

Horizon Utilities Corporation
2015 – 2019 Custom IR Application
EB-2014-0002

Board Staff Interrogatories

Exhibit 1 Administration

Horizon has filed a Custom IR application that proposes rates for each of the years from 2015 to 2019. The rates in each year are set partly on Horizon's forecast of its controllable costs (Operating Maintenance and Administration (“OM&A”), and Capital Expenditures (“CAPEX”)) offset by its estimates of Other Operating Revenues (Other Revenues), and partly on estimates of costs over which management has no control. Horizon has listed pass-through costs that would be brought forward to the Board in an application to update rates and has listed reopener items that would trigger an application to the Board for rate relief from material cost impacts. Board staff would like to understand more about the proposals for annual updates and for reopeners.

1 Staff 1. Custom IR – Rate Order

References

1. Exhibit 1 Tab 12
2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

On pages 18 and 19 of the Report in Reference 2, the Board states:

“This rate-setting method is intended to be customized to fit the specific applicant’s circumstances. Consequently, the exact nature of the rate order that will result may vary from distributor to distributor.”

Please state what Horizon is expecting the Board to state in its rate order.

1 Staff 2. Custom IR – Unforeseen Events

References

1. Exhibit 1 Tab 12
2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

On page 13 of the RRFE Report, the Board states that the Board's policies in relation to the treatment of unforeseen events, as set out in its [July 14, 2008 EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#), will continue under all three menu options.

On page 19 of the RRFE Report, the Board states that the adjudication of an application under the Custom IR method will require the expenditure of significant resources by both the Board and the applicant. The Board therefore expects that a distributor that applies under this method will be committed to that method for the duration of the approved term and will not seek early termination. As noted on page 13 of the RRFE Report, a regulatory review may be initiated if the distributor performs outside of the ± 300 basis points earnings dead band or if its performance erodes to unacceptable levels.

Please compare Horizon's proposed adjustments outside of the normal course of business to the Board's policies in its [July 14, 2008 EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors](#) in relation to the treatment of unforeseen events and explain any differences. What circumstances, including those unique to Horizon, if any, support Horizon's proposed approach where it differs from the Board's policies?

1 Staff 3. Custom IR – Variances

Reference:

1. Exhibit 1 Tab 12
2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

On page 20 of the RRFE Report, the Board states that once rates have been approved under Custom IR, the Board will monitor capital spending against the approved plan by requiring distributors to report annually on actual amounts spent. If actual spending is significantly different from the level reflected in a distributor's plan, the Board will investigate the matter and could, if necessary, terminate the distributor's rate-setting

method. A distributor on the Custom IR method will have its rate base adjusted prospectively to reflect actual spend at the end of the term, when it commences a new rate-setting cycle. This is consistent with the Board's existing policies in relation to incremental capital under 3rd Generation IR.

- a. How does Horizon propose to address actual in-service capital against planned in-service capital over the term of the plan?
- b. How does Horizon propose to address any differences between actual capital spending and approved planned spending at the end of the term of the plan (i.e., how will variances be addressed)?
- c. How does Horizon propose to address actual spending against approved planned spending over the term of the plan?

1 Staff 4. Custom IR – Benefit Sharing

Reference:

1. Exhibit 1 Tab 12
2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

At page 12 of the RRFE Report, the Board states: "To ensure that the benefits from greater efficiencies are appropriately shared throughout the rate-setting term between the distributor/shareholder and the distributor's customers, the expected benefits will be taken into account in establishing the rate adjustment mechanisms applicable to each rate method through the X-factor."

- a. In the absence of an X-factor, what process is Horizon proposing to ensure that benefits are appropriately shared throughout the rate term between Horizon and its customers?
- b. How will Horizon share any additional productivity and/or total cost efficiency gains it achieves over the term of the plan with its customers?

1 Staff 5. Custom IR – Communicating Benefits

References

1. Exhibit 2 Appendix 2-4 Horizon Utilities Distribution System Plan – Appendix D Innovative Customer Consultation Report

2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

In Reference 2, the Board expects distributors to be responsive to identified customer preferences. In Reference 1, some customers appeared not to understand how regulated business is managed, and their suggestions, such as run-to-failure can only be taken in part.

- a. Does Horizon have any plans in its Application to address any customers' misconceptions of operating in a regulated environment?
- b. How will Horizon demonstrate its claim to its customers that its efficiency enhancing and total cost-minimizing strategies ultimately yield higher value and/or lower rates for customers?

1 Staff 6. Custom IR – Annual Updates

Reference:

1. Exhibit 1 Tab 12

Preamble

Horizon has listed 7 items on Schedule 1 of the referenced Tab that it proposes to update annually.

Horizon has also listed 9 items on Schedule 2 called Reopeners that could cause it to apply to the Board. Horizon states that adjustments would be sought for unexpected events that will have a material impact to the operation of the utility and are outside of management's control.

- a. Does Horizon intend to use a materiality threshold when assessing whether an update is required?
- b. If yes, what would the materiality threshold be, and why would it be set at that level?
- c. When, in its regulatory cycle, would Horizon file its update application?
- d. What would be the measure for materiality? By way of example, would a change in income tax rate be assessed on the magnitude of the rate change, or the impact on the revenue requirement?
- e. For each Reopener, what would the materiality be, and why would it be set at that level?

Customer Focus

1 Staff 7. Customer Focus – Outcomes

References:

1. Exhibit 1 Tab 2 Schedule 2
2. Exhibit 1 Tab 4 Schedule 1
3. Exhibit 2 Appendix 2-4 Horizon Utilities Distribution System Plan – Appendix D Innovative Customer Consultation Report

Preamble

Horizon has filed evidence describing its activities in engaging its customers. A significant aspect described in Exhibit 1 is the use of technology. Another aspect is customer and community engagements described in Innovative Research Group's Customer Consultation Report. Board staff would like to better understand future outcomes of Horizon's efforts to date.

- a. Regarding the My Account and the My Electric applications.
 - i. Please provide the number of subscribers by year for each application. Please include an estimate for 2014.
 - ii. What is the projected annual uptake of these services for 2015 – 2019?
 - iii. Are there mobile applications for these services available and if so, is Horizon planning to implement them?
 - iv. What is the business analysis that Horizon would use to assess mobile applications, and what would be the critical decision point for implementing the initiative?
 - v. Are there any reasons that the web based applications would be discontinued?
 - vi. Are there any reasons why mobile applications would not be introduced and maintained?

- b. Board staff is interested in the comments recorded in the Innovative Research Group's Customer Consultation Report by some customers. On page 8, it states that In the online workbook and the facilitated discussion groups, customers agreed with Horizon Utilities on their "run-to-failure" strategy:

"More than 3-in-5 online workbook respondents (61%) said that "running-to-failure" is a good way to get full value from equipment so long as the resulting power service interruption is contained."

“33 of 41 facilitated discussion group participants support running-to-failure as opposed to 8 of 41 who support replacing equipment before it fails.”

- i. Please describe Horizon's “run-to-failure” strategy as presented to the customers.
 - ii. What changes, if any, has Horizon applied to its capital planning prior to the development of the Distribution Plan as a result of the strong support for the strategy.
 - iii. How has Horizon taken duration of interruption into consideration in applying the “run-to-failure” strategy?
 - iv. What components would be run-to-failure vs. planned replacement?
- c. It appears that some customers have a misunderstanding of the financing requirements of a distribution system. Item 3 on page 9 states:
- “3. Participants in every discussion group questioned the long-term financial processes of this sector. They did not understand why under the regulated process, Horizon Utilities did not save money in a reserve fund in anticipation of system renewal requirements. Business owners and managers in particular did not understand why there are no savings for these expenditures. They often explained that they, as business people, have to budget and put earnings aside in anticipation of replacing their equipment and business tools; “so why can't Horizon Utilities do the same”? The OEB may wish to consider this view.”*
- i. How has Horizon addressed this difference in the economics of an essential utility and the economics of competitive businesses?
 - ii. If Horizon has not addressed this, are there plans to inform customers of how and why facilities are planned and financed?
- d. On page 4 of the first reference, Horizon lists 5 initiatives in 2015 to 2019.
- i. Please itemize and quantify the benefits to the customer that flow from these initiatives.
 - ii. Please state the measures that will be used to measure achievement.
 - iii. Please state the corrective actions planned to ensure achievement.
- e. How do Horizon's forecasted outcomes for the next five years (i.e., those it will especially focus on and invest heavily in) align with Horizon's customers'

preferences? Please provide a summary of the customer preferences addressed by each selected outcome.

1 Staff 8. Custom IR – Rate Increases and Inflation Index

Reference

1. Report of the Board Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors EB-2010-00379

Preamble

Consistent with the policy determinations set out in the reference issued on November 21, 2013 and corrected on December 4, 2013, the Board calculated the value of the inflation factor for incentive rate setting under 4th Generation IR (also referred to as Price Cap IR) and the Annual Index for rates effective in 2014 to be 1.7%. A detailed calculation is provided in Appendix C to that Report. A summary of the annual growth of this inflation factor since 2003 is also provided in Appendix B to that report.

- a. Does Horizon expect that it will continue to seek a comparable level of revenue requirement and rate increases (i.e., increases greater than inflation) after 2019?
- b. If so, for how many years and what circumstances – including those unique to Horizon, if any, support on-going annual increases that are greater than inflation?

Operational Effectiveness

1 Staff 9. Benefits from Efficiencies

References:

1. Exhibit 1 Tab 12
2. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012
3. Exhibit 4 Tab 3 Schedule 4
4. Exhibit 1 Tab 2 Schedule 6

On page 2 of Reference 1, the Board stated that, as one of the outcomes of the Renewed Regulatory Framework, it expects continuous improvement in productivity and cost performance. At Reference 2 in Table 1-12 Horizon has identified \$6,645,000 in productivity. Board staff developed the following table showing the year-over-year productivity.

For IR	
Year	Productivity
2011	75,000
2012	1,465,000
2013	1,990,000
2014	1,460,000
2015	1,185,000
2016	160,000
2017	60,000
2018	100,000
2019	150,000
Total	6,645,000

- c. Please review and confirm the annual productivity gains.
- d. Please explain the significant decrease in gains that start in 2016.
- e. What proposals are in Horizon's application so that there will be productivity gains continuing past 2019?

1 Staff 10. Distribution System Plans – Performance Indicators and Measurement

References:

- 1. Exhibit 2 Appendix 2-4 Section 1.3 Performance Measurement for Continuous Improvement
- 2. Exhibit 2 Tab 8 Schedule 1 Service Quality and Reliability Indicators

Preamble

Horizon appears to be planning to introduce new performance measures as soon as the Outage Management System ("OMS") is in place. The measures are: Customers Experiencing Multiple Interruptions ("CEMI"); and Customers Experiencing Long Duration Interruptions ("CELDI"). In Reference 4, Horizon Utilities states that it will reverse the negative trend in system performance and improve system reliability through three initiatives and programs.

