



BORDEN
LADNER
GERVAIS

Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3Y4
tel.: (416) 367-6000 fax: (416) 367-6749
www.blgcanada.com

JAMES C. SIDLOFSKY
direct tel.: 416-367-6277
direct fax: 416-361-2751
e-mail: jsidlofsky@blgcanada.com

June 23, 2008

Delivered by Courier

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

Dear Ms. Walli:

Re: EB-2007-0697
Horizon Utilities Corporation
Application to the Ontario Energy Board (the "OEB") for Electricity
Distribution Rates and Charges as of May 1, 2008

We are counsel to Horizon Utilities Corporation ("Horizon Utilities") with respect to the above-captioned matter. Please find accompanying this letter two copies of Horizon Utilities' Argument in Chief in this proceeding.

Should you have any questions or require further information in this regard, please do not hesitate to contact me.

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original Signed by Diana Pereira on behalf of James C. Sidlofsky

James C. Sidlofsky
JCS/dp

Encls.

cc: Maureen Helt, OEB
Khalil Viraney, OEB
Theodore Antonopoulos, OEB
Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
Cameron McKenzie, Horizon Utilities Corporation
Intervenors of Record (by e-mail only)

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

AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2008.

ARGUMENT-IN-CHIEF OF HORIZON UTILITIES CORPORATION

DELIVERED JUNE 23, 2008

A. INTRODUCTION

1. Horizon Utilities Corporation ("Horizon Utilities") is the successor corporation to Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. Horizon Utilities owns and operates the electricity distribution systems located in the city of Hamilton and the city of St. Catharines.
2. On October 22, 2007 Horizon Utilities submitted an Application to the Ontario Energy Board ("OEB") seeking an order approving just and reasonable distribution rates and other charges for electricity distribution to be effective May 1, 2008.
3. Horizon Utilities' Application, before the OEB for approval, will provide the revenue requirement necessary to sustain its capital, operating and maintenance programs in a manner that continues to provide safe and reliable distribution of electricity in the city of Hamilton and the city of St. Catharines.
4. Horizon Utilities filed 1,500 pages of comprehensive, detailed and thorough pre-filed evidence including working models for Revenue Requirement and Distribution Rate Design. The Application was followed in January of this year by another 1,500 pages of responses to approximately 400 interrogatories from OEB staff and intervenors. Horizon Utilities also participated in a three day Settlement Conference although, despite the best efforts of all parties involved,

no settlement was reached. In addition, Horizon Utilities has responded to 18 Undertakings that arose from a one and one-half day oral hearing that focused on issues related to Operations, Maintenance and Administration ("OM&A"); Capital Expenditures; and Cost of Capital.

5. Throughout the Application process, Horizon Utilities has been conscious of and focused on minimizing impacts to customers. Horizon Utilities is proposing to design rates based on the partial reallocation of customer class distribution revenue, and its proposed rates will result in minimal average total bill impacts of less than 3% for the General Service <50 kW, General Service >50 kW and Large User customer classes, and a total bill decrease for the Residential customer class (for example, a Residential customer using 1,000 kWh per month would have a total bill decrease of 0.6%).
6. Horizon Utilities submits that its proposed revenue requirement has been determined appropriately; that its proposed capital and OM&A programs for the 2008 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are fair and reasonable. Horizon Utilities submits that in approving this Application, the OEB will have met its objective, set out in section 1 of the *Ontario Energy Board Act, 1998*, as amended, "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

B. RELIEF SOUGHT

The relief sought by Horizon Utilities will result in just and reasonable rates effective May 1, 2008.

7. Horizon Utilities filed an Application for just and reasonable rates to be effective on May 1, 2008, and subject to changes in the OEB-approved Return on Equity ("ROE"), PILs rates and Retail Transmission Rates, Horizon Utilities requests that the OEB approve the following items in this Application:

- a) Horizon Utilities' proposed 2008 base revenue requirement in the amount of \$94,859,978, which includes returns and costs associated with Smart Meters, pursuant to the OEB's Decision in its Combined Proceeding on Smart Meters (EB-2007-0063);
- b) The electricity distribution rates proposed by Horizon Utilities that will enable it to recover the proposed base revenue requirement;
- c) The specific service charges proposed by Horizon Utilities and set out in Horizon Utilities' proposed Schedule of Rates and Charges effective May 1, 2008;
- d) The recovery of Horizon Utilities' Regulatory Deferral and Variance Account balances as at December 31, 2006, together with carrying charges calculated to April 30, 2008 in accordance with the OEB's Accounting Procedures Handbook (the "APH");
- e) Horizon Utilities' proposed increase in the allowance to be paid to customers that own their own transformation;
- f) Horizon Utilities' proposed approach to cost allocation among its customer classes as embodied in its proposed distribution rates;
- g) A new specific service charge for customers' use of credit card payment facilities for the payment of past-due balances at the time of attendance at the customer's premises during a collection visit or for the purpose of disconnection;
- h) The continuation of Horizon Utilities' existing deferral accounts;
- i) The recovery of Horizon Utilities' proposed Conservation and Demand Management ("CDM")-related Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") adjustments through

appropriate riders to be added to Horizon Utilities' proposed electricity distribution rates;

- j) The establishment of a smart meter-related rider representing a credit against the fixed distribution charge for all metered customers. This represents an adjustment to the existing rider, which is currently an additional charge to all metered customers. Horizon Utilities will require further adjustments to this rider for 2009 and 2010, in order to recover its smart meter-related capital and operating expenditures for those years; and
 - k) Approval of new Retail Transmission Service Rates as directed by the OEB;
8. Horizon Utilities notes that it intends to complete all of its planned 2008 capital projects, and its OM&A expenditures for the 2008 rate year are expected to be as set out in the Application, notwithstanding that Horizon Utilities has not had its rate order approved as of May 1st. [Transcript Volume 1, page 23, lines 8 to 19]. Horizon Utilities filed the Application on October 22, 2007, for rates effective May 1st, 2008. As Horizon Utilities' current rates were declared interim as of May 1, 2008, there will be a difference between the revenue collected under the existing rates and the revenue that would have been collected if the new rates were implemented May 1, 2008. Horizon Utilities requests that the Board find that the new rates shall be set so as to recover the annualized revenue requirement over the remaining period of the 2008 rate year. For example, if Horizon Utilities will be able to implement the new rates on August 1, 2008, the new rates should reflect the fact that there will be only 9 months to April 30, 2009. Horizon Utilities acknowledges that for the 2009 rate year, adjustments will have to be made to adjust the rates so that the revenue requirement will then be recovered over 12 months.

