nuanced consideration of the Board's legal obligation to allow a utility fair return on capital and an expert analysis of cost of capital policy in both theory and in practice.

454. This is not the first time that intervenors have argued opportunistically that the Board should depart from its cost of capital policy. Although, this only seems to occur when the Board's policy has the effect of increasing a utility's cost of capital. Horizon Utilities submits that the Board's previous decisions in this regard provide a helpful framework with which to asses CCC's proposal.

455. In its Decision in EB-2009-0139 dated April 9, 2010, in responding to issues raised by the several intervenors, including CCC, about the Board's cost of capital policy, the Board outlines at pages 7-12 the legal principles underlying the development and use of the Board's cost of capital policy guidelines, before articulating its threshold test at page 12 for departing from those guidelines during a cost of service proceeding:

> "As noted in the Decision and Order in the Burlington Hydro Inc. 2010 rates application ("Burlington Hydro"), there is no onus on the applicant to provide evidence to support the application of the current cost of capital policy beyond the existing filing requirements unless the applicant is seeking a treatment that differs from the established Board policy. THESL is not seeking any such treatment.
>
> SEC and CCC submitted that the Board could not apply the policy because of the process used to formulate it; however, they did not file any evidence in this hearing to support a departure from or an adjustment to the policy. As stated previously in Burlington Hydro, the party proposing a departure from the policy must support it with evidence."

456. The Board made a similar finding its Burlington Hydro Decision in EB-2009-0259 dated March 1, 2010. Like Horizon Utilities, Burlington Hydro was before the Board with a rebasing application which would form the basis of a new 3GIRM term.

457. Horizon Utilities submits that it is not seeking any special treatment that differs from the Board's established policy on ROE. CCC is proposing that the Board should depart from its policy on ROE, and, even though it was party to the EB-2009-0139 proceeding and would have read the Board's Decision, it has not produced any evidence to support that departure. The change in ROE is not a "windfall" as suggested by CCC. Instead, it represents a formulaic update to the Board's cost of capital parameters that represents the Board's best efforts to establish a fair return for the utility given current market conditions. As the Board noted in its cost of capital report at page 19:

> "Fourth, a cost of capital determination made by a regulator that meets the FRS does not result in economic rent being earned by a utility; that is, it does not represent a reward or payment in excess of the opportunity cost required to attract capital for the purpose of investing in utility works for the public interest. Further, the Board reiterates that an allowed ROE is a cost and is not the same concept as a profit, which is an accounting term for what is left from earnings after all expenses have been provided for. The Board notes that while cost of capital and profit are often used interchangeably from a managerial or operational perspective, the concepts are not interchangeable from a regulatory perspective."

458. VECC does not oppose CCC's proposal, noting at paragraph 5.12 of its submissions that changing the ROE costs embedded over the 3GIRM term prematurely may not be appropriate. Horizon Utilities submits that this argument is at best misleading. 3GIRM may assume an embedded ROE over the course of the 3GIRM term, but it also assumes an embedded OM&A budget, rate base, and load forecast over the same 3GIRM term. In a cost of service review, the Board traditionally examines the full costs of service of a utility, including OM&A, rate base, and cost of capital including ROE.

459. Horizon Utilities submits that there is no reasonable basis to depart from the Board's traditional cost of service approach once an applicant has met the Board's threshold test or an IRM off-ramp for an early rebasing application, and that to do otherwise would be to create considerable complexity and confusion by overlapping 3GIRM terms with differing policy objectives. Horizon Utilities submits that a clear and simple approach is best in this circumstance. Once the Board has accepted a rebasing application, whether early or not, that signals the end of the prior 3GIRM term and the start of a new 3GIRM term.

460. At paragraph 5.13 of its submissions, VECC identifies a notable inconsistency in CCC's proposed approach. CCC does not argue that the Board should defer the implementation of all of the cost of capital parameters. Instead, CCC has cherry picked only the ROE – likely because, unlike other cost of capital parameters, ROE would increase in 2011. Indeed at paragraph 47 of its submissions, CCC argues that the Board should update the long-term debt rate based on the applicable 2011 cost of capital parameters.

