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File 01626.00019

August 19, 2014

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 2701  
2300 Yonge Street  
Toronto ON M4P 1E4

Dear Ms Walli:

**Re: EB-2014-0002/Responses to Interrogatories Directed to the City of Hamilton from Energy Probe Research Foundation**

We are counsel to the City of Hamilton in this matter. On behalf of our client we enclose herewith its Responses to interrogatories directed to it from Energy Probe Research Foundation.

Yours truly,

**WeirFoulds LLP**



Robert B. Warren

RBW/dh

cc: City of Hamilton  
cc: David MacIntosh  
cc: All parties  
6720706.1

**HORIZON UTILITIES CORPORATION  
2015 RATES REBASING CASE  
EB-2014-0002**

**RESPONSES TO  
ENERGY PROBE RESEARCH FOUNDATION  
INTERROGATORIES  
TO  
WATTSWORTH ANALYSIS FOR CITY OF HAMILTON**

**CoH - Energy Probe-79**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

**Please provide an updated version of Table 2 that includes 2013 actual data and any revised figures for the previous years from Statistics Canada.**

**Response:**

It is WattsWorth's ("WW") assumption that "Table 2" referenced in CoH – Energy Probe-79 refers to Figure 3 of WW's Street Light Rate Class Analysis ("Report").

As noted in the Report, Figure 3 is an excerpt from the November 2013 OEB report "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors", EB-2010-0379. WW is not aware of any published OEB reports that provide an updated version of this "Table 2" that includes 2013 actual data and any revised figures for the previous years from Statistics Canada. However, below is a table that was sourced from the OEB's website (and in turn sourced from Statistics Canada, as indicated) that provides GDP-IPI figures for 2013.

**UPDATES - INFLATION FACTORS (GDP-IPI)**

**Annual Percentage Change in Gross Domestic Product Implicit Price Index (Final Domestic Demand)**  
(Used as the inflation measure for rate adjustments under 2nd and 3rd Generation Incentive Regulation Mechanism plans)

For Rates Effective	2007	2008	2009	2010	2011	2012	2013
May 1 <sup>st</sup>	1.9	2.1	2.3	1.3	1.3	2.0	1.6
Jan 1 <sup>st</sup>						1.7	2.2

Source: Statistics Canada, GDP-IPI (FDD)  
Series CANSIM v1997757, Table 380-0003 (2002 = 100) up to 2012 Q2  
CANSIM v62307263, Table 280-0066 (2007 = 100) for 2012 Q3 onwards

Also, in determining the inflation rate to apply to those years beyond 2012 in the Report, Appendix B of “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors”, EB-2010-0379, was considered. See below:

## Appendix B: Inflation Factor

### 2-Factor Inflation Measure

Year	OM&A Input Price						Inflation Measure		
	GDP-IPI			AWE- All Employees- Ontario (including Overtime)			Index	Annual Growth	Three Year Moving Average
	FDD (Mar 1, 2013 Data)	Annual Growth	Weight		Annual Growth	Weight			
2001							100.00		
2002	90.4			710.73			101.84	1.8%	
2003	91.8	1.6%	70.0%	728.23	2.43%	30.0%	103.94	2.0%	
2004	93.4	1.7%	70.0%	748.78	2.78%	30.0%	106.68	2.6%	2.2%
2005	95.5	2.2%	70.0%	776.19	3.60%	30.0%	108.95	2.1%	2.2%
2006	97.7	2.3%	70.0%	788.62	1.59%	30.0%	111.98	2.7%	2.5%
2007	100.0	2.3%	70.0%	818.93	3.77%	30.0%	114.77	2.5%	2.4%
2008	102.6	2.5%	70.0%	838.14	2.32%	30.0%	116.32	1.3%	2.2%
2009	104.0	1.4%	70.0%	849.15	1.31%	30.0%	118.76	2.1%	2.0%
2010	105.4	1.3%	70.0%	882.21	3.82%	30.0%	121.12	2.0%	1.8%
2011	107.7	2.2%	70.0%	894.71	1.41%	30.0%	123.04	1.6%	1.9%
2012	109.5	1.6%	70.0%	908.00	1.47%	30.0%			
2013 (est.)		1.8%	70.0%		1.10%	30.0%	125.01	1.6%	1.7%
2014 (est.)		2.0%	70.0%		1.70%	30.0%	127.42	1.9%	1.7%
Average		1.91%			2.27%			2.02%	2.05%
Standard Deviation		0.40%			1.01%			0.42%	0.29%
Standard Deviation/ Average		20.9%			44.3%			20.9%	14.1%

**\* Note:**

The 2013 and 2014 rows show scenarios based on staff's interim estimates for inputs and assumptions shaded in blue.

