

Horizon Utilities Corporation



December 8, 2006

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

Re: Comparison of Distributor Costs, Board File No. EB-2006-0268

On November 24, 2006 the Board invited comments on its proposals for the comparison of distributors costs. Horizon Utilities Corporation ("Horizon") is please to submit responses to the issues raised in the Board's letter.

Horizon submits that there has not been sufficient time allowed for a proper and thoughtful review and analysis of the information provided by the Board. As such, Horizon has only been able to provide comments that are general in nature.

As such, Horizon respectfully requests that the Board consult with stakeholders on these issues and that a proper forum be established to ensure that within the comparisons being considered, data integrity and definitions are well defined and supported. The Board is establishing criteria that will significantly impact the rate setting process of all distributors and Horizon requests the consideration of the Board for more reasonable timelines for distributors to respond to any consultant's or Board staff reports on these issues.

Responses requested:

1. Are the proposed aggregations, or alternatively the 2006 EDR groupings, appropriate? (operations and maintenance (O&M); administration; bad debt expense; amortization expense)

Given the potential for inconsistency within the data provided, Horizon submits that the only approach the Board may take at this time is a very high level evaluation of comparators. While it may be reasonable to compare OM&A data, the Board needs to ensure that accounting policies underlying this information are reasonably consistent among comparator groups; e.g., capitalization and cost allocation policies.

Furthermore, comparisons of bad debt experience among LDCs must be calibrated for customer mix, residential demographic issues such as average wage, etc..

The comparison of total costs on a per customer basis is a generally accepted method of unitizing costs and comparing across distributors. The cost driver of megawatt hours has also been recognized as a comparator. However, without further analysis and input from individual distributors regarding such issues as customer mix, this comparison may not be useful in itself.

Kilometres of line and square kilometers of service area are not mutually exclusive and should not be consider as cost drivers independent of each other.

2. Should average labour costs be reported separately for comparison?

Horizon would suggest that while labour rates in the trades may very similar, labour costs in general are also influenced by the distributors geographic location in the province. In addition, the labour costs are only reflective of the costs of regular employees such that distributors that contract out significant portions of work would have very different labour costs.

3. Given difficulties with data comparability below the cost centre level of O&M and administration, should a lower level of granularity be considered? For example, billing separated from collection? Please suggest the lowest level of granularity based on the Uniform System of Accounts (USoA) that would be the most useful?

As recognized in the question itself, the inconsistency in cost allocation would make lower levels of granularity inaccurate comparisons across distributors. Horizon would submit that, before driving cost comparators down to significantly lower levels, there needs to be clear definitions and understanding of exactly what purposes these comparators would offer. It is in these cases that Horizon would encourage the Board to involve distributors in assessing not only the value of such detailed comparators but also the effort required to obtain the consistent data.

4. Are the four cost drivers above the appropriate ones? (number of customers; megawatt hours; kilometers of line; square kilometers of service area)

See response to question 1.

5. What other cost drivers should be considered?

Horizon would refer Board staff to the reports prepared by the Comparators & Cohorts working group during the 2006 EDR process as well as the Christensen Associates' paper prepared for consideration of the Board and stakeholders in January 2005.

In order to consider different cost drivers, the Board needs to understand the individual specifics within the cost drivers of the distributors. For example a distributor with high customer turnover may have higher billing, collecting and call centre costs. The Board has not provided sufficient time to properly respond to this question and Horizon would recommend the Board involve distributors in evaluating and defining cost drivers.

6. Should different cost drivers be used for different cost centres? If so, which cost driver do you view as appropriate for which cost centre?

Yes, not all cost centres will have the same cost drivers, for example, as provided in question 5, a high customer turnover rate impacts billing and collecting but may have minimal impact of operations and maintenance. There is currently insufficient information available to Board staff to reasonably determine all inputs for the outputs.

Given the limited time to respond, Horizon has not evaluated different cost drivers for different cost centres, but would actively participate in any Board working group or consultation process to establish appropriate criteria for analysis.

7. Are the grouping factors proposed by staff appropriate? (geographic location; customers per kilometer of line; total number of customers; the degree of outsourcing and cost particulars and service quality performance)

The proposed groupings may be appropriate but Horizon would refer Board staff to their consultant's paper of January 2005 for additional groupings and also Horizon would suggest that this is not all inclusive. In establishing groupings and driving down the granularity of the data requirements the Board should be seeking input from the distributors as to how this data may be determined and at what time requirement and cost to the distributors.

8. Are there additional characteristics of utilities that should be considered for grouping distributors?

Yes, there may be other distributor characteristics such as topography, soil or rock conditions, and municipal requirements that the Board is unaware of and are not reported in filings. A clear and thorough process needs to be established to assess characteristics for grouping and distributors need to be involved.

9. Should external benchmarks established in other jurisdictions be considered in setting rates for Ontario distributors?

While there may be benchmarks established in other jurisdictions, Horizon would submit that such information be used to provide the Board guidance in establishing benchmarks for Ontario distributors. Horizon would further submit that any such use of external information be industry specific and representative of the Ontario electricity market.

10. Some SQI data is currently collected. How could consideration of service quality as a driver of O&M cost be improved?

Horizon would agree that service quality indicators may be a means of comparing distributors however SQI's are not just a driver of O&M but also of capital works and therefore would not reasonably be reflective of this cost category alone.

11. In order to further the development of utility comparisons, what additional data should be collected from distributors, and why?

Horizon will require further time to properly respond to this question, but would recommend that the accuracy and integrity of the existing data available to the Board be validated before comparisons and cohorts are established. In addition, the Board needs to be cognizant of the time requirements and costs to distributors to collect additional data.

Horizon would recommend that the Board proceed with this comparison of distributor costs in an open and transparent manner such that distributors have input throughout the process. The Board has indicated that the consultants report will be issued mid December. On that basis alone, it is unlikely that comments provided to the Board in the submission made by distributors on December 8, 2006 will be incorporated into the consultants' report.

The Board has indicated its intentions to use the consultants report in the 2008-2010 rebasing proceedings and in the development of the 3rd generation incentive regulation mechanism. Horizon is concerned with the short time frame being allocated to this important process, which will impact all distributors. Not only is December a month when many distributors are short staffed, but the timing conflicts with Board deadlines already established for distributors such as the Cost Allocation Informational Filings, Cost of Capital and 2nd Generation IRM, and RRR filings.

Horizon welcomes the opportunity to work with Board staff during this important process.

Yours truly,

Cameron McKenzie
Director, Regulatory Services
Horizon Utilities Corporation
55 John Street N
P.O. Box 2249, Station LCD 1
Hamilton, ON
L8N 3E4

Telephone: 905-317-4785
cameron.mckenzie@horizonutilities.com