



November 2nd, 2016

By RESS and Courier

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

Dear Ms. Walli,

**Re: Horizon Utilities Corporation Annual Filing for Electricity Distribution Rates
(EB-2016-0077)**

Horizon Utilities Corporation (“Horizon Utilities”) submitted its second Annual Filing to its five-year Custom Incentive Rate-making Application (EB-2014-0002) to the Ontario Energy Board (“OEB”) for electricity distribution rates effective January 1, 2017 on August 11, 2016.

Pursuant to Procedural Order #1 and in response to interrogatories received from OEB Staff and the Intervenor of Record in this proceeding, Horizon Utilities wishes to submit the attached Interrogatory Responses. Horizon Utilities is including the following live excel files in today’s filing as follows:

- 1-STAFF-2 “3.0 2017 RTSR MODEL_V1_1_20161102 “
- 1-STAFF-7 “1-Staff-7_2017 Cost of Power Calculation”
- 1-STAFF-7 “1-Staff-7_2017 Cost of Power Rate Forecast”

Two hard copies will be couriered to the OEB.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Original signed by Indy J. Butany-DeSouza

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs

Responses to Board Staff Interrogatories

**1-STAFF-1 RTSR Work Form
 Large Use customer Non-loss Adjusted Metered kWh**

Reference(s):

**RTSR Work Form – 4. RRR
 DVA Continuity Schedule**

Preamble:

Horizon provided class determinants in the RTSR Work Form with values from RRR and also provided class determinants in DVA Continuity Schedule with values from RRR.

- a) Please explain the difference in Non-loss Adjusted Metered kWh for Large Use and Large Use – Regular rate class and the billing determinants in the DVA work sheet.
- b) Please explain the difference in Non-loss Adjusted Metered kW for Large Use rate class and the billing determinants in the DVA work sheet.

Response:

1 a) The difference in Non-Loss Adjusted Metered kWh for the Large Use rate classes between
 2 the RTSR Work Form and the DVA Continuity Schedule is identified in Table 1, below. The
 3 RTSR Work Form excludes kWh usage for wholesale market participants which is identified
 4 as a reconciling item in Column J of “Tab 4. Billing Determinants” in the DVA Continuity
 5 Schedule. The RTSR Work Form also excludes the adjustment identified in Table 49 on page
 6 57 of the Application to reclassify Customer X from the GS>50kW customer class to the Large
 7 Use (2) customer class. This adjustment was made for the purposes of calculating the Group
 8 1 disposition riders only, as explained on page 56 of the Application.

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10 **Table 1 – Reconciliation of kWh for Large Use Customers**

Non-Loss Adjusted Metered kWh	DVA Continuity including Wholesale Market Participants	Wholesale Market Participants	DVA Continuity Excluding Wholesale Market Participants	GS>50 Customer Reclassed to Large Use 2	RTSR Model
Large Use 1 (Large Use - Regular)	246,409,680	(34,839,263)	211,570,417		211,570,417
Large Use 2 (Large Use)	1,115,991,259	(735,118,837)	380,872,423	(4,789,874)	376,082,549

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13 b) The difference in Non-Loss Adjusted Metered kW for the Large Use rate classes between the
 14 RTSR Work Form and the DVA Continuity Schedule is identified in Table 2 below. The RTSR
 15 Work Form excludes the adjustment identified in Table 49 on page 57 of the Application to
 16 reclassify Customer X from the GS>50kW customer class to the Large Use (2) customer class.

17 This adjustment was made for the purposes of calculating the Group 1 disposition riders only,
18 as explained on page 56 of the Application. Horizon Utilities bills wholesale market
19 participants for transmission network and connection charges which are based on kW;
20 consequently, there is no related kW adjustment in the RTSR Work Form. Horizon Utilities
21 does not bill these customers for any kWh charges (i.e., market price of electricity, global
22 adjustment and wholesale market service charges). As such, kWh amounts in the RTSR
23 Work Form are reported excluding wholesale market participants and kW amounts are
24 reported including wholesale market participants.

25

26 **Table 2 – Reconciliation of kW for Large Use Customers**

Non-Loss Adjusted Metered kW	DVA Continuity Schedule including Wholesale Market Participants	GS>50 Customer Reclassified to Large Use 2	RTSR Work Form
Large Use 1 (Large Use - Regular)	513,544		513,544
Large Use 2 (Large Use)	1,952,976	(39,028)	1,913,948

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1-STAFF-2

Historical Hydro One Network, Line Connection, and Transformation Connection Rate

Ref: RTSR Work Form – 6. Historical Wholesale

Preamble:

Horizon provided Hydro One Sub-Transmission Rates for January - April for 2015 and May 2015 – January 2016 in tab “5. UTRs and Sub-Transmission”. 2015 rates were also calculated in tab “6. Historical Wholesale”.

- a) Please explain the difference in rates calculated between the months January to April for Hydro One Network, Line Connection, and Transformation Connection in tab “6. Historical Wholesale” (\$3.41, \$0.79, and \$1.80 respectively) and the rate provided in tab “5. UTR and Sub-Transmission”. (\$3.23, \$0.65, and \$1.62 respectively).**

Response:

- 1 a) Upon review of the RTSR Work Form filed with the Application, Horizon Utilities identified that
2 the rates calculated between the months of January to April for Hydro One Network, Line
3 Connection, and Transformation Connection in tab “6. Historical Wholesale” (\$3.41, \$0.79,
4 and \$1.80 respectively) were incorrect. The corresponding dollar amounts were incorrectly
5 calculated using Hydro One rates effective May 1, 2015, instead of rates in effect from
6 January, 2015 to April 2015.

7
8 Horizon Utilities has updated January to April in tab “6. Historical Wholesale” with the correct
9 amounts for Hydro One Network, Line Connection, and Transformation Connection based on
10 rates in effect from January 1 to April 30, 2015 of \$3.23, \$0.65, and \$1.62 respectively. An
11 updated RTSR Work Form is provided as a live excel file “3.0 2017 RTSR
12 Model_V1_1_20161102”. Please note that Hydro One billed on a non-calendar month in 2015
13 and consequently the amounts and corresponding rates for April are an average of old and
14 new rates, weighted on the number of days in the month for which each rate was effective.

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16 The amounts and rates in tab "6. Historical Wholesale" do not impact the calculation of the
17 forecasted network and connection dollar amounts or rates. Therefore, there is no change to
18 the Proposed Tariff of Rates and Charges filed with the Application.

**1-STAFF-3 Annual Adjustments
Capital Investment Variance Account**

Reference(s):

Table 3 – 2015 Capital Additions – 2015 Actual vs. Custom IR Application

- a) Please confirm the approved Capital Additions used for the calculation of Capital Investment Variance Account calculation is the same as the approved Capital Expenditures in the settlement proposal EB-2014-0002.**
- b) If not the same, please provide the approved capital additions for 2015 in the settlement proposal.**
- c) Please explain why the actuals capital additions are \$8,328,692 higher than the forecasted amount.**
- d) Were all of the projects proposed in the Capital Expenditure Plan for 2015 completed?**
- e) If not, please provide details of forecasted projects versus completed projects.**

Response:

- 1 a) Horizon Utilities confirms that the approved capital additions used for the Capital Investment
- 2 Variance Account calculation is the same as those approved in the settlement proposal
- 3 approved by the Board in Horizon Utilities' 2015 Custom IR application (EB-2014-0002).
- 4 Variances to the approved amounts are discussed below in Horizon Utilities' response to
- 5 Interrogatory 1-STAFF-3 c).
- 6
- 7 b) Please see Horizon Utilities' response to Interrogatory 1-STAFF-3 a)

8 c) Table 1 below provides an explanation as to why the actual capital additions of \$8,328,692
9 are higher than the forecast amount. The variances are provided by capital investment
10 category.

