

# INTERROGATORIES FOR HORIZON UTILITIES CORPORATION

EB-2014-0002 – RATES 2015-2019

FROM THE CONSUMERS COUNCIL OF CANADA

## EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

CCC.1

Please file all materials provided to senior management and Horizon’s Board of Directors related to this application. Please file all materials provided to senior management and Horizon’s Board of Directors regarding the decision to file for a Custom IR plan for the period 2015-2019.

CCC.2

Please provide all correspondence provided to employees regarding the development of this Application. Please include all budget letters, guidelines etc. Please describe, in detail, how the operating budgets and capital budgets were developed and indicate all relevant dates.

CCC.3

Does Horizon consider its application to be for a “Custom Incentive Regulation” plan or a five-year cost of service plan? What elements of Horizon’s plan provide incentives for productivity improvements and efficiencies?

CCC.4

In the RRFE Report the Board indicates that under the Custom IR method the allowed rate of change in the rates over the term of the plan will be determined by the Board on a case-by-case basis informed by empirical evidence including:

- The distributor’s forecasts (revenues and costs, including inflation and productivity);
- The Board’s inflation and productivity analyses; and
- Benchmarking to assess the reasonableness of distributor forecasts.

CCC.5

Please indicate how Horizon’s application is consistent with the Board’s requirements set out in the RRFE Report.

CCC.6 (Ex.1/T2/S2/p. 1)

Please provide the 2011 and 2012 completed annual Customer Satisfaction Surveys. Please provide evidence to support the statement that “The three top priorities of Horizon Utilities’ customers are: ensuring that the distribution system provides

reliable electricity supply to their homes and businesses; that Horizon Utilities is accessible to its customers; and maintaining distribution costs as low as practical.”

CCC.7 (Ex.1/T2/S2/p. 7)

Horizon’s evidence is that it has implemented biennial employee surveys to measure and monitor employee engagement and satisfaction. Please provide the results of the last two surveys.

CCC.8 (Ex. 1/T2/S2/p. 9)

Please provide the following consulting studies:

1. Office Space and Utilization Study by Prism Partners Inc.;
2. CAPSYS Security Study;
3. MMM Group Limited study; and
4. Garland Canada Inc. roof assessment

For each of these studies please provide the cost of the study and indicate how those costs are being recovered. In addition, please provide the cost of the Kinetrics ACA Report, the Kinetrics Useful Life of Assets Report and the KPMG Assurance Review of Kinetrics ACA. Please indicate how the costs of these reports are being recovered. Specifically, have they been expensed or capitalized?

CCC.9

In the RRFE Report the Board indicated that it will monitor capital spending against the approved plan by reporting annually on actual amounts spent. Please indicate how Horizon intends to meet this reporting requirement. What specific type of reporting will Horizon undertake, and what will be the timing of that reporting?

CCC.10 (Ex. 1/T2/S6/p. 1)

Horizon is seeking approval of 5 years of revenue requirements. To what extent has Horizon addressed the fact that Horizon and its customers will be subject to forecast risk? Does Horizon propose any ratepayer protection mechanisms to ensure that ratepayers are not subjected to an unacceptable level of risk throughout the plan term? If not, why not? If so, please indicate what those protection mechanisms are.

CCC.11 (Ex. 1/T2/S6/p. 1)

Both Union Gas Limited and Enbridge Gas Distribution Inc. have implemented 5-year rate-setting mechanisms. Union’s most recent plan was approved by the Board in 2013 for a five-year term. An integral part of Union’s current plan is an earnings sharing mechanism (“ESM”). Would Horizon be amenable to including an ESM as a part of its five-year plan? If not, why not? If so, how would that mechanism be structured?

CCC.12 (Ex. 1/T2/S6/p. 11)

Kinetrics recommended that Horizon undertake a 5-year investment of \$200 million. Horizon has proposed a “Renewal Investment” level of \$147 million. Please

provide the terms of reference for the Kinetrics Study. Please explain, in detail, the process that Horizon undertook to arrive at the \$147 proposed amount.

CCC.12 (Ex. 1/T7/S4/P.1)

Please explain how Horizon has calculated the “Distribution Bill Impacts” in Table 1-23. Please include all assumptions.

CCC.13 (Ex. 1/T12/S1/p. 1)

Horizon has set out a list of “annual adjustments for recurring events that are mechanical in nature.” Is Horizon proposing that during the 5-year plan any annual adjustments will be limited to those on this list? If not, please indicate what other adjustments might be made. Please describe the process Horizon intends to follow in order to implement these adjustments.

CCC.14 (Ex. 1/T12/S2)

Horizon has set out a list of “adjustments outside of the normal course of business” for unexpected events that have a material impact on the operation of the utility that are outside of Management’s control. Please describe the process Horizon intends to follow in order to implement these adjustments. Is Horizon proposing a materiality threshold regarding these adjustments? If not, why not? If so, what is that threshold?

CCC.16 (Ex. 1/T12/S2)

If the Board moves forward with its intention to mandate 100% fixed charges how would Horizon propose to that these changes be implemented, in the context of its 5-year plan?

## **EXHIBIT 2 – RATE BASE**

CCC.17 (Ex. 2/T6/S1)

Please provide the current estimate of the in-service dates for the GIS (Geospatial Information System) and the OMS (Outage Management System).

