

Responses to Energy Probe Technical Conference Questions

Annual Adjustments

Energy Probe-1

Ref: Annual Update Filing, page 5

Please provide a live Excel spreadsheet that shows the rates and volumes used to calculate the cost of power. Please show how the volumes used tie back into Table 29 in the EB-2014-0002 Settlement Proposal.

Response:

- 1 Horizon Utilities has filed the live excel file "Energy Probe_1_Cost of Power Calculation" that
- 2 shows the rates and volumes used to calculate the cost of power.
- 3 Please refer to Horizon Utilities' response to Technical Conference Question Board Staff-1 for a
- 4 reconciliation of the volumes to Table 29 in the Custom IR Settlement Proposal (EB-2014-0002).

Request for an Accounting Order to Establish a New Deferral Account

Energy Probe - 2

Ref: Annual Update Filing, pages 44-45

Horizon Utilities is requesting an Accounting Order to establish a “*Deferral Account 1508 – Monthly Billing Costs*” with sub accounts for “*Capital*”; and “*Operations, Maintenance and Administration*” to record incremental costs related to the implementation of monthly billing.

- a) What plans does Horizon have to expand the number of customers on electronic billing in order to mitigate some of the increase in postage and mailing costs associated with moving residential and GS < 50 customers to monthly billing?**
- b) How will these reductions be captured in the above requested deferral account?**
- c) When has or will Horizon begin converting the 218,109 customers noted that are on bi-monthly billing to monthly billing?**
- d) When does Horizon expect to have all residential and GS < 50 customers converted to monthly billing?**
- e) Please provide a schedule that shows by month the number of customers billed bi-monthly and the number of customers billed monthly in each of 2015 and 2016 that shows the expected progress in moving customers to monthly billing. Please provide this information for both the residential and GS < 50 classes separately.**
- f) How will Horizon track the impact on cash flow based on the movement of customers to monthly billing in 2016?**
- g) Please confirm that based on the response to 2-Staff-23a in EB-2014-0002 that the current approved working capital allowance is 12.0% and is based on the mixture of monthly and bi-monthly billing as existed at the time of the lead lag study undertaken by Navigant.**
- h) Please confirm that based on the response to 2-EP-11 in EB-2014-0002, if the residential and GS < 50 customers were billed on a monthly basis, the working capital allowance would decrease from 12.0% to 8.7%.**
- i) Does Horizon propose to change the working capital allowance from 12.0% to 8.7% or to the default Board policy figure of 7.5% when all residential and GS < 50 customers are moved to monthly billing, or is Horizon planning on filing an updated lead lag study? Please explain fully.**
- j) What is the impact on the 2016 revenue requirement of reducing the working capital allowance from 12.0% to 8.7%? Please show all calculations and assumptions used.**

- k) Horizon has quoted to the response to 2-Energy Probe-11, part (b) in EB-2014-0002 in its evidence related to the one-time costs and the ongoing operating costs that it wishes to include in the requested deferral account. Please confirm that the interrogatory response in part (b) goes on to state the following:**

Horizon Utilities has estimated the net impact on Revenue Requirement (summarized in Table 2 below) resulting from:

- i) The reduction in Revenue Requirement corresponding to the reduction in Working Capital Allowance provided in Table 1 above (Refer to Table 3 below);*
- ii) The ongoing increase in Revenue Requirement corresponding to an increase in annual operating expenditures necessary to support monthly billing (Refer to Table 4 below);*
- iii) The increase in Revenue Requirement from 2015 to 2019 corresponding to the recovery of implementation costs for monthly billing (Refer to Table 5 below).*

Table 2
Impact on Revenue Requirement from Change to Monthly Billing
(\$000s)

	<i>Reference</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>Totals</i>
Impact on Revenue Requirement							
<i>Reduction of Working Capital Allowance</i>	<i>Table 3</i>	<i>(1,358)</i>	<i>(1,407)</i>	<i>(1,460)</i>	<i>(1,528)</i>	<i>(1,592)</i>	<i>(7,346)</i>
<i>Increase in OM&A</i>	<i>Table 4</i>	<i>1,409</i>	<i>1,437</i>	<i>1,466</i>	<i>1,495</i>	<i>1,525</i>	<i>7,332</i>
<i>Implementation Impact</i>	<i>Table 5</i>	<i>(6)</i>	<i>74</i>	<i>157</i>	<i>150</i>	<i>143</i>	<i>520</i>
<i>Net Increase/ (Decrease)</i>		<i>44</i>	<i>104</i>	<i>163</i>	<i>117</i>	<i>76</i>	<i>505</i>

Table 2 demonstrates that Revenue Requirement 1 would increase approximately \$0.5MM across 2015 to 2019 as a result of implementing monthly billing. Thereafter, the outcome is marginally positive to ratepayers following the full amortization of one-time implementation costs and under the cost and inflation assumptions identified above and in Tables 3 through 5 below. Horizon Utilities submits that there is relative ratepayer indifference to monthly billing insofar as the impact on their distribution rates.

- l) Please confirm that Horizon agreed in the response to 2-Energy Probe-11, part (c), in EB-2014-0002 that in response to whether or not the change in the working capital allowance percentage would be part of the annual adjustment to the working capital calculation if it moved customers to monthly billing in 2015-2019, and that it was "Horizon Utilities' expectation that it would commence recovery of one-time and ongoing incremental costs identified in b) at the same time as the adjustment to working capital."**
- m) Does Horizon believe that the adjustment to the working capital allowance percentage meets the criteria of Section 2.12.7 of the "Filing Requirements for Electricity Distribution Rate Applications 2014 Edition for 2015 Rates Applications", issued July 18, 2014 of causation, materiality and prudence? If not, please explain fully.**

Response:

- 1 a) Horizon Utilities offers two e-billing options for customers to mitigate postage expenditures:
2 Horizon Utilities' e-bill and epost by Canada Post.

