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October 9, 2008

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11/10/08
Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

EB-2007-0697

OEB BOARD SECRETARY	
File No:	Sub File <i>8</i>
Panel	<i>gk. CC.</i>
Licensing	<i>KJ. TA.</i>
Other	<i>MH</i>
00/04	<i>5C</i>

Dear Ms. Walli:

**Re: Horizon Utilities Corporation, EB-2007-0697
VECC Response to the Ontario Energy Board Decision with Reasons,
October 3, 2008**

Horizon Utilities Corporation ("Horizon Utilities") is writing in response to the correspondence delivered to the Ontario Energy Board ("OEB") on October 8, 2008, by the Vulnerable Energy Consumers Coalition ("VECC"), with respect to Horizon Utilities' 2008 Electricity Distribution Rate Application and in particular its Cost Allocation filing and the OEB comments in the Decision with Reasons ("the Decision").

In the Decision, the OEB stated "Having reviewed the record of Horizon's previous re-basing (RP-2005-0020/EB-2005-0375) along with the cost allocation study submitted by Horizon with this application, the Board has concluded that there were **data errors in the cost allocation study** [emphasis added] and that the initial ratio of 49.8% should be disregarded. VECC's submission was helpful in identifying inconsistencies in the initial application, which is the information summarized in column 1."

Horizon Utilities filed its initial cost allocation model on March 30, 2007. Horizon Utilities filed a revised cost allocation model with its 2008 EDR Application. The revision corrected the mechanics of the original cost allocation model's allocation of the transformer allowance credit. The actual data used in both models is the same, and is specific to Horizon Utilities' distribution operations and is based on cost and revenue components from Horizon Utilities' OEB approved 2006 EDR Application.

VECC and the School Energy Coalition ("Schools") supported Horizon Utilities' correction of the mechanics of the cost allocation model. As stated in VECC's Final Submission (at section 8.1), "Horizon has provided the Revenue to Cost ratios resulting

from its 2006 Cost Allocation informational filing. It then provided a revised set of ratios that reflected an alternate treatment of the Transformer Allowance. VECC agrees with the alternate treatment proposed by Horizon and notes that it is similar to that raised by a number of other distributors". At section 6.1.1 of Schools' Final Argument, Schools state "We agree with the revised treatment of the transformer allowance as proposed by the Applicant". It was the correction of the allocation of the transformer allowance that resulted in the revenue to cost ratios filed in Horizon Utilities' Application [Exhibit H/Tab 1/Schedule 2].

Based on Horizon Utilities' corrections to the cost allocation model and the support of both VECC and Schools, Horizon Utilities understands the OEB's comments on data errors in the cost allocation study to refer specifically to the mechanics of the model's calculation of the output data (that is, the revenue to cost ratios) being in error and that the input data specific to Horizon Utilities will not change.

Furthermore, in the Decision with Reasons, the Board Findings stated that "The Board is satisfied with Horizon's explanation of its methodology and finds that the ratios in column 2 of the table are appropriate for purposes of reviewing the revenue to cost ratios for 2008."

Horizon Utilities suggests that VECC has misinterpreted the OEB's findings and that the errors referenced in the Decision pertain to the mechanics of the cost allocation model itself and not the input data specific to Horizon Utilities and that a refilling of Horizon Utilities cost allocation model is not required. In short, as Horizon Utilities' cost allocation data is accurate and based on its approved 2006 EDR Application, filing another cost allocation model would result in the same revenue to cost ratios as filed in Horizon Utilities' 2008 EDR Application, Exhibit H/Tab 1/Schedule 2.

Horizon Utilities will be filing its Draft Rate Order in accordance with the OEB's direction in its Decision and respectfully submits that no additional material is required, and trusts that the OEB will proceed to finalize Horizon Utilities' 2008 Electricity Distribution Rate Order.

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

Yours truly,

A handwritten signature in black ink, appearing to read 'Cameron McKenzie', written in a cursive style.

Cameron McKenzie,
Director, Regulatory Services
Horizon Utilities Corporation

cc: Maureen Helt, OEB
Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
James Sidlofsky, Borden, Ladner, Gervais
Mark Rodger, Borden, Ladner, Gervais
Intervenors of Record (by e-mail)