Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2007-0697

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

AND IN THE MATTER OF an application by Horizon Utilities Corporation for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

PROCEDURAL ORDER NO. 4

Horizon Utilities Corporation ("Horizon" or the "Applicant") filed an application with the Ontario Energy Board (the "Board"), received on October 22, 2007, under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that it charges for electricity distribution, to be effective May 1, 2008. The Board issued a Notice of Application and Hearing dated November 5, 2007. On December 4, 2007 the Board issued Procedural Order No. 1 which set out the dates for filing of interrogatories, responses to interrogatories and submissions. The Procedural Order also stated that the Board intended to dispose of this application by way of a written hearing.

On March 25, 2008, the School Energy Coalition ("Schools") filed a letter asking for a limited oral hearing on three areas of Horizon's application:

1. OM&A budget
2. Capital expenditures budget
3. Rate of interest on long-term debt

Schools proposed that the remaining issues be dealt with through written submissions. Schools also filed an Issues List approved by all intervenors and proposed that the Board adopt the list for this proceeding.

Schools was of the opinion that an oral hearing would be useful to explore certain gaps in the evidence and would allow Horizon witnesses to provide their rationale for specific aspects of the application. Their rationales could further be tested through cross-examination and direct Board questions.

In a letter filed on March 28, 2008, Horizon stated that it had filed a detailed and comprehensive application for distribution rates and charges effective May 1, 2008 and had limited the average total bill impact for each customer class to less than 3% (with the exception of its Street Lighting, Sentinel Lighting and Backup/Standby Power classes). Horizon further claimed that written proceedings save resources and costs as compared to oral hearings and that the additional costs of oral proceedings have to be ultimately borne by ratepayers.

In its letter, Horizon also emphasized that it was critical that it recover its full 2008 revenue requirement. The utility accordingly requested that if the Board was not able to issue a rate order in time for rates effective May 1, 2008, it would "allow a rate adjustment that will enable Horizon to recover any portion of the 2008 Board approved revenue requirement that may otherwise not be recovered due to post May 1st implementation of its 2008 schedule of rates and charges".

The Vulnerable Energy Consumers Coalition ("VECC") and Consumers Council of Canada ("CCC") filed separate letters on April 2, 2008 supporting Schools' request for an oral hearing. CCC claimed that there remained gaps in the information necessary to make a decision and there were material disputes about facts with respect to two issues: OM&A and rate of interest on long-term debt.

By way of letter dated April 7, 2008, the Board informed parties that it would hold a one day hearing on three specific issues:

1. OM&A budget;
2. Capital expenditures budget; and
3. Cost of Capital.

The Board advised Horizon to consider bringing an application to have its current rates be made interim.

Horizon filed another letter dated April 10, 2008 reiterating its need to recover its full 2008 revenue requirement regardless of when the Board issues its final rate order in this proceeding. Horizon communicated its intent to treat this letter as a motion for the requested relief should the intervenors consent to Horizon's request.

In an e-mail dated April 10th, Schools supported Horizon's request for rates being declared interim as of May 1, 2008. However, citing Board's normal practice, Schools did not support Horizon's request to recover its incremental revenue requirement for the 2008 rate year in full over the balance of the year. Schools' opinion was that it was up to the Board to decide this matter after the completion of the oral hearing and filing of final arguments. Similar views were echoed by Energy Probe in a letter filed with the Board on April 14, 2008.

Horizon's current schedule of rates and charges will be declared interim as of May 1, 2008. However, it would be premature to determine the question of whether Horizon can recover its entire 2008 Board approved revenue requirement including carrying costs. This matter will be determined when the Board makes its final decision in this application.

Schools filed a Revised Issues List along with its letter dated March 25, 2008. The Board will adopt this list as the Issues List for this proceeding. The Issues List is attached to the Procedural Order.

The Board considers it necessary to make provision for the following procedural matters. Please be aware that this procedural order may be amended, and further procedural orders may be issued from time to time.

THE BOARD ORDERS THAT:

1. The Issues List is attached to the Procedural Order and will be used for purposes of scoping the oral hearing and for purposes of structuring written submissions.

2. An oral hearing will be convened on **Thursday, June 5, 2008**. The hearing will be limited to three specific areas:
   - (i) OM&A – Issues 3.1 to 3.7
   - (ii) Capital Expenditures – Issues 4.1 to 4.6
   - (iii) Cost of Capital – Issue 2.2

   All other issues will be addressed through written submissions. The hearing will be held at 2300 Yonge Street, Toronto, in the Board's North Hearing Room starting at 9:30 a.m.