C. SUMMARY OF EVIDENCE AND ISSUES

9. The Board appended its Issues List to Procedural Order No. 4. The Issues List identified the following main categories of issues:
 1. Revenues
 2. Cost of Capital / Debt
 3. Cost of Service
 4. Rate Base
 5. Revenue Requirement
 6. Cost Allocation and Rate Design
 7. Smart Meters
 8. CDM
10. The submissions that follow have been organized according to these categories, and contain discussions of each of the issues.

Revenues

Issue 1.1 – Horizon Utilities’ load forecast and CDM impacts is appropriate and should be approved

11. Horizon Utilities prepared its load forecasts in a manner consistent with its 2006 Cost of Service filing, which was based on load forecast data provided under contract by Hydro One Networks Inc. (“Hydro One”). The Hydro One model took into consideration thirty years of weather related data and translated this into normalized data that is specific to Horizon Utilities’ service areas.
12. Intervenors raised concerns during Hydro One’s 2007 and 2008 Transmission Revenue Requirement proceeding (OEB File No. EB-2006-0501) as to the accuracy of Hydro One’s weather normalization methodology. However, the OEB acknowledged (at p.87 of its August 16, 2007 Decision with Reasons) “that Hydro One’s weather-normalization method has been applied consistently over the years and is similar to the methods used by most North American utilities.

The Board accepts Hydro One's weather-normal peak load forecast for 2007 and 2008 (before the effects of CDM)."

13. Horizon Utilities submits that pending Hydro One's or the OEB's review of weather normalization methodologies, its load forecast methodology is appropriate.
14. Horizon Utilities has not adjusted its load forecast for Conservation and Demand Management initiatives and will rely on filing LRAM and SSM applications in order to recover lost revenues due to CDM.

Issue 1.2 – Horizon Utilities' forecast average use and customer counts are appropriate and should be approved.

15. Horizon Utilities has experienced very slow growth in its customer base. The Residential customer class total growth between 2002 and 2006 has been only 5,051 customers or on average approximately 0.5%. Given the slow growth and consistent trend in customer numbers in the Horizon Utilities service area over the past five years, Horizon Utilities has used a simple straight line trend for growth in customer connections, by class.
16. No changes were made to the number of Large Users, and the numbers of Street Lighting and Unmetered/Scattered Load connections are based on average growth.
17. The forecast average use by customer class was derived from the Hydro One forecast model, discussed under Issue 1.1 above.

Issue 1.3 – Horizon Utilities' 2008 Other Revenues and methodology for costs and prices are appropriate and should be approved.

18. Horizon Utilities is not requesting changes to its existing specific service charges and as such the forecast revenues are based on five year averages of occurrences, times the current OEB-approved charge.

19. Miscellaneous revenues have been reduced in the 2008 Test Year to remove one-time occurrences for sale of scrap, gains on sale of assets and management fees no longer recoverable with the sale of FibreWired, which was an affiliated company.[Exhibit C/Tab3/Schedule 2/page 2].
20. Horizon Utilities carries on business activities with affiliates under a Master Services Agreement and cost are charged or allocated in accordance with this agreement. The allocation of shared corporate management was discussed and clarified during the oral hearing. Mr. Basilio confirmed the number, identities and duties of officers of the affiliates and related cost allocation methodologies pursuant to Shared Service Agreements, which are compliant with the Affiliate Relationships Code. [Transcript Volume 1, pages 50 to 52]

Cost of Capital / Debt

Issue 2.1 – Horizon Utilities' capital structure of 60/40 debt to equity and its Rate of Return on Equity, once adjusted to the ROE approved by the OEB earlier this year, is appropriate and should be approved.

21. Horizon Utilities' capital structure is the OEB-approved capital structure of 60% debt and 40% equity as determined by the OEB in its December 20, 2006 Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Cost of Capital Report").
22. Horizon Utilities calculated an ROE of 8.86%, based on the approach in the Cost of Capital Report, for use in its Application. Horizon Utilities will adjust this to the OEB-approved ROE of 8.57% at the time of preparing the draft rate order that will follow the Decision.

Issue 2.2 – Horizon Utilities’ mix of short and long term debt, interest rate and terms of its debt fully comply with the OEB’s Cost of Capital Report, dated December 20, 2006.

23. Horizon Utilities’ deemed debt includes 4% of short term and 56% of long term debt in accordance with the December 20, 2006 Cost of Capital Report, and more particularly Section 2.1.1 – Debt Component.
24. Horizon Utilities calculated a short term debt rate of 4.77%, based on rates in effect at the time, for use in its Application. Horizon Utilities will adjust this to the OEB-approved short term debt rate of 4.47% at the time of preparing the draft rate order that will follow the Decision.
25. Horizon Utilities refers the OEB to Exhibit F/Tab 1/Schedule 3 to its Application; its response to OEB Staff Question 48; the evidence in chief of Mr. Basilio (Transcript Vol. 1, pages 200-207); and Part 4 of Horizon Utilities’ confidential response to Confidential Undertaking JX1.14 (the Confidential Offering Memorandum for the Hamilton Utilities Corporation Debenture issued in 2002) – specifically, to the bottom of page 15 through page 16 of that confidential document, in which HUC addresses Hamilton Hydro Inc.’s (“HHI”) regulated rate of return, and more particularly, to the middle of page 16 in which HUC discusses the recoverable interest expense, and to the table that follows as it relates to interest on deemed debt. This material provides reviews of the history of the Hamilton Hydro Inc. (“HHI”) and Horizon Utilities promissory notes and the consistent treatment of the debt rate applicable to those notes. Horizon Utilities has a number of additional comments at this time. Horizon Utilities’ interest rate on its long term debt is and has always been 7%, dating back to the initial “unbundled” rate application filed by Horizon Utilities’ predecessor, HHI, in 2000 and approved by the OEB on December 17, 2001. That application required the unbundling of distribution rates and the calculation of the first one-third of the Market Adjusted Revenue Requirement (“MARR”). The Rate Unbundling and Design (“RUD”) model provided for the calculation of the MARR at Sheet 7 –

MARR (No Tax) Calculations. The sources for this calculation were Appendix D of the OEB's 2000 Electricity Distribution Rate Handbook (Rate Base Calculations) and Chapter 3 for the Debt Rate ("DR") and Common Equity Ratio ("CER"). The calculations for HHI included a CER of 45%; a Target ROE of 9.88%; a Debt Ratio of 1-CER being 55%; and a DR of 7% yielding a MARR, at the time, of \$20,518,003 of which one third was allowed for rate making purposes pursuant the Minister of Energy's Directive dated June 7, 2000.