The July 2013 Consensus Forecasts, has estimates of 1.1% for CPI for 2013 and 1.7% for 2014.

- Based on staff's experience, staff expects GDP-IPI to be slightly higher than this. Therefore, for GDP-IPI FDD, staff assumed annual growth of 1.8% for 2013 and 2.0% for 2014;
- Staff assumed annual growth for AWE of 1.1% for 2013 (over 2012) and 1.7% for 2014 (over 2014); and

In this Appendix, the OEB's estimates for Inflation Measure in 2013 and 2014 are 1.6% and 1.9% respectively. Therefore, an estimated average inflation measure of 2.1% per year in the Report is relatively conservative.

### **CoH - Energy Probe-80**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

- a) Please confirm that the \$5.8 million noted in the paragraph following Figure 4 is the numerical representation of the difference between the two lines shown in Figure 4 for 2019. If this cannot be confirmed, please explain the relationship between the \$5.8 million and the lines shown in Figure 4.
- b) Please provide the numerical difference between the two lines shown in Figure 4 for each of 2015 through 2019.

### **Response:**

- a) The ">\$5.8M" noted in the paragraph following Figure 4 in the Report is a numerical approximation of the difference between the two lines shown in Figure 4.
- b) The numerical approximation of the difference between the two lines shown in Figure 4 for each of the 2015 through 2019 years is as follows;

	2015	2016	2017	2018	2019
Actual HUC Rev Req't	\$118,433,942	\$124,145,010	\$127,299,380	\$129,586,516	\$133,635,798
HUC Rev Req't Following OEB Published Index	\$117,575,787	\$120,044,879	\$122,565,821	\$125,139,704	\$127,767,637
Difference:	\$858,154	\$4,100,131	\$4,733,559	\$4,446,812	\$5,868,160

### **CoH - Energy Probe-81**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

The data and analysis around Figure 5 seems to imply that there should be a direct link between consumption (kWh) and costs allocated to the street lighting class and ultimately recovered from this class of customers. Is this a fair interpretation of this part of the evidence? If not, please explain the purpose of this part of the evidence.

### **Response:**

Figure 5 does not imply that there "should" or "should not" be a direct link between consumption (kWh) and costs allocated to the street lighting class.

The purpose of Figure 5 is to present revenue and consumption information relative to Horizon Utilities Corporation's ("HUC") street light rate class.

The Report of the Board: Review of the Board's Cost Allocation Policy for Unmetered Loads (EB-2012-0383) states in its Executive Summary:

"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."

In light of this, Figure 5 of the Report simply presents an alternative means to examine the rate class by comparing the measure of energy consumed by the street light rate class (kWh) with the % of revenue requirement it attracts – in the scenario where cost allocation was derived using a ~1.3:1 device to connection ratio (close to 1:1).

The delivery of power to customers (resulting in the consumption of energy) is a prime function of the electrical distribution system. Therefore, comparing relative usage in terms of rate class consumption (kWh) of the power delivered (by HUC) to the overall revenue that the same rate class contributes in order to maintain the electrical distribution system (that is shared by other rate classes) is a comparison that should be examined.

### **CoH - Energy Probe-82**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton & Exhibit 7, Tab 1, Schedule 1, Table 7-2**

- a) Please provide any comments with respect to the figures shown in Table 7-2, such as the assumption used for unknown connections.**
- b) Please provide any similar data that the authors of the report have with respect to the level of known connections and unknown connections for each of the other distributors listed in Figure 16 with respect to the device-connection ratios.**
- c) For each the distributors where data is available in the response to part (b) above, please indicate whether or not this information has been verified and audited.**

**Response:**

- a) The figures shown in Table 7-2 of Exhibit 7, Tab 1, Schedule 1 (EB-2014-002) were not compiled by WW, nor is WW the author of the same. WW has no comments regarding the assumptions used derive these figures.
- b) WW does not have similar data for each of the other distributors.
- c) See answer to b) above.

