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Ontario

BY E-MAIL

July 25, 2011

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

Dear Ms. Walli:

Re: Horizon Utilities Corporation
2011 Distribution Rate Application
Board Staff Submission on draft Rate Order
Board File No. EB-2010-0131

In accordance with the Board's Decision of July 7, 2011, please find attached Board staff's Submission on Horizon Utilities Corporation's draft Rate Order. Please forward the following to Horizon Utilities Corporation, its legal counsel, and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Keith C. Ritchie
Project Advisor – Applications & Regulatory Audit

Att.

Board Staff Comments
Horizon Utilities Corporation
2011 Cost of Service Rates Application
(EB-2010-0131)

Draft Rate Order and Revenue Requirement Work Form

On July 7, 2011, the Board issued its Decision and Order (the "Decision") on Horizon Utilities Corporation's ("Horizon's") 2011 cost of service application. The Decision required Horizon to submit its draft Rate Order ("DRO"), reflecting the Board's findings in the Decision within eleven days of the issuance of the Decision. Horizon submitted its DRO and supporting documentation on July 18, 2010. The following are Board staff's comments regarding Horizon's DRO.

Rate Base and Capital Expenditures

Board staff accepts Horizon's explanation of the adjustments to rate base to use the 2010 Closing NBV as the opening for 2011 and to reflect lower capital expenditures in 2011 of $39 million.

Board staff supports Energy Probe's submission that Horizon should provide full documentation on the derivation of the Working Capital Allowance per the Board's Decision and Order. Board staff accepts Horizon's application of the WCA factor of 13.5% as determined by the Board.

Load Forecast

Board staff submits that Horizon's estimates of its 2011 adjusted load forecast are reasonable and in accordance with the Board's Decision and Order.

Other Revenues

Horizon has revised Other Revenues to $5,896,000, in accordance with the Board's Decision and Order.

Operating Expenses

Board staff submits that, per the Board's decision, Horizon's estimated OM&A of $42,756,272 reflects $42 million in spending as approved by the Board, plus amounts for Property Taxes of $337,800, an annual adjustment for OMERS pension expense increases amortized over four years of $351,000, and an allowance for LEAP of $122,472 less existing Winter Warmth expenses of $55,000. Board staff notes that the envelope OM&A also includes $530,000 of operating expenses for 2011 for Horizon's approved Green Energy Act ("GEA") plan, and this is discussed further in a subsequent section.

Board staff is aware of and supports the comments of Energy Probe that Horizon should provide further documentation on the calculation of the updated depreciation and taxes/PILs expenses reflecting the Board's Decision and Order.

Cost of Capital

Board staff submits that Horizon has applied the Cost of Capital as approved by the Board in its Decision and Order.

Cost Allocation and Rate Design

Board staff submits that the Revenue-to-Cost ("R/C") ratios proposed in Table 8 of Horizon's DRO are in compliance with the Board's Decision and Order. Board staff also submits that the proposed monthly service charge and volumetric rates documented in Table 9 of the DRO are reasonable and in accordance with the Board's Decision and Order. Horizon has allocated the residual adjustments to reconcile to the overall revenue requirement largely to the Residential class. Board staff is aware of the submissions of intervenors, arguing for a more equitable and principled adjustment to other classes.

Board staff notes that the Board, in its Decision on the Draft Rate Order for Toronto Hydro-Electric System Limited's 2011 rate application, has stated:

> The Board has reviewed the comments of parties on this matter and finds that Toronto Hydro should allocate the $300,000 amount to the customer classes in accordance with the Board's cost allocation policy, outlined in EB-2007-0667 Report of the Board:

> Application of Cost Allocation for Electricity Distributors of November 28, 2007, as updated in the EB-2010-0219 Report of the Board Review of Electricity Distribution Cost Allocation Policy of March 31, 2011. The Board finds that in accordance with this policy, this amount should be allocated on a pro-rata basis to all customer classes, other than the Large User class, in accordance with the approach used in the Board's cost allocation model.[1]

Board staff submits that the Board, in its Decision and Order with respect to Horizon's 2011 rates application, did not give specific direction as to how the reconciliation was to be implemented. Given that the Residential class shows the highest R/C ratio next to Unmetered Scattered Load which is moved down to the class threshold of 120%, Board staff submits that Horizon's proposal to reduce the Residential class R/C ratio to reduce subsidization within that class is reasonable.

