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

Board Staff Technical Conference Questions

1-Staff-48TC

Reference: 1-Staff-10 – Performance Indicators and Measurement

In response to 1-Staff-10 (c), Horizon states that it has not developed reliability targets for 2015-2019 as data for 2015 is not available. Please clarify how service reliability indicators are used for planning purposes?

1-Staff-49TC

Reference: 1-Staff-11 – Level of Service Targets

In the reference, part a. Horizon quantified the potential impact for SAIDI for the projects at Table 1, but says that it has not calculated the price/improvement trade-off.

1. Please state the units for Table 1.
2. Since the cost of a project is forecasted, as is the expected impact to SAIDI, is it not reasonable to measure incremental benefits against the investment in question?

The original interrogatory 1-Staff-11(b) should have read:

In order to identify planned spending by driver, please tabulate all areas of capital and OM&A growth starting with the driver/need (e.g. poor reliability, worker safety, etc…) for the investment. Please indicate the anticipated directional or absolute result and expected timing of results.

Please use the suggested format below as guidance:

Driver	Expenditure	Activities	Results & Timing	Corresponding Projects/ 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	

3. Please complete 1-Staff11-(b) as suggested.

1-Staff-50TC

Reference: 1-Staff-12 Planning Processes

At -1Staff-12(f), for project GP-1, Horizon indicates that it is using a 3-year cycle which allows a stable annual expenditure over the DSP term. Similar reasoning is used for GP-12 and GP-13, Vehicle Replacement and Tools, Shop and Garage Equipment respectively.

1. With respect to non-distribution assets, please clarify what is meant at 1-Staff-12(b) (ii) by “formulaic approach”?
2. Is there a basis other than “annual stable expenditure” for the cycles for projects GP-1, GP-12, and GP-13? For example, how did Horizon select a 3-year cycle for computer replacements? Does this schedule coincide with vendor support for instance, or industry best practices?
3. Respecting GP-4, when was the last enterprise phone system upgrade? What is the planned lifecycle replacement of Horizon’s phone system?
4. Respecting GP-6, were the deferred infrastructure investments approved in EB-2010-0131? What was the amount that was deferred from 2008 until now? Were there any compounding effect in deferring the investments in buildings and infrastructure?
5. Without going into detail (as material was filed in confidence), can you restate what the security concerns are?
6. In response to 1-Staff-12(g), Horizon states that a varying load growth environment does not change Horizon’s investment profile. Please indicate what projects were driven by load growth?

1-Staff-51TC

Reference: 1-Staff-13 – Planning

Are the amounts in response to 1Staff13(c) net benefits? If not, what are the net benefits of these projects?

1-Staff-52TC

Reference: 1-Staff-14 – Benchmarking

At the reference, Horizon indicates that it benchmarked fleet replacement criteria against other LDCs in 2014 to determine whether its replacement guidelines were aligned with industry best practices. Please reconcile this statement with the one at 1-Staff-12(f),related to GP-12, Vehicle Replacement which mentions as a basis for replacement a stable annual expenditure over the DSP term.

1-Staff-53TC

Reference: 1-Staff-15 – Monetizing Benefits

Are the monetized benefits described at the reference net benefits? If not what are the net benefits for these initiatives?

1-Staff-54TC

Reference: 1-Staff-18 – Asset Condition Assessment

Response 1-Staff-18(a) states that the DSP contains an economic evaluation component. Please point to which economic evaluation you are referring to in the pre-filed evidence?

1-Staff-55TC

Reference 1-Staff-20 – Asset Management Overview

In reference, Horizon indicates that it is unable to provide a comparative analysis between capital and O&M, and that Chapter 5 of the Filing Requirements does not specify that this information is required.

Also, Horizon states that it does not track planned vs. unplanned O&M.

At section 5.3.3 of Chapter 5, with respect to asset lifecycle optimization, the Board states that "information provided should be sufficient to show the trade-off between spending on new capital (i.e. replacement) and life-extending refurbishment".

Please complete your responses to 1Staff20 (a) and (b) to establish planning trends.

1-Staff-56TC

Reference: 1-Staff-21 – Justification of DS Plan

Horizon filed qualitative analysis for the benefits and project economics.

1. Please provide a definition of non-discretionary for Horizon projects.
2. Are there any figures of merit related to the projects economics in the pre-filed evidence?
3. Is there any numerical information on the consequences on not proceeding with a project? If so please point to the evidence.
4. With respect to the projects economics, if business cases are available for material projects, please submit copies.
5. Where benefits are quantifiable please complete the table with appropriate information.
6. Please confirm that the expenditure cycles at table 2 are aligned with industry best practices.

2-Staff-57TC

Reference: 2-Staff-22 Stranded Meters

Horizon stated in its response that it included a return component in the amount for the stranded meters used in calculating the Stranded Meter Rate Rider ("SMRR"). In Guideline G-2011-0001 pages 22 and 23, the Board stated:

> *"It is expected that a distributor, as part of its application for the disposition of smart meter costs in a cost of service application, will propose (a) rate rider(s) to recover the NBV of the stranded meters.*
>
> *The recovery period should generally be accelerated (i.e. shorter than the average remaining life of the stranded meters). As a general rule of thumb, the Board expects that the recovery of stranded meter costs should be achievable in*

> *a period no longer than four years. The distributor can propose a shorter recovery period, but should take into account rate impacts on its affected customers, and may make proposals to mitigate potential material and adverse impacts. A distributor should provide an explanation for a recovery period longer than four years since the stranded meters are no longer used and useful and the proposed recovery period should, ideally, not go beyond the distributor's next cost of service rate application."*

Please calculate a SMIRR based on the Net Book Value of the stranded meters as of December 31, 2014 based on a four year recovery period.