461. Without repeating SEC's submissions at paragraphs 4.2.7 to 4.2.11, Horizon Utilities agrees that deferring the application of the new cost of capital parameters is not consistent with the current state of the law and the Board's policy on cost of capital. The fair return standard frames the discretion of a regulator, by setting out three requirements that must be satisfied by the cost of capital determinations of the tribunal. Meeting the standard is not optional; it is a legal requirement. The Supreme Court of Canada has "described this requirement that approved rates must produce a fair return as an 'absolute' obligation."[203] The Board has established its cost of capital policy, in careful consideration of the fair return standard. The Board should not now depart from its policy on this point in the absence of clear evidence to justify such a departure.

- **The Next Rebasing Year**

Submissions of the Parties:

462. SEC submits that Horizon Utilities' next rebasing year should be 2016, not 2015. This is supported by VECC. SEC submits that "the Board should not allow the special circumstances of this early rebasing application to provide a permanent procedural benefit to the Applicant in the future. Instead, the Board should in our view advise the Applicant that their next rebasing should be on their existing schedule, i.e. for the 2016 rate year." SEC creates two approaches – the "standard cycle approach" and the "current schedule approach" – and proceeds to analyze them.

463. Horizon Utilities has reproduced paragraphs 8.2.3 and 8.2.4 of the SEC submission for ease of reference:

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[203] *British Columbia Electric Railway Co. Ltd. v. Public Utilities Commission of British Columbia et al* [1960] S.C.R. 837, at p. 848.

8.2.3 In favour of the "standard cycle" approach is the fact that the Board established the IRM cycle for 3rd Generation IRM on the basis that it felt four years was an appropriate time period. This is further supported by the fact that, while here rebasing is only one year early, in some cases it could be two or potentially even three years early (although the latter is highly improbable). This would create a six or seven year cycle if the original schedule were to be maintained. In those cases, one would expect that something closer to the standard four year cycle would be more appropriate.

8.2.4 In favour of the "current schedule" approach is the fact that the Board has provided this utility with the privilege of rebasing early because of a particular problem that needs to be addressed now. The availability of that privilege will be sought by utilities, as the Board has already seen for 2011, and not just because they have unusual problems to be addressed. A number of Board policies are implemented only in cost of service applications (e.g. cost of capital parameters, rate year alignment), and as well rebasing is sometimes, as we have seen in this case, a chance to bump up costs and seek approval for incremental spending. Each collateral benefit of early rebasing makes it more likely that utilities will apply to rebase early, not only for the reasons they should, but to achieve those additional benefits. If a further benefit is that the early rebasing is not just a one-time acceleration, but will result in early rebasing thereafter, that will make the privilege even more attractive. Conversely, if an early rebasing application only has a short term impact, accelerating only the current year, it is less attractive.

464. SEC concludes that while in some cases (but not Horizon Utilities'), where rebasing is two or three years early but not (as is the case with Horizon Utilities) one year early, it may be reasonable to use the standard four year rebasing cycle. In other cases (Horizon Utilities'), where rebasing is a year early, then absent special circumstances, the cycle should be five years.

465. SEC also suggests that another reason for supporting the "current schedule" approach is that "the Board has gone to some effort to spread the difficult task of cost of service applications for eighty distributors over a period of years. Each shift in that balance, such as the Applicant's current request to move from 2016 to 2015, disrupts the Board's ability to handle all of the distributors in an orderly way."

Horizon Utilities' Reply:

466. To begin, Horizon Utilities reiterates its concern that the intervenors continue to treat this Application as something other than a comprehensive cost of service distribution rate application. As discussed previously, the Board determined in its Decision on the preliminary question that it was reasonable for Horizon Utilities to believe that the Board

would accept a cost of service application from Horizon Utilities at this time[204], and that this Application would proceed on a comprehensive basis.