- a. Has Horizon investigated benchmarks for CEMI and CELDI? If so what are they and what is the source for the benchmarks?
- b. Will Horizon be setting targets to strive to meet for CEMI and CELDI in the 2015 – 2019 CIR period? Please explain them, or why Horizon has not set targets.

- c. Has Horizon set targets for Service Reliability Indicators (“SRI”) for the 2015 – 2019 CIR period? If it has set targets, what are they? If it has not, please state the reason for not setting a stretch factor for it to achieve?

1 Staff 11. Distribution System Plans – Level of Service Targets

References:

1. Exhibit 2 Appendix 2-4 Section 1.3 Performance Measurement for Continuous Improvement
2. Exhibit 2 Appendix 2-4 Appendix A Tables 1 & 2 – Material Capital Expenditures
3. Exhibit 2 Appendix 2-4 Section 2.1 Asset Management Process Overview
4. Exhibit 2 Tab 8 Schedule 1 Service Quality and Reliability Indicators

Preamble

At Reference 1, Horizon addresses cost efficiency and effectiveness. Staff notes that the iPass metrics are traditional project management metrics that are determined after the selection of a project and that none of the metrics discussed relate to the ‘value for money’ of a particular project.

At Reference 1, page 18, Horizon states that “value is extracted by identifying opportunities for improvement and productivity enhancements and allows for measurement to support business case development.”

On continuous improvement, at pages 29-30 of Reference 1, Horizon indicates that the Health Index Metric will be used in conjunction with system reliability metrics to plan, prioritize and develop capital investment programs.

With respect to results reporting, at Reference 3, Horizon indicates that it intends to provide standardized and regular of asset management results to monitor and assess the efficiency of implementation and effectiveness in achieving planning objectives.

- a. Given Reference 4, please identify the projects outlined at Tables 1 & 2 of Appendix A that will have an impact on Horizon’s levels of service. Where feasible, please quantify the anticipated improvement for each year of the plan, and please highlight, where applicable, the price/improvement trade-off.
- b. Please indicate which relevant maintenance activities planned for each year of the Distribution System Plan (“DSP”) will impact levels of service. Please provide a cost figure, and quantify anticipated improvement.

Please use the suggested format below as guidance:

Driver	Expenditure	Activities	Results & Timing	Corresponding Projects and/or Programs in Appendix A
e.g. Poor reliability	Capital Expenditure Operational Expenditure	Increase maintenance Perform system modifications and additions Install real-time monitoring assets	Improved reliability by month/year X Improvements in customer satisfaction	

- c. If enhanced efficiencies are forecast over the DSP horizon or beyond as a result of the activities undertaken above (i.e. question “a”) please provide an estimate of the savings for each efficiency.
- d. Please indicate how Horizon intends to report on the 34 DSP planned projects referenced at Tables 1 & 2 of Appendix A.

1 Staff 12. Distribution System Plans – Planning Processes

References

- 1. Exhibit 2 Tab 6 Schedule 1
- 2. Exhibit 2 Appendix 2-4 Section 3.2 Capital Expenditure Planning Process Overview
- 3. Exhibit 2 Appendix 2-4 Appendix A Material Capital Projects
- 4. Exhibit 2/ Appendix 2-4/Appendix G/ Material Capital Project Templates

Preamble:

At Reference 1, Horizon states in part how the Asset Condition Assessment (“ACA”) is used to set investment levels for programs:

“The level of investment proposed for each program is guided by the level of investment derived from the flagged-for-action (i.e. at high risk of failure) asset volumes identified by Kinectrics ACA. Table 2-45 (from Section 3.1.3 in the DSP) maps assets with either a poor Health Index distribution (at least 20% of assets are in either ‘poor’ or ‘very poor’ health) or a significant 20-year investment requirement (greater than \$5,000,000 over five years) against Horizon Utilities’ capital investment programs.”

At Reference 2, Horizon outlines its prioritization methodology, and identifies 5 categories used in the prioritization process which it indicates was elaborated in conjunction with Navigant Consulting, Inc. as part of Horizon’s 2009 AM model improvement. That process leads to the following project and system capital classification:

Total Score	Description
5	Mandatory project – Deferral of project will result in: <ul style="list-style-type: none"> - Negative impact on customer - Inability to address an imminent safety concern
4	Required project – Deferral of project not recommended and will impact the schedule for multi-year programs.
3	Required project – Deferral of project not recommended. Project required to proceed and will displace projects in future years.
2	Desired project – Deferral of project can be accommodated and may not impact or displace projects in future years.
1	Optional project – Deferral of project does not have material impact on system operations or asset health.

Table 40 - Score Interpretation Guide

Horizon goes on to outline the prioritization of mandatory General Plant capital noting that it is similar to System capital and similarly based on the objectives of: safety; security; customer impact; regulatory/statutory compliance and environmental risk.

At Reference 3, it appears that Horizon uses different investment priority scales, one for distribution assets consistent with Table 40 above, and another for General Plant (e.g. 2015 General Plant projects are all ‘High’ priority while 2015 Renewal Projects labelled as “Required” or “Mandatory”).

- a. Please confirm that in accordance with the statement at Reference 1, Horizon’s investment strategy in the distribution system is guided by Kinectrics’ ACA.
- b. On prioritizing system and non-system capital:
 - i. Please confirm that the prioritization of discretionary and non-discretionary investments in distribution assets follow Kinectrics’ ACA method. If not, please explain.
 - ii. Does the prioritization of discretionary and non-discretionary investments in non-distribution assets follow the Table 40 method? If not, please explain.
- c. Please explain / reconcile the investment priority scales at Appendix G.
- d. Please file Horizon’s prioritization strategy for both non-discretionary and discretionary projects (system and non-system).
- e. Please amend tables 1 & 2 at Appendix A accordingly providing ranking for the 34 projects.

- f. All of the 2015 General Plant are high priority projects. Please outline pacing considerations related to these future investments.
- g. Please discuss scenarios that would affect Horizon’s prioritization and asset optimization strategy, for instance a more resource constrained environment, or a varying load growth environment (higher/lower than forecast). Please specify conditions under which the current DSP would be modified and which current projects would be deferred and/or abandoned? Please define qualitatively and quantitatively the impact of such investment deferrals along outcome lines.

1 Staff 13. Distribution System Plans – Planning

References

- 1. Exhibit 2 Tab 6 Schedule 1 Table 2-45
- 2. Exhibit 2 Appendix 2-4 Appendix A Material Capital Projects
- 3. Exhibit 2 Appendix 2-4 Section 3.1 Capital Plan Expenditure

Preamble:

Table 2-45 at Reference 1 presents summary investment information for certain assets that have a Health Index of ‘very poor’ or ‘poor’. All 15 asset categories in the Kinectrics’ ACA are represented.

Table 2-45 – Health Index Distribution and Capital Investment Programs by Asset Group

Asset Group	Kinectrics Recommended 5 Year Replacement Value	Percentage of Assets with ‘Poor’ or ‘Very Poor’ Health Index	4kV and 8kV Renewal Program	XLPE Cable Renewal Program	Pole Residual Program	Proactive Transformer Replacement	LBDS Maintenance	Reactive Replacement
Underground Cables (primary XLPE)	\$ 54,684,156	29%		X				X
Wood Poles	\$ 24,443,926	11%	X		X			
Underground Cables (secondary DB)	\$ 17,265,561	42%		X				X
Underground Cables (primary PILC)	\$ 14,472,205	1%						X
Overhead Conductors (service)	\$ 12,565,410	11%	X					X
Underground Cables (service DB)	\$ 12,248,968	63%		X				X
Pole Mounted Transformers	\$ 11,840,422	6%	X			X		X
Overhead Conductors (secondary)	\$ 11,818,950	9%	X					X
Vault Transformers	\$ 9,643,423	49%		X				X
Overhead Conductors (primary)	\$ 9,049,700	5%	X					
Substation Switchgear	\$ 5,250,000	32%	X					
Underground Cables (secondary ID)	\$ 2,555,198	42%		X				X
Substation Circuit Breakers	\$ 1,665,000	23%	X					
Overhead Line Switches	\$ 1,653,832	20%					X	
Submersible LBD Switches	\$ 308,960	46%						

With respect to investment drivers, at Reference 2, Horizon states in part that:

“The increased investment is driven by the high volume of distribution assets with a Health Index of ‘very poor’ or ‘poor’ as identified in Kinectrics’ ACA and confirmed by KPMG.”

At Reference 3, Horizon notes that “the timing of replacements, as identified by Kinectrics, represent the optimum timing for asset renewal”. Figure 77 shows the following investment profile:

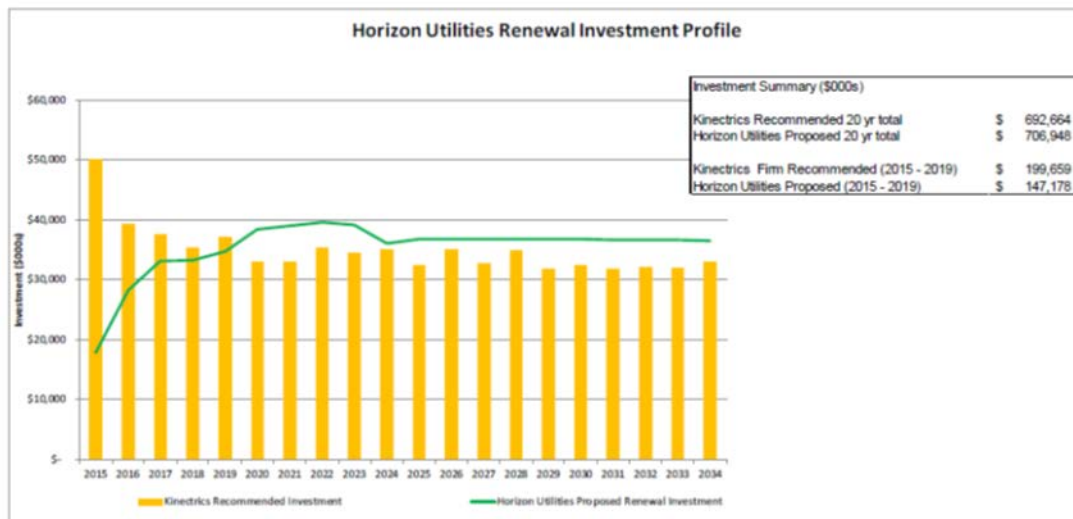


Figure 77 - Horizon Utilities Renewal Investment Profile

- a. Staff notes that while Kinectrics’ ACA distinguishes between distribution assets that have either a ‘very poor’ or ‘poor’ Health Index, Horizon’s DSP for the purposes of investments lumps the two together. Please explain the reason for amalgamating these two groups. Would these 2 groups be ranked equally on the prioritization scale?
- b. As a general practice, does Horizon perform life-cycle cost analyses for planning purposes?
- c. Does Horizon perform any sensitivity analyses? For example, does Horizon assess increased/decreased levels of maintenance arising from its investments?
- d. Figure 77 shows that Horizon is only partially following the Kinectrics ACA recommendations.
 - i. Please indicate what required system investments identified by Kinectrics were abandoned and/or delayed to a later stage.
 - ii. Please state the priority levels these projects scored.
 - iii. Please explain any remaining Horizon deviations from Kinectrics’ recommendations.