3-Staff-58TC Forecast

Reference: 3-Staff-24

In part d. Horizon provided a volumetric forecast based on Board staffs terms. In Exhibit 3 Tab 1 Schedule 2 Horizon provided two forecasts; Table 3-26 based on 10 year average degree days, and Table 3-27 based on 20 years average degree days. What period was used to establish the average degree days in the interrogatory response?

4-Staff-59TC Post Employment Benefits

Ref: 4-Staff-27

1. On page 2, Horizon updated Table 4-120. Is this now the evidence and replaces the pre-filed evidence?
2. On page 4, Horizon has provided an update on Table 2. Is this now the evidence and replaces the pre-filed evidence?
3. If the answer to 1. And 2. Is yes, please file updated evidence on blue sheets.
4. On pages 4 and 5, Horizon states that "Under IFRS, actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), are recorded in the financial statements 1 in the current year as Other Comprehensive Income ("OCI"). Horizon Utilities has not requested any recovery of the amounts charged to OCI on transition to IFRS in the Application as it is expected that future differences resulting from these actuarial gains and losses will also be recorded in this account."

i. What is the referenced account?
ii. Is Horizon using an approved variance account for OCI? If so please state the account.
iii. What impact does OCI have on this application?
iv. Are costs that appear in OCI in the financial statements included in this application? If so, please indicate where.

6-Staff-60TC Deferred Taxes

Reference: 6.0-VECC-48 - Deferred Taxes - Page 9.

Horizon did not apply to recover deferred taxes in this application. Rather, Horizon has asked the Board to comment on the fair return standard in light of only being permitted to recover current taxes.

In the reference, Horizon stated that "Given the complexity of this issue, Horizon Utilities suggests that its resolution requires further study and may be outside the scope of this Application."

1. Does Horizon now think the issue is outside the scope of this application?
2. If so, should Horizon's request be withdrawn so that cross-examination and submissions can be avoided?
3. If not, how could the parties settle the issue?

6-Staff-61 TC Deferred taxes

Ref: 6-Staff-30 - Deferred Taxes - Page 5, paragraph (c)

Horizon states that it made submission as a member of the Coalition of Large Distributors in the Cost of Capital proceeding, EB-2009-0084. The submission stressed the need for recognition of fair returns to attract new capital.

1. Does Horizon think that it will have difficulty attracting new capital because of differences between rate regulation and accounting?
2. Does Horizon explain what these differences are in its financial statements?
3. Does Horizon discuss the differences with lenders so that they understand the complexities?
4. Are lenders and rating agencies relatively sophisticated in understanding the differences between rate regulation and accounting in assessing business risks?

5. If the interest rate on new debt is higher because of the differences between accounting and regulation, will the ratepayers bear the cost?

7-Staff- 62TC Cost Allocation

Re: 7 - Staff-31 Direct Allocations

Board staff would like further clarification on the development of the costs for direct assignment.

1. Did Horizon use actual records from the installation date of the specific costs incurred for these customers? If not, what is the overall average costs, or average costs based on the year installed? Please explain.
2. How did Horizon account for any contributions in aid of construction that it received from the customers?

9-Staff- 63TC – Account 1592TC

Re; 9-Staff-39

Horizon is proposing to dispose of $19,885 in Account 1592. According to Horizon, this balance comprises the cumulative principal difference arising from the differences in the actual tax rate (26.5%) and approved tax rate (26.05%) used for the tax savings rate rider approved in Horizon's 2012 IRM application (EB-2011-0172).

The APH states, for Account 1592 PILs and Tax Variances for 2006 and Subsequent Years, the account shall be used for:

1. any differences that result from a legislative or regulatory change to the tax rates or rules assumed in the 2006 OEB Tax Model.
2. any differences that result from a change in, or a disclosure of, a new assessing or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.
3. any differences in 2006 PILs that result in changes in a distributor's "opening" 2006 balances for tax accounts due to changes in debits and credits to those accounts arising from a tax re-assessment:
    i. received by the distributor after its 2006 rate application is filed, and before May 1, 2007; or
    ii. relating to any tax year ending prior to May 1, 2006.

In light of the above:

4. Please comment on Horizon's proposal for recovery of account 1592 which was disposed of on final basis in its 2012 IRM proceeding.
5. Please confirm that the tax rate change was not a change due to changes in the levels of tax rates set by authorities, but rather due to the results from estimating taxes and the resulting actual calculated taxes.

9-Staff- 64TC – Account 1518 and 1548

Re: 9-Staff-44

In response to this IR, Horizon stated: *"However, a significant portion of these costs are fixed, such as the fixed portion of the software license and maintenance fee and the costs associated with billing staff and regulatory staff."*

According to the APH Article 490:

> "It should be noted that the RCVA relate only to the incremental costs of providing the retail services listed below. Note that "Incremental cost" is defined as the change in total expenses under a new condition (i.e. requirement to provide a new service) in comparison to some given known condition (i.e. costs incurred prior to the requirement to provide the new service)."

Board staff notes that fixed costs, by definition, are not incremental. Therefore, it appears that Horizon is not calculating balances in the RCVA accounts in accordance with the APH.

1. Please explain the horizon's view of including fixed costs as incremental for the purposes of allocating fixed costs to the RCVAs.
2. Please provide substantiation that the assets acquired were solely for the purposes of retail services.