467. With the Board having made that determination, this Application should be treated as any other cost of service electricity distribution rate application – that includes a three-year period of IRM, as determined by the Board in its July 14, 2008 *Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, which followed extensive consultation by the Board and Board Staff. The Board did not pick and choose circumstances to which the three year IRM period would apply. Horizon Utilities respectfully submits that it would not reasonable for the Board, having determined that this is the appropriate year for Horizon Utilities to rebase, to then add a year to the IRM period, but only for Horizon Utilities. With rebasing in 2011, Horizon Utilities' next rebasing should be in 2015, and this represents equitable treatment in relation to other distributors across the province.

468. SEC is requesting that this Board Panel confirm that the rebasing year be unchanged from the original schedule. In effect this specific submission by SEC and its general submissions on this topic are an attempt to make policy for the Board on such an important area through the confines of a particular case. This is inappropriate and totally out of scope, and SEC ought to know that. SEC should not be placing this burden on the Board Panel, as this is a generic policy issue and a very important one as it would morph the current regulatory construct in important ways. Asking this Board Panel to make the determinations sought by SEC is imprudent. Horizon will therefore not respond to the other specifics of the scenarios set out by SEC except to comment on SEC's perceptions regarding disruptions of the Board's schedule.

469. SEC suggests that changes in the 4-year schedule for distributors' cost of service rate applications will disrupt the Board's ability to handle 80 cost of service applications over a 4-year cycle in an orderly way. In other words, by having Horizon Utilities file its next rebasing three years from now instead of four, the Board's ability to manage its case load will be disrupted. Horizon Utilities has great respect for the Board's ability to manage its case load, and submits that there is simply no basis for suggesting that maintaining the same 3-year IRM period for Horizon Utilities as is applicable to other

[204] Decision on the Preliminary Issue, at p.6

Ontario electricity distributors is disruptive. With approximately 80 rate-regulated electricity distributors in the province, it is important that the Board be able to establish a reasonable schedule for rebasing applications. However, it is also clear that circumstances will change over time, and certain adjustments will be necessary. If SEC is concerned about numbers of applications per year, the fact is that based on the Board's letter and subsequent events, there was a net reduction of one 2011 application. Horizon Utilities submits that having it on a 2011-2015 schedule will have no adverse effect on the Board's ability to schedule distributors' rebasing applications in an orderly manner.

470. SEC suggests that if Horizon Utilities does experience problems in year 3 or 4, it may approach the Board seeking relief, and the Board would consider its criteria for early rebasing at that time. Horizon Utilities notes that at p.6 of its Report on 3rd Generation IRM, the Board observed:

> "Staff's consultations over the last year have considered IR plan term length in dealing with the specific issues associated with capital investment to support infrastructure maintenance and development, lost revenue due to changes in electricity consumption and distributor diversity. The longer the period of time between rate rebasings (i.e., the longer the IR plan term), the greater the potential need for some form of special treatment of incremental capital investment and/or lost revenues."

471. Horizon Utilities submits that SEC's proposal, if adopted by the Board, creates that longer period of time between rebasings about which concern was being expressed, and increases the likelihood of relief being required.

472. Further, SEC's approach would replicate the uncertainties and complications surrounding an application for early rebasing. Surely this not what the Board ought to be endorsing. Horizon Utilities submits that there is no reasonable basis for SEC's tortuous approach. It adds to the regulatory burden for all parties, and unnecessarily so.

473. For all of the foregoing reasons, Horizon Utilities requests that the Board reject SEC's submissions in this regard.

CONCLUSION

474. Horizon Utilities submits that the relief requested in this Application, as updated and set out in its response to Undertaking J3.3 and the RRWF filed April 15, 2011, as summarized in the Argument-in-Chief, and subject to the adjustments agreed to by Horizon Utilities and set out in Part C to this reply submission, is just and reasonable, and requests that the Board direct Horizon Utilities to prepare a draft Rate Order that implements the requested relief with an effective date of January 1, 2011.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 20TH DAY OF MAY, 2011.

Original Signed by Indy J. Butany-DeSouza
Indy J. Butany-DeSouza
Vice-President, Regulatory and Government Affairs
Horizon Utilities Corporation