1 Staff 14. Benchmarking

Reference

1. Exhibit 2/ Appendix 2-4/Appendix G/ Material Capital Project Templates

Preamble

Horizon has provided for material project internal benchmarking, labelled as “Comparative Information from Equivalent Projects” in the summary sheets at Appendix G.

- a. Is benchmarking either against comparable industry peers or with respect to best practices part of Horizon’s capital and OM&A expenditure planning? If so, please specify.
- b. If Benchmarking is not part of expenditure planning please explain why.

1 Staff 15. Monetizing Benefits

References

1. Exhibit 1 Tab 2 Schedule 2
2. Exhibit 4 Tab 3 Schedule 4

Preamble

In the first reference on starting on page 4, Horizon has listed seven benefits from its programmes from 2011 to 2014, but has monetized only one. In the second reference Horizon is showing the productivity savings from 2011, restated in MIFRS to 2019 in Table 4-44.

- a. Please quantify the six non-monetized benefits found in Reference 1.
- b. Please state which benefits are sustainable.
- c. Please provide a break-down, and the cost savings of each of the programmes/changes that underpin the productivity savings in Table 4-44.

1 Staff 16. Total Productivity Factor

References

1. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012
2. Exhibit 1 Tab 2

Preamble

On page 20 of the RRFE Report, the Board states that expected inflation and productivity gains will be built into the rate adjustment over the term.

The Board calibrates the productivity factor used in its Price Cap IR and Annual Index rate setting methods using a measure of industry total factor productivity (“TFP”) growth. An individual distributor’s TFP growth can also be calculated. A TFP index is the ratio of an output quantity index to an input quantity index. The growth trend in a TFP trend index is the difference between the trends in the component output quantity and input quantity indexes. TFP is explained further in Section 2.2 of an EB-2010-0379 report prepared by, Dr. Lawrence Kaufmann and his team at Pacific Economics Group Research, LLC, entitled “Empirical Research in Support of Incentive Rate-Setting: Final Report to the Ontario Energy Board.”¹

Using PEG’s Excel file that is posted on the Board’s web site and which contains all the data used in PEG’s productivity and benchmarking research in support of incentive rate setting in Ontario (i.e., the results of PEG’s index-based input price and productivity computations, and related work papers), Board staff isolated the output quantity, input quantity and productivity indexes for Horizon. Staff made no changes to the data or to the calculations in the worksheets. To be able to isolate Horizon’s data in the TFP calculations, staff used the existing “Observation Used in TFP Work” flag column in each of the following sheets: 2. BM Database, 3. TFP Database, and 5. Capital Calculations for TFP. Staff set the value in these columns to “1” for Horizon and to “0” for all other distributors. The resultant productivity trends for Horizon, based on PEG’s worksheet are provided in **Attachment to 1 Staff 14.pdf**.

Using Horizon’s forecasts in this application and the PEG documentation and worksheets that are posted on the Board’s web site (links entitled “Part I – Documentation for Working Papers” and “Part II - TFP and BM database calculation” are provided below) or Horizon’s comparable analyses please provide Horizon’s forecasted total factor productivity trends for the period 2013 through to 2019.

¹ Pacific Economics Group Research, LLC. Empirical Research in Support Of Incentive Rate Setting in Ontario. November, 2013. (http://www.ontarioenergyboard.ca/OEB/ Documents/EB-2010-0379/EB-2010-0379_Final_PEG_Report_20131111.pdf)

<p>Nov 21-13 <i>Updated Dec 20-13 and Jan 24-14</i></p>	<p>The Board has released a report prepared by Board staff's expert consultant, Dr. Lawrence Kaufmann and his team at Pacific Economics Group Research, LLC, entitled "<i>Empirical Research in Support of Incentive Rate-Setting: Final Report to the Ontario Energy Board.</i>"</p> <ul style="list-style-type: none">• Cover Letter• Final PEG Report (as corrected on Dec 19, 2013 and Jan 24, 2014)<ul style="list-style-type: none">◦ Tables in Final PEG Report (.xlsx, 3 MB) (as corrected on Dec 19, 2013 and Jan 24, 2014)• PEG's Working Papers<ul style="list-style-type: none">◦ Part I – Documentation for Working Papers◦ Part II - TFP and BM database calculation (.xlsx, 8 MB) (as corrected on Dec 19, 2013 and Jan 24, 2014)• Price Cap IR Benchmarking Algorithm (.xlsx, 2 MB) (as corrected on Dec 19, 2013 and Jan 24, 2014)
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Exhibit 2 Rate Base

2 Staff 17. Pacing of Investments

References

1. Exhibit 2 Appendix 2-4 Section 3.1 Summary of Capital Expenditure Plan

2. Exhibit 2 Appendix 2-4 Appendix D Innovative Customer Consultation Report

Reference 1 shows Horizon's planned investment profile versus the one recommended by Kinectrics. Horizon states that "*the front loading of investments identified by Kinectrics is consistent with a backlog of assets requiring renewal and overdue for replacement.*" Commenting on its investment trajectory, Horizon noted that Kinectrics' recommendation would result in an "*unfair rate impact*".

- a. With respect to the statement at Reference 1, on what basis did Horizon make this judgement?
- b. How did Horizon take into account value for present customers versus future customers?
- c. What outcomes from the Innovative Customer Consultation Report, did Horizon use to help set the capital spending levels?

2 Staff 18. Asset Condition Assessment

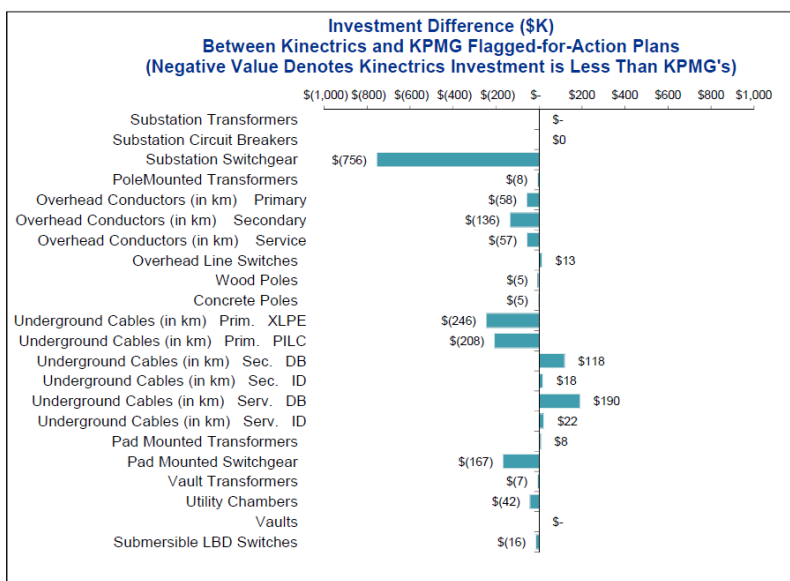
References

1. Exhibit 2 Appendix 2-4 Appendix B Kinectrics' 2013 Asset Condition Assessment
2. Exhibit 2 Appendix 2-4 Appendix C KPMG Assurance Review of Kinectrics' Asset Condition Assessment Review
3. Exhibit 2 Appendix 2-4 Section 3.1 Summary of Capital Expenditure Plan

Preamble

Reference 2 shows a comparison of required investments by asset category between Kinectrics' plan and KPMG's:

Figure 8: Comparison of Estimated Value of Flagged-for-Action Plans between Kinectrics and KPMG



- a. Does the DSP contain an economic evaluation component indicating what the most cost effective actions are for the various categories identified in Figure 8 of the KPMG Report shown above? If so, please point to where this is reflected in the evidence.
- b. Please submit the standard unit costs used in the determination of the Flagged-for-Action investment plans.
- c. Please comment on the investment difference between Kinectrics and KPMG Plans, and whether the lower investment considerations in KPMG's assurance review were incorporated and taken into account by Horizon in its final DSP. If not, why not? Please use the Substation Switchgear asset category and discuss how adopting KPMG's number would alter the current DSP.

- d. Why did Horizon decide not to incorporate each and every one of the lower investment recommendations found in KPMG’s comparative analysis?
- e. Please confirm that Appendix A of the ACA establishes measurable specifications of how the asset should perform not only those owned by Horizon, but in general for these types of assets. Please point to where this is reflected in the evidence.

2 Staff 19. Asset Condition Assessment (2)

Reference

- 1. Exhibit 2/ Appendix 2-4/Appendix B/ Kinectrics’ 2013 Asset Condition Assessment

Preamble

The reference states that the probability of failure is determined by an asset’s Health Index. And that in the ACA, the metric used to measure consequence of failure is referred to as criticality.

For pro-actively replaced assets, the ACA says that “a unit becomes a candidate for replacement when its risk value, the product of its probability of failure and criticality, is greater than or equal to 1.” In the example shown below, Asset 1 and Asset 2 are candidates for proactive replacement.

Table II-4 Sample Replacement Ranking

Asset Name	Age	Health Index (HI)	Consequence of Failure (Criticality)	Probability of Failure (POF) Corresponding to HI	Risk (POF*Criticality)	Replacement Ranking
Asset 1	41	30.00%	2	82.5%	1.630	1
Asset 2	29	30.00%	1.5	82.5%	1.237	2
Asset 3	37	30.00%	1	78.20%	0.782	3
Asset 4	42	50.00%	2	12.80%	0.256	4
Asset 5	18	50.00%	1.5	12.80%	0.192	5
Asset 6	20	50.00%	1	12.80%	0.128	6

Appendix A of Reference 1 discusses results and findings for each asset category, including Substation Transformers, for which it shows the following:

VI - Appendix A: Results and Findings for Each Asset Category

Table 1-9 Criticality Factors

Criticality Factor (CF)	Description	Weight (WCF)	Score (CFS)	
Load criticality	--- Number of customers --- Customer importance (e.g. hospitals, provincial buildings, restoration time sensitive customers)	30	Low	0
			High	1
Physical Protection	oil containment, blast wall, deluge system	15	Yes	0
			No	1
Location	public exposure, environmental impact	15	No	0
			Yes	1
Expected Outage Duration	Back-up unit unavailable, alternate feeds unavailable	20	No	0
			Yes	1
Operation & Maintenance	--- obsolescence of spare parts (e.g. manufacturers cease to produce old types of spare parts) --- known issues (e.g. not economical to have routine maintenance)	20	No	0
			Yes	1

The risk matrix above suggests that if a substation transformer failure occurs that operational disruptions and income loss for Horizon would occur.