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12

Table 1: Comparison of Actual to Approved Capital Additions

	2015 Actual	Approved Per EB-2014-0002	Variance
System Access	\$ 15,017,761	\$ 8,062,598	\$ 6,955,163
System Renewal	\$ 16,803,892	\$ 16,450,415	\$ 353,477
System Service	\$ 5,579,327	\$ 4,139,747	\$ 1,439,580
General Plant	\$ 9,242,236	\$ 9,487,208	\$ (244,972)
Total Expenditures (net)	\$ 46,643,216	\$ 38,139,967	\$ 8,503,249
Changes to WIP	included above	\$ 174,557	\$ (174,557)
Total Additions	\$ 46,643,216	\$ 38,314,524	\$ 8,328,692

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System Access

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17 Actual System Access investments of \$15,017,761 were \$6,955,163 higher than forecasted
18 in the settlement proposal approved by the OEB in Horizon Utilities' 2015 Custom IR
19 application (EB-2014-0002). This variance is primarily driven by: i) higher than anticipated
20 capital contributions associated with the Hydro One-operated Horning and Vansickle
21 transformer stations; ii) higher customer connection investment; and iii) non-discretionary
22 projects initiated by customers or 3rd parties and include connecting new customers, building
23 new subdivisions, and relocating system plant.

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System Renewal

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27 Actual System Renewal investments of \$16,803,892 was \$353,477 higher than forecast in the
28 settlement proposal approved by the Board in Horizon Utilities' 2015 Custom IR application
29 (EB-2014-0002). This variance is attributable to the following:

30

- Increase in scope of the Vine Substation voltage conversion project;
- Additional pole replacement investment identified through pole residual testing;

31

- 32 • Higher than forecasted reactive replacement of Paper Insulated Lead Covered
33 ("PILC") underground cable; partially offset by
34 • Lower investment required for the Whitney Substation conversion project due to better
35 than forecast contractor performance.

36

37 System Service

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39 Actual System Service investments of \$5,579,327 was \$1,439,580 higher than forecast in the
40 settlement proposal approved by the Board in Horizon Utilities' 2015 Custom IR application.

41 This variance is attributable to the following:

- 42 • Higher than estimated costs for the completion of the #6 Wire Replacement and
43 Feeder Automation projects; and
44 • Timing of project completion of the Nebo Egress Cable project. The majority of project
45 expenditures were forecast for 2015 with the project forecast to close in 2016. The
46 project was completed and closed in 2015 and as such, the additions were recognized
47 in 2015; partially offset by
48 • The deferral of the Waterdown 3rd Feeder project due delays in the engineering design
49 of the grade separation at the Ministry of Transportation of Ontario ("MTO") project at
50 the Hwy 5 and Hwy 6 intersection. The overall project design resulted in Horizon
51 Utilities not being able to finalize the location of the pole line and therefore complete
52 the design.

53

54 General Plant

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56 Actual General Plant investments of \$9,242,236 was \$244,972 lower than forecast in the
57 settlement proposal approved by the Board in Horizon Utilities' 2015 Custom IR application.
58 This variance is driven by lower than anticipated capitalization of computer hardware and
59 software offset by a higher than anticipated capitalization of investment in buildings, furniture
60 and fixtures.

61

62 The lower than anticipated capitalization of computer hardware and software is primarily
63 driven by:

- 64 • Permanent reductions in Phase II of the Enterprise Resource Planning Upgrade project
65 corresponding to a change in scope; and
66 • The reduction in expenditures for the Enterprise Phone System upgrade; partially offset
67 by
68 • The timing of the replacement of leased computer servers budgeted for replacement in
69 2016.

70

71 The higher than anticipated buildings, furniture, and fixtures is primarily driven by:

- 72 • Higher than anticipated expenditures corresponding to the windows replacement project
73 at the Hamilton John Street facility; and
74 • Higher than anticipated expenditures for a backup generator at the Nebo Road facility;
75 partially offset by
76 • Delays in completion of the planned roof replacement at the John Street facility.

77

78 d) A description of the work included in Horizon Utilities' DSP that was not completed in 2015 is
79 provided below.

80

81 System Renewal

82 Horizon Utilities' HI-F3 Feeder Renewal – Under Ground Bridlewood subdivision project was not
83 completed in 2015 as anticipated in Horizon Utilities' DSP. This project involves the renewal of
84 underground XLPE cable in the Bridlewood subdivision within the Dundas operating area. This
85 project was deferred and will be completed in 2017. Horizon Utilities' deferred this project to offset
86 increased investment in other areas in 2015.

87

88 System Service

89 Horizon Utilities did not complete the Waterdown 3rd Feeder project as anticipated in 2015. This
90 project was deferred to 2016 due to delays in the engineering design of the grade separation at
91 the MTO project at the Hwy 5 and Hwy 6 intersection. The overall project design resulted in
92 Horizon Utilities not being able to finalize the location of the pole line and therefore complete the
93 design.

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95

96 General Plant

97 Horizon Utilities reduced the scope of the IFS ERP Upgrade due to resourcing constraints. The
98 scope of the planned Enterprise Phone System Upgrade was reduced to offset other necessary
99 general plant expenditures.

100

101 e) Please refer to Horizon Utilities' response to Interrogatory 1-STAFF-3 d) above.

1-STAFF-4 Cost Allocation

Reference(s):

Table 4 – 2017 Street Lighting Adjustment Factor

Preamble:

Horizon provided 2017 number of customers for the residential rate class for calculating average NCP4 per customer.

- a) Please explain the difference in number of residential customers used in Table 4 and the 2017 load forecast in the EB-2014-0002 settlement agreement.

Response:

- 1 a) The number of residential customers in 2017 of 224,093, as identified in Table 30 on page 51
2 of Horizon Utilities' Settlement Agreement for its Custom IR Application (EB-2014-0002) was
3 not final. It was based on an average of the January 2017 customer count (223,241) and the
4 December 2017 customer count (224,946). The number of residential customers in 2017 of
5 224,088, as identified in Table 4 on page 22 of the Application is final. This was filed with the
6 OEB on December 18, 2014 in Horizon Utilities' 2017 Cost Allocation Model, as directed by
7 the OEB in its Decision and Rate Order for Horizon Utilities' Custom IR application issued
8 December 11, 2014. The differences in the residential customer counts between the
9 Settlement Agreement and Horizon Utilities' final Decision and Rate order are identified in
10 Table 1 below.

Table 1 – Residential Customer Counts

Year	January	December	Average Jan/Dec (Settlement Proposal)	Average 12 months (Final Decision and Rate Order)	Variance
2015	219,822	221,326	220,574	220,565	(10)
2016	221,469	223,089	222,279	222,272	(7)
2017	223,241	224,946	224,093	224,088	(5)
2018	225,104	226,847	225,976	225,981	6
2019	226,987	228,540	227,764	227,762	(1)

**1-STAFF-5 Cost Allocation
2017 Proposed Revenue Requirement**

Reference(s):

Table 7 – 2017 Base and Service Revenue Requirement by Class

Preamble:

Horizon had referenced the Total Base Revenue Requirement approved by the Board in 2017 to be \$121,162,742.

- a) Please explain the decrease in service revenue requirement from \$121,316,177 in the settlement proposal to \$121,162,742 in the application.**
- b) Please also clarify if the total in table 7 is Base Revenue Requirement or Service Revenue Requirement.**

Response:

1 a) The \$121,162,742 service revenue requirement identified in Table 7 on page 23 of the 2017
2 Annual Filing is the service revenue requirement approved by the Board in Horizon Utilities'
3 Decision and Final Rate Order for its Custom IR Application (EB-2014-0002). It is identified
4 in the 2017 Revenue Requirement Work Form filed with the OEB on December 18, 2014. The
5 service revenue requirement of \$121,316,177 identified on page 16 in the Settlement
6 Agreement was not the final revenue requirement approved by the Board.

7
8 The decrease in service revenue requirement of \$153,435 from \$121,316,177 in the
9 settlement proposal to \$121,162,742 in the 2017 Annual Filing is due to (i) an update to the
10 cost of capital parameters partly offset by (ii) an update to Hydro One transmission rates as
11 identified in Table 1, below. An update to the revenue requirement, as a result of annual
12 adjustments including cost of capital parameters and Hydro One transmission rates, was
13 included in the Board approved Horizon Utilities' Settlement Agreement, on page 29.