**CoH - Energy Probe-83**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton & Exhibit 7m Tab 1 Schedule 2**

- a) **With respect to the increase in the revenue to cost ratio from 74.41% to 83.34%, do the authors of the report agree that the rate classes that have a status quo ratio above the upper bound of the Board approved range should be reduced to that upper range figure? If not, why not?**
- b) **How do the authors of the report suggest that Horizon recover the lost revenue due to reducing the rates for those classes that have a revenue to cost ratio in excess of the Board approved top of the range? In particular, please refer to Table 7.5 in Exhibit 7, Tab 1, Schedule 2.**

**Response:**

- a) WW was not retained to provide an opinion regarding what the revenue-to-cost ratio should be. Section 3, II. of the Report (that is referenced in this question above by mention of 74.41% and 83.34%) identifies language from two Reports of the Board (EB-2012-0383 and EB-2010-0219) regarding revenue to cost ratios in general for the street light rate class.
- b) WW was not asked to, and does not provide, any suggestion on this matter.

**CoH - Energy Probe-84**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

**Do the authors of the report have any evidence to suggest that the number of connections shown in Figure 7 (39,863) is not correct? If yes, please provide the evidence.**

**Response:**

No.

**CoH - Energy Probe-85**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

**What recommendations, if any, are the authors of the report making?**

**Response:**

The Report makes no recommendations. WW was retained to provide an analysis of HUC's proposed street light rates. Any recommendations would be made by the City of Hamilton, based on the evidence, including WW's analysis.

**CoH - Energy Probe-86**

**Ref: Horizon Utilities Corporation's Street Light Rate Class Analysis Performed for City of Hamilton**

- a) **Please provide a complete listing of the work done by each of the authors of the report with respect to cost allocation. For each project identify the client as a distributor, customer, etc.**
- b) **Have any of the authors been accepted as experts in cost allocation by a regulatory tribunal? If yes, please provide details.**

**Response:**

- a) **The authors of the report have completed the following work that has included analysis of underlying cost allocation related to the electricity sector:**

## Work

## Client

1. Cost of Service Application and Evidence analysis of an Ontario LDC.	Municipality
2. Cost of Service Application and Evidence analysis of an Ontario LDC.	Customer
3. Cost of Service Application and Evidence analysis of an Ontario LDC.	Customer
4. Cost of Service Application and Evidence analysis of an Ontario LDC.	Municipality
5. Monthly cost allocation of IESO charges for multiple facilities	Customer
6. Monthly cost allocation of IESO charges for multiple facilities	Customer
7. Monthly cost allocation of IESO charges for multiple facilities	Customer
8. Monthly cost allocation of IESO charges for multiple facilities	Customer
9. Cost allocation analysis for recovery of costs for wholesale market participant generator (Ontario)	Customer

In addition, the authors of the report have completed the following work that is directly related to the street light rate class:

## Work

## Client

1. Street light rate, billing, and LDC account analysis	Municipality
2. Street light rate, billing, and LDC account analysis	Municipality
3. Street light rate, billing, and LDC account analysis	Municipality
4. Street light rate, billing, and LDC account analysis	Municipality
5. Street light rate, billing, and LDC account analysis	Municipality
6. Street light rate, billing, and LDC account analysis	Municipality
7. Street light rate, billing, and LDC account analysis	Municipality
8. Street light rate, billing, and LDC account analysis	Municipality
9. Street light rate, billing, and LDC account analysis	Municipality
10. Street light rate, billing, and LDC account analysis	Municipality
11. Street light rate, billing, and LDC account analysis	Municipality
12. Street light rate, billing, and LDC account analysis	Municipality
13. Street light rate, billing, and LDC account analysis	Municipality
14. Street light rate, billing, and LDC account analysis	Municipality
15. Street light rate, billing, and LDC account analysis	Municipality
16. Street light rate, billing, and LDC account analysis	Municipality
17. Street light rate, billing, and LDC account analysis	Municipality



18. Street light rate, billing, and LDC account analysis	Municipality
19. Street light rate, billing, and LDC account analysis	Municipality
20. Street light rate, billing, and LDC account analysis	Municipality

- b) No. The authors have never sought to be qualified as experts in cost allocation by a regulatory tribunal.