CCC.18 (Ex. 1/T2/S6/p. 16)

Please provide actual rate base amounts for each year 2011- 2013 and 2014 (budget).

CCC.19 (Ex. 1/T2/S6/p. 17)

Please recast Table 1-8 – Board Approved Capital Expenditures vs. 2015 Test Year Capital Expenditures to include actual amounts for 2011, 2012, 2013 and 2014 (budget). In addition, please include the forecast amounts for 2016-2019.

CCC.20 (Ex. 1/T2/S6/p. 17)

Please provide a schedule in the same format as Table 1-8 that sets out In-Service Additions for each year 2011- 2013 actual and 2014-2019 forecast

CCC.21 (Ex. 2/T1/S1/p. 15)

With respect to the Horizon's Information System Technology expenditures has Horizon undertaken any benchmarking studies to compare these expenditures to those of other LDCs? If so, please provide. If not, why not?

### **EXHIBIT 3 – OPERATING REVENUE**

CCC.22 (Ex. 3/T3/S1/p. 1)

Please provide an update for 2014 Other Revenues based on actuals to date. Please explain why there is not Interest and Dividend Income for 2015-2017

CCC.23 (Ex. 3/T3/S1/p. 1)

Please explain why there has been a decline in Rent from Electric Property from 2013 to 2014.

### **EXHIBIT 4 – OPERATING COSTS**

CCC.24 (Ex. 4/T1/S1/p. 7)

For each year 2011-2015 please provide a detailed explanation as to how the "productivity savings" numbers were derived. Please include all assumptions.

CCC.25 (Ex. 4/T1/S1/p. 7)

For each year 2016-2019 please provide a detailed explanation as to how the "productivity savings" numbers were derived.

CCC.26 (Ex.4/T2/S2)

Please explain, in detail, any initiatives Horizon is undertaking to reduce its overall compensation costs.

CCC.27 (Ex. 4/T2/S2/p. 5)

What would be the impact on the 2015 revenue requirement if the annual increase in salaries and wages would have been 2.1% rather than 3.1%? Please recast Table 4-13 assuming wages and salaries increase at 2% per year.

CCC.28 (Ex. 4/T2/S2/p. 5)

In the Salaries, Wages and Benefits set out in Table 4-13 what has Horizon assumed for vacancies.

CCC.29 (Ex. 4/T2/S2/p. 9 Table 4-15)

Please indicate the nature of the expenditures included in "Other Operating Costs".

CCC.30 (Ex. 4/T2/S2/p. 9 – Table 4-15)

Please recast Table 4-15 setting out the total costs in each category for each year.

CCC.31 (Ex. 4/T2/S2/p. 23)

Horizon is forecasting \$100,00 for collective bargaining costs. What were the costs incurred when the current collective agreement was being negotiated?

CCC.32 (Ex. 4/T2/S2/p. 25)

Horizon is forecasting \$2,759,704 in regulatory costs and plans to amortize those costs over the term of the plan. Please provide a detailed breakdown of this amount. Please set out a schedule setting out costs incurred to date. Please include all assumptions. Why should historical costs, those incurred in 2013, be recovered in future years?

CCC.33 (Ex. 4/T2/S3/p. 2)

Please explain how Horizon calculates the number of customers for the purposes of the OM&A per customer calculations.

CCC.34 (Ex. 4/T3/S2/pp. 8-10)

Please explain the extent to which smart meters have reduced costs related to meter reading and billing. Please identify where in the OM&A numbers these reductions (if any) have been reflected.

CCC.35 (Ex. 4/T4/S2/p. 3)

Please provide a detailed description of Horizon's incentive pay program. What is the total amount of incentive pay embedded in the 2015 forecast? How does Horizon forecast incentive pay?

#### **EXHIBIT 5 – COST OF CAPITAL**

CCC.36 (Ex. 5/T1/S1)

For each year 2011-2013 please provide Horizon's actual normalized ROE.

CCC.37 (Ex. 5/T1/S1)

Horizon is proposing that the cost of capital parameters be subject to annual adjustments based on the Board's revisions to the parameters each year for cost of service applications. What process is Horizon proposing for such annual adjustments? Under Union Gas's approved plan the ROE in base rates is in place for the duration of the plan. Why should this approach not be applicable to Horizon?

#### **EXHIBIT 7 – COST ALLOCATION**

CCC.38 (Ex. 7/T1/S1)

Please provide a schedule setting out all of the changes recommended by Elenchus and the impacts of those changes on each of the rate classes.

#### **EXHIBIT 9 – SMART METERS**

CCC.39 (Ex. 9/T7/S1)

Please provide a schedule setting out all of the smart meter costs (OM&A and Capital) that Horizon has incurred to date. Also, please include total recoveries of smart meter costs from Horizon's customers. Has Horizon compared the costs of its smart meter program to other like LDCs? If not, why not? If so, how do Horizon's costs on a per customer basis compare? What is Horizon's overall smart meter cost/customer? What is the current estimated useful life for the meters that have been put in place? Has Horizon done a cost/benefit analysis associated with its smart meter program? If not, why not?

CCC.40 (Ex. 9/T7/S1)

Does Horizon expect to incur OM&A and/or Capital costs in the years 2015-2019 related to smart meters? If so, please identify the annual costs associated with smart meters.