26. Each of HHI's and Horizon Utilities' subsequent rate applications was compliant with the 2000 Electricity Distribution Rate Handbook (the "2000 Rate Handbook"), the 2006 Rate Handbook, and other OEB Filing Guidelines as applicable at the time of preparation and filing of each application, and each application (including rate adjustment applications in 2002, 2004 and 2005, and the 2006 EDR Application) incorporated Horizon Utilities' debt rate of 7%.
27. The 2006 Rate Handbook provided for the first re-basing of rates after the initial unbundling in 2001, and established, in Section 5.2 (Debt Rate), the means for determining the debt rate to be used to calculate the cost of capital. This section states "For debt held by an affiliate, the debt rate used is the lower of the actual debt rate and the deemed debt rate at the time of issuance. The debt rate should include all costs of issuance. For debt issued between March of 2000 and May 12, 2005, the deemed debt rate is that shown in Table 3-1 of the first generation PBR Distribution Rate Handbook (released in March, 2000), given the distributor's size." This was consistent with the OEB's May 11, 2005 Report on the 2006 Electricity Distribution Rate Handbook (EB-2004-0188), in which the OEB concluded (at page 31), with respect to the deemed debt rate for affiliate debt, that "The Board agrees with the majority of parties commenting on this matter that where the debt is held by an affiliated firm, the lower of the actual rate and the size-related deemed debt rate that was in effect at the time the debt was issued will be used."

28. At no time during any of its previous rate applications, including the 2006 EDR application, was Horizon Utilities or its predecessor required to file copies of its debt instrument(s) either as part of the application or in response to interrogatories. [See Transcript Volume 2, page 60, lines 19 to 25] The OEB's role has not been to approve such instruments – rather, the OEB has approved debt rates for rate making purposes as set out in its Distribution Rate Handbooks.
29. On February 28, 2005, Hamilton Hydro and its parent amended the 2002 note to reflect terms generally accepted in July 2002. As Mr. Basilio testified, this was a matter of some late housekeeping [Transcript Volume 1, page 204, line 23 to 25]; and the parties to that note have operated in a manner consistent with the most recent amendments since 2002. [Transcript Volume 1, page 210, lines 23 to 27] Horizon Utilities' debt was issued before May 12, 2005 at a rate of 7%, equal to the OEB's deemed rate at the time of issuance, and such interest rate has been previously and consistently approved by the OEB. As of May 12, 2005, the affiliated debt was not dependent on the Board-approved size-related deemed debt rate; and it was not subject to renegotiation. The rate on Hamilton Hydro's debt, and now Horizon Utilities' debt, has been 7% for the past 8 years. The OEB again approved Horizon Utilities' 7% debt rate in its 2006 rebasing application.
30. It is clear from the record that Horizon Utilities' debt is existing debt, and has existed since 2000. The amount of the debt (\$116 million) is unchanged since 2002, and the debt rate, as approved by the OEB, has been 7% since 2000. No new rate has been negotiated. The recovery of the 7% debt rate through Horizon Utilities' 2008 rates is entirely appropriate and in keeping with the OEB's Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Report"). At page 13 of the Report, the OEB writes:

“The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.”

31. As Mr. Basilio testified, it was always intended that this obligation represent and operate as a long-term debt instrument which typifies prudent financing strategy for distribution utilities. Some accommodation for flexibility in certain terms was provided in the original notes to recognize persisting uncertainty in energy policy and regulation with respect to permitted long-term debt notes and long-term shareholder returns. Such accommodation was, at the time, viewed to be in the best interest of the regulated distribution entity [See, for example, Transcript Volume 1, page 212, line 19 to page 213, line 14, and page 214, lines 11-19].
32. Horizon Utilities and its predecessor, Hamilton Hydro Inc. have complied with and relied on the 2000 and 2006 Electricity Distribution Rate Handbooks; Rate Application Filing Guidelines as provided for each rate application; and the December 20, 2006 Cost of Capital Report of the Board. Horizon Utilities' long term debt rate of 7%, being the deemed date rate in place since 2000, is compliant in all respects with OEB directions and should be approved by the OEB as the long term debt rate for this Application. Horizon Utilities submits that any subsequent Decision by the OEB to make changes to these regulatory instruments, that distributors have relied on, would only contribute to long term regulatory uncertainty surrounding the electricity industry since the enactment of *The Energy Competition Act, 1998*.

Cost of Service

Issue 3.1 – Horizon Utilities' 2008 Operation, Maintenance and Administration expenses are not only appropriate, but are required in order to ensure a safe, reliable distribution of electricity at the lowest cost.

33. Horizon Utilities' operations costs have been consistent over the 2007 Bridge Year and 2008 Test Year at \$7,826,000 and \$7,994,000 respectively as described in Exhibit D/Tab 2/Schedule 2/page 1. Horizon Utilities' maintenance activities include predictive, preventative, corrective, emergency and reactive maintenance programs, driven by its Capital and Maintenance Programs, and required to ensure the reliability and safety of its distribution system. Horizon Utilities' maintenance programs are described at Exhibit D/Tab 2/Schedule 1, and in Horizon Utilities' Distribution System Capital & Maintenance Programs document, which may be found at Exhibit B/Tab 1/Schedule 1/Appendix A. Requirements for the continued maintenance of Horizon Utilities' distribution system are also consistent for 2007 and 2008 (before the increase for tree trimming) at \$5,843,000 and \$6,070,000 respectively.
34. Horizon Utilities' operations and maintenance programs ensure system reliability and safety. The results of these programs are evident in Horizon Utilities' reliability indices and the fact that Horizon Utilities' customers, on average, do not experience more than 1.4 interruptions in service in a year and, when an interruption occurs, Horizon Utilities' average restoration time is 39 minutes. [Exhibit A/Tab 2/ Schedule 1/page 5]
35. Overall, in 2006, Horizon Utilities' system reliability index was 0.99989, meaning that Horizon Utilities' distribution system was available to supply customers 99.989% of the time during that year. [Exhibit A/Tab 2/Schedule 1/page 5]

Issue 3.2 – Horizon Utilities submits that its 2008 vegetation management budget is required to meet its public safety and reliability responsibilities to its customers and represents best utility practices.

