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By Email and RESS

July 4, 2014

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

Re: Horizon Utilities Corporation Distribution Rates 2015-2019 (EB-2014-0002) - SIA Interrogatories

Dear Ms. Walli,

Please find attached the interrogatories of the Sustainable Infrastructure Alliance of Ontario (the "SIA") in the above noted proceeding.

Sincerely,

[original signed by]

Dionisio Rivera

EB-2014-0002

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

AND IN THE MATTER OF an application by Horizon Utilities Corporation
for an order approving just and reasonable rates and other charges
for electricity distribution to be effective January 1, 2015, and
for each following year through to December 31, 2019.

Interrogatories on behalf of the Sustainable Infrastructure Alliance of Ontario

Exhibit 1 – Administrative Documents

1-SIA-1
[Ref: Exhibit 1, Tab 4, Schedule 1, Page 4]
Horizon states that it "has consistently maintained residential and small commercial customer satisfaction ratings above 90% and above the Ontario average for the last seven years." Were the surveys over the last seven years conducted on the same basis and by the same company as the current year results? If not, please provide a table listing the company conducting the survey, the result achieved, and any major differences in survey methodology from that used in the prior year(s).

1-SIA-2
[Ref: Exhibit 1, Tab 4]
Did Horizon commission any other customer surveys over the 2012-2014 period that were not filed together along with this application? If so, please provide any applicable reports and explain why Horizon did not believe the results of these surveys to be relevant to the current application.

1-SIA-3
[Ref: Exhibit 1, Tab 12, Schedule 1 and Exhibit 1, Tab 12, Schedule 2]
Horizon lists "changes in the tax rates" as being addressed through a possible Annual Adjustment, and "Changes to income tax rates and laws" as a possible "Reopener". Please clarify the difference between the two (if any).

1-SIA-4
[Ref: Exhibit 1, Tab 12, Schedule 2]
Horizon lists a number of factors (i.e. "reopeners") that would allow for additional adjustments to its rates as a result of events outside the normal course of business.
a) Given that the majority of the potential "reopeners" are fundamental changes to either billing determinants or overarching regulatory requirements that would apply industry-wide (and

by their nature would trigger mandated industry-wide adjustments), does Horizon believe a specific determination on each of these factors is necessary as part of the OEB's decision in this specific proceeding?
b) Please explain why Horizon does not believe that the OEB's existing Z-Factor is sufficient to guard against these various unforeseen events.

1-SIA-5
[Ref: Exhibit 1, Tab 5, Appendix 1-10.3]
In describing the CIR rate setting method in its Consolidated Financial Statement Horizon paraphrases from the RRFE Report and notes that "The OEB also indicates that it expects that a distributor applying under this method would not seek early termination from the Custom IR (with the exception of a circumstance where the return on equity of an LDC in a given year is either higher or lower than its approved MARE by 300 basis points)." Given this admission, please explain why Horizon nonetheless believes that it would be appropriate for the OEB to approve additional "reopeners" as outlined in Exhibit 1, Tab 12, Schedule 2.

1-SIA-6
[Ref: Exhibit 1, Tab 2, Schedule 6]
In Exhibit 1, Tab 2, Schedule 6, Horizon explains its needs in choosing to apply for rates under the CIR methodology. In the absence of embedded productivity and stretch factors (that would ordinarily apply under the IRM methodology), what measures or reporting metrics does Horizon propose for itself to ensure that productivity gains continue to be achieved during the 5 year term?

1-SIA-7
[Ref: Exhibit 1, Tab 2, Schedule 6, Page 29]
Horizon notes that "Although the Board applied a 0.72% productivity factor to 2012 and 2013 IRM rate adjustments, more current analysis within and underlying the Rate Setting Report clarifies realistic expectations for productivity at 0% for those years. Consequently, Horizon Utilities has used a 0% productivity factor for all years within its price index analysis in Table 1-10."
a) Please explain how the Rate Setting Report "clarifies realistic expectations for productivity at 0% for those years".
b) In supporting its use of a 0% productivity factor in its analysis, Horizon quotes the Rate Setting Report by noting the OEB's determination that the "productivity factor at zero reflects a reasonable balance of the estimated productivity trend in the sector over the last 10 years…". Please confirm whether Horizon interpreted this statement as suggesting or implying that the productivity factor was in fact zero in 2012 and 2013.
c) Please reproduce Table 1-10 using the Board approved productivity factor for 2012 and 2013.