3 To encourage customers to choose e-billing, Horizon Utilities plans the following in 2016 and
4 beyond: encourage new customers registering for service to consider an e-bill option;
5 promotion of e-billing through the Horizon Utilities' website; inform customer of e-billing
6 options through inserts included with paper bills; educate customers of the benefits of e-billing
7 through social media channels; and promotion of e-billing through contests to target new
8 program registrations.

- 9
10 b) E-billing savings were identified as a productivity measure in Horizon Utilities' 2015 Custom
11 IR Application (EB-2014-0002). Forecasted incremental savings to be achieved as customers
12 migrate to e-billing from conventional paper bills were included in the Custom IR Application
13 and the resulting rates for 2015-2019. E-billing reductions will not be captured in the above
14 requested deferral account.

15
16 Horizon Utilities' 2015-2019 productivity measures are detailed in its response to Interrogatory
17 Response EB-2014-0002 BOMA-8a.

- 18
19 c) Horizon Utilities has not commenced the implementation of monthly billing for its bi-monthly
20 customers. Horizon Utilities' strategy to implement monthly billing is in development. Horizon
21 Utilities anticipates that it will transition its customers to monthly billing in the fourth quarter of
22 2016.

- 23
24 d) Horizon Utilities expects to have all residential and GS < 50 kW customers converted to
25 monthly billing by December 31, 2016.

- 26
27 e) Horizon Utilities' strategy to implement monthly billing is in development. Horizon Utilities'
28 currently assumes that customers will receive their last bi-monthly or transitional bill at the end
29 of 2016 and their first monthly bill in January 2017.

30 The following table identifies the number of customers forecast to be on monthly billing in
31 2016 as compared to 2015, as of September 30 2015:

32

Table 1 – Number of Customers Billed Monthly and Bi-Monthly in 2015 and 2016

Customer Classification	2015		2016	
	# customers billed bi-monthly	# customers billed monthly	# customers billed bi-monthly	# customers billed monthly
Residential	214,257	6,175	214,257	6,175
GS < 50	3,842	14,704	3,842	14,704
TOTAL	218,099	20,879	218,099	20,879

- f) Horizon Utilities will not be tracking the impact on cash flow for customers moving from bi-monthly to monthly billing in 2016 as these customers will not be converted until the end of 2016.
- g) Horizon Utilities confirms that the current Board-Approved working capital allowance is 12.0% based on the mixture of monthly and bi-monthly billing as existed at the time of the Lead Lag Study undertaken by Navigant.
- h) Horizon Utilities confirms that the response to 2-EP-11 in EB-2014-0002 is correct. The working capital allowance would decrease from 12.0% to 8.7% if residential and GS < 50 customers were billed on a monthly basis.
- i) Please see Horizon Utilities' response to Technical Conference Question AMPCO-11.
- j) Horizon Utilities does not have an annual adjustment for changes to the WCA, as identified in Horizon Utilities' response to Technical Conference Question AMPCO-11. Further, Horizon Utilities is not transitioning customer to monthly billing until the end of 2016. There will be no change to WCA, and therefore no impact on the 2016 revenue requirement. For illustrative purposes only, if the WCA was changed from 12.0% to 8.7%, the impact on the 2016 revenue requirement would be a decrease of \$1,506,884 as identified in Table 2 below.

Table 2 - Impact on 2016 Revenue Requirement using an 8.7% WCA

Description	%	Amount
Working Capital Expenses		\$643,908,360
Working Capital Allowance	12.00%	\$77,269,003
Working Capital Allowance	8.70%	\$56,020,027
Decrease in Working Capital Allowance		(\$21,248,976)
Rate Base Breakdown		
Short Term Debt	4.00%	(\$849,959)
Long Term Debt	56.00%	(\$11,899,426)
Equity	40.00%	(\$8,499,590)
Revenue Requirement Components		
Deemed Interest - Short Term Debt	2.16%	(\$18,359)
Deemed Interest - Long Term Debt	3.47%	(\$413,067)
Return on Equity	9.30%	(\$790,462)
PILs	26.50%	(\$284,996)
Total Decrease in Revenue Requirement		(\$1,506,884)

- k) Horizon Utilities confirms that the italicized portion of part k above is an excerpt from the response provided to 2-Energy Probe-11 part b in the Custom IR Application (EB-2014-0002). Horizon Utilities also confirms that there is no provision in the Board-Approved Settlement Agreement to update the working capital allowance over the term of the Custom IR Application.
- l) Horizon Utilities confirms that the reference quoted was a Horizon Utilities response to an interrogatory from Energy Probe in its 2015 Custom IR Application (EB-2014-0002). As can be seen from that response, Horizon Utilities did not agree to make an adjustment in the WCA percentage as part of its annual adjustment if it moved customers to monthly billing during the Custom IR period. Energy Probe and the OEB will recall that the Custom IR Application resulted in a Board-Approved partial settlement which included the areas for annual adjustment. An adjustment to the working capital allowance percentage was not among the adjustments set out in the Board-Approved Settlement Agreement.
- m) Horizon Utilities has reviewed the referenced Section 2.12.7 of the "Filing Requirements for Electricity Distribution Rate Applications 2014 Edition for 2015 Rates Applications", issued July 18, 2014. Please refer to Horizon Utilities' Annual Filing, Tab 2, p.45 for specification on the manner in which the costs to be incurred satisfy the criteria specifications. As there is no adjustment to the WCA, Horizon Utilities believes that such an evaluation is irrelevant.