36. Horizon Utilities is moving to a three-year tree trimming cycle in its Hamilton service area. The St. Catharines service area is now in the second year of its three-year trim cycle. Historically in Hamilton, tree trimming has been done on a 3 to 7 year cycle and longer in some areas. [Exhibit D/Tab 2/Schedule 3/page 2]. The Hamilton service area is largely older residential or rural with overhead lines

and transformers and mature trees that grow into and over our lines. Leaving vegetation for longer periods creates public safety risks including fallen hydro wires, injuries to children climbing trees and fire hazards. It also affects reliability with downed wires during rain, wind, snow or ice storms. [Transcript Volume 1, page 22, lines 19 to 26]

37. The three-year cycle is an accepted industry practice principally in support of public and employee safety and a reliable distribution system. Other than Horizon Utilities, there are many utilities that use a three-year trim cycle. These include utilities such as Canadian Niagara Power, Hydro Ottawa, Burlington Hydro, Guelph Hydro, Oakville Hydro and Niagara-on-the-Lake Hydro. [Transcript Volume 1, page 187, lines 25-28 and page 188, lines 1 and 2]
38. Horizon Utilities also consults with the professional arborists who do the work to consider the different species of trees and the different growth rates of these trees in order to maintain electrical clearances and keep customers satisfied. Historically, Horizon Utilities has realized that, in those areas of its service territory where the tree trimming has exceeded the three-year cycle, the trimming has resulted in very large limbs being cut off and that it is difficult to maintain the required electrical clearances without devastating the tree.[Transcript Volume 1, page 188, lines 7 to 11].
39. Horizon Utilities reiterates the importance of public safety and reliability in its decision to move to a three year tree trim cycle across its entire service area, and submits that it is appropriate that the OEB approve a revenue requirement that will enable Horizon Utilities to implement that cycle.

Issue 3.3 – Horizon Utilities' other O&M spending, in areas such as Billing and Collecting, Community Relations and Administration and General Expense are appropriate and consistent with previous years, considering that the data used in Horizon Utilities' last re-basing application is now four years old. Human Resources/compensation is discussed in Issue 3.5 and ERP is discussed in Issue 3.6.

40. Horizon Utilities continues to achieve high customer satisfaction ratings, this while reducing Billing and Collection costs by over \$830,000 since its 2006 EDR filing. Independent customer surveys have shown that customer satisfaction has increased from 82% to 86 % over three years, which is 3% above the Ontario utility average [See Exhibit D/Tab 2/Schedule 7/Appendix B for 2006 customer satisfaction survey results].
41. Horizon Utilities is expanding its Community Relations activity in order to reach out to its customers and educate them on changes happening with electricity pricing, customer options, smart meters and time-of-use rates. Horizon Utilities will be attending public events and festivals to meet the public and be available to provide literature and answer questions.
42. Horizon Utilities' Administration and General Expenses have increased by approximately \$700,000 over the two year period from 2006 Actual, before salaries, wages and expenses, and ERP costs. Of this increase, \$400,000 relates to increased costs of OEB fee assessments and OEB proceedings. The balance of \$350,000 or \$175,000 per year is related to increases in pension costs of \$200,000, and general increases resulting from inflation.

Issue 3.4 – Affiliates payables and receivables are calculated in accordance with the Master Services Agreement for Shared Services in compliance with the Affiliate Relationships Code and appropriately costed for each shared service.

43. Horizon Utilities shares certain corporate services with affiliates that provide non-wires related activities. Shared services include Corporate Management, Finance, Corporate Services, Communications, Safety and Human Resources.
44. The shared services are carried out in accordance with the Master Services Agreement (the "MSA") and the accompanying Schedules and Appendices outline the shared services and the costing mechanism used for the shared services. Costs are also appropriately computed on a fully-burdened basis.

45. The development of costs follows the OEB requirements as well as current industry practices, including: direct allocation of costs where possible; where direct allocation is not possible, allocation of costs based on time/cost tracking of individual efforts when possible; where necessary, selection of appropriate “allocator proxies” based on cost causation or benefits received. Horizon Utilities would refer to its response to OEB Staff IR 30, which provides the details for the methodology underlying the allocation of corporate costs.
46. Mr. Basilio confirmed the Horizon Utilities employees primarily involved in Hamilton Utilities Corporation (“HUC”) as himself (Chief Financial Officer); Sarah Hughes (Controller); and Marjorie Richards (Vice President of Corporate Services). [Transcript Volume 1, page 49, line 11; page 50, lines 11 to 13; and page 51, lines 9 to 10].
47. It was further confirmed that the allocation of costs for the Horizon Utilities employees to HUC is based on a percentage of assets and that the percentage is approximately three and one-half percent. [Transcript Volume 1, page 52, lines 18 to 22].

Issue 3.5 – Horizon Utilities’ staffing complement, pensions and benefits, and salaries and wages are appropriate and competitive except for management compensation which is below comparable industries.

48. Horizon Utilities began to reinforce its work force in 2007 with the hiring of seven apprentices, two operators and three engineers in training [Transcript Volume 1, page 120, lines 13 to 14]. Of its total complement of employees, being 373, Horizon Utilities will have a reduction of approximately 17% in five years and an additional 16% in ten years due to retirements. This translates into 63 employees in five years and another 60 employees in ten years. [See Exhibit D/Tab 2/Schedule 7/Pages 1-4 for a discussion of Horizon Utilities’ employees’ average ages.] The electricity industry is unique in that there is not an over abundance of skilled trades and as such it takes time to train new employees and

transfer knowledge from experienced employees before they retire. Horizon Utilities must address these future requirements now.

49. Horizon Utilities' total compensation system has been explained in detail in its Application at Exhibit D/Tab 2/Schedule 7/pages 5 to 7, with further detail provided in its responses to OEB staff IRs 23, 32, 33, 34, 35, 36, 37, 38, 39 and Schools interrogatory IR 13. A detailed, line by line, evaluation of all compensation levels has also been provided in response to Undertaking J1.7 as further evidence supporting Horizon Utilities' total compensation included in Administration and General Expenses. Those tables provide an increase in administration, management and executive base wages of \$1,417,000 for the year 2008 over 2006. This increase is accounted for by two years of inflation, eight new positions and annual merit progressions. Compensation analyses, prepared by the Hay Group for the years 2005 and 2006, have been filed in Horizon Utilities' Application at Exhibit D/Tab 2/Schedule 7/Appendix A. In most cases, Horizon Utilities' salaries are below those of the industrial sector, the broader public sector or the utilities sector - these sectors are where Horizon Utilities must compete for management and executive talent. Horizon Utilities submits that its compensation requirements for the 2008 Test Year are supported by the record in this proceeding.

Issue 3.6 – Horizon Utilities' Enterprise Resource Plan solution ("ERP") is required to replace a patchwork of systems 25 year old and bring Horizon Utilities into the 21st century of business and information efficiencies.

50. The ERP solution essentially replaces a patchwork of systems developed internally over a 25-year period that are at the end of their useful and productive lives. The ERP solution will mitigate business risk related to information integrity and improved business decision-making efficiency and effectiveness through the adoption and implementation of contemporary business practices in the areas of asset management, work order management, finance, human resources management and supply chain management. The record contains a significant

amount of material with respect to the ERP solution – this includes Exhibit B/Tab 3/ Schedule 1/Pages 27-35; the Appendices to Exhibit B/Tab 3/ Schedule 1; Exhibit D/Tab 2/ Schedule 1/Pages 18-22 and Appendix A thereto; and Horizon Utilities' responses to OEB staff IRs 12 and 24, VECC IR 29, and Schools IR 13.