1-SIA-8
[Ref: Exhibit 1, Tab 2, Schedule 6, Page 26]
Horizon notes that "The analysis demonstrates that Horizon Utilities is projecting and requesting real OM&A growth, net of achieved and forecast productivity and inflation, of approximately $4,400,000 from 2011 Approved through the 2019 Test Year". In table 1-10, however, the

$4,400,000 value appears to correspond specifically to the 2019 test year, with different values for each of the years from 2015-2018.
a) Please confirm/clarify that Horizon is also presenting the $4,400,000 value as an average <u>annual</u> amount, calculated as being the amount of OM&A required in excess of that which would be notionally permitted under the IRM calculation methodology in each of the five test years.
b) Please provide/confirm the total OM&A required in excess of that permitted under the IRM calculation over the entire 2015-2019 period using Horizon's methodology and the modified methodology as requested under interrogatory SIA-29c.

1-SIA-9
[Ref: Exhibit 1, Tab 2, Schedule 6, Page 3]
Horizon identifies "An increase in OM&A Costs associated with the smart meter implementation" as one of the reasons for its revenue deficiency in 2015. Given that Horizon has largely completed the Smart Meter conversion program, please explain why smart meter OM&A implementation costs (as opposed to capital costs to be added to ratebase, as identified on page 16 of the same reference) are still considered a major reason for increased distribution costs in 2015.

<u>Exhibit 2 – Rate Base</u>

2-SIA-10
[Ref: Exhibit 2, Tab 5, Schedule 1]
Horizon proposes to leave its stranded meter balances in ratebase until they are fully depreciated, citing primarily rate impact mitigation as its justification for this approach. Horizon quotes the G-2008-0002 Smart Meter Guidelines as allowing for this option.
a) Given that the G-2008-0002 Guidelines have been superseded by the G-2011-0001 Guidelines (which no longer provide for the option of leaving these balances in ratebase), why does Horizon believe that this option would continue to be compliant with current regulations?
b) The G-2011-0001 Guidelines state that "The Board found that the net book value of the stranded assets should be removed from rate base for the applicable customer classes, rather than by leaving the stranded assets in ratebase". Given that rate mitigation would be a factor applicable to all utilities and the clear direction in the G-2011-0001 Guidelines, please explain why an alternative treatment would be appropriate for Horizon.
c) Please confirm that under Horizon's approach the stranded meters in ratebase would continue to generate a return for the company. Please calculate the magnitude of the return over the remaining life of the stranded meters.
d) If rate mitigation is a primary consideration for Horizon in proposing to leave the meters in ratebase, has Horizon considered the option of removing the meters from ratebase but clearing the balance over an extended period of time (e.g. approximating the remaining useful life)? Why or why not?
e) Please calculate the expected rate riders and bill impacts if the stranded meters were to be removed from ratebase and cleared over a period of i) 5 years and ii) over a period matching their current remaining useful life.

2-SIA-11
[Ref: Exhibit 2, Appendix 2-4, Tables 1 and 2]
Please produce a summary table (following the sample format provided below) listing all proposed capital programs (as listed in Tables 1 and 2 in the above reference) along with the associated drivers of each program (safety, reliability, etc). If a program is a result of more than one driver, please indicate the primary driver.

	Cost 2015-2019	Driver 1	Driver 2	Etc…
Program 1	$	x	P	
Program 2	$	P		
Etc…	$	x	x	P

2-SIA-12
[Ref: Exhibit 2, Tab 6, Schedule 1, Page 1]
Horizon states that its "…capital expenditures have increased from $39,000,000 in the 2011 Board- Approved to $39,939,967 in the 2015 Test Year and $51,272,477 by 2019. This increase is driven by the necessary renewal of Horizon Utilities' distribution assets, buildings and information systems technology." Given that capital spending has remained relatively flat over 2011 through 2015 but is projected to increase dramatically from 2015 through 2019, did Horizon consider making any of the investments proposed in this application prior to 2015? If funding was an issue, did Horizon consider filing an ICM application? If not, why not?

2-SIA-13
[Ref: Exhibit 2, Tab 8, Schedule 1]
a) Please provide the outage information contained in Appendix 2G broken down by cause code (e.g. loss of supply, animal contact, etc).
b) Other than remaining within the rolling three year average OEB targets, does Horizon have an internal long term target for SAIFI and SAIDI?
c) Has Horizon commissioned any studies or prepared any internal memos or reports as to SAIFI and SAIDI targets? If so, please provide copies. If not, please explain why Horizon feels this would not be helpful to its reliability and capital investment planning.