14

15 **Table 1 – 2017 Service Revenue Requirement Reconciliation**

	2017 Service Revenue Requirement
Settlement Proposal EB-2014-0002	\$121,316,177
Update for Cost of Capital Parameters	(\$155,858)
Update for Hydro One Transmission Rates	\$2,423
Final Rate Order EB-2014-0002 and 2017 Annual Filing EB-2016-0077	\$121,162,742

- 16
- 17 b) Horizon Utilities confirms that the total in Table 7 is Service Revenue Requirement. The total
- 18 in Table 7 was incorrectly labelled as Base Revenue Requirement.

1-STAFF-6 New Distribution Rate Design

Reference(s):

**Page 33 of 69 line 17
Table 25 – Base Revenue Requirement by Rate Class**

Preamble:

On page 33 Horizon had stated “The Residential portion of the proposed 2017 base revenue requirement to which the new distribution rate design applies is \$71,374,149 as identified in the table below.” In Table 25 the Residential portion of the 2017 proposed revenue requirement is \$71,373,807.

a) Please confirm which is the correct number for residential revenue requirement \$71,374,149 or \$71,373,807.

Response:

- 1 a) Horizon Utilities confirms that the correct number for residential base revenue requirement is
- 2 \$71,373,807 as identified in Table 25. The narrative at the bottom of page 33 in the
- 3 Application which states that “*The Residential portion of the proposed 2017 base revenue*
- 4 *requirement to which the new distribution rate design applies is \$71,374,149...*” is incorrect
- 5 and should read \$71,373,807.

**1-STAFF-7 Summary of Adjustments to the Revenue Requirement
Cost of Power 2017 Annual Filing**

Reference(s):

Table 31 – Cost of Power 2017 Annual Filing vs Custom IR

Preamble:

Horizon stated “The updated Cost of Power amounts incorporate (i) the RPP price increase effective May 1, 2016; (ii) Hydro One 2016 UTRs and STRs approved by the OEB January 14, 2016; (iii) an update to Horizon Utilities’ demand from 2014 to 2015 actuals in the RTSR model; (iv) an increase to the SME charge as a result of an update to the number of customers; (v) a change in the ratio of RPP to non-RPP volumes; (vi) a decrease in the Wholesale Market Service Rate of \$0.0008/kWh from \$0.0044/kWh to \$0.0036/kWh as approved by the OEB on November 2015; and (vii) the inclusion of the Ontario Electricity Support Program (“OESP”) Charge of \$0.0011/kWh.”

- a) Please provide the customer class determinants used to calculate the 2017 Cost of Power in Table 31 – Cost of Power 2017 Annual Filing vs Custom IR.
- b) Please provide the calculation for the 2017 Cost of Power column in Table 31 – Cost of Power 2017 Annual Filing vs Custom IR.

Response:

- 1 a) Horizon Utilities provides, in Table 1 below, the customer class determinants used to calculate
- 2 the 2017 Cost of Power in Table 31.

3

4 **Table 1 – 2017 Customer Class Determinants for 2017 Cost of Power Calculation**

RateClass	kWh			kW
	Total	RPP	Non-RPP	Total
Residential	1,639,722,296	1,531,008,708	108,713,588	
General Svc < 50kW	592,034,180	486,356,079	105,678,101	
General Svc > 50kW	1,850,271,866	195,758,763	1,654,513,103	5,093,344
Large Use (1)	233,545,024	0	233,545,024	549,505
Large Use (2)	389,585,461	0	389,585,461	2,061,850
Unmetered	10,951,001	10,576,477	374,524	
Sentinel	400,564	396,478	4,086	1,135
Street Lighting	39,651,553	257,735	39,393,818	109,890
Total	4,756,161,946	2,224,354,240	2,531,807,705	7,815,724

5

6 b) Horizon Utilities provides the calculation for the 2017 Cost of Power of \$668,720,192 in the
7 live excel files "1-Staff-7_2017 Cost of Power Calculation" and "1-Staff-7_2017 Cost of Power
8 Rate Forecast".

9

10 Horizon Utilities will update its 2017 Annual Filing for the Cost of Capital Parameter Updates
11 issued by the OEB on October 27, 2016 in its Draft Rate Order.

**1-STAFF-8 Summary of Adjustments to the Revenue Requirement
Cost of Power 2017 Annual Filing**

Reference(s):

Table 32 – Impact to Revenue Requirement due to Cost of Power Update

Preamble:

Horizon provided cost parameters for long-term, short-term, and return on equity for revenue requirement components in Table 32.

- a) Please explain why the January 2015 cost parameters are used to calculate the revenue requirement for the Cost of Power Update and not the January 2016 parameters.**

Response:

1 a) Horizon Utilities used the Cost of Capital (“COC”) parameters published on November 20,
2 2014 to calculate the revenue requirement for the Cost of Power Update to isolate the impact
3 to revenue requirement as a result of a change to the cost of power rates only. The impact to
4 revenue requirement as a result of a change in the COC parameters for the cost of power, as
5 well as debt, equity and PILs is captured in Table 33 in the column “2017 Annual Filing After
6 COP and COC Parameter Update”.

7
8 Horizon Utilities could have calculated the revenue requirement for the Cost of Power Update
9 using the COC parameters published on October 15, 2015. This would have resulted in the
10 same net increase in revenue requirement of \$442,631 as filed in the Application. For ease
11 of reference, Horizon Utilities has recast Tables 32 and 33 to calculate (i) the impact of the
12 COC parameter change on the rate base approved in the final Decision and Order in Horizon
13 Utilities’ Custom IR Application; equal to (\$408,137) and (ii) the impact of the Cost of Power
14 Update using the COC parameters published October 15, 2015; equal to \$850,768. The net
15 change to revenue requirement is \$442,631.

16
17 Horizon Utilities will update its 2017 Annual Filing for the Cost of Capital Parameter Updates
18 issued by the OEB on October 27, 2016 in its Draft Rate Order.

19 **Table 1 – Recast Table 32 - Impact to Revenue Requirement due to Cost of Power**
20 **Update using Cost of Capital Parameters published October 15, 2015**

Description	%	Amount
Cost of Power Increase		\$101,118,667
Increase to Working Capital/Rate Base	12.00%	\$12,134,240
Rate Base Breakdown		
Short Term Debt Increase	4.00%	\$485,370
Long Term Debt Increase	56.00%	\$6,795,174
Equity Increase	40.00%	\$4,853,696
Revenue Requirement Components		
Deemed Interest - Short Term Debt	1.65%	\$8,009
Deemed Interest - Long Term Debt	3.47%	\$235,882
Return on Equity	9.19%	\$446,055
PILs Gross-Up	26.50%	\$160,822
Total Revenue Requirement Increase	7.01%	\$850,768

21
22 **Table 2 – Recast Table 33 - Impact to Revenue Requirement due to COC Parameters**
23 **published October 15, 2015 and Cost of Power Update**

Description	2017 Custom IR Application EB-2014-0002		2017 Annual Filing After COC Parameter Update		2017 Annual Filing After COP and COC Parameter Update		Increase/ (Decrease) in Revenue Requirement due to Cost of Capital Parameters	Increase/ (Decrease) in Revenue Requirement due to Cost of Power Update
	%	\$	%	\$	%	\$	\$	\$
Rate Base		\$508,493,519		\$508,493,519		\$520,627,759	\$0	\$12,134,240
Rate Base Breakdown								
Short Term Debt	4.00%	\$20,339,741	4.00%	\$20,339,741	4.00%	\$20,825,110	\$0	\$485,370
Long Term Debt	56.00%	\$284,756,371	56.00%	\$284,756,371	56.00%	\$291,551,545	\$0	\$6,795,174
Deemed Equity	40.00%	\$203,397,408	40.00%	\$203,397,408	40.00%	\$208,251,104	\$0	\$4,853,696
Revenue Requirement Components								
Deemed Interest - Short Term Debt	2.16%	\$439,338	1.65%	\$335,606	1.65%	\$343,614	(\$103,733)	\$8,009
Deemed Interest - Long Term Debt	3.47%	\$9,884,793	3.47%	\$9,884,793	3.47%	\$10,120,675	\$0	\$235,882
Return on Equity	9.30%	\$18,915,959	9.19%	\$18,692,222	9.19%	\$19,138,276	(\$223,737)	\$446,055
PILs Gross-Up	26.50%	\$6,820,040	26.50%	\$6,739,372	26.50%	\$6,900,195	(\$80,667)	\$160,822
Total Revenue Requirement Increase/(Decrease)	7.09%	\$36,060,130	7.01%	\$35,651,993	7.01%	\$36,502,760	(\$408,137)	\$850,768

**1-STAFF-9 Summary of Adjustments to the Revenue Requirement
Cost of Power 2017 Annual Filing**

Reference(s):

Table 33 – Impact to Revenue Requirement due to Update of Cost of Capital Parameters

Preamble:

Horizon provided the long-term debt interest rate to be 3.47%.