51. As described by Mr. Basilio, the ERP solution represents “a fusion of people, process and technology in support of, you know, key elements of our business, which -- and the scope of which here is focused on supply chain management, work order management, asset management, financial management and human resources management.” [Transcript Volume 1, page 127, line 28 and page 128 line 1 to 4]
52. Mr. Basilio explained the existing system as follows: “I think it is important, again, to emphasize that we're really in a false economy right now with our IT costs. We have a 27-year-old legacy system internally developed, a very fragmented architecture. It is sort of like every time you need something new, you have an AS/400 programmer trying to bolt it on. It is high risk, in terms of making correct decisions of data integrity. It is quite cumbersome. Really, in terms of process, we need to come up a curve.” [Transcript Volume 1, page 128, lines 13 to 21]
53. Horizon Utilities submits that the implementation of its ERP solution is justified by the evidentiary record.

Horizon Utilities' proposed method of recovering the ERP expenditures is to the benefit of ratepayers.

54. Horizon Utilities is proposing to recover its investment in the ERP solution over five rate years. In order to do this Horizon Utilities has adjusted its Revenue Requirement downward to reflect the costs of the ERP solution less the estimated savings, which have not yet been realized, over the same period. Mr. McKenzie explained in his testimony that “it was identified there was a \$657,000 savings to our customers by taking this approach.” [Transcript Volume 1, page 196, lines 4 to 6]. Horizon Utilities understands that there is a risk inherent in this

approach, in the event that the anticipated cost savings are not realized. However, Horizon Utilities is prepared to assume that risk in adopting this approach.

55. The alternative to the Horizon Utilities proposal is the traditional approach of including the expenditures in the year they occur and reflecting cost savings only at the next rebasing. As Mr. McKenzie explained during the hearing, the result of applying the traditional approach would be additional costs to Horizon Utilities' ratepayers in the approximate amount of \$132,000 over the next five years. [Transcript Volume 1, page 196, lines 2 and 3]. Horizon Utilities submits that its proposed approach benefits its ratepayers and should be approved by the OEB.

Issue 3.7 – Horizon Utilities' depreciation calculations are representative of a typical year.

56. Horizon Utilities calculates depreciation in accordance with the rates prescribed in the OEB's Accounting Procedures Handbook. Furthermore, Horizon Utilities' depreciation, on capital additions during the current year, commences in the month that the asset is capitalized. Horizon Utilities submits that this approach results in a calculation that is more representative of a typical year than the approach set out in the OEB's May 11, 2005 Final Report on the 2006 EDR Handbook, which involves calculating depreciation on the average opening and closing year end balances.

Issue 3.8 – Horizon Utilities' capital and property taxes are consistent with previous years.

57. Horizon Utilities' property tax assessments are consistent with the previous year and have assumed a 3% increase in municipal tax rates for 2008.
58. Horizon Utilities' capital tax, in the amount of \$992,000, is calculated based on Rate Base less \$15 million times the capital tax rate for 2008 of 0.285%.

Issue 3.9 – Horizon Utilities’ income tax calculations are appropriate and will be adjusted for the announced tax rates as directed by the OEB.

59. Horizon Utilities’ has calculated its income taxes pursuant to the *Income Tax Act*.
60. The income tax rates used in Horizon Utilities’ Application were the tax rates applicable at the time. Horizon Utilities acknowledges that the tax rates have changed and that these changes will be required to be incorporated into the draft rate order as directed by the OEB.

Issue 4.1 – The amounts proposed for Horizon Utilities’ rate base are appropriate.

61. Horizon Utilities’ Application seeks approval of a 2008 Test Year Rate Base of \$362,942,366 calculated on average net assets plus a working capital allowance. Horizon Utilities submits that the rate base has been sufficiently supported throughout the Application and reflects its requirements to ensure a safe, reliable and sustainable distribution system which will allow for the continuation of Horizon Utilities’ high performance indices and customer satisfaction.

Issue 4.2 – Horizon Utilities’ capital programs are well documented and supported through its detailed Capital and Maintenance Programs documentation.

62. Horizon Utilities has provided a significant amount of evidence supporting its 2008 Capital Expenditures including its detailed Distribution System Capital & Maintenance Programs document (“CMP”). This forward looking plan provides the methodology that Horizon Utilities employs in its system planning, reviewing and prioritizing projects ensuring safety and reliability. Horizon Utilities’ capital plans include Customer Demand, Renewal, Security, Capacity, Reliability, Regulatory Requirements and Stations expenditures. Specific project spending has been provided in detail based on the results of its CMP activities and its departmental Budget Plans.
63. Horizon Utilities submits that, when smart meters and the ERP are excluded from the capital budget, spending has been consistent from 2006 through 2008, at \$29.7 million for 2006 Actual; \$30.2 million for the 2007 Bridge Year; and \$28.7

million for the 2008 Test Year. The capital expenditures proposed for the 2008 Test Year are at an appropriate level to enable Horizon Utilities to maintain its high standards of safety, reliability, performance indices and customer satisfaction.

Issue 4.3 – Horizon Utilities’ capital plans provide for the required asset replacement to ensure sustainability of its distribution system and the continuity of its high levels of safety and reliability.

64. Horizon Utilities filed a detailed CMP document that provides analysis and prioritization of the required capital investment in asset renewal, security, reliability and substations as part of its asset replacement program. The CMP identifies those assets in need of replacement and/or investment in upgrading in order to secure Horizon Utilities’ distribution system. Investment in asset replacement and sustainability has been consistent over the three year period at between \$13.5 and \$14.3 million.
65. Horizon Utilities submits that any reduction in its proposed capital asset replacement and sustainability investment will result in increased operating and maintenance expenditures which will be required to repair aging infrastructure. Such arbitrary reductions are not in the interests of public safety, system reliability, or Horizon Utilities’ customers.
66. Horizon Utilities has the resources required to carry out and complete its CMP projects during the 2008 Test Year and as stated by Mr. Basilio, Horizon Utilities is in fact carrying on with its plans for its required capital and operations work while this Application is awaiting approval.[Transcript Volume 1, page 23, lines 8-19]

Issue 4.4 – The amounts proposed for development capital are appropriate. Development capital plans provide for capacity requirements based on customer demand.