2-SIA-14
[Ref: Exhibit 2, Appendix D]
The Customer Consultation Report states that "When asked what Horizon Utilities can do to improve its services, a common initial theme was that Horizon Utilities should keep rates down".
a) Given this apparent preference for lower cost service, has Horizon considered any alternative investment scenarios that would result in lower rates than those proposed in this application?
b) Please explain why Horizon believes that the nominally high percentage bill increases resulting from the investments outlined in this application (Exhibit 1, Tab 7, Schedule 4) correctly reflect the preferences of customers for low rates.

2-SIA-15
[Ref: Exhibit 2]
The Boards RRFE Report (page 20) states that under CIR, "Once rates have been approved, the Board will monitor capital spending against the approved plan by requiring distributors to report annually on actual amounts spent."
a) Does Horizon have a proposal for how the execution of its capital plan should be monitored on an annual basis?
b) In the event that Horizon under-spends on its capital plan, does Horizon anticipate a true-up mechanism at the end of the 5 year period such that any under-spent amounts are properly refunded to customers?

2-SIA-16
[Ref: Exhibit 2]
With the assumption that all investments will to some limited extent incrementally improve system reliability and restoration time, are any of Horizon's investments planned for the 2015 to 2019 period specifically designed to mitigate against major outages? If so, please identify those most relevant and briefly state their intended benefits. If not, please explain why Horizon believes a specific major outage mitigation effort is not a priority and/or is not possible.

2-SIA-17
[Ref: Exhibit 2]
In developing the spending plan for 2015-2019, please identify any capital programs that were considered but ultimately rejected. Please provide the program name, a brief description, anticipated cost, and the reason for exclusion from this application.

2-SIA-18
[Ref: Exhibit 2, Tab 6, Schedule 1, Page 14]
Horizon defines an unacceptable Health Index distribution when "at least 20% of the assets within the group have a Health Index of either very poor or poor". What is Horizon's long term goal in terms of an acceptable Health Index distribution of assets?

2-SIA-19
[Ref: Exhibit 2]
Please describe the level of accuracy/specificity with which the capital cost estimates been calculated for each of the years of the five year term? Are the cost estimates during the outer years of the term (2017-2019) based on higher-level forecasts than those of the earlier years?

Exhibit 3 – Operating Revenue

3-SIA-20
[Ref: Exhibit 3 Tab 3 Schedule 3 Page 2]
Horizon states that "Other Revenue for 2015 is forecasted to be in line with 2014 amounts and is projected at $5,477,916, representing a decrease of $576,418 or 9.42% from 2014."
a) Why does Horizon categorize the 2015 forecast as being "in line with 2014 amounts" given the nearly 10% variance? Is this magnitude of variability expected?

b) Please explain the drivers of the reduced forecast in 2015 as compared to 2014.

Exhibit 4 – Operating Costs

4- SIA-21
[Ref: Exhibit 4, Tab 3, Schedule 2, Page 8]
a) Please confirm that it is Horizon's intention to transition the identified 2500 conventional meters to smart meters by the end of 2015.
b) Are accessibility and/or other technical issues the primary reason why these meters have not yet been converted? If so, when were these issues first identified as posing a potential challenge for conversion?
c) Where any efforts made to convert these meters in prior years? If not, why not?
d) Please detail Horizon's plan to convert these remaining meters to smart meters.

4-SIA-22
[Ref: Exhibit 4, Tab 3, Schedule 2, Page 10]
Regarding the Daffron and Associates billing system, Horizon claims that it "is nearing the end of its useful life and requires investment to migrate to a new system or undertake a major upgrade to the current Daffron browser-based solution." However, Horizon is not proposing to replace it (i.e. have an operational replacement) until 2021.
a) When was this system installed?
b) What is its expected useful life?
c) Is the system currently capable of ensuring full compliance with all applicable billing, collections, and reporting requirements?
d) If the system is "nearing the end of useful life", is Horizon confident that it will be able to maintain full compliance with all applicable billing, collections, and reporting requirements from 2015 through 2021?
e) Other than routine maintenance and routine upgrades, will any major investments be required to keep the system operational prior to 2021?
f) Where in the program budgets in this application are any costs related to this upgrade project located?

4-SIA-23
[Ref: Exhibit 4, Tab 3, Schedule 3, Page 21 & Exhibit 4, Tab 4, Schedule 6]
a) Please provide a breakdown of the Regulatory Affairs budget of $2,883,584 into its major sub-components.
b) Please identify the differences between the "Regulatory Affairs Budget" of $2,883,584 in Exhibit 4, Tab 3, Schedule 3 with the "Regulatory costs" of $1,150,000 in Exhibit 4, Tab 4, Schedule 6, Page 1. Is the latter a subset of the former?

