EB-2014-0002

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

AND IN THE MATTER OF an application by Horizon Utilities Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015, and for each following year through to December 31, 2019.

INTERROGATORIES OF THE CITY OF HAMILTON (C OF H) TO HORIZON UTILITIES CORPORATION (HORIZON)

JULY 4, 2014

C of H 1. Exhibit 7, Tab 1, Schedule 1, p. 2 ff.

Background:

Horizon is proposing a new Large Use 2 ("LU(2)") customer class, consisting of four customers. The prefiled evidence states that "these customers are served by dedicated feeders, and do not participate in the use of the pooled assets, because of their size." The prefiled evidence further states that "this rate class does not attract allocation of the shared primary or secondary asset pools". Finally, the prefiled evidence indicates that the introduction of the LU(2) customer class and the removal of costs related to assets these customers do not use reduces the costs allocated to these customers by nearly $4 million per year.

(a) What proportion, if any, of the common or system costs of Horizon will be allocated to the LU(2) customer class if Horizon's proposal is accepted?

(b) Has the cost allocation methodology underlying the creation of the LU(2) customer class, namely that the class should bear the costs only of those assets it directly uses, been accepted by the Ontario Energy Board ("Board" or "OEB") for use by any other LDC? If so, please provide copies of the Board decisions or reports in which that approval is found.

Is the street light rate class bearing only those costs of the assets it directly uses?

(c) How has the nearly $4 million reduction in costs of the LU(2) customer class been allocated among other customer classes? If so, which classes and in what amounts?

C of H 2. Exhibit 7, Tab 1, Schedule 1, p. 3

Background:

In its prefiled evidence, Horizon states that "…there is concern that, absent the proposed rate class, some of these customers may choose to make related investments to directly connect to Hydro One, leaving Horizon Utilities with stranded assets, and significantly less volume throughput."

(a) Please provide copies of records of all discussions and meetings, including email and written correspondence, between the members of the LU(2) customer class and Horizon with respect to their rates.

(b) Please provide copies of all presentations made by Horizon to its senior management and/or its board of directors with respect to the proposed rates for the LU(2) customer class.

(c) Have any of the members of the proposed LU(2) customer class threatened to leave Horizon's system to directly connect to Hydro One? If so, please indicate when the threat was made, by whom it was made, and the circumstances in which it was made.

(d) To Horizon's knowledge, has Hydro One indicated whether it would permit the direct connection to its system by the members of the proposed LU(2) customer class?

C of H 3. Exhibit 7, Tab 1, Schedule 1, p. 4

Background:

In its prefiled evidence, Horizon states that "The 2015-2019 connections (unmetered) for the Street Lighting class are calculated using a ratio of 1.3141 Devices : 1 Connection."

(a) What are the definitions Horizon uses for "devices", "connections" and "daisy chains"?

(b) What is the basis for the definitions for "devices", "connections", and "daisy chains" which Horizon uses?

(c) Have the definitions of "devices", "connections", and "daisy chains" used by Horizon been approved by the Board? If so, in what OEB report or decision?

(d) Has Horizon compared its ratio of devices to connections with the ratio used by comparable LDCs? If so, what is the comparison? If not, why not?

C of H 4. Exhibit 1, Tab 2, Schedule 6, p. 3

Background:

i) In its prefiled evidence, Horizon states that it has not deviated from the Board's cost allocation methodologies as set out in the following documents:

• *Report of the Board, Review of Electricity Distribution Cost Allocation Policy*, March 31, 2011; and

• *Review of the Board's Cost Allocation Policy for Unmetered Loads*, December 19, 2013.

ii) In its Report of the Board in EB-2010-0219, "*Review of Electricity Distribution Cost Allocation Policy"*, dated March 31, 2011, the Board stated, at page 24:

> The Board also agrees that clarification of the issues raised by various stakeholders related to the terminology and methodology used to allocate costs to the Street Lighting class is necessary….. The Board believes that these issues are best addressed in the context of a separate consultation process focussed on the terminology and modeling methodology for the Street Lighting and USL classes.

iii) In the Report of the Board in EB-2012-0383, "*Review of the Board's Cost Allocation Policy for Unmetered Loads*", dated December 19, 2013, the Board stated:

- The Board remains concerned with the allocation of costs to daisy-chain configured systems. The disparity in the cost allocation result between a street lighting customer configuration with multiple devices per connection and a street lighting customer with a device to connection ratio close to 1:1 appears to be disproportionate when compared to actual costs to serve the street lighting rate class. The Board believes that further investigation is necessary before making a determination. The Board will issue a letter shortly to begin a consultation process for this single issue. (p. 6)

- The Board's policy remains that distributors should endeavour to move their revenue to cost ratios closer to one or 100% if this is supported by new data. That being said, the Board does not believe that there is sufficient evidence at this time to narrow the revenue to cost ratio range for the street lighting class. The Board has therefore concluded that the revenue to cost ratio range for the street lighting rate class should not be narrowed at this time. (p. 6)

iv) In its Decision and Order in EB-2010-0131, dated July 7, 2014, the Board states: “The Board accepts Horizon’s proposal to await the outcome of the consultation process on the terminology and modeling methodology for Street Lighting and Unmetered Scattered Load classes, as per the *Report of the Board on the Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219), dated March 31, 2011. The effective date for the implementation of any changes as a result of that consultation will be addressed at a later date.” (p. 45)

(a) Given the Board statements cited in ii), iii) and iv) above, in what sense has Horizon “not deviated” from the Board’s cost allocation methodologies”?