- a. For continuity purposes, please provide the End of Life (“EOL”) analysis performed in 2010-2013.
- b. For substation transformers:
 - i. How is the risk assessment described above (load risk; inherent safety risk; locational safety risk; operational risk; technological risk) in the case of substation transformers translate into a measurable risk unit such as dollars?
 - ii. How is the Weight of Condition Factor (“WCF”) a useful and instructive measure?
 - iii. How is the criticality factor score determined? How is it useful, and how is such a measure taken into account by Horizon in its planning?
 - iv. The consequence of failure in the study is defined as criticality. How does criticality translate to a measurable risk once it is multiplied by the probability of failure? Is criticality linked to a monetary value? Is it attached to operational consequences? Please explain.
- c. Using the proactively replaced asset example:
 - i. Please confirm that the probability of failure takes into account the age parameter.

- ii. Please confirm that higher risk assets are considered to be more urgent replacements. If otherwise, please explain.
- iii. Please explain the replacement ranking provided at the table. Is the determining factor in replacement ranking the probability of failure or the risk of failure?

2 Staff 20. Asset Management Overview

References:

1. OEB Distribution Filing Requirements, Chapter 5, 5.4.5.1 Justifying Capital Expenditures/ p. 19
2. Exhibit 2/ Appendix 2-4/ Section 3.4 Capital Expenditure Summary/ Table 2-Appendix 2-AB

Preamble

Chapter 5 at Reference 1 states, in part:

To support the overall quantum of investments included in a DSP by category, a distributor should include information on:

- comparative expenditures by category over the historical period;
- the forecast impact of system investment on system O&M costs, including on the direction and timing of expected impacts;
- the 'drivers' of investments by category (referencing information provided in response to sections 5.3 and 5.4), including historical trend and expected evolution of each driver over the forecast period (e.g. information on the distributor's asset-related performance and performance targets relevant for each category, referencing information provided in section 5.2.3);

Based on information provided at Reference 3, as updated on May 21, 2014, staff notes the following trends:

CATEGORY	EXPENDITURES (\$'000)																		
			HISTORICAL					BRIDGE					FORECAST						
	2010	2011	2011	y/o/y	2012	y/o/y	2013	y/o/y	2014	y/o/y	2015	y/o/y	2016	y/o/y	2017	y/o/y	2018	y/o/y	2019
			CGAAP	MIFRS															
System Access	13,558	8,914	5,629	17%	6,602	-4%	6,369	18%	7,540	9%	8,243	3%	8,472	-7%	7,896	2%	8,092	2%	8,273
System Renewal	14,082	22,475	17,171	-18%	14,091	31%	18,425	-17%	15,372	18%	18,070	57%	28,294	17%	33,168	0.12%	33,208	5%	34,706
System Service	3,583	3,125	2,374	22%	2,885	-25%	2,151	91%	4,101	1%	4,140	-93%	295	81%	535	280%	2,032	1%	2,057
General Plant	6,208	4,584	4,584	91%	8,748	44%	12,559	-14%	10,760	-12%	9,487	-38%	5,887	-1%	5,827	-4%	5,611	11%	6,236
Total Expenditures before Smart Meters	37,432	39,098	29,758	9%	32,326	22%	39,505	-4%	37,773	6%	39,940	8%	42,948	10%	47,426	3%	48,943	5%	51,272
System O&M	18,742	19,654	N/A		27,755	8%	29,928	13%	33,776	2%	34,571	3%	35,504	2%	36,355	3%	37,337	2%	38,084

Source:

Appendix 2-AB

Table 2- Capital Expenditure Summary from Chapter 5 Consolidated DSP FRs

Updated May 21, 2014

	HISTORICAL				BRIDGE				FORECAST			
	2010	2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	
CAPITAL												
Access Exp./ Total Exp. Excl. SM	36%	23%	19%	20%	16%	20%	21%	20%	17%	17%	16%	
System Exp./ Total Exp. Excl. SM	38%	57%	58%	44%	47%	41%	45%	66%	70%	68%	68%	
Service Exp./ Total Exp. Excl. SM	10%	8%	8%	9%	5%	11%	10%	1%	1%	4%	4%	
General Plant Exp./ Total Exp. Excl. SM	17%	12%	15%	27%	32%	28%	24%	14%	12%	11%	12%	
O&M												
System O&M/Total Exp. Excl. SM	50%	50%	N/A	86%	76%	89%	87%	83%	77%	76%	74%	
Periodic Averages												
	2010-2014				2015-2019							
Access Exp./ Total Exp. Excl. SM	✓			22%	✓			18%				
System Exp./ Total Exp. Excl. SM	✓			47%	✓			63%				
Service Exp./ Total Exp. Excl. SM	✓			8%	✓			4%				
General Plant Exp./ Total Exp. Excl. SM	✓			22%	✓			15%				
O&M												
System O&M/Total Exp. Excl. SM				70%	✓			79%				
Note: Periodic averages exclude the effect of changes in accounting methodology												
Based on:												
Appendix 2-AB												
Table 2- Capital Expenditure Summary from Chapter 5 Consolidated DSP FRs												
Updated May 21, 2014												

- a. To provide an expenditure picture that allows a comparative analysis, please include capital and OM&A in the same schedule for each system asset category

and non-system categories (IT, Fleet, buildings, etc...) Please distinguish, where applicable, between planned and reactive OM&A.

- b. Please provide trends over time for all relevant capital expenditures, capital vs. OM&A (planned vs. unplanned) and capital vs. depreciation for the 10 year-period. And provide explanations of trends and outliers..

Staff 21. Justification of DS Plan

References

1. OEB Distribution Filing Requirements, Chapter 5, 5.4.5.1 Justifying Capital Expenditures/ p. 19
2. Exhibit 2/ Appendix 2-4/Appendix A/ Tables 1 & 2 _ Material Capital Expenditures
3. Exhibit 2/ Appendix 2-4/Appendix G/ Material Capital Project Templates
4. Exhibit 2/ Appendix 2-4/Appendix F/ 4kV and 8kV Renewal Program
5. Exhibit 2/ Appendix 2-4/Appendix J/ Resource and Office Space Utilization Study
6. Exhibit 2/ Appendix 2-4/Appendix K/ Building Condition Assessment 2013
7. Exhibit 2/ Appendix 2-4/Appendix L/ Physical Security Report
8. Exhibit 2/ Appendix 2-4/Appendix M/ Head Office Window Assessment
9. Exhibit 2/ Appendix 2-4/Appendix N/ Roof Inspection Review
10. Exhibit 2/ Appendix 2-4/Appendix O/ Fleet Replacement Plan

Preamble

Chapter 5 at Reference 1 says in part that:

Filings must enable the Board to assess whether and how a distributor's DS Plan delivers value to customers, including by controlling costs in relation to its proposed investments through appropriate optimization, prioritization and pacing of capital-related expenditures.

With respect to project alternatives, for example, the 2015 Tools, Shop and Garage Equipment summary sheet at Appendix G states that "tools and equipment over \$5000 are procured through a competitive process and alternatives are considered at the time of requisition". Staff interprets alternatives to mean the evaluation of options before the selection of a solution.

References (2) and (3), Appendices A and G contain detailed information related to planned investments for the DSP period of 2015-2019. However, there are areas that

relate to the fundamentals outlined in the RRFE Report and the Filing Requirements where additional information could be helpful.

By way of example, Board staff notes the following:

Recommendations included at Reference 5, provide a section on the cost/benefit methodology that is qualitative in nature. While the report further provides estimated budget costs for the planned office space expenditures, benefits are not equally supported by figures. Horizon does say that “additional detail to support the analysis can be found at appendix G”. Notwithstanding the filed information, staff would be assisted by further ‘value for money’ facts.

On costs and benefits, Reference 2 on the 4kV and 8kV Renewal program shows the following anticipated expenditures at table 6 and states further that “ *the decommissioning of these nine substations will result in the avoided capital substation renewal investment of \$22,500,000.*” Reference (4) provides other technical information related to the planned solution. Staff would be assisted if it could compare the renewal alternative versus the planned modification to 13.8kV or 27.6kV.

With respect to building renovations, the Hughson substation is being restored. Staff would like to understand how the decision to remediate/occupy vs. remediate/sell was more sensible (to help employees who travel 20km for training purposes) and whether when all factors, including the potential new use of the Stoney Creek training centre as a storage facility, are taken into account the benefits outweigh costs.

With respect to fleet replacement, one of Horizon’s stated objective is to “*align [its] vehicle replacement criteria with utility standards.*” Staff would like to ensure that current spending is in line with industry peers.

Please consolidate relevant information found in various appendices and include relevant elements of Exhibit 4 and amend Appendix A accordingly:

- a. For material projects, please distinguish between discretionary and non-discretionary ones, and provide the project elements set out below. Staff would like to determine whether the most cost-effective actions have been adopted, whether pacing of the investments is appropriate, and establish the value and rate impacts of these activities on ratepayers:
 - i. In the project overview section, please provide:
 - The overall priority of the project;

- Benefits to be incurred from maintaining/upgrading or replacing the asset(s), such as lower operating costs. Where applicable, please include a discussion on value for the business and/or customers;
 - ii. In the project cost section, please provide:
 - An overview of the economics of the project (e.g. assumptions, NPV calculation) and a discussion of alternatives in that context ; and
 - Where applicable please reference or submit additional documentation, such as independent studies that support a recommended option;
 - iii. The impact of the project on rates;
 - iv. Any investment pacing considerations related to the project;
- b. For programs (e.g. Vegetation Management), please provide the following program elements to establish whether the most cost-effective actions have been adopted and the value and rate impacts of these activities on ratepayers. Please provide any other justifications as Horizon sees necessary.
- i. In the overview of the program, please highlight:
 - The expenditure cycle;
 - Benefits to be incurred from planned expenditures on program, such as lower operating costs, increased reliability. Where applicable, please include a discussion on value for the business and/or customers;
 - ii. In the program cost section, please include an overview of the economics of the program and a discussion of alternatives;
 - iii. The impact of the program on rates;
 - iv. Any investment pacing considerations related to the program and the cycle adopted; and
 - v. Any benchmarking (historical/internal; industry peers/external; general/best practices)
- c. Please link the planned projects at Appendix A to the four RRFE Outcomes.

