



November 3, 2008

By e-mail and courier

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

**Re OEB File No. EB-2007-0697
Horizon Utilities Corporation's Reply to Submissions by OEB Staff,
Consumer Council of Canada and Vulnerable Energy Consumers Coalition
in Respect of Horizon Utilities Corporation Draft Rate Order.**

Please find accompanying this letter Horizon Utilities Corporation's ("Horizon Utilities") is submitting its Reply to comments provided by the above intervenors on its Draft Rate Order submitted October 17, 2008 and subsequently amended October 24, 2008. Horizon Utilities has organized its Reply Submission so as to coincide with the order of issues in its Draft Rate Order specific to the comments raised by OEB Staff and intervenors.

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

Yours truly,

Original signed by Cameron McKenzie

Cameron McKenzie
Director, Regulatory Services
Horizon Utilities Corporation

Cc: Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
James C. Sidlofsky, Borden Ladner Gervais LLP
J. Mark Rodger, Borden Ladner Gervais LLP
Intervenors of record

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.

HORIZON UTILITIES CORPORATION

2008 ELECTRICITY DISTRIBUTION DRAFT RATE ORDER

REPLY TO OEB STAFF AND INTERVENOR SUBMISSIONS.

FILED NOVEMBER 3, 2008

Applicant

Horizon Utilities Corporation
55 John Street North
PO Box 2249, Station LCD 1
Hamilton, Ontario L8N 3E4

Cameron McKenzie

Director, Regulatory Services
Tel: (905) 317-4785
Fax: (905) 522-6570
cameron.mckenzie@horizonutilities.com

Counsel to the Applicant

Borden Ladner Gervais LLP
Scotia Plaza, 40 King Street West
Toronto, Ontario M5H 3Y4

J. Mark Rodger

Tel: (416) 367-6190
Fax: (416) 361-7088
mrodger@blgcanada.com

James C. Sidlofsky

Tel: (416) 367-6277
Fax: (416) 361-2751
jsidlofsky@blgcanada.com

Horizon Utilities Corporation ("Horizon Utilities") respectfully submits its Reply Submission to OEB Staff and intervenor comments on Horizon Utilities' Draft Rate Order October 17, 2008 and as amended October 24, 2008. Horizon Utilities reiterates that the only difference between its Draft Rate Order and Amended Draft Rate Order related to two specific adjustments made by Horizon Utilities: the calculations for Cost of Power and PILs, which resulted in a reduction to Horizon Utilities' distribution revenue requirement and therefore a reduction in proposed distribution rates.

Horizon Utilities has organized its Reply Submission so as to coincide with the order of issues in its Draft Rate Order and specific to the comments submitted by OEB Staff and intervenors as follows:

- Working Capital and more specifically Cost of Power;
- Revenue to Cost Ratios and Low Voltage ("LV") Costs;
- Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM");
- Deferral and Variance Accounts; and
- Implementation.

Working Capital

The Vulnerable Energy Consumers Coalition ("VECC") submitted that the cost of power used in determining Horizon Utilities' working capital allowance should be reduced by \$1,000,000 to correct what appears to be a transcription error. Horizon Utilities agrees with VECC and corrected this overstatement in its Amended Draft Rate Order.

Revenue to Cost Ratios and Low Voltage ("LV") Costs

Revenue to Cost Ratios:

VECC stated that it is unable to determine if Horizon Utilities' implementation of the revenue to cost ratios is appropriate. VECC referenced the OEB Decision and in particular the reference to data errors in the cost allocation study. [Decision page 27 – 28]. On October 8, 2008, VECC wrote to the OEB requesting that the OEB either a)

issue a supplementary decision clarifying the basis for its [the OEB's] findings and/or b) direct Horizon to file a corrected version of its Cost Allocation Study.

Horizon Utilities responded to VECC's request on October 9, 2008 confirming the corrections undertaken to the Cost Allocation Model and the accuracy of Horizon Utilities' cost allocation data as filed in Horizon Utilities' Application, at Exhibit H/Tab 1/Schedule 2.