4-SIA-24
[Ref: Exhibit 4, Tab 3, Schedule 3, Page 22]
Horizon states that it "continues to be proactive in their efforts to achieve productivity and savings in the 2015 – 2019". Please identify any measures or initiatives planned, considered, or undertaken to achieve productivity savings in the Regulatory Affairs department.

4-SIA-25
[Ref: Exhibit 4, Tab 3, Schedule 2 and Schedule 3]
Please map the divisions and departments identified in Schedule 2 to the program costs identified in Schedule 3 (Tables 4-22 through 4-25).

4-SIA-26
[Ref: Exhibit 4, Tab 3, Schedule 3, Page 65]
Horizon states that "The storm in July 2013, which included a record rainfall, caused flash flooding in Toronto". Please confirm that the $954K in damages in Horizon's service territory was also the result of flash flooding. If not, please identify the types of damage experienced.

4-SIA-27
[Ref: Exhibit 4, Tab 3, Schedule 3, Page 65]
With regard to the December 2013 ice storm:
a) Please provide a breakout of the length of time customers were without power in 12 hour intervals. (i.e. # of customers without power 0-12 hours, 12-24 hours, etc)
b) Did the experiences of the ice storm lead Horizon to identify the need for any changes in maintenance policies and/or capital standards? If not, why not?
c) Did Horizon prepare any internal reports, memos, or other analysis of the impact of the ice storm on its distribution system? If so, please provide copies.

4-SIA-28
[Ref: Exhibit 4, Tab 3, Schedule 3, Page 67]
For the weather event forecasts on lines 15-22, please identify the timeframe by when these events are expected to occur.

4-SIA-29
[Ref: Exhibit 4, Tab 3, Schedule 4, Page 15]
Please quantify the reduced meter reading costs in 2011 through 2013 as a result of smart meter installations.

4-SIA-30
[Ref: Exhibit 4, Tab 4, Schedule 6 & Exhibit 4, Tab 3, Schedule 3, Page 22]
At Exhibit 4, Tab 4, Schedule 6 Horizon proposes to recover the regulatory costs of this application over the five year period 2015-2019 and states that these costs "have been incurred and expensed in 2013 and 2014". At Exhibit 4, Tab 3, Schedule 3, Horizon states that its Regulatory Budget has been reduced by "$300,000 relating to the 2011 CoS Application".
a) Should this $300K per year, implicitly embedded in rates in 2013 and 2014, not be used to offset the costs of this 2015-2019 application for which Horizon claims costs were incurred in 2013 and 2014 and for which Horizon is requesting full cost recovery over 2015-2019? Why or why not?
b) In addition to the $300K, did Horizon's approved regulatory budget in its last COS application include any other costs for applications/regulatory filings or other categorically related expenses? If so, please provide the relevant amounts.
c) To the extent that some funding for regulatory applications was included in base rates (in a) and/or b) above), please explain why Horizon is requesting full recovery of its 2013 and 2014

costs related to this application over the 2015-2019 period.
d) Notwithstanding any of the above, under what regulatory authority does Horizon request recovery of out of period costs (i.e. the 2013 and 2014 costs related to this application), which were not tracked in an approved deferral or variance account for clearance? How would Horizon distinguish this approach from retroactive ratemaking?

4-SIA-31
[Ref: Exhibit 4, Tab 4, Schedule 7]
Please confirm that Horizon has used the “Service Revenue Requirement” (as opposed to the “Distribution Revenue Requirement”) in calculating its LEAP amounts for 2015 through 2019.

Exhibit 8 – Rate Design

8-SIA-32
[Ref: Exhibit 8 Tab 1 Schedule 7]
a) Has Horizon reviewed the rates currently being charged for all currently approved specific service charges to determine their appropriateness (in terms of continued applicability, cost recovery, etc)? If not, why not?
b) Please recalculate all currently approved specific service charges, using the calculation methodology included in Schedule 11-2 of the Distribution Rate Handbook and updating for Horizon's current actual vehicle and labour rates.
c) By how much would Horizon’s total revenue offsets increase or decrease if its revenue offset forecast amount reflected the actual cost-based charges as calculated in b) above?

8-SIA-33
[Ref: Exhibit 8 Tab 1 Schedule 7]
a) Would the Paymentus credit card service charge apply only to those customers who use it to voluntarily make ongoing regular bill payments, or all credit card payments including the emergency collection payments as described under Distribution System Code 4.2.5?
b) Does Horizon offer alternatives to credit card payments when making disconnection/collection calls such that customers could avoid this proposed fee?
c) Is Horizon aware of any other institutions that apply a surcharge for bill payments made by credit card?