Customer-driven capital investment

67. Customer demand investment include installations of service wires and transformers to connect new customers to the electrical distribution system, new subdivision development, roadway relocations and upstream/enhancement projects.
68. Horizon Utilities is obligated under the Distribution System Code ("DSC") to connect new customer services.
69. While Horizon Utilities is not obligated to relocate its plant, the DSC requires a response to the requesting party and a fair and reasonable resolution. Horizon Utilities is permitted to charge for a relocation and this recovery of capital is reflected in its Capital Contributions calculations shown in the Application at Exhibit B/Tab 3/Schedule 2. Horizon Utilities' customer demand capacity-driven capital projects are discussed in detail at Exhibit B/Tab 1/Schedule 1/pages 4-5, and at Exhibit B/Tab 3/Schedule 1/pages 4-5 of the Application.

Capacity-driven capital investment

70. Horizon Utilities' capacity projects are discussed in general at Exhibit B/Tab 1/Schedule 1/page 5. More specifically, capacity demand projects include upstream projects such as capital investments to extend feeder length to provide for new development and future connections as described in Exhibit B/Tab 3/Schedule 1/page 5 and projects which increase capacity of existing plant to meet peak capacity or demand, as described in Exhibit B/Tab 3/Schedule 1/pages 14-15. Horizon Utilities' capital investment is partially recovered through Capital Contributions on a pooled basis.

Issue 4.5 – Horizon Utilities' investment in its ERP solution is necessary for the improvement of business processes and efficiency, and will yield cost savings that will be passed on to its customers.

71. Horizon Utilities is investing in an Enterprise Resource Planning solution that will mitigate business risk related to information integrity, and will improve business

decision-making efficiency and effectiveness through the adoption and implementation of contemporary business practices in the areas of asset management, work order management, finance, human resources management and supply chain management.

72. The need for the ERP project, its capital-related elements and its benefits are discussed in detail in Exhibit B to the Application (Exhibit B/Tab 3/Schedule 1 and the Appendices thereto).
73. The total cost of ownership of the ERP solution is \$8.8 million of which \$4.7 is being capitalized (\$4 million is software and \$.7 million is computer hardware) and the remaining \$4 million is O&M. During the hearing, Ms. Hughes provided the reference to the CICA Guidelines and more specifically, EIC 86 – accounting for costs of business process re-engineering projects, supporting the capitalization of the \$4.7 million. [Transcript Volume 1, page 141, line 28 and page 142, Lines 1 and 2]

Issue 4.6 – Other capital expenditures total \$3.5 million, and are supported by the evidence in this proceeding.

74. In 2007 Horizon Utilities purchased seven new chassis for line vehicles necessary to support the construction and maintenance of its electricity distribution system. The 2008 capital expenditure for vehicles, in the amount of \$1.9 million, is required to complete the vehicles with bodies, buckets, booms and hydraulic systems. Justification for this expenditure can be found at Exhibit B/Tab 3/Schedule 1/ page 40
75. Horizon Utilities utilizes a three year life cycle for its computer hardware and software. It is common industry practice to keep both the hardware and software environments up to date. In addition, the warranty period for computer hardware is typically three years, so that a three-year life cycle allows Horizon Utilities to avoid repair costs beyond the end of the warranty period. Computer hardware and software are discussed at Exhibit B/Tab 3/Schedule 1/ pages 36 to 39.

Horizon Utilities has included \$758,000 for computer hardware, before ERP related hardware, and \$237,000 for software for a total of \$995,000 in its 2008 capital budget (2007 - \$1,184,000 before smart meter capital).

76. The remaining capital budget amount of \$605,000 includes communication equipment and tools, testing and garage equipment required in Horizon Utilities' operations. This represents a reduction from the 2007 expenditure of \$1,110,000.

Issue 4.7 – Horizon Utilities has applied the OEB approved working capital allowance of 15% in accordance with the Filing Requirements.

77. Horizon Utilities' working capital allowance is forecast to be \$69,470,663 for 2008 and is based on the "15% of specific O&M accounts formula approach" referred to at page 15 of the Board's Filing Requirements for Transmission and Distribution Applications.
78. Horizon Utilities has not undertaken a lead/lag study for its working capital requirements. In its Decision on the 2008 forward test year cost of service application of Oshawa PUC Networks Inc. (EB-2007-0710), an application in which there was no utility-specific lead/lag study and at least one intervenor had submitted that the utility's working capital allowance should be computed on the basis of the results of a Hydro One study (which would have resulted in a lower percentage), the OEB found:

"AMPCO has suggested that OPUCN should compute its working capital allowance based on the results of the Hydro One study rather than use the Board's standard 15% factor. The Board notes that there have been two recent lead/lag studies, one by Hydro One and the other by Toronto Hydro. The results from both studies suggest that the historic 15% allowance may be high. The Board is not prepared to require OPUCN to apply the conclusions of those two lead/lag studies without first considering in some detail whether those studies are fully applicable to the circumstances of a wide range of distributors. Thus, the Board accepts OPUCN's use of the 15% ratio provided for in the Board's current guidelines."

79. In the absence of a Horizon Utilities-specific lead/lag study, Horizon Utilities submits that the 15% ratio, provided for in the OEB's current guidelines and used in this Application, remains the appropriate ratio for the calculation of its working capital allowance.

Revenue Requirement

Issue 5.1 – Horizon Utilities' requested revenue requirement is appropriate, subject to ROE and PILs adjustment.

80. Horizon Utilities has provided a significant amount of evidence on the record of this proceeding to support its capital and OM&A requirements. Even with the adjustments for the OEB-approved ROE and the PILs rates, to be addressed in the preparation of the draft rate order that will follow the OEB's Decision, a revenue deficiency will continue to exist. The deficiency has been determined by considering the revenues that would be recovered if Horizon Utilities were to continue charging its 2007 rates during the 2008 rate year, with the 2008 forecasted kWh and kW consumption and demand. The revenue requirement and revenue deficiency are discussed in detail at Exhibit G.
81. Subject to ROE and PILs adjustments, Horizon Utilities requires \$8,764,620 in additional revenue in order to carry out its Capital and Maintenance Programs to ensure it continues to operate a safe, reliable distribution system while earning its regulated. Support for this calculation can be found at Exhibit G/Tab 1/ Schedule 5.

Cost Allocation and rate Design

Issue 6.1 - Horizon Utilities has provided a balanced cost allocation across customer classes.

82. Horizon Utilities' cost allocation approach was based on its March 30, 2007 Cost Allocation Informational Filing adjusted for the Transformer Allowance as detailed in Exhibit H/Tab1/Schedule 2/pages 2 to 4. The effect of this adjustment is to

properly allocate the Transformer Allowance to the General Service > 50 kW customer class; and to remove the Transformer Allowance from the Large User customer class. Horizon Utilities does not provide transformation or secondary services to the Large User customer class and as such this customer class should not receive the Transformer Allowance. Horizon Utilities is therefore proposing to eliminate the Transformer Allowance for the Large User customer class.