The OEB subsequently responded on October 24, 2008 agreeing with Horizon Utilities' explanation and that the record in this proceeding is complete and provides an appropriate evidentiary basis for the OEB's Decision. As such, no changes are required to Horizon Utilities' revenue to cost ratios.

Low Voltage ("LV") Costs:

VECC correctly notes that the Cost Allocation Model does not include LV Wheeling Costs and this was confirmed in Horizon Utilities' response to VECC IR #36 a).

Horizon Utilities' Rate Design Model – Cost of Service Allocation begins with a 2008 Service Revenue Requirement of \$93,746,289 and removes Miscellaneous Revenue of \$6,774,481 and then LV Wheeling of \$196,399 for a Base Revenue Requirement of \$86,775,408 (Note: Horizon Utilities' Amended Draft Rate Order reduces the base revenue requirement to \$86,661,249). VECC would begin with a 2008 Service Revenue Requirement after LV Wheeling in the amount of \$93,549,890 and remove the Miscellaneous Revenue of \$6,774,481 to arrive at the same Base Revenue Requirement of \$86,775,408 or \$86,661,248 as per Horizon Utilities' Amended Draft Rate Order.

Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM")

Consumers Council of Canada ("CCC") proposes that the recovery of Horizon Utilities' Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM") should be subject to a true-up mechanism to ensure that both the ratepayers and shareholders are kept whole. Horizon Utilities agrees with CCC and would recommend that the over or under recovery amounts through its rate riders be tracked in a variance account for disposition after April 30, 2011.

Deferral and Variance Accounts

In order to ensure that both ratepayers and shareholders are kept whole, CCC submits that the deferral and variance accounts should be subject to a true-up mechanism. Horizon Utilities would note that the OEB has approved a new control account, 1595 – Disposition and Recovery of Regulatory Balances Control Account. In addition, the OEB has approved Sub-account – Disposition of Account Balances Approved in 2008, to capture amounts approved for recovery or refund as part of the 2008 EDR process. Horizon Utilities will utilize these accounts accordingly.

CCC has also requested that Horizon Utilities consider a shorter recovery period for the disposition of its deferral and variance account balances given that this disposition is an amount owing to customers. Horizon Utilities has proposed that its deferral and variance account balances be disposed over the twenty-nine (29) month period December 1, 2008 to April 30, 2011 for two reasons. Firstly, the disposition of Horizon Utilities' deferral and variance account balances over the period December 1, 2008 to April 30, 2011 is consistent with the proposed period for recovery of Horizon Utilities' SSM and LRAM amounts. The deferral and variance account balance rate riders offset the SSM and LRAM rate riders in favour of the customers. Secondly, Horizon Utilities submits that as the net of the rate riders for the deferral and variance account balances and the SSM and LRAM balances continues to be an amount owing to customers, the proposed period of December 1, 2008 to April 30, 2011 provides some bill impact mitigation to customers during the third generation incentive regulation ("3rd GIRM IRM") period. Finally, Horizon Utilities does not anticipate the filing of another cost of service rebasing application prior to 2011, at which time these rate riders would be discontinued.

Implementation

Horizon Utilities has proposed to calculate the recovery of its distribution revenue requirement shortfall for the period May 1, 2008 to the date that rates are implemented and the applicable rate riders by using the best available information to Horizon Utilities. Both CCC and VECC have expressed concerns with Horizon Utilities using consumption or billing data that is different from the OEB approved forecast data.

Horizon Utilities understands the concerns expressed by CCC and VECC and acknowledges that, as part of Horizon Utilities' EDR process, its 2008 forecast data has been appropriately tested and subsequently approved in the OEB's Decision. Furthermore, Horizon Utilities recognizes that the introduction of new evidence at this late stage of the process does not provide OEB Staff or intervenors the opportunity to properly "test" the data.

