



December 23, 2008

By RESS and courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, ON
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Re Notice of Horizon Utilities Corporation's Decline in Large User Customer Load, and Potential "Z-Factor" Application

Horizon Utilities Corporation ("Horizon Utilities") is a licensed distribution company operating under Electricity Distribution Licence ED-2006-0031. Horizon Utilities submitted its 2008 Forward Test Year Electricity Distribution Rate ("2008 EDR") Application on October 22, 2007 and received its OEB approved distribution Rate Order on November 13, 2008. Horizon Utilities' final approved distribution revenue requirement was \$86,661,248. Horizon Utilities 2008 EDR Application allocated the approved distribution revenue requirement across customer classes based on the revenue to cost ratios derived from Horizon Utilities' OEB approved cost of service model. The fixed and variable distribution rates were then determined based on the customer count and load forecast calculated from historical data and information available to Horizon Utilities at the time of preparing its 2008 EDR Application.

Horizon Utilities' customer base includes twelve Large Users. The Large User customer class accounts for 20% of Horizon Utilities' kWh throughput; 39% of kW demand; and 7% of Horizon Utilities' distribution revenue.

Horizon Utilities' 2008 EDR forecast did not consider the current adverse economic impacts confronting its Large User industrial sector. Horizon Utilities did identify, in its November 3, 2008 Reply Submission to Comments on its Amended Draft Rate Order ("Reply Submission"), that two large users announced temporary shutdowns due to economic conditions and that such represented a significant risk to the recovery of costs allocated to such users under the 2008 EDR Application [Reply Submission, pages 10 – 11]. The OEB did not agree that this economic downturn and the resulting risk of lost revenue was an acceptable reason to provide for alternative treatment for the recovery of Horizon Utilities' distribution revenue shortfall. Since the filing of Horizon Utilities' Reply Submission, a third Large User has announced a complete shutdown for at least the month of January 2009.

Horizon Utilities' approved distribution revenue is required to finance its investment in capital, operations, and maintenance expenditures in support of the safe and reliable supply of electricity. The aforementioned Large User risk is a serious concern for Horizon Utilities.

Additionally, and of far greater concern, is the risk of a Large User payment default which would also include material market related charges. The potential loss to Horizon Utilities from potential Large User payment defaults would seriously impair its ability to meet its distribution system investment requirements; perhaps for more than one year. Horizon Utilities has a material exposure to the manufacturing sector and, particularly, Large Users that are default service supply customers.

Potential losses of distribution revenues and write-offs of market charges resulting from a realization of the above risks would meet all of the eligibility criteria for Z-factors, as provide in the September 17, 2008 Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, Appendix B: Amended Filing Guidelines, Z-Factors ("the Supplementary Report") being Causation; Materiality; and Prudence.

As provided for in the Supplementary Report, Horizon Utilities is providing advance notice of these risks and, in the event such risks are realized, its intention to submit claims under the Z-factor treatment in either a supplemental application to its 2009 Electricity Distribution Rate Application or no later than Horizon Utilities' 2010 Electricity Distribution Rate Application. The persistence of the Large User shutdowns noted above will result in a Z-factor claim by Horizon Utilities.

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