Horizon may wish to further address its proposal or to consider whether a more equitable allocation to all classes is appropriate under the circumstances.

Retail Transmission Rates

Board staff is unable to replicate some of the numbers shown in Tables 10 through 13. In particular, in Table 10, the Line Connection Quantities, Transformation Connection Quantities and Network Charge Quantities totals shown do not seem to correspond with the sum of the monthly quantities. Total Line Connection Quantities are shown as 8,937,598, while the sum of monthly quantities is 9,706,435. Similarly, for Transformation Connection Quantities, the total is shown as 9,657,831, while Board staff calculates the sum of monthly quantities as 10,481,293. For Network Charge Quantities, the total is shown as 9,021,640, while the sum of monthly quantities is 9,851,213.

It is not possible to replicate exactly the costs shown in each of Tables 10 and 11, but the variances are within a few dollars for each case; therefore these variances should be immaterial for the determination of RTSRs.

[1] Decision on Draft Rate Order, Toronto Hydro-Electric System Limited [EB-2010-0142], July 21, 2011, pg. 3

Board staff submits that Horizon should confirm or correct the data shown in Tables 10 to 13. If updates to the RTSRs are necessary due to any corrections, Horizon should provide these. However, Board staff views that any necessary corrections will not likely have any material impacts on the proposed RTSRs.

Low Voltage Rates

Subject to any adjustments that Horizon may make to Tables 10 to 13 with respect to the RTSRs, and that adjusted data in those tables also impact on the determination of Low Voltage rates, Board staff takes no issue with the methodology for Horizon's proposed Low Voltage rates. Board staff observes that Horizon is proposing the Low Voltage rates to five decimal places for all customer classes, whereas all other rates, rate riders and rate adders are calculated to two or four decimal places. Board staff submits that Horizon should provide further explanation on this proposal, or should round the rates to four decimal places for consistency.

Specific Service Charges, Transformer Allowance Credit, and Standby Rate Application

Board staff submits that Horizon has reflected the Board's determinations in the Decision and Order accurately.

Deferral and Variance Accounts

In its DRO, Horizon has noted that the balance of Account 1592 with interest to December 31, 2010 should be ($1,096,510), rather than the ($1,089,196) referenced in the Decision and Order. Horizon that states:

> "Horizon respectfully requests that if the Board considers it necessary to do so, it vary its Decision to provide for the corrected balance for Account 1592."

Board staff observes that Horizon, in fact, has used the corrected balance including interest to December 31, 2010 in its derivation of the rate riders, as shown in Tables 16 and 17. Board staff submits that the Board may wish to confirm the correction in its Rate Order.

Board staff submits that it would be helpful to provide the determination of the deferral and variance account rate riders in Tables 16 through 19 inclusive in Excel format, but Board staff's analysis suggests that Horizon has calculated the deferral and variance account rate riders appropriately and in compliance with the Board's Decision and Order.

Green Energy Act – Incremental Rate Riders

In its DRO, Horizon has proposed incremental rate riders for its approved GEA Plan for each of the years 2012 to 2014, assuming its next Cost of Service Rebasing will be for 2015, as per the normal four-year schedule and as affirmed by the Board in its Decision and Order.