Therefore, Horizon Utilities has recalculated the amount of revenue requirement shortfall to be recovered using its OEB approved forecast data for the period January 1, 2008 to December 30, 2008. Horizon Utilities is using this data to represent the rate year May 1, 2008 to April 30, 2009. The revenue requirement shortfall, to be recovered for the period May 1, 2008 to November 30, 2008, assuming a December 1, 2008 implementation date for rates, is based on Horizon Utilities' OEB approved forecast data for this same period. The rate riders proposed to recover Horizon Utilities' revenue requirement shortfall over the period December 1, 2008 to April 30, 2009, have been calculated by using Horizon Utilities' OEB approved forecast data for December 1, 2008 and Horizon Utilities' OEB approved forecast data for January 1, 2008 to April 30, 2008 as a proxy for the period January 1, 2009 to April 30, 2009.

Table 1 below provides Horizon Utilities' OEB approved forecast data for the period May 1, 2008 to November 30, 2008. Table 2 provides Horizon Utilities' OEB approved forecast data for the period December 1, 2008 to April 30, 2009, which is based on Horizon Utilities' OEB approved forecast data for December 2008 and January 1, 2008 to April 30, 2008 being the proxy data for 2009. Table 3 reconciles Table 1 and Table 2 to Horizon Utilities' OEB approved forecast provided in Exhibit C/ Tab 2/Schedule 1/Table 1.

Table 1
OEB Approved Forecast Data May 1, 2008 to November 30, 2008

		Test Year Forecast May-08	Test Year Forecast Jun-08	Test Year Forecast Jul-08	Test Year Forecast Aug-08	Test Year Forecast Sep-08	Test Year Forecast Oct-08	Test Year Forecast Nov-08	Test Year Forecast May to Nov
Residential	# of Customers	211,942	211,942	211,942	211,942	211,942	211,942	211,942	
	kWh	115,249,487	140,296,021	155,226,941	169,419,025	131,539,809	134,601,333	136,748,738	983,081,354
GS <50 kW	# of Customers	17,927	17,927	17,927	17,927	17,927	17,927	17,927	
	kWh	49,949,876	51,998,458	58,889,196	53,311,749	50,868,662	45,410,319	49,358,280	359,786,540
GS>50 kW	# of Customers	2,213	2,213	2,213	2,213	2,213	2,213	2,213	
	kW	444,605	469,740	498,522	478,222	456,656	432,944	443,949	3,224,638
	kW Tx Discount	195,987	207,067	219,754	210,806	201,299	190,847	195,698	1,421,458
	kWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Large Use >5MW	# of Customers	12	12	12	12	12	12	12	
	kW	322,633	326,491	300,628	333,723	327,147	321,195	312,306	2,244,123
	kW Tx Discount	322,633	326,491	300,628	333,723	327,147	321,195	312,306	2,244,123
	kWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Street Light	# of Connections	53,514	53,514	53,514	53,514	53,514	53,514	53,514	
	kW	9,346	9,216	10,361	9,595	9,329	9,074	9,290	66,211
	kWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Sentinel	# of Connections	479	479	479	479	479	479	479	
	kW	162	120	173	131	158	129	154	1,027
	kWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Unmetered Scattered	# of Customers	3,338	3,338	3,338	3,338	3,338	3,338	3,338	
	kWh	1,509,544	1,488,431	1,673,459	1,549,680	1,506,672	1,465,631	1,500,515	10,693,934
Back-up/Standby Power	# of Customers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
	kW	16,080	16,080	16,080	16,080	16,080	16,080	16,080	112,560

Table 2
OEB Approved Forecast Data December 2008 & January 1, 2008 to April 30, 2008