- a) Has Horizon acquired any additional debt subsequent to the settlement proposal?**
- b) If so, please confirm the rate for this new long-term debt and the updated weighted cost of long term debt.**

Response:

- 1 a) Horizon Utilities confirms that it has not acquired any additional long-term debt subsequent
- 2 to the settlement proposal.
- 3 b) Please see Horizon Utilities' response to a), above.

**1-STAFF-10 Earnings Sharing Mechanism
Merger Cost Tax Rate**

Reference(s):

Table 36 – Calculation of Current Taxes

Preamble:

Horizon provided the Tax rate to be 1.95% for the Merger Costs in Table 36.

a) Please explain why the merger cost tax rate is not at the standard 26.5%.

Response:

- 1 a) The tax rate on merger costs is not applicable to this proceeding. Merger costs are not
- 2 considered in the calculation of regulatory net income and are therefore excluded from the
- 3 ESM calculation. The benefit of the deductions related to merger costs is to the account of
- 4 the shareholders; not ratepayers. The reason for such is that the corresponding costs giving
- 5 rise to the deductions are borne by shareholders; not ratepayers.

**1-STAFF-11 Stranded Meter Rate Rider
 Adjustment to the Stranded Meter Rate Rider**

Reference(s):

Table 39 – Calculation of Stranded meter Rate Rider

Preamble:

Horizon provided number of customers for Residential, GS<50kW, and GS>50kW for 2017 in Table 39.

a) Please explain why the number of customers for each customer class is different from the numbers in the Settlement Agreement.

Response:

1 a) The residential customer class is the only customer class for which the number of customers
 2 in Table 39 of the Application is different from the number of customers in Table 30 on page
 3 51 of Horizon Utilities' Settlement Agreement for its Custom IR Application (EB-2014-0002),
 4 as identified in Table 1, below. The correct number for the residential customer class is
 5 224,088, as filed with the OEB on December 18, 2014 in Horizon Utilities' 2017 Cost Allocation
 6 Model, as directed by the OEB in the Decision and Rate Order for Horizon Utilities' Custom
 7 IR application issued December 11, 2014. Please refer to Horizon Utilities' response to
 8 Interrogatory 1-Staff-4 for an explanation of the difference.

9

10 **Table 1 – Number of Customers EB-2016-0077 vs. Settlement Agreement EB-2014-0002**

Customer Class	# of Customers EB-2016-0077	# Customers Settlement Agreement EB-2014-0002
Residential	224,088	224,093
GS< 50kW	18,565	18,565
GS>50kW	2,258	2,258
Total	244,911	244,916

11

Responses to Association of Major Power Consumers in Ontario Interrogatories

**1-AMPCO-1 Annual Adjustments
Capital Investment Variance Account**

Reference(s):

EB-2015-0075 Responses to AMPCO Technical Conference Questions October 23, 2015, Question #6

EB-2016-0077 Manager's Summary Page 17 Table 3 2015 Capital Additions

Preamble:

At Reference #1, Horizon provided a summary of year-to-date actuals (for the nine months ended September 30, 2015) and forecast to the end of 2015 for Capital Expenditures and Capital In-Service Additions in Table 1 which is reproduced below.

Table 1: Capital Expenditures

	Actual (000) to Sept 20, 2015	Forecast (000) to end of 2015
Capital Expenditures	\$38,499	\$44,865
Capital In-Service Additions (ISA)	\$34,216	\$45,270

At Reference #2, Horizon provides the Actual 2015 Capital Additions of \$51,750,516. This represents a 14.3% increase of \$6,480,000 (forecast 2015 actuals compared to final 2015 actuals).

- a) Please provide a detailed variance analysis of the forecast 2015 ISA Actuals at October 23, 2015 compared to the final 2015 ISA Actuals at December 31, 2016 under each of the following categories: System Access, System Renewal, System Service, General Plant.**
- b) Please explain from an internal management/process perspective the reasons why Horizon's 2015 year end capital ISA forecast was underestimated by over 14% with only two months remaining in the year.**

Response:

- 1 a) Table 1 below identifies the variance of the forecast 2015 In-Service Additions ("ISA") Actuals
- 2 at October 23, 2015 compared to the final 2015 ISA Actuals at December 31, 2015 under the
- 3 System Access, System Renewal, System Service, and General Plant categories. Horizon
- 4 Utilities identifies that while the interrogatory asked for December 31, 2016 actuals, this
- 5 appears to be a typographical error that should read December 31, 2015.

6

Table 1: 2015 Actual and 2015 Q3 Forecast In-Service Additions

	2015 Actual	2015 Q3 Forecast	Variance
System Access	\$ 15,017,761	\$ 15,116,000	98,239
System Renewal	\$ 16,803,892	\$ 16,196,000	(607,892)
System Service	\$ 5,579,327	\$ 3,924,000	(1,655,327)
General Plant	\$ 9,242,236	\$ 10,034,000	791,764
Total Additions	\$ 46,643,216	\$ 45,270,000	(1,373,216)

7

8

9

10

The 14.3% variance of \$6,480,000 (forecast 2015 actual compared to final 2015 actuals) is a result of comparing the forecast 2015 actuals net of Capital Contributions with the final gross 2015 actuals.

11

12

13

14

15

16

17

The forecast value of \$45,270,000 to the end of 2015 for Capital ISA provided in the response to EB-2015-0075 AMPCO Technical Conference Questions October 23, 2015, is net of Capital Contributions. The 2015 ISA actuals at December 31, 2015, as provided in EB-2016-0077 Manager's Summary Page 17 Table 3, net of Capital Contributions was \$46,643,216 resulting in a variance of \$1,373,216 or 3.0% of the amount forecasted. The variance identified by System Access, System Renewal, System Service and General Plant is provided in Table 1 above.

18

19

System Access

20

21

22

The 2015 actual System Access investment of \$15,017,761 is 0.6% below the forecast value of \$15,116,000. This variance is due to minor changes in project closure dates from the 2015 Q3 forecast.

23

24

System Renewal

25

26

27

28

The 2015 actual System Renewal investment of \$16,803,892 is 3.8% above the 2015 Q3 forecast value of \$16,196,000. The variance is attributable to: higher than forecast reactive investment; higher than forecast pole residual replacement requirements, and higher than forecast final investment in the Vine 4kV & 8kV Renewal Project.

29 System Service

30 The 2015 actual System Service investment of \$5,579,327 is 42% above than the forecast
31 value of \$3,924,000. This variance is directly attributable to the Nebo Cable Egress project.
32 This project, constructed in 2015 was forecast to be closed and capitalized in 2016 Q1. Early
33 construction completion of the project allowed the project to be closed, and therefore
34 recognized, in 2015.

35

36 General Plant

37 The 2015 actual General Plant investment of \$9,242,236 is 7.9% below the forecast value of
38 \$10,034,000. The variance is due to: modification of scope of the ERP upgrade; change of
39 scope to the enterprise phone system upgrade; and partial deferral of the John Street Roof
40 Replacement project.

41

42 b) Horizon Utilities' year end ISA forecast was not underestimated by over 14% with only two
43 months remaining in the year. When comparing investments net of Capital Contributions,
44 Horizon Utilities' 2015 final ISA investment of \$46,643,216 was 3.0% over the 2015 Q3 ISA
45 investment forecast of \$45,270,000.