2 Staff 22. Stranded Meters

Reference

1. Exhibit 2 Tab 5 Schedule1
2. Guideline G-2011-0001 Smart Meter Funding and Cost Recovery – Final Disposition December 15, 2011

3. Chapter 2 Filing Requirements (2014), Section 2.5.1.4

Preamble

Horizon states in Reference 1 that it is seeking approval to leave stranded meters in rate base until they are fully depreciated. Horizon states that there was an option in *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, October 22, 2008. On page 8 of Reference 2, the Board states that although the decision in the Combined Proceeding provided some direction in relation to stranded meters, accounting procedures and cost recovery through rates, the Board's view had changed.

At Reference 3, it states:

- “The total estimated NBV of the stranded meters as of December 31, 2013, or a revised amount calculated in accordance with the above-noted accounting guidance, must be removed from rate base (see Appendix 2-S). The 2014 revenue requirement must not include either a return on capital (i.e. debt cost and return on equity) or depreciation expense associated with the total estimated stranded meter costs removed from rate base;”
 - The total estimated NBV of the stranded meters must be recovered through separate rate riders for the applicable customer classes. A distributor must outline the manner in which it intends to allocate recovery of the NBV of the stranded meters to the applicable customer rate classes and the rationale for the selected approach;
 - The total estimated stranded meter costs must be tracked in “Sub-account Stranded Meter Costs” of Account 1555; and
 - The associated recoveries from the separate rate riders must also be recorded in this sub-account to reduce the balance in the sub-account.”
- a. Please provide a scenario where the stranded meters are removed from rate base and recovery is implemented in accordance with Appendix A-1 Accounting Treatment for Approved Stranded Meter Costs found in Reference 2.
 - b. If the proposed SMRR is for a period greater than 4 years, please provide an explanation.

2 Staff 23. Working Capital Allowance

Reference

1. Exhibit 2 Tab 4 Appendix 2-3 - A Determination of the Working Capital Requirements of Horizon Utilities' Distribution Business

Preamble

Horizon retained Navigant Consulting Inc. to perform a lead lag study to establish the working capital factor to be applied to controllable OM&A and the cost of power for setting the level of working capital to be included in rate base. The analysis resulted in a Billing Service Lag of 27.6 days.

- a. Please provide the details of the calculation of the Billing Service Lag of 27.6 days.
- b. Is Horizon planning to bill monthly at any time during the CIR period? If so, when?

Exhibit 3 Operating Revenue

3 Staff 24. Volumetric Forecasts

Reference

1. Exhibit 3 Tab 1 Schedule 2 – Load Forecast and Methodology

Preamble

Horizon adopted Itron Inc.'s MetrixND software ("MetrixND") as its forecasting tool. Through the use of it Horizon has developed separate models that forecast sales by rate class for the period 2014 – 2019. The determinants of the forecasts differ by rate class and it appears that not all determinants have been specified in the referenced Exhibit, Board staff, in the tables below, have summarized the determinants reported in the reference for the residential and general service classes:

Residential

	<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>Std Error (%)</u>
1	mSales.Days	4,407,151.37	538,274.72	12.2%
2	mLight.Hlight	(117,856.05)	10,215.84	8.7%
3	mWthr.CCD18	547,729.00	20,609.45	3.8%
4	mWthr.HDD13	25,113.00	3,848.92	15.3%
5	mEcon.RPDI	3.20	1.05	32.8%
6	mEcon.RPD_Trend	0.05	0.02	40.0%
7	mEcon.ResPrice_idx	(12,143,705.14)	6,119,129.53	50.4%
8	mBin.Mar07	19,564,657.63	4,884,320.72	25.0%
9	mBin.Sep07	(24,564,657.63)	5,880,419.37	23.9%
10	mBin.Apr12	(25,093,959.11)	4,580,260.39	18.3%
11	MA(1)	1.16	0.09	7.8%

General Service < 50 kW

	<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>Std Error (%)</u>
1	mSales.Days	1,484,544.46	245,603.52	16.5%
2	mLight.Hlight	(11,718.41)	6,752.59	57.6%
3	mWthr.CCD18	19,004.03	2,626.60	13.8%
4	mWthr.HDD13	86,209.39	5,289.92	6.1%
5	Economics.GDP	572.94	364.80	63.7%
6	mEcon.GDP_Trend	(10.43)	5.40	51.8%
7	mBin.Aug	(3,632,113.83)	1,117,797.47	30.8%
8	mBin.Oct	(7,161,667.39)	918,311.71	12.8%
9	mBin May10	(5,060,823.39)	1,932,348.71	38.2%
10	mBin Sep10	(6,230,309.02)	2,031,713.58	32.6%
11	mBin Apr11	(3,608,083.73)	1,944,720.61	53.9%
12	mBin.Sep11	(7,172,301.87)	1,979,593.75	27.6%
13	mBin.Aug13	6,408,470.00	2,080,658.32	32.5%
14	Sm GSSales.LagDep(1)	(17.00)	0.06	0.4%

General Service < 50 kW

	<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>Std Error (%)</u>
1	mSales.Days	3,439,591.00	579,358.87	16.8%
3	mWthr.CCD18	47,394.00	3,676.52	7.8%
4	mWthr.HDD13	166,834.00	9,553.02	5.7%
5	mBin.Oct	(5,896,385.00)	1,903,406.22	32.3%
6	mBin.Yr2009Plus	(9,047,212.00)	1,805,346.06	20.0%
7	mBin.Mar09	(6,383,665.00)	4,531,391.15	71.0%
8	mBin.Sep12	(26,183,117.00)	4,422,823.96	16.9%
9	Economics.GDP	2,126.00	876.16	41.2%
10	mEcon.GDP_Trend	(14.00)	19.96	142.6%

- a. Please confirm whether or not the reported determinants and their parameters are correct.
- b. Please state why there is no constant.
- c. Please provide the constant and its related statistical parameters.

It is a fact of the mathematics that by increasing the number of determinants will result in a stronger R². Board staff is concerned that Horizon might be seeking a high R² through the inclusion of additional determinants of questionable value, based on the accuracy represented by the Standard Error of the determinants.

- d. Please provide a forecast for each class for 2014 – 2019 with only the determinants with a Standard Error less than 30%. Please also include the constant when reporting the results.
- e. Please explain the specific purpose of each binary variable.
- f. Please comment on the residuals for both; the models proposed by Horizon, and the models requested by Board staff.

Horizon has modelled Hamilton and St. Catherines as one market, although it is known that Niagara Escarpment provides a micro climate to St. Catherines which differs along the shoreline from the weather on top of the escarpment. This would suggest different balance points for determining the degree days.

- g. Did Horizon investigate differences in degree days between the two markets?
- h. Please explain how the balance points were determined.

Horizon has used binary determinants for each of the months to forecast Sentinel Lights and Unmetered Scattered Loads. It then includes a trend variable that is negative.

- i. Has Horizon performed a reasonableness check, given expected growth/loss of connections, as well as conservation retrofits to the loads?

Horizon has provided the following model for Street Lighting:

Street Lighting			
1	CONST	119.03	2.36 2.0%
2	Mlight.Hlight	(0.15)	0.01 6.7%
3	mBin.Dec	6.35	1.68 26.5%
4	mBin.June	(4.90)	1.98 40.4%
5	MA(1)	(0.43)	0.12 27.9%

- j. Please explain determinants 2 – 5.
- k. Please remove determinants 3 and 4, and include a trend variable and recast the forecast for 2014 – 2019.
- l. Please perform a reasonableness check on the outcomes of Horizon’s forecast for Street Lighting and for Board staff’s. Base the check on expected changes in connections and inclusion of conservation measures over the forecast period.

3 Staff 25. Other Revenues – Interest Income

Reference

- 1. Exhibit 3 Tab 3 Schedule 2

Preamble

Horizon has provided the following report on actual and proposed interest and dividend income:

Reporting Basis	2011 Actual	2012 Actual	2013 Actual	Bridge Year	Test Year	Test Year	Test Year	Test Year	Test Year
	CGAAP	MIFRS	MIFRS	2014	2015	2016	2017	2018	2019
Short-term Investment Interest	\$148,554	\$497,557	\$320,332	\$101,001	\$0	\$0	\$0	\$70,098	\$82,265
Bank Deposit Interest									
Miscellaneous Interest Revenue									
etc. ¹									
Total	\$ 148,554	\$ 497,557	\$ 320,332	\$ 101,001	\$ -	\$ -	\$ -	\$ 70,098	\$ 82,265

Please explain the year-over-year variances for Short-term Investment Interest.

Exhibit 4 Operating Costs

4 Staff 26. Workforce & Compensation

References:

1. Appendix 2-K Employee Costs
2. Exhibit 4 Tab 4 Schedule 2
3. Exhibit 4 Tab 4 Appendix 4-3 – Workforce Labour Strategy and Plan
4. Exhibit 4 Tab 4 Appendix 4-6.2 – Mercer Letters

Preamble

Horizon filed an updated Workforce Labour Strategy and Plan (“WLSP”) at Reference 3. This plan is an update to the WLSP filed in Horizon’s last cost of service application EB-2010-0131. At page 3 of Reference 3, Horizon states that it had identified that additional trades and technical staff would be required to undertake these asset renewal projects. Horizon states that based on the plan, it hired an additional 13 Apprentices: Construction and Maintenance (6), Network Operations (6) and Customer Connections (1). The Board in EB-2010-0131 approved 349.1 FTEs as indicated in Reference 1. In Reference 2, Horizon has detailed additional new positions that it states it requires.

In Reference 4, Mercer describes the scope of the work Mercer has performed for Horizon as of October 28, 2013 in regards to executive and non-executive compensation for fiscal 2012 and 2013.