Horizon was approved its basic GEA Plan with the following amounts:

Year	Operating Expenditures	Capital Expenditures
2011	$530,000	$nil
2012	$640,000	$156,000
2013	$640,000	$192,000
2014	$590,000	$1,682,000
Total	$2,400,000	$2,030,000

In its DRO, Horizon has confirmed that the GEA operating expenses of $530,000 have been incorporated into its 2011 revenue requirement, and specifically within the approved OM&A operating envelope of $42 million.[2]

Horizon then states that it has calculated the incremental rate riders for each subsequent year, and has proposed the following rate riders for 2012 to 2014:[3]

Year	2012	2013	2014
GEA Rate Rider ($/month)	$0.2278	$0.2287	$0.2381

Board staff concurs with Horizon's methodology, with one important exception – the treatment of incremental operating expenses. As acknowledged by Horizon, $530,000 is embedded in its 2011 revenue requirement and hence is recovered in the base rates. Further, operating expenses, unlike capital assets, are a current period cost, and do not necessarily continue into the next year. Horizon's

[2] Horizon, DRO, July 18, 2011, pg. 32
[3] *Ibid.*, pg. 33

2011 rebased rates recover an amount of $530,000 in 2011, and will do so in future years[4] until Horizon's next rebasing.

In Board staff's submission, the incremental revenue requirement for each year should be based on the incremental change in operating expenses for that year from the 2011 level of $530,000. This impacts not only operating expenses, but also the working capital allowance.

Board staff shows its calculations following, corresponding to the first page of the spreadsheet filed by Horizon.

Incremental Revenue Requirement Calculation

	2011	2012		2013		2014	
Net Fixed Assets			$ 76,440		$ 243,840		$ 1,152,020
OM&A	$ 530,000	$ 110,000		$110,000		$ 60,000	
WCA		13.5%	$ 14,850	13.5%	$ 14,850	13.5%	$ 8,100
Rate Base			$ 91,290		$ 258,690		$ 1,160,120
Deemed ST Debt		4%	$ 3,652	4%	$ 10,348	4%	$ 46,405
Deemed LT Debt		56%	$ 51,122	56%	$ 144,866	56%	$ 649,667
Deemed Equity		40%	$ 36,516	40%	$ 103,476	40%	$ 464,048
ST Interest		2.46%	$ 90	2.46%	$ 255	2.46%	$ 1,142
LT Interest		5.79%	$ 2,960	5.79%	$ 8,388	5.79%	$ 37,616
ROE		9.58%	$ 3,498	9.58%	$ 9,913	9.58%	$ 44,456
			$ 6,548		$ 18,555		$ 83,213
OM&A	$ 530,000		**$ 640,000**		**$ 640,000**		**$ 590,000**
Incremental OM&A			**$ 110,000**		**$ 110,000**		**$ 60,000**
Amortization			$ 3,120		$ 10,080		$ 47,560
Grossed-up PILs			$ 149		$ 131		-$ 406
Revenue Requirement			$ 119,817		$ 138,766		$ 190,367
Direct Benefit							
OM&A			$ 110,000		$ 110,000		$ 60,000
Capital			$ 9,817		$ 28,766		$ 130,367
Direct Benefit % on capital			13.62%		12.80%		59.43%
Direct Benefit on capital			$ 1,337		$ 3,682		$ 77,483
Total Direct Benefit			$ 111,337		$ 113,682		$ 137,483
Total # of Customers (excl connections)			234,881		234,881		234,881
GEA Rate Rider			$ 0.0395		$ 0.0403		$ 0.0488
Provincial Rate Protection			$ 8,480		$ 25,084		$ 52,884
Monthly Amount Paid by IESO			$ 707		$ 2,090		$ 4,407

For example, based on the provisionally approved methodology and allocation (i.e., dollar amounts) proposed by Hydro One as part of its 2010 and 2011 distribution rates application, those dollar amounts represent 6% for REI investments and 17% for Expansi

[4] Ignoring the marginal impact of the GDP-IPI – X price cap adjustment for each year under IRM.

Board staff submits that corrected GEA rate riders should be as follows:

Year	2012	2013	2014
GEA Rate Rider ($/month)	$0.0395	$0.0403	$0.0488

Late Payment Penalty Rate Rider

Horizon has proposed collection of the Late Payment Penalty rate riders for a period of twelve months, commencing August 1, 2011. Board staff takes no issue with Horizon's proposal.

Smart Meters

Horizon has complied with the Board's Decision and Order with respect to the Smart Meter Funding Adder of $2.14/month per metered customer effective until April 30, 2012.