1-AMPCO-2

Reference(s):

EB-2016-0077 - Manager's Summary Page 17 Table 3 2015 Capital Additions

- a) Under the categories: System Access, System Renewal, System Service and General Plant, please provide a breakdown of the work completed in 2015, that is incremental to Horizon's DSP for 2015 and provide the need to undertake the work in 2015.
- b) Under the categories: System Access, System Renewal, System Service, General Plant, please provide a description of the work not completed in 2015 that was included in Horizon's DSP for 2015 and explain why the work was not undertaken and the current status of the work (i.e. deferred, cancelled etc.)
- c) Please provide the ratio of planned work to completed work for the years 2010 to 2015.
- d) Please explain the increase in 2015 Capital Contributions of \$474,300.
- e) Please provide 2016 year-to-date actuals and forecasts to the end of 2016 for CAPEX and Capital In-Service Additions.

Response:

- 1 a) Please see Horizon Utilities' response to 1-CCC-2 for a details on the work completed in 2015
2 compared to the approved amounts under the categories of System Access, System
3 Renewal, System Service and General Plant. The following is a summary of the work that
4 was undertaken that is incremental to Horizon Utilities' DSP for 2015.

5

6 System Access

7 The level of investment required to facilitate customer connections was 17% higher than
8 anticipated in Horizon Utilities' DSP. These are non-discretionary projects initiated by
9 customers or developers.

10

11 System Renewal

12 Horizon Utilities increased the scope of work performed in 2015 relative to Horizon Utilities'
13 DSP for the Vine Substation ("S/S") project within the 4kV & 8kV Renewal Program. The Vine

14 S/S project is a multi-year project scheduled for completion in 2019. Horizon Utilities
15 accelerated the project by completing some work scheduled for 2016 in 2015, to allow for
16 easier completion of the phases scheduled for future years.

17

18 The scope of work required in the Pole Residual Replacement program was higher in 2015
19 than anticipated in Horizon Utilities' DSP. The Pole Residual Replacement program is an
20 annual program where the structural integrity of wood poles is tested through non-destructive
21 testing procedures. The volume of poles requiring replacement identified through testing was
22 higher than anticipated in the DSP.

23

24 System Service

25

26 Horizon Utilities partially deferred some work involved with the 2014 Distribution Automation
27 project from 2014 to 2015 resulting in an increase in work completed in 2015, as compared
28 to Horizon Utilities' DSP. Issues encountered with establishing and commissioning the
29 communication to the automated devices resulted in a deferral of work from 2014 to 2015.
30 The work was required in 2015 to allow the distribution automation to be commissioned and
31 available for operations.

32

33 The Nebo Egress Cable project was completed in 2015 which resulted in an incremental
34 investment in 2015 relative to Horizon Utilities' DSP. This project was identified as a 2014
35 project in Horizon Utilities' DSP. This project is being constructed in conjunction with the City
36 of Hamilton's Rymal Road widening project; the timing of the project was dependent on the
37 road widening project. Delays in the road widening project resulted in deferral of Horizon
38 Utilities' Nebo Egress Cable project from 2014 to 2015.

39

40 General Plant

41 General Plant investments completed in 2015 incremental to Horizon Utilities' DSP for 2015
42 include the acceleration of the IBM Capital Lease from 2016 and the acceleration of the John
43 St. Window Replacement project to complete the entire project in 2015 versus the original
44 plan of completing in the 2015, 2016, and 2017 budget years. The IBM Capital Lease was

45 advanced by two months as the lease for old AS/400 was expiring at the end of December
46 2015. The advancement of this project allowed time to setup up the new hardware
47 environment and migrate all applications and data so that the old hardware could be
48 decommissioned by the end of the lease. The window replacement project was advanced
49 mainly due to safety concerns. The windows were deteriorating faster than anticipated which
50 created public and employee safety concerns and poor internal climate conditions.

51

52 b) Please refer to Horizon Utilities' response to Interrogatory 1-STAFF-3 d)

53

54 c) The ratio of planned work to completed work for the years 2010 to 2015 is provided in the
55 Table 1 below.

56

57

Table 1: Ratio Planned work to Completed Work

58

Year	Ratio of planned work to completed work
2010	96%
2011	101%
2012	95%
2013	95%
2014	102%
2015	99%

59

60

61 Horizon Utilities determined the planned work by using the annual capital expenditure
62 budgeted and the completed work by using the annual actual capital expenditures.

63

64 d) The increase in 2015 Capital Contributions of \$474,300 is attributable to the retention of an
65 expansion deposit from a major customer. The customer entered into a Customer Cost
66 Recovery Agreement ("CCRA") with Horizon Utilities in 2010. The CCRA evaluation period
67 expired in 2015 and as the load forecast by the customer, and utilized within the economic
68 evaluation in the CCRA, did not materialize Horizon Utilities retained \$470,000 of the
69 customer's expansion deposit as determined by the final economic evaluation.

70
71 e) The 2016 year-to-date actual and forecast to the end of 2016 for Capital Expenditures are
72 provided in the Table 2 below.
73

74 **Table 2: Year to Date Actual and Q3 Forecast Expenditures**
75

2016 Horizon Utilities Capital	YTD September Actual - Expenditure s	2016 Forecast Expenditure s
System Access	\$ 10,435,055	\$ 13,327,325
System Renewal	\$ 17,186,847	\$ 22,649,032
System Service	\$ 1,219,949	\$ 1,166,783
General Plant	\$ 2,323,681	\$ 5,990,821
Total Capital - Horizon Utilities (net)	\$ 31,165,532	\$ 43,133,961

76
77
78 The 2016 year-to-date actual and forecast to the end of 2016 for Capital In-Service Additions
79 are provided in the Table 3 below.
80

81 **Table 3: Year to Date Actual and Q3 Forecast Additions**
82

2016 Horizon Utilities Capital	YTD September Actual - Additions	2016 Forecast Additions
System Access	\$ 10,456,156	\$ 13,451,755
System Renewal	\$ 8,859,436	\$ 21,721,003
System Service	\$ 2,026,803	\$ 1,962,425
General Plant	\$ 2,605,533	\$ 6,236,152
Total Capital - Horizon Utilities (net)	\$ 23,947,928	\$ 43,371,335

83

1-AMPCO-3

Reference(s):

**EB-2014-0002 Exhibit 2 Tab 6 Appendix 2-4 Horizon's Distribution System Plan (DSP)-
Appendix A Table 1 & Table 2**

**a) Please update Table 1 and Table 2 of Appendix A (DSP) for 2015 Actuals and 2016
Year to Date.**

Response:

- 1 a) Please refer to Horizon Utilities' response to Interrogatory 1-CCC-2 for a comparison of
- 2 projects included in Exhibit 2, Tab 6, Appendix 2-4 Horizon Utilities' DSP, Appendix A, Tables
- 3 1 and 2 in Horizon Utilities' 2015 Custom IR application (EB-2014-0002) to actual additions in
- 4 2015.
- 5 Tables 1 and 2 below provide the 2016 actual year-to-date capital additions to September
- 6 30, 2016 compared to Exhibit 2, Tab 6, Appendix 2-4 Horizon Utilities' DSP, Appendix A,
- 7 Tables 1 and 2 for all projects exceeding Horizon Utilities' materiality threshold of \$300,000.
- 8 Horizon Utilities used the same materiality threshold that it used for the purpose of the
- 9 variance analysis in its Custom IR Application, Exhibit 2, Tab 1, Schedule 2, Page 1.

