



PUBLIC INTEREST ADVOCACY CENTRE
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October 23, 2008

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: Horizon Utilities Corporation – Draft Rate Order
2008 Electricity Distribution Rate Application (EB-2007-069)**

VECC has reviewed the Draft Rate Order filed with the Board by Horizon Utilities Corporation (Horizon) for rates effective May 1, 2008 and has comments on the three specific areas discussed below.

Working Capital – Cost of Power and Transmission Charges

Horizon has included in its revised working capital calculation total Transmission Connection costs of \$28,114,152, consisting of \$25,074,330 from the IESO and \$3,039,822 from Hydro One Networks (Table 6, Table 3). However, in Appendix D, which contains the supporting calculations, the charges from Hydro One Networks are calculated as \$2,039,822 (Appendix D, Tables 2 & 3). VECC submits that the cost of power used in determining the working capital allowance

should be reduced by \$1,000,000 to correct what appears to be a transcription error.

Implementation

VECC notes that in determining both the revenue shortfall for the period May 1, 2008 to November 30, 2008 and the associated rate rider (applicable for December 1, 2008 to April 30, 2009) Horizon has used a revised load forecast that reflects actual sales to September 30, 2008. To date, other distributors directed by the Board to implement rate riders to address the revenue implications of an implementation date that is different from the effective date for their 2008 rates have relied on their “approved” load forecast. Also, VECC notes that in its Decision regarding Hydro One Networks 2007-2008 Transmission Rates (EB-2006-0501, page 84) the Board specifically addressed the issue of using forecast versus actual/updated loads when addressing implementation issues and determined that the original forecast values should be used. VECC has some sympathy with Horizon’s proposal to use most recent information but, at the same time, is concerned that there is no opportunity to “test” the new forecast put forward by Horizon. It is VECC’s view that the Board approved load forecast should be used to determine this rate rider.

Cost Allocation

Horizon has relied on the revenue requirement allocation from a revised version¹ of its Cost Allocation Study to determine the Base Revenue Requirement allocation consistent with 100% R/C ratio for each customer class (per Horizon’s Rate Design Model – Revenue to Cost Ratios by Class tab). Based on these results, Horizon has established the revenue requirement by customer class necessary to yield the revenue to cost ratios directed by the OEB for various

¹ Per Horizon’s Letter to the Board of October 9, 2008 the revision corrected the allocation of the transformer ownership allowance credit

customer classes and set the residential revenue requirement so as to yield the total approved revenue requirement (page 10).

VECC understands from page 28 of the Decision that the Board discovered data errors in the revised Cost Allocation Study relied upon by Horizon. As a result of these data errors, the Board determined that the initial ratio (for Large Users) of 49.8% should be disregarded. In response to VECC's letter dated October 8, 2008, Horizon has suggested² that these "data errors" referred to the original treatment of the transformer ownership credit, which errors Horizon corrected by augmenting the treatment of the transformer ownership credit in its filing.

However, VECC notes that the 49.8% revenue to cost ratio for Large Users which is specifically referred to by the Board as incorrect was the result of Horizon's revised Cost Allocation Study (per Horizon's Rate Design Model – Revenue to Cost Ratios by Class tab) after the Study had already been augmented to correct the transformer ownership credit by Horizon. Accordingly it is VECC's understanding that the "data errors" in the revised Cost Allocation Study cannot relate to the transformer ownership credit since that issue was specifically addressed and corrected by Horizon in that filing. We are, as such, still left with no information as to the nature of the "data errors" referred to by the Board.

The Base Revenue Requirement allocation presented in the Draft Rate Order as representing a 100% revenue to cost ratio result for each class uses the same data as the revised Cost Allocation Study. Accordingly, VECC submits, it is important to know specifically what those data errors are in order to properly review the Base Revenue Requirement allocation. As previously mentioned, VECC wrote to the Board on October 8, 2008 seeking clarification regarding the "data errors" the Board had discovered during its review of the record in order to determine if and how it would impact on the 100% revenue to cost ratio result for

² Horizon's Letter of October 9, 2008

each class. Absent a response to this request, VECC is unable to determine if Horizon's implementation of the revenue to cost ratios as directed by the Board is appropriate.

As well as the preceding issue, VECC notes that there is issue with the adjustments that Horizon has made to the Service Requirement Allocation (per Horizon's Rate Design Model – Cost of Service Allocation tab) in order to derive the Base Revenue Requirement allocation reflective of 100% R/C ratios. The calculation assumes that the LV Wheeling Costs from Hydro One Networks are in the Service Revenue Requirement used in the Cost Allocation Informational filing and, therefore removes this value, in order to determine the Base Revenue allocation by Class. However, it is clear from the record (VECC IR #36 a)) that the Cost Allocation Informational filing did not include LV Wheeling costs. As a result, the "Cost Allocation Based Calculations" should start with a 2008 Service Revenue Requirement of \$93,549,890 (and not \$93,746,289) and no adjustment is needed to remove LV costs.

If you have any questions, please contact Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,



Michael Buonaguro
Counsel for VECC