Foregone Revenue Rate Riders

Horizon has calculated rate riders to collect the foregone incremental revenue requirement for the period from May 1 to July 31, 2011. In its DRO, Horizon has proposed foregone revenue rate riders for both the monthly service charge and the volumetric component. Horizon has stated that it has proposed the forgone revenue rate riders for the period August 1 to December 31, 2011, in consideration of rate impacts.

Board staff estimates that the foregone revenue rate rider has an incremental impact of close to $2.00 or just under 2% on the total bill impact for a typical residential customer consuming 800 kWh per month. Board staff also estimates the corresponding impact on a General Service < 50 kW customer consuming 2,000 kWh is $5.00 or about 2% on the total bill. In both cases, the total bill impacts to December 31, 2011 will be below the 10% threshold and not require rate mitigation.

Board staff observes that Large Users will be impacted by significant foregone revenue rate riders, with a Rate Rider for Foregone Revenues – Monthly Service Charge of $7,244.61 per month from August 1 to December 31, 2011, on top of the overall increase in the Monthly Service Charge from $11,151.32 to $22,590.17 for customers in this class. While the delivery component of the bill is a smaller relative fraction for customers in this class and hence the overall bill impact is smaller, the impacts are not trivial. Board staff observes that, for two Large Use customer profiles provided in Appendix B of Horizon's DRO, the distribution component increases by about 95%, the delivery by about 35% while the overall bill impact is just over 5%. However, these impacts do not take into account the proposed foregone rate riders for the period from August 1 to December 31, 2011.

Board staff observes that Horizon has used a more involved method to estimate the rate riders for the foregone revenue requirement. Many other utilities seem to use a simpler technique of assuming that the revenue requirement and the number of customers and demand is constant through the test year. Hence one month's revenue requirement is simply 1/12 of the estimated revenue requirement for the test year.

Horizon has used a more complicated method to estimate the actual foregone revenues for the period May 1 to July 31. This reflects actual customers (for the first two months) and a representation closer to actual demand in the period.

For recovery, Horizon has used actual 2010 consumption and demand data by customer class, and has estimated the percentage of total consumption/demand for a class that occurred from August 1 to December 31. This percentage is then multiplied by the test year estimated consumption/demand for the class to derive the estimated consumption/demand for the period August 1 to December 31, 2011, which then serves as the billing determinant for the rate rider to recover the volumetric foregone revenue in each class.

There are some advantages and disadvantages to Horizon's approach. An attractive feature of this is that it takes into account seasonal effects. Summer and winter are peak periods, in large part for cooling and heating, and so have higher relative loads. Streetlighting demand, on the other hand, may be lower for the summer period because of the shorter periods of darkness.

One difficulty with Horizon's approach is that both the May, June and July 2011 data used, and the 2010 actuals used, are not weather-normalized, while the revenue requirement and the test year forecast and demand is.

Board staff submits that an alternative approach using weather normalized data is possible. Using the updated Load Forecast model filed in Undertaking J3.3, the estimated purchased energy for August to December 2010 represents 41.01% of the total estimated purchased energy for 2010. From the same Load Forecasting spreadsheet, it is estimated that monthly forecasts for May through July 2011 would represent about 26.01% of the 2011 test year demand. Both of these estimates are weather-normalized. Board staff's estimates are provided in the table in Appendix A; the resulting rate riders are slightly different than those proposed by Horizon for most customer classes.

Board staff acknowledges that its analysis is based on Undertaking J3.3, and thus does not correspond exactly with the load forecast approved in the Board's Decision and Order. However, Board staff submits that this approach could be used with an updated load forecast of Undertaking J3.3 to estimate the foregone revenue and the consumption/demand for August to December 2011 over which Horizon is proposing recovery. If used, Horizon should provide all updated data and calculations used.

Board staff submits that this approach would seem more consistent with the Cost of Service concept, where the demand, costs and hence revenues and rates to recover the revenue requirement are based on weather-normalized data. However, in previous decisions the Board has approved the simpler 1/12 of the revenue requirement per month approach, and Board staff would have no issue with this methodology.