10

Table 1: Material Capital Additions: System Access and System Renewal

Project ID	Project Name	2016	2016
		Table 1 DSP EB-2014-0002	Actual at Sept. 30
System Access			
SA-1	Customer Connections	\$ 4,031,103	\$ 6,257,891
SA-2	Road Relocations	\$ 2,339,675	\$ 2,736,893
SA-3	Meters	\$ 2,101,174	\$ 1,459,029
System Access Total		\$ 8,471,952	\$ 10,453,813
System Renewal			
4kV & 8kV Renewal			
SR-1	Central S/S	\$ 1,556,000	\$ 365,435
	Grantham S/S	\$ 2,633,000	\$ 864,028
	Strouds S/S	\$ 1,533,000	\$ -
	Vine S/S	\$ 2,472,000	\$ 899,175
	Whitney S/S	\$ 1,966,000	\$ -
4kV & 8kV Renewal Subtotal		\$ 10,160,000	\$ 2,128,638
U/G (XLPE) Renewal			
SR-2	Ancaster/Flamborough/Dundas	\$ 1,269,000	\$ 2,124,327
	Hamilton Mountain	\$ 1,996,000	\$ -
	St. Catharines	\$ 1,661,000	\$ -
U/G (XLPE) Renewal Subtotal		\$ 4,926,000	\$ 2,124,327
SR-3	Reactive Renewal	\$ 4,339,000	\$ 3,383,826
SR-4	Substation Infrastructure Renewal	\$ 473,000	\$ 49,103
Other Renewal			
SR-5	Pole Residual Replacements	\$ 1,262,000	\$ 482,774
SR-6	LDBS Renewal	\$ 334,000	\$ -
SR-7	Proactive TX Replacements	\$ 361,000	\$ 198,998
SR-8	Gage TS Egress Feeder Renewal	\$ 4,793,000	\$ -
SR-9	Rear Lot Conversion	\$ 1,342,000	\$ 491,771
Other Renewal Subtotal		\$ 8,092,000	\$ 1,173,542
System Renewal Total		\$ 27,990,000	\$ 8,859,436

11

12

Table 2: Material Capital Additions: System Service and General Plant

Project ID	Project Name	2016	2016
		Table 2 DSP EB-2014-0002	Actual at Sept. 30
System Service			
SS-2	Distribution Automation	\$ -	\$ 327,483
SS-3	Waterdown 3rd Feeder	\$ -	\$ 1,220,466
SS-10	Nebo Egress Cable	\$ -	\$ 373,146
System Service Total		\$ -	\$ 1,921,095
General Plant			
Information Systems Technology ("IST")			
GP-1	Annual Corporate Computer Replacement	\$ 324,000	\$ 382,507
GP-2	IFS ERP Upgrade	\$ -	\$ 8,931
GP-5	Capital Lease - IBM	\$ 900,000	\$ -
IST Sub-Total		\$ 1,224,000	\$ 391,437
Buildings			
GP-6	Building Renovations - John and Hughson Street	\$ 1,600,000	\$ -
GP-7	Building Renovations - Stoney Creek	\$ -	\$ 101,700
GP-8	Building Security Replacement	\$ 200,000	\$ 29,066
GP-9	John Street Roof Replacement	\$ -	\$ 209,680
GP-11	John Street Window Replacement	\$ 300,000	\$ -
Buildings Sub-Total		\$ 2,100,000	\$ 340,446
GP-12	Vehicle Replacement	\$ 780,000	\$ 371,336
GP-13	Tools, Shop and Garage Equipment	\$ 567,600	\$ 67,739
General Plant Total		\$ 4,671,600	\$ 1,170,958
Total - Material Capital Projects		\$ 41,133,552	\$ 22,405,301

13

1-AMPCO-4

Reference(s):

EB-2016-0077 Manager's Summary Page 46

Preamble:

Horizon has merger costs of \$4,516,459 in 2015.

a) Please provide the percentage of total merger costs in 2015 that this represents.

Response:

- 1 a) Please refer to Horizon Utilities' response to Interrogatory 1-CCC-7c.

Responses to Consumers Council of Canada Interrogatories

1-CCC-1

Reference(s):

Evidence p. 14 / Table 1

a) Please explain why there is a significant balance in Account 1580?

Response:

1 a) Horizon Utilities is requesting disposition of the balance of (\$10,558,125) in Account 1580 –
2 RSVA – Wholesale Market Service (“WMS”) Charge, as identified in Table 42 on page 51 of
3 the Application. The WMS Charge covers the cost of services provided by the Independent
4 Electricity System Operator (“IESO”) to operate the electricity system and administer the
5 wholesale market.

6
7 The significant balance in Account 1580 is a refund to customers (revenues collected from
8 customers exceeded expenses charged from the IESO) related to 2015 activity and is
9 attributable to the following:

10
11 • The disbursement of the IESO’s Transmission Rights (“TRs”) Clearing Account on two
12 occasions in 2015 for a total of \$6.11MM, representing a credit to market participants. The
13 TR Market is a financial market that provides participants with an opportunity to purchase
14 TRs through an auction administered by the IESO. Amounts which accumulate in the TR
15 Clearing account are credited or charged to market participants based on their share of
16 energy withdrawn from the grid.

17
18 The first disbursement of \$100MM, approved in March, was paid out to market participants
19 in six monthly instalments from March 2015 to August 2015. Horizon Utilities share of this
20 disbursement was \$3.02MM. The second disbursement of \$100MM, approved in
21 November, was credited to market participants in November. Horizon Utilities share of
22 this disbursement was \$3.09MM.

23
24 • A significant difference between the WMS charge from the IESO and the rate charged to
25 electricity customers by distributors. In its Decision and Order “In the matter of regulatory

26 charges established for the 2016 rate year, including those pursuant to O. Reg 314/15
27 and O. Reg 442/01” (EB-2015-0294), the OEB identified that the WMS charges for the
28 period from April 2014 to September 2015 averaged \$0.0032 per kWh, excluding the Rural
29 or Remote Electricity Rate Protection (“RRRP”) Charge. This was lower than the amount
30 of \$0.0044 per kWh charged by distributors for the same period. Accordingly, the OEB
31 reduced the WMS rate charged to customers, effective January 1, 2016. It is expected
32 that going forward the difference between the WMS charge from the IESO and the WMS
33 rate currently charged to electricity customers by distributors will be much lower than that
34 which was experienced in 2015 and prior years.

1-CCC-2

Reference(s):

Evidence p. 17

a) Please provide a Table setting out Approved Capital Projects/Additions for 2015 (\$38,314,524) and Actual Capital Projects/Additions for 2015 (\$46,643,216) in the same format as Appendix 2-AA.

Response:

- 1 a) Tables 1 and 2 below provide the Approved Capital Projects/Additions for 2015 and Actual
- 2 Capital Project/Additions for 2015 in the same format as Appendix 2-AA for all projects
- 3 exceeding Horizon Utilities' materiality threshold of \$300,000. Horizon Utilities used the same
- 4 materiality threshold that it used for the purpose of variance analysis in its 2015 Custom IR
- 5 Application (EB-2014-0002), as discussed in Exhibit 2, Tab 1, Schedule 2, Page 1.

6

Table 1: Material Capital Additions: System Access and System Renewal

Project ID	Project Name	2015 Approved	2015 Actual
System Access			
SA-1	Customer Connections	\$ 3,686,273	\$ 4,080,616
SA-2	Road Relocations	\$ 2,085,651	\$ 2,029,145
SA-3	Meters	\$ 2,470,674	\$ 2,282,000
System Access Total		\$ 8,242,598	\$ 8,391,761
System Renewal			
4kV & 8kV Renewal			
SR-1	Grantham S/S	\$ 650,000	\$ 920,219
	Highland S/S	\$ 1,128,000	\$ 1,424,574
	Strouds S/S	\$ 1,020,000	\$ 786,053
	Vine S/S	\$ 978,000	\$ 1,825,562
	Whitney S/S	\$ 4,384,000	\$ 2,738,443
4kV & 8kV Renewal Subtotal		\$ 8,160,000	\$ 7,694,852
U/G (XLPE) Renewal			
SR-2	Ancaster/Flamborough/Dundas	\$ 2,257,000	\$ 233,000
	St. Catharines	\$ 310,000	\$ 327,841
U/G (XLPE) Renewal Subtotal		\$ 2,567,000	\$ 560,841
SR-3	Reactive Renewal	\$ 4,780,000	\$ 4,960,015
SR-4	Substation Infrastructure Renewal	\$ 464,000	\$ 24,376
Other Renewal			
SR-5	Pole Residual Replacements	\$ 1,226,000	\$ 1,741,576
SR-6	LDBS Renewal	\$ 323,000	\$ 394,757
SR-7	Proactive TX Replacements	\$ 350,000	\$ 163,092
Other Renewal Subtotal		\$ 1,899,000	\$ 2,299,425
System Renewal Total		\$ 17,870,000	\$ 15,539,508