(b) Has the Board’s consultation process on the terminology and modelling methodology for street lighting and unmetered scattered load classes been completed? If so, what is the outcome of that consultation process?

(c) If the Board’s consultation process has not been completed, on what evidence does Horizon think it appropriate to change the methodology used for the allocation of costs (i.e. device:connection ratio) for the street lighting class and the revenue:cost ratio for that class?

C of H 5. Exhibit 7, Tab 2, Schedule 6, p. 40

Background:

In the Report of the Board entitled *Review of Electricity Distribution Cost Allocation Policy* in EB-2010-0219, the Board stated: “To the extent that the application of the Board’s cost allocation policies results in a significant shift in the rate burden amongst classes relative to the status quo, distributors should be prepared to address potential mitigation measures.

(a) Does Horizon consider a 24.5 percent rate increase from the current rates (2014) to those proposed for 2015 a “significant shift in the rate burden”?

(b) What mitigation measures, if any, has Horizon considered proposing for the street lighting class?

(c) Has Horizon considered smoothing the distribution bill impact, for the street lighting class, over the term of the proposal, to reduce the impact of the 24.5 percent increase from 2014 to 2015? If not, why not?

C of H 6. Exhibit 7, Tab 1, Schedule 1

Background:

The prefiled evidence states that "The 2015-2019 connections (unmetered) for the Street Lighting class are calculated using a ratio of 1.3141 Devices : 1 Connection." The result in the change of the ratio is an increase of approximately $1 million in costs allocated to the street lighting class.

(a) What is the relationship between the ratio of devices to connections, on the one hand, and the actual cost to serve the street lighting class, on the other?

(b) What evidence is Horizon relying on that the actual cost to serve the street lighting class has increased?

C of H 7. Exhibit 7, Tab 1, Schedule 1

Background:

The prefiled evidence states that the ratio of devices to connections is based on the results of a 2013 audit of the number of daisy chained devices in the City of Hamilton. The scope of this audit included a physical count of the number of daisy chained devices in the City of Hamilton.

(a) Please provide a copy of the 2013 audit referred to in the prefiled evidence.

(b) Was the result of the 2013 audit used in the cost allocation methodology used to derive the proposed street lighting rates? If so, in what way and with what effect on rates?

(c) What is the impact on the costs of serving the street lighting class of the number of daisy chained devices in the City of Hamilton?

C of H 8. Exhibit 1, Tab 2, Schedule 6, p. 6

Background:

i) In its prefiled evidence, Horizon states that "The Street Lighting usage per customer has remained stable through the 2011-2013 historical periods and based on the historical trend is forecasted to be similar over the forecasted Test Years".

ii) Between 2005 and what is projected for 2019, Horizon's distribution-based charges for street lighting will have increased from approximately $500,000 annually to approximately $2.8 million annually.

(a) What is the relationship between usage per customer and cost?

(b) If the usage per customer has remained stable, and is forecasted to remain stable, what is the basis for the claimed material increase in the cost to serve the street lighting class and in the corresponding material increase in the proposed rates?

C of H 9. Exhibit 1, Tab 2, Schedule 6, p. 31

Background:

In its prefiled evidence, Horizon compares itself to the utilities in a cohort.

(a) What are the utilities to which Horizon compares itself and what is the basis for the comparison?

(b) For the utilities to which Horizon compares itself, has Horizon done the following:

(i) Compared the street lighting class cost on a per kWh consumed basis?

(ii) Compared its street lighting cost allocation as a percentage of total cost allocation?

(iii) Compared its percentage of revenue per device?

(iv) Compared its device to connection ratio?

C of H 10.

Background:

In the Report of the Board in EB-2012-0383, "*Review of the Board's Cost Allocation Policy for Unmetered Loads*", dated December 19, 2013, the Board made the following observations, at page 9:

- It appeared that municipal customers were unaware of the phasing-in of higher revenue to cost ratios that had taken place over the past three to five years.
- In general, communication between unmetered load customers and their distributors was not optimum and it may be possible to improve those communications.

(a) Please describe the communications between Horizon and the City of Hamilton with respect to the proposed rates for the street lighting class.