Appendix B – Estimated Bill Impacts

Board staff observes that the estimated bill impacts shown in Appendix B do not seem to correspond in all cases to the proposed Tariff of Rates and Charges. As one example, for the GS < 50 kW class, the bill impacts include a Low Voltage Rate of $0.000040/kWh, while the proposed Low Voltage Rate for that class is $0.000060/kWh. The aggregate rate for deferral and variance accounts for the 2011 bill is shown as ($0.0029)/kWh, while the proposed Tariff of Rates and Charges shows two D/V rate riders of ($0.0020)/kWh and ($0.0004)/kWh, totalling ($0.0029)/kWh. For the Residential class, Horizon uses a Low Voltage rate of $0.000050/kWh, rather than the $.000060/kWh documented in Table 15 of the DRO and in the proposed Tariff of Rates and Charges.

Board staff submits that Horizon should review and revise the bill impacts shown in Appendix B of the DRO to correspond with the proposed Tariff of Rates and Charges. Board staff also submits that it would be beneficial if Horizon also showed example bill impacts including the application of the Rate Riders for Foregone Revenues for some sample customer profiles:

- Residential, 800 kWh consumption
- GS < 50 kW, 2,000 kWh consumption
- GS 50 to 4,999 kW, 30,000 kWh consumption, 100 kW demand
- Large Use 4,700,000 kWh consumption, 13,000 kW demand

Tariff of Rates and Charges

Board staff observes the following errors in the proposed Tariff of Rates and Charges:

- For the Residential customer class, the “Rate Rider for Global Adjustment Sub-account Disposition – effective until April 30, 2012” is shown with a charge of $0.0021/kWh. Per the Board’s Decision and Order on Horizon’s 2010 IRM rate application [EB-2009-0228] and the Board’s Rate Order on Horizon’s Smart Meter Funding Adder [EB-2010-0292], this rate, unchanged in this application, should be $0.0002/kWh.
- For the Streetlighting class the Retail Transmission Service Rate – Network Charge should be $1.9400/kW, per Table 13 of the DRO, rather than the shown $2.0478/kW.

Horizon should confirm and make any necessary corrections to the proposed Tariff of Rates and Charges.

– All of which is respectfully submitted –

Appendix A

Board staff analysis of Appendix F: Calculation of Foregone Revenue Rate Riders

Sheded Cells Provide Board staff's analysis bases on weather-normalized data from Undertaking J3.3

	May Actual	June Actual	July Estimate	Total	average(May-July)			Current Rates	Proposed Rates	Difference	Total Forgone Revenue	
Residential Customers kWh	214,391	214,732	214,732	643,855	214,618	214,658		$ 12.68	$ 14.40	$ 1.72	$ 1,107,430.60	
	117,961,891	136,767,541	162,249,792	416,979,224			27.08%	$ 0.0125	$ 0.0142	$ 0.0017	$ 708,864.68	$ 1,816,295.28
General Service < 50 kW Customers kWh	18,041	18,054	18,054	54,149	18,050	17,931		$ 27.45	$ 32.09	$ 4.64	$ 251,251.36	
	48,252,084	49,734,947	51,939,709	149,926,740			27.87%	$ 0.0072	$ 0.0084	$ 0.0012	$ 179,912.09	$ 431,163.45
General Service 50 to 4,999 kW Customers kW	2,271	2,273	2,273	6,817	2,272	2,279		$ 250.33	$ 292.65	$ 42.32	$ 288,495.44	
	459,982	467,237	401,744	1,328,963			27.93%	$ 1.7875	$ 2.0305	$ 0.2430	$ 322,938.01	$ 611,433.45
Large Use Customers kW	13	13	12	38	13	12		$ 11,151.32	$ 22,590.17	$ 11,438.85	$ 434,676.30	
	190,668	202,932	196,800	590,400			23.62%	$ 1.0123	$ 1.3328	$ 0.3205	$ 189,223.20	$ 623,899.50
Unmetered Scattered Load Connections kWh	3,174	3,174	3,174	9,522	3,174	3,228		$ 9.59	$ 10.16	$ 0.57	$ 5,427.54	
	693,174	1,043,883	1,194,853	2,931,910			23.38%	$ 0.0148	$ 0.0157	$ 0.0009	$ 2,638.72	$ 8,066.26
Sentinel Lighting Connections kW	501	501	501	1,503	501	501		$ 2.89	$ 4.41	$ 1.52	$ 2,284.56	
	132	100	129	361			25.40%	$ 7.9297	$ 12.1102	$ 4.1805	$ 1,509.16	$ 3,793.72
Street Lighting Connections kW	52,388	52,388	52,388	157,164	52,388	52,388		$ 1.97	$ 2.30	$ 0.33	$ 51,864.12	
	9,160	9,160	9,160	27,480			24.69%	$ 5.2585	$ 6.1474	$ 0.8889	$ 24,426.97	$ 76,291.09
Standby kW				-						$ -	$ -	
	16,584	16,584	16,584	49,752			25.00%	$ 2.0505	$ 2.4750	$ 0.4245	$ 21,119.72	$ 21,119.72
Total												
												$ 3,592,062.47