- a. Both WLSP’s identified the need to hire more management and executive employees. The Board approved 67.0 FTE’s for management and executive for the 2011 rate year, while the actual was 62.8, 4.2 FTE’s less. In 2013, based on actuals, Horizon had only raised the count to 66.0. Horizon is now requesting 77. Horizon itself has identified in its WLSP the challenges arising from attrition, retirements, and labour market forces. Please explain how Horizon will increase to 77 FTE’s and maintain that level over the 2015 – 2019 CIR period?
- b. Horizon has estimated that it will have hired the required FTEs to have a compliment of 77 management and executive FTEs by the end of 2014, an increase of 11.3 FTEs over 2013 actuals. Please provide a status report which includes dates hired and expected to be hired, and any downward adjustments to the 77 FTEs due to attrition, retirements, and labour market forces that may be required.
- c. Both WLSP’s identified the need to hire more non-management (union and non-union) employees. The Board approved 282.1 FTE’s for non-management for the 2011 rate year, while the actual was 265.0, 17.1 FTE’s less. In 2013, based on actuals, Horizon had only raised the count to 268.9, which is 13.2 less than

approved. Horizon estimates that the FTE for non-management will be 277.5 which is still 4.6 FTE less than the 2011 board approved level. Horizon is now requesting 270.8 for 2015, tapering to 267.3 in 2017 and remaining there until 2019. Horizon itself has identified in its WLSP the challenges arising from attrition, retirements, and labour market forces. Horizon has also undertaken through the RRFE continuous improvements. Given the difficulties in hiring and maintaining 100% FTE capacity that Horizon has stated and shown in its FTE counts, please explain how Horizon will manage at the proposed levels for the 2015 – 2019 Custom IR term?

- d. Horizon has estimated that it will a compliment of 277.5 non-management FTEs by the end of 2014, an increase of 8.6 FTEs over 2013 actuals. Please provide a status report which includes dates hired and expected to be hired, and any downward adjustments to the 277.5 FTEs due to attrition, retirements, and labour market forces that may be required.
- e. On page 6, Table 2 and Table 3 of the WLSP Horizon provides retirement and attrition rates. Will the FTE levels shown in Reference 1 be less than planned due to these retirements and attritions?
- f. Please provide the undertakings by Hayes described in the letter dated October 28, 2013 in Reference 4.

4 Staff 27. Post-employment Benefits Other Than OMERs Pension

Reference

1. Exhibit 4 Tab4 Appendix4-4.3 – Eckler Letter March 21, 2013
2. Exhibit 4 Tab 4 Schedule 2
3. Exhibit 6 Tab 2 Schedule 1 Impact on Employee Benefits

Preamble

Horizon Utilities has engaged Eckler Ltd. (“Eckler”) consultants and actuaries to assist in the development of the overall actuarial assumptions in determining the post-employment benefit cost including financial assumptions based on market expectations at the end of the reporting period. Reference 1 is a letter from Eckler regarding “*2019 Cost of Service Application – Post-Retirement Benefits – Update for 2013 actual results*”.

- a. Horizon will have recovered from ratepayers in excess of \$4 million more than the cash benefit payments from 2012 to the end of 2019. Board staff prepared the table below based on Reference 1 Appendix A to compare accrual accounting benefits expense proposed for recovery and the amounts paid or to be paid through 2019.

	2012	2013	2014	2015	2016	2017	2018	2019	Total
1 Benefit expense	1,459,400	1,533,800	1,521,300	1,565,400	1,613,000	1,664,700	1,719,900	1,779,100	12,856,600
2 Benefits paid	<u>1,084,810</u>	<u>1,109,200</u>	<u>1,118,900</u>	<u>1,099,200</u>	<u>1,101,000</u>	<u>1,099,500</u>	<u>1,116,200</u>	<u>1,116,200</u>	<u>8,845,010</u>
3 Excess recovered	374,590	424,600	402,400	466,200	512,000	565,200	603,700	662,900	4,011,590

- i. Please confirm that the amounts and the totals set out in the table above are correct and make any corrections required.
 - ii. What does Horizon plan to do with the excess funds recovered?
 - iii. Has Horizon created a trust fund into which the recoveries from ratepayers will be deposited to cover the future benefit payments? Is Horizon familiar with the FERC policy on irrevocable trusts when a utility recovers post-employment benefits using accrual accounting rather than cash payments? Board staff has provided **FERC61_19921228-0154(10071367).tif** for Horizon's assistance.
 - iv. Does Horizon consider it prudent to establish an irrevocable trust to protect money recovered from ratepayers, in some cases decades, in advance of the need to make the cash payments to retirees? Please discuss Horizon's opinion fully.
- b. Board staff has prepared the table below to compare the benefit costs shown in Table 4-56 of Reference 2 with the benefit expense provided in Reference 1. Table 4-56 indicates that post-retirement benefits are included in the line "Life, Health, LTD". The Eckler Ltd. evidence provided as at December 31, 2011 indicates that its actuarial valuation includes the same items.

Comparison of the cost of Life, Health & LTD programs on Reference 2 page 18 and the Eckler. benefit expense evidence in Reference 1 is provided in the following table:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
1 Benefit programs	3,347,772	3,620,459	3,877,825	4,047,765	4,102,656	4,206,158	4,402,001	4,532,495	4,674,684	36,811,815
2 Benefit expense	<u>1,430,800</u>	<u>1,459,400</u>	<u>1,533,800</u>	<u>1,521,300</u>	<u>1,565,400</u>	<u>1,613,000</u>	<u>1,664,700</u>	<u>1,719,900</u>	<u>1,779,100</u>	<u>14,287,400</u>
3 Difference	1,916,972	2,161,059	2,344,025	2,526,465	2,537,256	2,593,158	2,737,301	2,812,595	2,895,584	22,524,415

- i. Please confirm that the amounts and the totals are correct and make any corrections required.

- ii. Please explain fully why the benefit expense forecast by Eckler Ltd. for Horizon is materially lower than the Life, Health and LTD costs sought for recovery in Table 4-56.
- c. At Reference 3 page 5, Horizon has recognized a cumulative loss related to the actuarial valuation of \$2,117,012 on conversion to IFRS. Horizon has not requested any recovery for these amounts in this application. Please explain fully why Horizon is not requesting recovery of this amount.

4 Staff 28. Depreciation

Reference

1. Appendix 2-CA
2. Exhibit 4 Tab 5 Appendix 4-9 – Useful Lives of Assets
3. RRWF – 2015
4. Appendix 2-CA 2015

Preamble

Board staff is interested in whether the proposed new lives based on Reference 2 (the “Kinectrics Report”) are reasonable considering the average condition that the assets are in now. Board staff is also interested in how Horizon manages its assets.

- a. In footnote 4 of Reference 1 it states that the opening asset balance depreciation should be based on the remaining life of the asset. Please provide a schedule of the remaining life by account that was determined by management.

Typically when a line is replaced, the assets are retired, and not put back into service. Horizon has some accounts that may be retired when a line is retired, but have a Typical Useful Life that is not equal to the remainder of the set off assets being replaced (poles, cables, conduits).

- b. Account 1839 Overhead Conductors and Devices – Primary: Are these supported by concrete poles and towers?
- c. Account 1844 Underground Conductors primary PILC – Are these conductors directly buried? If they are in conduits, should the depreciation be based on an economic life conduits based on the life of the conduit rather than setting the depreciation rate based on the Typical Useful Life?
- d. Please confirm that Horizon has all sets of assets that are retired together with their remaining lives aligned and are appropriately depreciated.

Board staff has noticed a discrepancy between Reference 3 and Reference 4 for the 2015 depreciation expenses.

- e. Please explain, review and correct.

4 Staff 29. - Shared Services

References

1. Exhibit 4 Tab 4 Schedule 3
2. Exhibit 4 Tab 4 Appendix 4-6.1 – Transfer Pricing Study
3. Exhibit 2 Tab 6 Schedule 1

Preamble

Horizon is a member of a group of affiliated businesses that perform services for each other. Stratsolver Corporation was retained to perform the Transfer Pricing Study filed at Reference 2.

Assets

At Reference 2, it states that the OEB prescribed cost of capital in effect October 31, 2013 is used to derive a markup that is applied to the Customer Care – Electricity Distribution Operations (“CC-EDO”) direct operating costs which apply solely to assets in the customer care line of business.

- a. Please state the assets that are employed that underpin the markup.
- b. Who owns the assets?
- c. How is the asset allocated in the CC-EDO relationship?
- d. Customer Care bills for other affiliates. How is the billing system allocated between the billing services that Customer Care provides?

Allocators

At Reference 1, Horizon lists the allocators by service offering. Each allocator is based on an operating statistic – number of transactions, time spent, etc.

- e. Healthy Workplace and Safety is allocated on the number of claims. Board staff views this as an insurance policy, and so you don't pay by claims, but by an annual premium. Why isn't this service allocated on employee count, since it covers all employees?
- f. How are the executive times determined?

- g. What is the period upon which these allocators are determined? That is, are they based on the most recent 12 month, full year, average of x years, or forecasted?

Fee Transaction Increases over 2014 – 2019

In Reference 2, it states that the CC-EDO is the greater management fee and is expected to increase from \$8.1 million in 2014 to \$9.1 million in 2019. This \$1.1 million increase is an average annual increase of 2.5%. The total annual management fee between EDO and Affiliates is expected to increase \$9.9 million to \$11.2 million. This \$1.3 million increase is an average annual increase of 1.2%.

- h. Horizon has pointed out that postage costs are increasing. However, Horizon is also embarking on e-services for billing and payment. Please state any productivity gains that are built into these fees. Please state your assumptions and identify any sharing of gains or losses that Horizon may be planning.
- i. Please identify any action that Horizon has taken to ensure that Horizon Holdings Inc. has undertaken for continuous improvements in order to provide benefits to EDO.

Exhibit 6 Calculation of Revenue Deficiency or Surplus

6 Staff 30. Deferred Taxes

Reference

1. Exhibit 6 Tab 2 Schedule 1

Preamble

On pages 19 – 21 of the Reference, Horizon discussed the impact of IFRS on PILs and regulatory and accounting rates of return. Horizon has asked the Board to comment on the fair return standard in light of the Board's policy to allow only current income tax PILs to be recovered in distribution rates and not to allow deferred taxes to be recovered. Horizon has expressed its concern that material differences between externally reported net income (on an accounting basis which includes deferred taxes) and allowed net income calculated on a regulatory basis (which excludes deferred taxes) may be viewed negatively by lenders and rating agencies.

In Board staff's view, should the Board wish to comment on Horizon's question, Staff request the following information may be helpful:

- a. Please state whether or not Horizon recovers more PILs than it paid from 2000 up to the date of the current application? Please provide a table that shows total

income tax, Ontario capital tax and Large Corporation Tax recoveries by year from ratepayers since 2000 and the amounts actually paid to the Ministry of Finance Corporations Tax Branch, and the net difference between collections from ratepayers and payments made.