83. Horizon Utilities is proposing to realign its revenue to cost ratios in its Application by adjusting the allocations of revenue among its rate classes in order to reduce the cross-subsidization and move them within the revenue to cost ranges adopted in the November 28, 2007 Report of the Board on Application of Cost Allocation for Electricity Distributors ("the Report of Application of Cost Allocation"). Following the realignment, only the Street Lighting customer class will fall outside of the proposed range for this class. Horizon Utilities has proposed to shift the ratio for this class from 15.6% to 23.79%. The selection of that ratio has enabled Horizon Utilities to mitigate the total bill impact for this customer class to less than 10%.

Issue 6.2 – Horizon Utilities' proposed distribution rates are just and reasonable.

84. Horizon Utilities has proposed to design rates based on the partial reallocation of customer class distribution revenue and the elimination of the Transformer Allowance for the Large Use customer class.
85. Horizon Utilities has proposed distribution rates that minimize the total bill impact as follows: the average 1,000 kWh Residential customer will have a total bill decrease of 0.6%; the General Service < 50 kW customer class total bill increase will be 2.48%; the General Service > 50 kW customer class total bill increase will be 2.41%; and the Large User customer class total bill increase will be 2.85%.

86. Horizon Utilities submits that its proposed 2008 distribution rates, which will allow it to recover its 2008 revenue requirement and maintain its high level of safe and reliable distribution service to its customers, while yielding average total bill impacts of less than 3%, are just and reasonable.

Issue 6.3 – The revenue to cost ratios proposed by Horizon Utilities are appropriate.

87. As discussed in Issue 6.1 above, Horizon Utilities has proposed to bring all customer class revenue to cost ratios within the ranges adopted in the Report of Application of Cost Allocation with the exception of the Street Lighting customer class. Horizon Utilities has proposed to increase the ratio for that class, but has mitigated the total bill impact for that class to less than 10%. This level of impact has typically been considered by the OEB as a threshold for mitigation measures. For example, in section 4.12 (at page 4-45) of its 2000 Electricity Distribution Rate Handbook, the OEB stated that “Where the total impact is significant, (limit of total bill impact of 10 per cent), a utility will need to explore rate impact mitigation options.” Similarly, at page 89 of its May 11, 2005 Report on the 2006 EDR Handbook (EB-2004-0188), the OEB wrote that it “considers that the appropriate action level should be based on the total amount of the electricity bill (comprising commodity, distribution and regulatory charges) and that the threshold should be set at a 10% increase over the previous total bill.” The 2006 EDR Handbook (section 13.1, at page 131) provides that “The applicant must provide a mitigation plan if total bill increases for any customer class or group exceed 10%.”

Issue 6.4 – Horizon Utilities’ fixed-variable splits are consistent with its 2006 EDR Application.

88. Horizon Utilities discussed, at Exhibit I/Tab 1/Schedule 1/ pages 8-10, several OEB proceedings that have identified concerns or issues with the fixed-variable split. These proceedings are as follows: Report of the Board on the Regulatory Framework for Conservation and Demand Management by Ontario Electricity

Distributors in 2007 and Beyond (EB-2006-0266); Stakeholder Consultations on Conservation and Demand Management (EB-2007-0097); and Rate Design for Electricity Distributors (EB-2007-0031). In each of these proceedings the OEB and/or staff reiterate the need to proceed with a review of fundamental electricity distribution rate design to address several potential rate design issues.

89. In light of these various proceedings, Horizon Utilities is proposing to maintain its current fixed-variable split as approved by the OEB in its 2006 EDR Application.

Issue 6.5 – Horizon Utilities' approaches to rate design for its Sentinel Lighting and Street Lighting classes are appropriate.

90. Horizon Utilities has proposed a revenue to cost ratio for the Sentinel Light customer class of 91.49%, which falls within the range adopted in the Report of Application of Cost Allocation, of between 70% and 120%.
91. Horizon Utilities has proposed to increase the Street Lighting customer class revenue to cost ratio from 15.6% to 23.79%. As noted above, in designing rates for the Street Lighting customer class Horizon Utilities took into consideration section 13.1 of the 2006 EDR Handbook and mitigated the impact on total bill for this customer class to less than 10%.
92. Horizon Utilities also notes that it has privately owned street lighting included in this class and as such cannot discriminate against different customers in the same customer class and therefore mitigation for the private street lighting customers is appropriate.[See Horizon Utilities response to Schools IR 4b]
93. Finally in respect of this issue, Horizon Utilities notes that the OEB, in the Report of Application of Cost Allocation for Electricity Distributors, observed that the Street Lighting and Sentinel Lighting Classes present significant issues that need to be resolved in respect to the allocation of costs and the model's sensitivity to changes in assumptions. The Board has therefore adopted the range proposed in the Discussion Paper." The OEB has clearly not required distributors to move

to 100% revenue to cost ratios for their Street Lighting classes, notwithstanding that the members of those customer classes will frequently be shareholders and/or affiliates of the utilities.

Smart Meters

Issue 7.1 – Horizon Utilities’ 2008 Smart Meter O&M budget is appropriate

94. Horizon Utilities Smart Meter O&M costs includes collector maintenance, computer maintenance special meter reads and training costs and are appropriate.
95. The Smart Meter O&M costs do not include costs related to the MDM/R as these costs are unknown.

Issue 7.2 – Horizon Utilities’ 2008 capital spending is in accordance with the OEB’s Decision With Reasons in its combined Smart Meter proceeding (EB-2007-0063).

96. Horizon Utilities has implemented its Smart Meter program as approved by Ontario Regulation 427/06 (Authorized Discretionary Metering Activity).
97. Horizon Utilities was a named participant in the OEB’s combined smart meter proceeding (EB-2007-0063), initiated to review costs incurred by 13 electricity distributors for certain smart metering activities.
98. In its August 8, 2007 Decision with Reasons, the OEB confirmed that the procurement process and costs incurred to date were prudent. Based on this Decision, Horizon Utilities is installing 80,000 smart meters in 2008 for a total of 140,000 installed smart meters.

Issue 7.3 – Horizon Utilities’ Smart Meter variance accounts are appropriate.

99. Horizon Utilities is proposing to capitalize the installation of smart meters and treat the maintenance of smart meters as O&M expenditures. The OEB has

provided for such treatment of smart meters in its Decision with Reasons EB-2007-0063 for the combined smart meter proceeding and as discussed further under Issue 7.5 below.