	Actual Aug-Dec 2010 Consumption	Actual Jan-Dec Consumption	%	Board Approved Load Forecast	Estimated Aug-Dec 2011 Usage	Total Foregone Variable Revenue			Estimated Aug-Dec 2011 Demand	Estimated May-July demand	Foregone variable revenues	Rate Rider
Residential kWh	711,773,786	1,685,744,531	42.22%	1,539,676,985	650,099,524	$ 708,864.68	$ 0.0011	41.01%	631,421,531.55	400,469,983.80	$ 680,798.97	$ 0.0011
General Service < 50 kW kWh	233,853,956	582,050,636	40.18%	537,886,860	216,110,012	$ 179,912.09	$ 0.0008	41.01%	220,587,401.29	139,904,372.29	$ 167,885.25	$ 0.0008
General Service 50 - 4,999 kW kW	2,239,149	5,309,024	42.18%	4,758,680	2,007,034	$ 322,938.01	$ 0.1609	41.01%	1,951,534.67	1,237,732.67	$ 300,769.04	$ 0.1541
Large Use kW	1,140,112	2,884,523	39.53%	2,500,000	988,129	$ 189,223.20	$ 0.1915	41.01%	1,025,250.00	650,250.00	$ 208,405.13	$ 0.2033
Unmetered Scattered Load kWh	4,956,407	12,474,726	39.73%	12,541,586	4,982,972	$ 2,638.72	$ 0.0005	41.01%	5,143,304.42	3,262,066.52	$ 2,935.86	$ 0.0006
Sentinel Lighting kW	575	1,446	39.76%	1,421	565	$ 1,509.16	$ 2.6708	41.01%	582.75	369.60	$ 1,545.12	$ 2.6514
Streetlighting kW	48,189	110,097	43.77%	111,295	48,713	$ 24,426.97	$ 0.5014	41.01%	45,642.08	28,947.83	$ 25,731.73	$ 0.5638
Standby kW	100,925	242,220	41.67%	199,012	82,922	$ 21,119.72	$ 0.2547	41.01%	81,614.82	51,763.02	$ 21,973.40	$ 0.2692
Total												
						$ 1,450,632.55	$ 1,449,701.6342				$ 1,410,044.49	$ 1,432,533.2289

	Board approved load Forecast	Billing Determinant (August-December)	Foregone Fixed Revenue	Forgone Fixed Revenue Rate Rider	
Residential kWh	214658	1073290	$ 1,107,430.60	$ 1.03	
General Service < 50 kW kWh	17931	89655	$ 251,251.36	$ 2.80	
General Service 50 - 4,999 kW kW	2279	11395	$ 288,495.44	$ 25.32	
Large Use kW	12	60	$ 434,676.30	$ 7,244.61	
Unmetered Scattered Load kWh	3228	16140	$ 5,427.54	$ 0.34	
Sentinel Lighting kW	501	2505	$ 2,284.56	$ 0.91	
Streetlighting kW	52388	261940	$ 51,864.12	$ 0.20	
Standby kW			$ -		
Total					
			$ 2,141,429.92	$ 2,139,875.85	-$ 1,554.07