		Test Year Forecast Dec-08	Test Year Forecast Jan-08 proxy for Jan-09	Test Year Forecast Feb-09 proxy for Feb-09	Test Year Forecast Mar-09 proxy for Mar-09	Test Year Forecast Apr-09 proxy for Apr-09	Total Test YearForecast Quantities For Rate Rider Dec 08 - Apr 09
Residential	# of Customers	211,942	211,942	211,942	211,942	211,942	1,059,710
	kWh	144,699,661	162,099,014	148,963,810	138,959,344	120,878,068	715,599,897
GS <50 kW	# of Customers	17,927	17,927	17,927	17,927	17,927	89,635
	kWh	55,185,773	58,467,537	51,981,107	58,410,935	49,395,890	273,441,242
GS>50 kW	# of Customers	2,213	2,213	2,213	2,213	2,213	11,065
	kW	499,267	474,302	441,267	471,986	424,020	2,310,842
	kW Tx Discount	220,083	209,078	194,516	208,057	186,913	1,018,647
	kWh	N/A	N/A	N/A	N/A	N/A	N/A
Large Use >5MW	# of Customers	12	12	12	12	12	60
	kW	300,524	340,803	322,157	349,563	319,149	1,632,196
	kW Tx Discount	0	0	0	0	0	0
	kWh	N/A	N/A	N/A	N/A	N/A	N/A
Street Light	# of Connections	53,514	53,514	53,514	53,514	53,514	267,570
	kW	10,371	8,847	9,510	8,996	8,984	46,708
	kWh	N/A	N/A	N/A	N/A	N/A	N/A
Sentinel	# of Connections	479	479	479	479	479	2,395
	kW	111	142	172	148	121	694
	kWh	N/A	N/A	N/A	N/A	N/A	N/A
Unmetered Scattered	# of Customers	3,338	3,338	3,338	3,338	3,338	16,690
	kWh	1,675,025	1,428,841	1,535,899	1,452,935	1,451,084	7,543,784
Back-up/Standby Power	# of Customers	N/A	N/A	N/A	N/A	N/A	N/A
	kW	16,080	16,080	16,080	16,080	16,080	80,400

Table 3
Reconciliation of Total Forecast Data to OEB Approved Forecast Data

		Test Year Forecast	Total Test YearForecast Quantities For Rate Rider	Total Test Year Forecast
Class		May to Nov	Dec 08 - Apr 09	Exhibit C/Tab 2 /Schedule 1 /Table 1
Residential	# of Customers	211,942	211,942	211,942
	kWh	983,081,354	715,599,897	1,698,681,251
GS <50 kW	# of Customers	17,927	17,927	17,927
	kWh	359,786,540	273,441,242	633,227,782
GS>50 kW	# of Customers	2,213	2,213	2,213
	kW	3,224,638	2,310,842	5,535,480
	kW Tx Discount	1,421,458	1,018,647	2,440,105
	kWh			
Large Use >5MW	# of Customers	12	12	12
	kW	2,244,123	1,632,196	3,876,319
	kW Tx Discount	2,244,123	0	2,244,123
	kWh			
Street Light	# of Connections	53,514	53,514	53,514
	kW	66,211	46,708	112,919
	kWh			
Sentinel	# of Connections	479	479	479
	kW	1,027	694	1,721
	kWh			
Unmetered Scattered	# of Customers	3,338	3,338	3,338
	kWh	10,693,934	7,543,784	18,237,718
Back-up/Standby Power	# of Customers			
	kW	112,560	80,400	192,960

Horizon Utilities has calculated the amount of revenue requirement to be recovered based on the OEB approved forecast data in Table 1 above and the change in distribution rates provided in Horizon Utilities' Amended Draft Rate Order, at Appendix F/Table 1 Amended. Horizon Utilities' revenue requirement shortfall, to be recovered by customer class, for the period May 1, 2008 to November 30, 2008 is provided in Table 4 below.