100. Horizon Utilities has calculated its smart meter revenue requirement up to April 30, 2008 and has determined that based on its OEB-approved smart meter rider and its capital and O&M expenditures, it has in fact over recovered on its smart meter investment to that date. This over recovery will eliminate the use of the smart meter variance account for 2008. Horizon will apply for a smart meter rider for the 2009 and 2010 rate years in order to recover its investment in smart meters for these subsequent years.
101. Horizon Utilities is proposing to apply a smart meter “credit” to the fixed distribution charge for the 2008 rate year. Applying the smart meter credit to the fixed distribution charge is consistent with the method of collecting the smart meter adder, which was included as a component of the fixed distribution charge.

Issue 7.4 – Stranded meters are treated appropriately, and in a manner consistent with the OEB’s Decision in EB-2007-0063

102. Horizon Utilities’ stranded costs associated with existing meters remain in rate base in accordance with the OEB’s Decision in the combined smart meter proceeding (EB-2007-0063), which states, at page 16 of the Decision, “Many of the utilities suggested that at the present time, the stranded costs associated with existing meters should stay in rate base. The Board accepts this proposition.”
103. The OEB Decision goes on further at page 16, to state “Utilities can, if they choose, bring forward applications for the recovery of stranded costs in their 2008 rates. However, there are several reasons why the Board is deferring the decision at this time. First, the roll-out of smart meters will occur over four years. Second, the undepreciated amounts are unknown. Finally, the cost savings are unknown, as are the rate impacts.” Horizon Utilities has not brought forward an application for the recovery of stranded costs in its 2008 Application and is

therefore treating stranded meters in a manner consistent with that put forth in the OEB's Decision.

Issue 7.5 – Horizon Utilities' regulatory treatment of Smart Meter costs is appropriate.

104. The OEB provided guidance in terms of future rate making with respect to the smart meter investments. The OEB observed at page 18 of its Decision with Reasons in EB-2007-0063, that "Six of the applicants are part of the first tranche of cost of service rate applications for 2008 rates. These applicants can apply to recover their smart meter costs for the balance of 2007 and 2008 in those proceedings."
105. Based on the OEB's Decision With Reasons, Horizon Utilities is proposing to include its smart meter investments in the calculations of its Rate Base in the same manner as it does for all distribution plant assets.
106. In order to accomplish this, Horizon Utilities is proposing to apply a smart meter "credit" to its fixed distribution charge which will dispose of the smart meter variance accounts up to April 30, 2008.
107. Smart meter capital and O&M are included as part of Horizon Utilities' 2008 Application and discussed in detail at Exhibit B/Tab 3/Schedule 1/pages 22-24.

Conservation & Demand Management

Issue 8.1 – Horizon Utilities has complied with the Filing Requirements in respect of its CDM evidence.

108. Horizon Utilities confirms that it has followed the November 14, 2006 Filing Requirements for Transmission and Distribution Applications ("the Filing Requirements") on conservation and demand management. The costs included in this Application are for CDM activities exclusive to Horizon Utilities and not funded through OPA programs.

109. Horizon Utilities is not proposing to implement new CDM programs that are incremental to funding previously approved by the OEB and therefore has not applied for approval for such CDM funding as would be required by the Filing Requirements (at Section 6.2).
110. Horizon Utilities' CDM initiatives are intended to provide information and education in order to promote a conservation culture in its service area. These informational and educational initiatives are made available not only to all classes of customers in Horizon Utilities' service area but to the public in general. Horizon Utilities will provide conservation information and discussion during various public events, through Horizon Utilities' web site, email, "Ask the Expert" hotline and general inquiries.

Issue 8.2 – The level of Horizon-initiated and/or delivered CDM activity and budget are appropriate and should be funded in rates.

111. Horizon Utilities' 2008 Test Year CDM costs total \$265,000. These costs relate to a small "CDM department" that is an extension of the customer services department. Horizon Utilities current CDM activities are discussed at Exhibit D/Tab 2/Schedule 1/page 12. Horizon Utilities has separated these employees from the customer services department in order to ensure the commitment, expertise and availability of staff to respond to inquiries from not only customers but the general public in meeting the requirements and interest for conservation information and educational needs.
112. The types of CDM initiatives being undertaken by Horizon Utilities do not lend themselves to the monitoring or tracking of take up or projected incremental demand or energy savings as would be required by section 6.2 of the Filing Requirements.
113. Horizon Utilities' CDM staff will be engaged in the following community and customer activities which are not sponsored by the OPA: Share the Warmth – kick off – joint event with the City of Hamilton; Emergency Preparedness Day –

Hamilton; Earth Hour – City of Hamilton & City of St Catharines; City of Hamilton – Children's water festival; Conservation Generation – 5th grade conservation program activities; Children's Discovery Centre; ongoing support for "Power for Tomorrow" and the powerWISE home; Energy tips and education materials, upon customer request; Website updates (other than OPA programs); Ask the expert – hot line; Customer inquires, energy tips and ongoing support for CSR group; Updating summer and winter conservation messages for bill print, website & CSR training workshops; Conduct staff training; Customer visits as requested to discuss energy saving initiatives – customer requested information – Key Account Representation; City of Hamilton & City of St Catharines – Earth Day – tree planting events; Peach Festival, and Rib Fest to continue to build the conservation culture through awareness & education; Off Campus Living Fair – McMaster University; Off Campus Living Fair – Mohawk College.

114. Horizon Utilities reiterates that these CDM activities are not a part of the OPA-funded programs, and that it is appropriate that they be funded in rates. Horizon Utilities' promotion of electricity conservation and the efficient use of electricity is consistent with section 29.1 of the *Electricity Act, 1998*, as amended, and subsection 71(2) of the *Ontario Energy Board Act, 1998*, which permit electricity distributors and transmitters to carry on activities that that would assist the Government of Ontario in achieving its goals in electricity conservation.

Issue 8.3 – The methodology and assumptions used in calculating Horizon Utilities' proposed LRAM and SSM, and the resulting LRAM and SSM amounts, are appropriate.

115. Horizon Utilities has provided its methodology, assumptions and calculations for LRAM and SSM, including its 2005 Annual Reports to the OEB for Hamilton Hydro Inc. and St. Catharines Hydro, and its 2006 Annual Report to the OEB, in response to the VECC interrogatory number 44. These reports were prepared for Horizon Utilities by SeeLine Group Ltd.

116. Horizon Utilities has provided its LRAM and SSM calculations in response to OEB Staff interrogatories 58, 59, 60 and 61 and at Attachment 'N' to those responses. Additional supporting documentation was provided in Attachments 'O' and 'P' to the OEB interrogatories.
117. Horizon Utilities submits that this material, and the material pertaining to its proposed LRAM and SSM recoveries contained at Exhibit J of the Application, appropriately support its request for those adjustments.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 23RD DAY OF JUNE, 2008.

Original Signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to Horizon Utilities Corporation