7

8

Table 2: Material Capital Additions: System Service and General Plant

Project ID	Project Name	2015 Approved	2015 Actual
System Service			
SS-1	# 6 Wire Replacement	\$ 570,000	\$ 967,553
SS-2	Distribution Automation	\$ 1,250,000	\$ 1,746,038
SS-3	Waterdown 3rd Feeder	\$ 984,000	-
SS-4	Caroline/George Redundancy	\$ 952,000	\$ 1,004,539
SS-10	Nebo Egress Cable	\$ -	\$ 1,848,107
System Service Total		\$ 3,756,000	\$ 5,566,236
General Plant			
Information Systems Technology ("IST")			
GP-1	Annual Corporate Computer Replacement	\$ 319,000	\$ 349,876
GP-2	IFS ERP Upgrade	\$ 1,382,600	\$ 337,975
GP-3	SAN Expansion	\$ 200,000	\$ 165,133
GP-4	Enterprise Phone System Upgrade	\$ 400,000	\$ 95,600
GP-5	Capital Lease - IBM	\$ -	\$ 465,873
IST Sub-Total		\$ 2,301,600	\$ 1,414,456
Buildings			
GP-6	Building Renovations - John and Hughson Street	\$ 2,000,000	\$ 1,607,118
GP-8	Building Security Replacement	\$ 300,000	\$ 277,217
GP-9	John Street Roof Replacement	\$ 900,000	\$ 654,000
GP-10	Nebo Road Emergency Backup Generator	\$ 300,000	\$ 385,500
GP-11	John Street Window Replacement	\$ 300,000	\$ 881,885
Buildings Sub-Total		\$ 3,800,000	\$ 3,805,721
GP-12	Vehicle Replacement	\$ 778,000	\$ 634,290
GP-13	Tools, Shop and Garage Equipment	\$ 555,560	\$ 382,981
General Plant Total		\$ 7,435,160	\$ 6,237,448
Total - Material Capital Projects		\$ 37,303,758	\$ 35,734,953
Miscellaneous projects below materiality		\$ 2,636,209	\$ 4,282,263
Hydro One Capital Contributions for Transformer Station Upgrades		\$ -	\$ 6,626,000
Less - Settlement Adjustment		-\$ 1,800,000	-
Change in Construction in Progress		\$ 174,557	included above
Total - Approved/Actual		\$ 38,314,524	\$ 46,643,216

9

1-CCC-3

Reference(s):

Evidence p. 17

a) Please provide the most recent forecast of Capital Addition for 2016 as compared to the budget approved in EB-2014-0002 in the same format as Appendix 2-AA.

Response:

- 1 a) Tables 1 and 2 below provide the most recent forecast, 2016 Q3, of Capital Additions as
- 2 compared to the budget approved in Horizon Utilities 2015 Custom IR application (EB-2014-
- 3 0002) in the same format as Appendix 2-AA for all projects exceeding Horizon Utilities'
- 4 materiality threshold of \$300,000. Horizon Utilities used the same materiality threshold that
- 5 was used for the purpose of variance analysis in its Custom IR Application in Exhibit 2, Tab
- 6 1, Schedule 2, Page 1.

7

Table 1: Material Capital Additions: System Access and System Renewal

Project ID		Project Name		2016	
		Approved	Q3 Forecast		
System Access					
SA-1	Customer Connections	\$ 4,031,103	\$ 7,942,187		
SA-2	Road Relocations	\$ 2,339,675	\$ 3,349,065		
SA-3	Meters	\$ 2,101,174	\$ 2,051,020		
System Access Total		\$ 8,471,952	\$ 13,342,272		
System Renewal					
4kV & 8kV Renewal					
SR-1	Central S/S	\$ 1,556,000	\$ 1,885,052		
	Grantham S/S	\$ 2,633,000	\$ 2,319,193		
	Strouds S/S	\$ 1,533,000	\$ 1,794,990		
	Vine S/S	\$ 2,472,000	\$ 2,087,081		
	Whitney S/S	\$ 1,966,000	\$ 1,146,062		
4kV & 8kV Renewal Subtotal		\$ 10,160,000	\$ 9,232,378		
U/G (XLPE) Renewal					
SR-2	Ancaster/Flamborough/Dundas	\$ 1,269,000	\$ 1,728,048		
	Hamilton Mountain	\$ 1,996,000	\$ 1,462,564		
	St. Catharines	\$ 1,661,000	\$ 1,420,639		
U/G (XLPE) Renewal Subtotal		\$ 4,926,000	\$ 4,611,252		
SR-3	Reactive Renewal	\$ 4,339,000	\$ 4,507,757		
SR-4	Substation Infrastructure Renewal	\$ 473,000	\$ 225,000		
Other Renewal					
SR-5	Pole Residual Replacements	\$ 1,262,000	\$ 971,483		
SR-6	LDBS Renewal	\$ 334,000	\$ 75,000		
SR-7	Proactive TX Replacements	\$ 361,000	\$ 289,455		
SR-8	Gage TS Egress Feeder Renewal	\$ 4,793,000	\$ -		
SR-9	Rear Lot Conversion	\$ 1,342,000	\$ 1,607,051		
Other Renewal Subtotal		\$ 8,092,000	\$ 2,942,989		
System Renewal Total		\$ 27,990,000	\$ 21,519,376		

8

9

Table 2: Material Capital Additions: System Service and General Plant

Project ID	Project Name	2016	2016
		Approved	Q3 Forecast
System Service			
SS-2	Distribution Automation	\$ -	\$ 326,409
SS-3	Waterdown 3rd Feeder	\$ -	\$ 1,157,162
SS-10	Nebo Egress Cable	\$ -	\$ 373,146
System Service Total		\$ -	\$ 1,856,717
General Plant			
Information Systems Technology ("IST")			
GP-1	Annual Corporate Computer Replacement	\$ 324,000	\$ 382,507
GP-2	IFS ERP Upgrade	\$ -	\$ 8,931
GP-5	Capital Lease - IBM	\$ 900,000	\$ -
	IST Sub-Total	\$ 1,224,000	\$ 391,438
Buildings			
GP-6	Building Renovations - John and Hughson Street	\$ 1,600,000	\$ 1,900,000
GP-7	Building Renovations - Stoney Creek	\$ -	\$ 101,700
GP-8	Building Security Replacement	\$ 200,000	\$ 129,066
GP-9	John Street Roof Replacement	\$ -	\$ 209,680
GP-11	John Street Window Replacement	\$ 300,000	
	Buildings Sub-Total	\$ 2,100,000	\$ 2,340,446
GP-12	Vehicle Replacement	\$ 780,000	\$ 685,451
GP-13	Tools, Shop and Garage Equipment	\$ 567,600	\$ 351,135
General Plant Total		\$ 4,671,600	\$ 3,768,470
Total - Material Capital Projects		\$ 41,133,552	\$ 40,486,835
Miscellaneous projects below materiality		\$ 1,813,981	\$ 2,884,500
Less - Settlement Adjustment		-\$ 1,800,000	\$ -
Total - Approved/Forecast		\$ 41,147,533	\$ 43,371,335

10

1-CCC-4

Reference(s):

Evidence p. 16

Preamble:

The Council is interested in whether Horizon's proposals with respect to the Capital Investment Variance Account ("CIVA") are consistent with the EB-2014-0002 Settlement Agreement and Decision.

- a) As an example: if Horizon spends less than the approved 2016 capital budget by \$5 million what will be the 2016 entry to the CIVA?**
- b) Please explain what specific relief Horizon is seeking through this application with respect to the CIVA.**

Response:

- 1 a) Horizon Utilities confirms that, as an example, if it spends less than the approved 2016 capital
2 budget by \$5MM there will be no entry to the CIVA. Horizon Utilities identified on page 32 of
3 the Settlement Agreement in its Custom IR Application (EB-2014-0002) that it would
4 *"determine the impact to revenue requirement of the variance in its cumulative capital*
5 *additions for the period from January 1, 2015 to the end of the relative year as compared to*
6 *the baseline,"* as set out in Settlement Table 9 on page 33 of the Settlement Agreement. Table
7 1 below identifies the impact to revenue requirement in 2016 using the scenario provided by
8 CCC. In order for an entry to be made to the CIVA in 2016, the capital additions in 2016 would
9 have to be such that there was a decrease in revenue requirement in 2016. Horizon Utilities
10 provides the model used to calculate the revenue requirement in Table 1 as a live excel file
11 "CIVA Calculation 1-CCC-4a". This model is consistent with that approved in Horizon Utilities'
12 Settlement Agreement in Appendix L – Capital Variance Account Model.