- b. Please confirm that the balance approved for disposition and recovery was a debit or recovery from customers of \$3,323,866 over a 14 month term in Horizon's PILs 1562 disposition case (EB-2012-0005).
- c. In the Board's Cost of Capital proceeding EB-2009-0084, did Horizon make submissions regarding the fair return standard and the inclusion of deferred taxes in rates? If the answer is no, why did Horizon not raise the issue in that proceeding? If the answer is yes, please file Horizon's submission and discuss its submission in the context of its current request in this proceeding.
- d. Please confirm that Horizon does not have a regulatory asset for deferred taxes on its balance sheet?
- e. Please confirm that Horizon voluntarily adopted IFRS in advance of the requirement set by the CICA, now CPA Canada, of January 1, 2015?
- f. Please explain whether Horizon is of the view that given its position on deferred taxes now, that it may not have prudently assessed its current and future exposures when it adopted IFRS early.
- g. Please confirm Horizon's understanding that when the majority of Ontario electricity distributors adopt IFRS on January 1, 2015, they will be able to recognize regulatory assets and liabilities on their balance sheets.
- h. Please provide Horizon's view as to whether the distributors that adopt IFRS on January 1, 2015 have the same issues with respect to deferred taxes now faced by Horizon?
- i. Please provide Horizon's view as to whether the distributors that adopted US GAAP, rather than IFRS, have the same issues with respect to deferred taxes now faced by Horizon?
- j. Did Horizon make submissions in the RRFE process development regarding deferred taxes and the fair return standard? If not, please explain fully why Horizon did not make submissions. If yes, please file the submission and discuss how the circumstances today are similar or different than they were in 2012.

Exhibit 7 Cost Allocation

7 Staff 31. Direct Allocations

References

1. Exhibit 7 Tab 1 Schedule 1
2. Worksheet I9 – Direct Allocation

Preamble

In Reference 1, Horizon points to the direct allocation of PILs, debt and equity to the new LU(2) class. In Reference 2, Account 1840 U/G Conduit and Account 1845 UG Conduit and Devices are assigned to this new class.

- a. What basis was used to develop these costs (categorization & assignment)?
- b. Please describe why the method was chosen.

Exhibit 8 Rate Design

8 Staff 32. Fixed – Variable Split

References

1. Exhibit 8 Tab 1 Schedule 2
2. Worksheet O2 – Fixed Charge
3. Report of the Board EB-2007-0667 Application of Cost Allocation for Electricity Distributors, November 28, 2007

Preamble

Board staff has developed the following table based on the proposed fixed rates from Reference 1 and the ceiling for fixed rates in Reference 2. The rates highlighted in Orange are above the ceiling.

Fixed Rate Compared to the Ceiling

	2011 per App.		2015		2016		2017		2018		2019	
	Ceiling	Rate	Ceiling	Rate	Ceiling	Rate	Ceiling	Rate	Ceiling	Rate	Ceiling	Rate
10 Res	13.81	14.71	13.69	16.38	14.43	17.13	14.69	17.49	14.80	17.74	14.94	18.25
11 GS<50	21.05	33.87	19.28	41.33	20.67	43.26	20.93	44.28	20.97	44.91	21.13	46.20
12 GS 50 -4,999	122.54	332.50	88.24	376.90	100.57	394.61	100.92	404.56	98.99	410.35	99.01	422.19
13 Standby												
14 LU(1)	722.23	26,699.15	1,229.24	17,835.83	1,546.90	18,655.46	1,554.31	19,042.30	1,513.72	19,314.38	1,504.94	19,868.86
15 LU(2)			2,299.20	3,015.85	2,397.90	3,598.73	2,444.74	4,784.55	2,419.00	4,856.33	2,432.71	4,995.75
16 Sent	9.92	5.34	10.48	5.69	11.04	5.95	11.33	6.09	11.40	6.19	11.67	6.36
17 Street	9.85	2.98	7.01	2.97	7.42	3.11	7.51	3.19	7.63	3.23	7.87	3.33
18 USL	10.28	10.95	7.56	9.54	7.95	9.73	8.13	9.93	8.18	10.04	8.21	10.32

In Reference 3, the Board stated:

"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."

It is apparent that not only are the rates moving further above the ceiling for the residential and general service classes, but, in splitting the Large User class which was below the ceiling, Horizon has set the two new offspring rates with fixed charges above the ceiling.

- a. Why has Horizon, in general, continued to increase the gap between the ceiling and the fixed rate?
- b. What impeded Horizon from setting the new Large User classes at or below the ceiling?

8 Staff 33. Bill Impacts

Reference

1. Exhibit 8 Tab 4 Schedule 1
2. Exhibit 2 Appendix 2-4 Appendix A Innovative Customer Consultation Report
3. Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012

Preamble

Board staff has reviewed the rate impacts for 2015 – 2019 found in Reference 1. For prescribed Residential and General Service <50 KW the impacts are as indicated in the following table developed by Board staff.

	Rate Impacts									
	2015		2016		2017		2018		2019	
	\$	%	\$	%	\$	%	\$	%	\$	%
<u>Distribution Only (Subtotal A)</u>										
Residential @ 800 kWh	1.08	3.8	1.38	4.7	0.60	2.0	0.41	1.3	0.91	3.8
GS<50 kW @ 2,000 kWh	10.96	20.1	0.83	1.3	1.62	2.5	1.03	1.5	1.89	20.1

Board staff also developed the following table for the two new Large User Classes in Reference 1.

	Rate Impacts									
	2015		2016		2017		2018		2019	
	\$	%	\$	%	\$	%	\$	%	\$	%
Distribution Only										
LU(1) @12.5 MW	- 9,817	-24.2%	1,707	5.6%	672	2.1%	473	1.4%	963	2.9%
LU(2) @ 15 MW	- 38,407	-87.4%	1,237	22.3%	2,236	33.0%	135	1.5%	262	2.9%
LU(2) @ 20 MW	- 44,422	-87.4%	1,455	22.8%	2,585	33.0%	156	1.5%	303	2.9%

In Reference 2, some of Horizon’s key account customers (3 of the 9 surveyed) preferred no rate increases and believed the rate change is unreasonable and opposed it.

In Reference 3, the Board wants distributors to appropriately pace its investments.

- a. Given the impacts for the remaining years why is Horizon not proposing mitigation measures for GS<50 20.1% in 2015?
- b. After large decreases in 2015, the Large User class has significant increases. Why has Horizon not proposed rate mitigation, particularly in light of some of its Key Account customer comments?
- c. What capital investments or OM&A programs could be deferred or reduced or spread out that would assist in keeping the increases in the early years down?

Exhibit 9 General Accounting and Deferral and Variance Accounts

9 Staff 34. Depreciation

References

1. Appendix 2-EA Account 1575 – IFRS-CGAAP Transitional PP&E Amounts
2. Exhibit 6 Tab 2 Schedule 1, Table 6-10 and Table 6-7
3. Exhibit 1 Tab 5 Audited Financial Statements for 2011

Preamble

Board staff notes that the evidence provided under Appendix 2-EA with respect to additions and depreciation is not consistent with evidence under Table 6-10, Table 6-7, and Horizon’s audited financial statements.

The discrepancies noted between the evidence provided under Appendix 2-EA and that under Table 6-10 is detailed in the two Tables below.

CGAAP			
	<u>Appendix 2-EA</u>	<u>Table 6-10</u>	<u>Difference</u>
Net Additions	10,739,863	39,840,632	29,100,769
Net Depreciation	1,379,834	-27,720,934	-29,100,768

MIFRS			
	<u>Appendix 2-EA</u>	<u>Table 6-10</u>	<u>Difference</u>
Additions	28,938,504	30,500,974	1,562,470
Derecognition		-1,512,181	-1,512,181
Net Depreciation	-16,079,487	-16,129,776	-50,289

- a. Please explain the differences noted above between Appendix 2-EA and Table 6-10.
- b. According to Table 6-7, indirect costs which were permitted to be capitalized under CGAAP are not capitalized under IFRS. However, per Appendix 2-EA, net additions are lower under CGAAP for 2011 than under IFRS. Please explain.
- c. In Appendix 2-EA, the depreciation amount is a positive number. Appendix 2-EA row for net depreciation under both, CGAAP and MIFRS reads: "Net Depreciation (amounts should be negative)". Please explain why the depreciation is a positive number in 2011 under CGAAP.
- d. Note 1 at the bottom of Table 6-10 states: "CGAAP depreciation excludes impact of CGAAP write-off of assets at end-of-life of \$29,100,768". Please provide reasons for such a large (approximately 10% of the Opening Net Book Value) write-off in 2011. Where has Horizon recorded the write-off?
- e. The depreciation expense in Appendix 2-EA does not match the 2011 audited financial statements of Horizon. Depreciation expense for 2011 in Consolidated Statement of Income and Retained Earnings for Horizon is shown as \$28,371,000. Please provide reasons for this amount to be different from the one used for calculating Account 1575 in Appendix 2-EA under CGAAP.

9 Staff 35. RRR Reconciliation

References

1. Appendix 2-BA1 Fixed Assets Continuity Schedule for 2011
2. Horizon's RRR 2.1.7 filing 2011, published in the 2011 Yearbook

Preamble

Board staff notes a difference in reported PP&E and Depreciation between the Application and Horizon's RRR filing.

Please explain the discrepancy between the two.

	2-BA1	Yearbook	Difference
Gross PP&E	642,704,976	670,042,169	-27,337,193
Depreciation expens	27,720,934	26,389,412	1,331,522

9 Staff 36. Account 1575 – IFRS-CGAAP Transitional PP&E Amounts

References

1. Appendix 2-EA Account 1575 – IFRS-CGAAP Transitional PP&E Amounts
2. Horizon's RRR 2.1.7 filings for 2010 and 2011, published in the respective Yearbooks

Preamble

Board staff notes that the balances for Net PP&E and Depreciation Expense amount used in the calculation of Appendix 2-EA do not agree to the RRR 2.1.7 filings for 2010 and 2011, and as published in the respective yearbooks.

Using the 2010 Closing Net PP&E for the Opening Net PP&E for 2011, and Depreciation Expense as reported to the Board for 2011, please recalculate the account balance for Account 1575.

9 Staff 37. Fixed Asset Continuity

References

1. Appendix 2-BA1, Fixed Asset Continuity Schedule – CGAAP 2011
2. Appendix 2-BA2, Fixed Asset Continuity Schedules for 2012, 2013, 2014, 2015

Preamble

On page 12 of Article 510 of the APH effective January 1, 2012 it states: *“Therefore, while a distributor electing the rate-regulated deemed cost exemption must record an adjusting entry in the USoA at the changeover date to reflect the fact that accumulated depreciation was set to nil under MIFRS at the transition date, the historical previous Canadian GAAP gross amounts **must be maintained until the first rebasing under MIFRS**” [Emphasis added].* Horizon has not fully maintained the gross amounts in this first rebasing application under MIFRS. Horizon included fixed asset continuity schedules for 2011 CGAAP on a gross basis and 2012 to 2015 MIFRS on a net basis.