Table 4
Revenue Requirement Shortfall May 1, 2008 to November 30, 2009

Class		May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Revenue Requirement Shortfall
Residential	Fixed	(282,400)	(282,400)	(282,400)	(282,400)	(282,400)	(282,400)	(282,400)	(1,976,801)
	Variable	(106,914)	(130,149)	(144,000)	(157,166)	(122,026)	(124,866)	(126,858)	(911,981)
GS <50 kW	Fixed	31,754	31,754	31,754	31,754	31,754	31,754	31,754	222,275
	Variable	28,495	29,664	33,595	30,413	29,019	25,905	28,158	205,249
GS>50 kW	Fixed	26,382	26,382	26,382	26,382	26,382	26,382	26,382	184,676
	Variable	205,463	217,079	230,380	220,999	211,032	200,075	205,160	1,490,188
	Tx Allow	(25,478)	(26,919)	(28,568)	(27,405)	(26,169)	(24,810)	(25,441)	(184,790)
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Large Use >5MW	Fixed	18,847	18,847	18,847	18,847	18,847	18,847	18,847	131,931
	Variable	41,283	41,777	38,468	42,702	41,861	41,099	39,962	287,153
	Tx Allow	193,580	195,895	180,377	200,234	196,288	192,717	187,384	1,346,474
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Street Light	Fixed	47,435	47,435	47,435	47,435	47,435	47,435	47,435	332,044
	Variable	17,843	17,595	19,781	18,319	17,811	17,324	17,736	126,409
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Sentinel	Fixed	603	603	603	603	603	603	603	4,223
	Variable	309	229	330	250	302	246	294	1,961
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Unmetered Scattered	Fixed	24,020	24,020	24,020	24,020	24,020	24,020	24,020	168,139
	Variable	18,903	18,639	20,956	19,406	18,867	18,353	18,790	133,914
Back-up/Standby Power		0	0	0	0	0	0	0	0
	Fixed	12,363	12,363	12,363	12,363	12,363	12,363	12,363	86,540
Sub-Total		252,489	242,813	230,322	226,756	245,989	225,048	224,189	1,647,607

Based on the revenue requirement shortfall calculated in Table 4 above and the OEB approved forecast data provided in Table 2 above, Horizon Utilities has calculated its proposed rate riders required to recover the revenue requirement shortfall of \$1,647,607. The following Table 5 provides Horizon Utilities' proposed class specific rate riders required to recover its revenue requirement shortfall.

Table 5
Class Specific Rate Riders to Recover Revenue Requirement Shortfall

Customer Class		Customers/ Quantities Actual&Forecast Appendix F Table 4	Revenue Shortfall Dollar Amount Appendix F Table 3	Rate Rider \$
Residential	Fixed	1,059,710	(1,976,801)	(1.87)
	Variable	715,599,897	(911,981)	(0.0013)
GS <50 kW	Fixed	89,635	222,275	2.48
	Variable	273,441,242	205,249	0.0008
GS>50 kW	Fixed	11,065	184,676	16.69
	Variable	2,310,842	1,305,399	0.5649
Large Use >5MW	Fixed	60	131,931	2,198.85
	Variable	1,632,196	1,633,627	1.0009
Street Light	Fixed	267,570	332,044	1.24
	Variable	46,708	126,409	2.7064
Sentinel	Fixed	2,395	4,223	1.76
	Variable	694	1,961	2.8253
Unmetered Scattered Load	Fixed	16,690	168,139	10.07
	Variable	7,543,784	133,914	0.0178
Back-up/Standby Power	Fixed	80,400	86,540	1.08
			1,647,607	

Horizon Utilities has proposed to track the revenue requirement recovery, billed to customers through the rate rider, in a variance account. CCC has stated that Horizon Utilities should be subject to forecast risk. Horizon Utilities disagrees with CCC – had distribution rates been implemented May 1, 2008 there would not be a requirement for recovery of Horizon Utilities' revenue requirement shortfall and the forecast risk would not exist. Horizon Utilities submits that a variance account ensures that both rate payers and shareholders are kept whole and that an over- or under-recovery is disposed of in the same manner as are other variance accounts. Furthermore, Horizon Utilities is at real risk of not recovering its revenue requirement shortfall from the Large Use > 5,000 kW customer class as two of Horizon Utilities' large use customers have announced temporary shutdowns due to an economic downturn. This decrease in the customer's load would directly impact the recovery of Horizon Utilities' revenue requirement shortfall

for the period May 1, 2008 to November 30, 2008. Horizon Utilities submits that the recovery of the Large User revenue requirement shortfall should be customer specific and as such would implement the rate riders so as to recover the revenue requirement shortfall specific to each large use customer.

Horizon Utilities submits that its proposal to track the revenue requirement recovery through the rate riders with a true-up any over- or under-recovery, as provided in its original and Amended Draft Rate Order, is in the best interests of ratepayers and shareholders. Horizon Utilities is proposing to maintain this variance account for disposition at a date to be determined.

Respectfully submitted this 3rd day of November, 2008

Original signed by Cameron McKenzie

Cameron McKenzie
Director, Regulatory Services
Horizon Utilities Corporation