13 **Table 1 - Impact of Horizon Utilities Spending \$5MM Less than the Approved Capital**
14 **Budget in 2016**

	2015	2016
Capital Additions (Under)/Over	\$8,328,692	(\$5,000,000)
Depreciation 1/2 year rule	\$108,165	(\$64,935)
Opening Balance	\$0	\$8,220,527
Additions	\$8,328,692	(\$5,000,000)
Depreciation	(\$108,165)	(\$151,395)
Closing Balance	\$8,220,527	\$3,069,133
Average Net Fixed Assets	\$4,110,264	\$5,644,830
Revenue Requirement		
Depreciation	\$108,165	\$151,395
Cost of Capital - Short Term Debt	\$3,551	\$3,726
Cost of Capital - Long Term Debt	\$79,871	\$109,690
Cost of Capital - Equity	\$152,902	\$207,504
PILs Gross Up	(\$25,988)	(\$29,112)
Increase/(Decrease) to Revenue Requirement	\$318,500	\$443,202
Entry to CIVA	\$0	\$0

15
16 b) Horizon Utilities is not seeking any relief through this application with respect to the CIVA.

1-CCC-5

Reference(s):

Evidence p. 45

- a) If Horizon had spent the amount on capital that was approved in EB-2014-0002 what would be the resulting ROE for 2015?**
- b) Please provide any budget directives provided to employees with respect to 2015 and 2016 capital spending.**

Response:

1 a) If Horizon Utilities had spent the amount on capital that was approved in its Custom IR
2 Application (EB-2014-0002) (i.e. \$38,314,524 in capital additions as identified in Table 3 on
3 page 17 of the 2017 Annual Filing (EB-2016-0077)), the resulting ROE for 2015 would be
4 9.398%, representing a refund to ratepayers of \$0.093MM, as identified in Table 2 below. A
5 decrease in the amount of capital additions as compared to the 2015 actuals results in
6 decreases to depreciation expense, deemed interest expense and rate base. These changes
7 are identified in Table 1 below. Depreciable life and the CCA rate for the difference in capital
8 additions are assumed to be 38.5 years and 8%, respectively. These assumptions are
9 consistent with those identified in Appendix L – Capital Variance Account Model in the
10 Settlement Agreement for Horizon Utilities’ Custom IR Application (EB-2014-0002).

11
12 The calculation of the 2015 Regulatory ROE based on capital additions of \$38,314,524,
13 including a comparison to the actual 2015 Regulatory ROE calculation, is provided in Table 2
14 below. The increase in regulatory net income before tax of \$191,521 represents the reduction
15 in depreciation and deemed interest expenses of \$108,165 and \$83,356 respectively. The
16 increase in regulatory net income after current tax and decrease in deemed equity result in
17 an increase to the ROE of 0.123% as compared to the 2015 actuals. However, as identified
18 on page 30 of Horizon Utilities’ Settlement Agreement for its Custom IR Application (EB-2014-
19 0002), the regulatory net income will be calculated, for the purpose of earnings sharing, in the
20 same manner as net income for regulatory purposes under the RRR filings. The 2015 ROE
21 for the RRR filings is based on 2015 actual rate base as directed by the OEB, which includes
22 2015 actual capital additions of \$46,643,216. Therefore, for the purposes of earnings sharing

23 with customers, the correct ROE is that which was calculated in Table 2 on page 16 of Horizon
24 Utilities' 2017 Annual Filing (EB-2016-0077) (i.e. 9.275%). Please also refer to the response
25 in b).

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Table 1 – Impact of Decrease in 2015 Capital Additions to \$38,314,524

	2015 Alternate Scenario per 1-CCC-5a	2015 Actuals	Increase/ (Decrease)
Fixed Assets			
Gross Capital Additions	\$38,314,524	\$46,643,216	(\$8,328,692)
Depreciation Expense	\$21,587,260	\$21,695,425	(\$108,165)
Opening Balance - NBV	\$392,059,901	\$392,059,901	\$0
Closing Balance - NBV	\$407,682,989	\$415,903,516	(\$8,220,527)
Average NBV	\$399,871,445	\$403,981,709	(\$4,110,264)
CCA	\$32,152,786	\$32,485,934	(\$333,148)
Rate Base, Deemed Equity and Interest			
Working Capital Allowance	\$73,319,572	\$73,319,572	\$0
Average NBV	\$399,871,445	\$403,981,709	(\$4,110,264)
Total Rate Base	\$473,191,017	\$477,301,280	(\$4,110,264)
Regulated Deemed Short Term Debt @ 4%	\$18,927,641	\$19,092,051	(\$164,411)
Regulated Deemed Long Term Debt @ 56%	\$264,986,969	\$267,288,717	(\$2,301,748)
Regulated Deemed Equity @ 40%	\$189,276,407	\$190,920,512	(\$1,644,105)
Deemed Interest Expense @ 3.38%	\$9,596,314	\$9,679,670	(\$83,356)

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Table 2 – Calculation of Regulatory Net Income

	2015 Alternate Scenario per 1-CCC-5a	2015 Actuals	Increase/ (Decrease)
Regulatory Net Income before Tax	\$21,495,432	\$21,303,911	\$191,521
Current Tax Expense	\$3,706,811	\$3,596,437	\$110,374
Regulatory Net Income after Current Tax	\$17,788,621	\$17,707,474	\$81,147
Deemed Equity	\$189,276,407	\$190,920,512	(\$1,644,105)
Return on Equity	9.398%	9.275%	0.123%
Return in Excess of 9.30%	\$185,915	\$0	\$185,915
Amount Payable to Ratepayers	\$92,958	\$0	\$92,958

33 b) There were no specific budget directives provided to employees with respect to 2015 and
34 2016 capital spending. However, the overarching directive was that employees remain within
35 the terms of Horizon Utilities' Settlement Agreement for its 2015 Custom IR Application (EB-
36 2014-0002) i.e. the capital expenditure budget and capital spending was to align with the
37 capital expenditures approved in the Settlement Agreement. This notwithstanding, the utility
38 needs to be responsive to changes in the business environment or otherwise outside of its
39 control that requires changes to its capital plan.

1-CCC-6

Reference(s):

Evidence p. 33

a) Please confirm that Horizon has used the same methodology for its transition to 100% fixed charges as was approved in its 2016 rate adjustment proceeding.

Response:

- 1 a) Horizon Utilities confirms that it used the same methodology for its transition to 100% fixed
- 2 charges as was approved in its 2016 Annual Filing (EB-2015-0075). This methodology is
- 3 consistent with that prescribed by the Board and documented in Tables 26-28 on pages 35-
- 4 37 of Horizon Utilities' 2017 Annual Filing (EB-2016-0077).

1-CCC-7

Reference(s):

Evidence p. 43-45

- a) Please explain how the merger costs that have been identified were calculated.**
- b) How are the overall merger costs allocated amongst the relevant LDCs (Horizon, Enersource Hydro Mississauga Inc. and PowerStream Inc.)?**
- c) If \$4.5 million is Horizon's share for 2015, what is the amount that has been allocated to each of the other LDCs?**

Response:

- 1 a) Horizon Utilities' merger costs comprise the following: (i) expenditures incurred directly by and
2 to the specific benefit of Horizon Utilities (e.g. Horizon Utilities' legal review of the Merger
3 Participation Agreement); and (ii) Horizon Utilities' one-third share of expenditures that are to
4 the benefit of all three merging utilities (e.g. professional service fees to assist with the
5 completion of the Business Case).
6
- 7 b) Please see Horizon Utilities' response to part a) above.
8
- 9 c) The amount of merger costs allocated to each of the other LDCs is not relevant to this
10 proceeding.