- a. Please explain why Horizon has not provided 2012 to 2015 fixed asset schedules on a gross basis.
- b. For the 2012 to 2015 fixed asset schedules provided on a net basis, has Horizon ensured that the depreciation expense and net book value would be the same as that on a gross basis? Please explain and provide supporting analysis.

9 Staff 38.

Reference Account 1588 – RSVA Power, and Account 1589 – RSVA Global Adjustment

Reference

- 1. Exhibit 9 Tab 1 Scheduled 7

Preamble

Horizon has indicated that it made adjustments to its previously approved balances for Account 1588 – RSVA Power, and Account 1589 – RSVA Global Adjustment. This adjustment impacted these two accounts as follows:

Description	USoA	2013 Original Balance ¹	Cumulative Adjustment	2013 Restated Balance
RSVA - Power	1588	\$406,117	(\$4,728,759)	(\$4,322,642)
RSVA - Global Adjustment	1589	(\$4,936,309)	\$4,728,759	(\$207,550)
Total		(\$4,530,192)	\$0	(\$4,530,192)

¹ The rules relating to the calculation and billing of the GA are set out in a regulation under the Electricity Act, 1998 (O. Reg. 429/04). Under that regulation Class A consumers (large consumers whose peak demand in a month is more than 5 MW) are charged based on their consumption during the 5 peak hours in a “base period”.

- a. Please confirm that when prorating charge type 146 to non-RPP customers, Horizon excluded allocation of charge type 146 to Class A consumers who pay their full amount based on their peak demand on a monthly basis.
- b. Please describe how the split was calculated for Class A for 2012 and 2013, which Horizon has since corrected.
- c. Please provide supporting documentation on the adjustments made to Account 1588 and Account 1589 for 2012 and 2013.
- d. Please provide the adjustment amount that relates to what was already approved by the Board for disposition in Horizon's 2014 proceeding.

9 Staff 39. Account 1592 PILs

References

1. Exhibit 9 Tab 2 Schedule 1
2. Table 9-11 – Account 1592 PILs and Tax Variances for 2006 and Subsequent Years

Preamble

According to Horizon, the balance for disposition is a debit amount of \$19,885 as of December 31, 2013 and comprises the difference between the projected interest in 2011 approved for disposition and the actual interest recorded in 2011.

- a. The amount disposed in the 2011 proceeding was a credit amount. Please explain how a debit amount was calculated for carrying charges on a credit amount.
- b. The amount per Table 9-11 does not match to the amount used for the rate rider calculation. Please explain and adjust as appropriate.
- c. Why does Horizon believe that this account is different from other accounts as carrying charges are forecasted and disposed of in the same manner for all accounts? That is, the amounts disposed of should be the latest audited balances, and carrying charges should be projected to the beginning of the test year.

9 Staff 40. Account 2405 – Other Regulatory Liabilities and Credits

Reference

1. Exhibit 9 Tab 1 Schedule 5

Preamble

Horizon has stated that this account was previously used to recover the overpayment of Low Voltage Charges from Hydro One for 2003 to 2008 and to recognize the liability to ratepayers as a result of the conversion related to HST. The amount proposed for disposition is a credit of \$220,000.

Board staff notes that the APH requires the distributors to use Account 1592 for the savings related to HST.

- a. Please explain the reasons for using a different account than the one provided in the APH for this purpose.
- b. Please provide a breakdown of the components in this account and their respective dollar values.

9 Staff 41. Account 1592 Harmonized Sales Tax Deferral Account

Reference

1. Exhibit 9 Tab 2 Schedule 2

Preamble

Horizon has stated that it has recorded the savings arising from the elimination of the PST and implementation of HST in Account 1592, and that these balances were disposed of Horizon's 2011 rate proceeding. The remaining balance of \$19,885 proposed for disposition in the current application is the difference between the projected interest in 2011 approved for disposition and the actual interest recorded in 2011.

Board staff notes that the Board approved disposition of Horizon's Group 1 and Group 2 balances as of December 31, 2009 in Horizon's rate proceeding EB-2010-0131. Board staff notes that the approved disposition did not include any amounts related to the savings due to HST harmonization as the PST and GST were not harmonized until July 1, 2010. There have been no Group 2 dispositions since EB-2010-0131 for Horizon.

- a. Using the December 2010 FAQs for electricity distributors, please calculate the amounts refundable to customers for HST ITC savings. Please provide this calculation and other supporting documentation as necessary.
- b. Please review the accounting entries in Account 1592 as the savings should result in a credit balance. That is, amounts refundable to customers. Horizon is currently showing a debit balance of \$19,885 in this account.
- c. Please adjust and provide the allocation of balances and rate rider calculations as necessary.

- d. Please file the necessary documentation to indicate whether or not the impact of the HST and associated ITCs on capital and operating costs was reflected in Horizon's 2011 revenue requirement. If the impact was not included in the 2011 revenue requirement, please calculate the savings from July 1, 2010 to December 31, 2014.

9 Staff 42. Account 1508 – IFRS Transition Costs

References

1. Exhibit 9 Tab 3 Schedule 1
2. Table 9-13 – Account 1508 – IFRS Transition Costs

Preamble

Board staff notes that Appendix 2-U of the filing requirements provided as Table 9-13 shows no amounts in row "Amounts, if any, included in previous Board approved rates (amounts should be negative)" except for the deferred account balance for \$565,914 approved for disposition in EB-2010-0131.

- a. Did Horizon have any one-time IFRS transition costs embedded in its rates from 2011 to 2014 (not including the amount disposed through a rate rider)? If so, how much?
- b. Please recalculate the amount for disposition net of the amounts embedded in Horizon's ongoing rates from 2011 to 2014.

9 Staff 43. Account 1533 Renewable Generation Connection Funding Adder Deferral Account.

References

1. Exhibit 9 Tab 1 Schedule 1

Preamble

Horizon is requesting to clear a credit of \$306,546 in its Account 1533 – Renewable Connection Funding Adder Deferral Account.

- a. Are there any offsetting costs in Account 1531 and Account 1532?
- b. Please identify any direction to clear this account that Horizon might have received.
- c. What does Horizon have to clear this account now?

9 Staff 44. Retail Cost Variance Accounts 1518 and 1548

Reference

- a. Exhibit 9 Tab 4 Schedule 1

Preamble

Board staff compared the amounts disposed of in Horizon’s last two cost of service proceedings to the current one, as follows:

Account	EB-2007-0697	EB-2010-0131	EB-2014-0002
1518	-75,179	301,545	601,108
1548	51,981	59,160	-41,823

- a. Please explain the reasons for the trends noted above.
- b. How have the costs of providing the retailer related services increased?
- c. Board staff notes that the EB-2010-0131 proceeding would have had 3 years of balances accumulated in these accounts, and the current proceeding has 4 years. The amount recoverable has doubled over this time. Please provide the number of retailer customers and transactions causing the increase in the amounts recoverable compared to prior balance dispositions.

9 Staff 45. Account 1555 Smart Meters Smart Meter Capital

References

- 1. Exhibit 9 Tab 7 Schedule 1
- 2. Smart Meter Model

Preamble

Horizon sought Board approval in its 2011 Smart Meter Prudence Application (“SMPA”) (EB-2011-0417) for the disposition and recovery of costs related to Smart Meter deployment accumulated to December 31, 2011, offset by Smart Meter Funding Adder (“SMFA”) revenues collected from May 1, 2006 to April 30, 2012. The Board approved the disposition for recovery of the aforementioned costs for Smart Meter deployment and operation.

The Board recognized that at the end of 2011, Horizon Utilities had 297 hard to reach (“HTR”) Residential customer locations and 4,305 GS < 50 kW legacy customer locations remaining without a Smart Meter. Horizon is now applying to include these HTR and legacy installations in its 2015 opening rate base, and dispose of the balances in Account 1555.

Unit costs

Board staff has developed the following table:

	<u>Count</u>	<u>\$</u>	<u>Unit</u>	<u>EB-2011-0417</u>
Res	297	103,330	347.91	98.79
GS<50	4,305	2,128,134	494.34	161.05 to 722.41
	4,602	2,231,464	484.89	

It is apparent that the costs to complete the installation of smart meters are higher per unit compared to the costs previously cleared.

- a. Please provide the break-out of costs into:
 - i. Meters;
 - ii. Ancillary components; and
 - iii. Labour.

Please provide an explanation of the higher component costs compared to the costs from the Smart Meter Prudence Review.

Cost Allocation

- b. Please provide Smart Meter Models and rate rider derivations for each customer class.

9 Staff 46. Request for A variance Account for Stand-by Power Revenues

References

1. Exhibit 9 Tab 1 Schedule 6
2. Exhibit 3 Tab 1 Schedule 3
3. Decision and Order EB-2010-0131

Preamble

At Reference 1, Horizon has requested the establishment of a deferral account to track any incremental revenues earned on generation activities in the LU (1) and LU (2) customer classes over and above that which is approved in the load forecast in this application.

In Reference 2, Horizon has forecast the loads of its LU (1) and LU (2) customers.

In Reference 3, the Board denied Horizon’s request to track in a subaccount of account 1572 – Extraordinary Event Losses any distribution revenues related to demand above the revised load forecast for the two specific Large Use customers.

In both instances, EB-2010-0131 and this current Application, Horizon is proposing to collect only excess revenues and not losses. In EB-2010-0131, the Board denied Horizon's proposal stating:

"The Board finds that the asymmetric return profile to the utility, 100% of the downside risk and 50% of the upside benefit, and the limited coverage of the account as it applies to only two of Horizon's 12 Large Use customers, to be problematic."

Please detail any significant differences between Horizon's EB-2010-0131 proposal and this one.

9 Staff 47. LRAMVA

Reference

1. Exhibit 9, Tab 5, Schedule 1

Preamble

Table 9-19 on page 3 of the reference Horizon calculates the 2011 LRAMVA amounts for the 8 months of 2011. Table 9-20 on page three calculates the full year impact for 2012.

- a. Please expand Table 9-19 and include all the initiatives under each of the customer classes and the corresponding energy and peak demand savings for each initiative that have contributed to Horizon's LRAMVA claim for 2011.
- b. At column (B) of Table 2-20, Horizon indicates it has relied on the 2012 OPA Q3 Results to determine the LRAMVA eligible savings in 2012. Please discuss why Horizon has not relied on the 2012 OPA Final Results when determine its 2012 LRAMVA amount.
- c. Please expand table 9-20 and include all the initiatives included under each of the customer classes and the corresponding energy and peak demand savings for each initiative that have contributed to Horizon's LRAMVA claim for 2012.
- d. Please update Table 9-20 using the 2012 OPA Final Results.