3. Horizon's current schedule of rates and charges are declared interim as of May 1, 2008.

4. The Applicant shall file with the Board its argument-in-chief and deliver it to the intervenors no later than Friday, June 20, 2008.

5. Argument with respect to all issues shall be filed with the Board by Board staff and intervenors on or before Friday, June 27, 2008 and served on the Applicant and other intervenors in this proceeding. This includes submissions on all issues.

6. Reply argument of the Applicant shall be filed with the Board on or before Monday, July 7, 2008 and served on the intervenors.

All filings to the Board must quote file number EB-2007-0697, be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may email your document to BoardSec@oeb.gov.on.ca. Those who do not have internet access are required to submit all filings on a CD or diskette in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, April 16, 2008.

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli,
Board Secretary

Horizon Utilities Corporation
2008 Distribution Application Proceeding EB-2007-0697
Issues List

(W) = Written submissions only (O)= Oral evidence, followed by written submissions

1. REVENUES

1.1 Is the load forecast and methodology appropriate and have the impact of Conservation and Demand Management initiatives been suitablyreflected? (W)

2.2 Are the forecasts for average use and numbers of customers in each customer class appropriate? (W)

1.3 Is the proposed amount for 2008 Other Revenues, including the methodology used to cost and price these services, appropriate? (W)

2 COST OF CAPITAL/DEBT

2.1 Is the proposed Capital Structure and Rate of Return on Equity for Horizon's distribution business appropriate? (W)

2.2 Are Horizon's proposed costs and mix for its short and long-term debt for the 2008 test year appropriate? Are the interest rate and other terms of Horizon's affiliate debt appropriate, and should the interest payable on that debt be fully recoverable from ratepayers? (O)

3 COST OF SERVICE

3.1 Are the overall levels of the 2008 Operation, Maintenance and Administration budgets appropriate? (O)

3.2 Is the 2008 vegetation management budget appropriate? (O)

3.3 Is the proposed level of 2008 Other O&M spending appropriate? (O)

3.4 Are the proposed amounts payable to, and receivable from, affiliates and shareholders in 2008 appropriate? (O)

3.5 Are the 2008 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? (O)

3.6 Are the proposed expenditures on ERP appropriate, and is the proposed method of recovering those expenditures from the ratepayers appropriate? (O)

3.7 Is Horizon's depreciation expense appropriate? (O)

3.8 Are the amounts proposed for capital and property taxes appropriate?(W)

3.9 Is the amount proposed for income taxes, including the methodology, appropriate? (W)

4 RATE BASE

4.1 Are the amounts proposed for Rate Base appropriate? (O)

4.2 Are the amounts proposed for 2008 Capital Expenditures appropriate?(O)

4.3 Are the 2008 sustaining capital expenditures proposed for Asset Replacement appropriate? (O)

4.4 Are the 2008 amounts proposed for Development capital appropriate? (O)

4.5 Are the amounts proposed for ERP capital expenditures appropriate? (O)

4.6 Is the proposed level of 2008 Other Capital expenditures appropriate? (O)

4.7 Are the methodology and assumptions used to determine the Working Capital component of the Rate Base appropriate, and is the resulting Working Capital component of Rate Base appropriate? (W)

5 REVENUE REQUIREMENT

5.1 Is the calculation of the proposed revenue requirement for 2008, and the resulting deficiency or sufficiency, appropriate? (W)

6 COST ALLOCATION AND RATE DESIGN

6.1 Is Horizon's cost allocation appropriate? (W)

6.2 Are Horizon's proposed rates, including all adjustments to reflect cost allocation results, appropriate? (W)

6.3 Are the proposed revenue to cost ratios appropriate? (W)

6.4 Are the fixed-variable splits for each class appropriate? (W)

6.5 Is Horizon's proposal to charge its affiliates and shareholders for distribution service for sentinel lights and street lights at less than cost appropriate and in compliance with the Affiliate Relationships Code? (W)

7. SMART METERS

7.1 Is the 2008 smart meter O&M budget appropriate? (W)

7.2 Is the proposed 2008 capital spending for the Smart Meter program appropriate? (W)

7.3 Are the amounts for Smart Meter related variance accounts appropriate? (W)

7.4 Is the treatment of stranded meter costs appropriate? (W)

7.5 Is Horizon's regulatory treatment of Smart Meter costs appropriate? (W)

8. CDM

7.1 Has Horizon complied with the Filing Requirements for its CDM evidence? (W)

8.2 Is the level of Horizon initiated and/or delivered CDM activity and budget appropriate and should it be funded by OPA or in rates? (W)

8.3 Are the methodology and assumptions used in calculating the LRAM and SSM, and the resulting LRAM and SSM amounts, appropriate? (W)