Ontario

EB-2013-0116

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 Cambridge and North Dumfries Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014.

BEFORE: Christine Long
Presiding Member

Cathy Spoel
Member

DECISION AND ORDER
August 14, 2014

Cambridge and North Dumfries Hydro Inc. ("CND") filed a complete cost of service application with the Ontario Energy Board (the "Board") on October 28, 2013 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that CND charges for electricity distribution, to be effective May 1, 2014.

Energy Probe Research Foundation ("Energy Probe"), the Vulnerable Energy Consumers Coalition ("VECC") and School Energy Coalition ("SEC") were intervenors in the proceeding.

CND, Energy Probe, VECC and SEC reached a settlement of some of the issues in dispute. A Settlement Proposal was filed with the Board on April 2, 2014, and an oral

The interest income earned by CND is directly related to its cash reserves. Clearly CND should take reasonable steps to earn the most interest income possible, but there is no requirement in the Board's policy that CND maximize its cash reserves for the purpose of earning interest income.

Design of the GS 50 – 999 kW Rate

CND proposes to maintain the existing ratio between the fixed and variable components of the rate charged to this customer class at 19:81. This results in an increase in the fixed monthly charge from $109.35 to $126.44. The current rate already exceeds the "ceiling" of $96.99 established in CND's cost allocation study.[17]

The basis for the proposal for this rate class is that as part of the settlement proposal, the ratio between fixed and variable was to remain the same.[18] CND notes in its reply argument that the same issue of exceeding the ceiling also applies to the GS1000-4999 kW rate class and the Large Use rate class, but that no parties have objected. This may be because they are not represented at the hearing or because they have been consulted by CND and have no objection.

While the split between fixed and variable monthly charges should be revenue neutral for CND, it may have an impact on individual customers, especially those making efforts to reduce their consumption. SEC advanced that many of its member schools belong to the GS50-999 kW rate class. SEC has objected to the proposed change.

The Board's policy as set out in the *Report of the Board, Application of Cost Allocation for Electricity Distributors, EB-2007-0667* is that fixed charges are not allowed to move further from the ceiling if they are already above it.

[17] Cost Allocation Model Worksheet O1
[18] Reply Argument p. 33

> "In the interim, the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time. "[19]

Board staff pointed out that the fixed charge is moving further away from the ceiling. Energy Probe stated that there is no reason to mover further away. These positions were supported by SEC.

Board Findings

The Board has determined that it is appropriate for the fixed charge for this customer class to remain at $109.35.

The fixed monthly charge proposed for other rate classes will remain as outlined in the Settlement Proposal. The Board notes that there was no evidence or argument on this issue except for CND's reply argument which supported that the other rate classes remain the same.

Removal Costs

Removal Costs refer to the costs incurred to remove existing assets which have been replaced by new assets.

Prior to 2012, CND had added these costs to the capital cost of the new asset. In 2012, CND changed its approach and started to charge these costs as expenses.

In keeping with the transition to IFRS, CND recorded the differences between the two approaches for 2012 and 2013 in Account 1576. The differences amounted to $333,253 in 2012 and $639,000 in 2013.[20]

[20] Exhibit 4 Tab 2 Schedule 1 Table 4-9

system plus PLCC?

MS. BUTANY-DeSOUZA: Yes.

MR. SHEPHERD: So what is your rationale for increasing them?

MS. BUTANY-DeSOUZA: We were consistent in our approach between the 2011 and 2015 application, in terms of the fixed versus variable splits for the charges for each of the classes, and that's been maintained in the 2015 custom IR application.

MR. SHEPHERD: Now, you're aware that recent Board decisions have said that once a fixed charge is above the maximum you're not allowed to increase it. Right? I know you are aware of them --

MR. BASILIO: That's the Cambridge decision?

MR. SHEPHERD: Among others, yes.

MR. BASILIO: We're aware of that.

MR. SHEPHERD: Okay. And so why didn't you change your application to be consistent with that?

MS. BUTANY-DeSOUZA: The Cambridge decision came out -- now, somebody will correct my date timeline, but certainly well after we filed, and potentially either after we were through interrogatories as well and into the settlement conference. So at that time we didn't consider updating it.

And subject to check, I think the outcome from our 2011 application as well was that the -- that we were above the ceiling.

MR. SHEPHERD: Yes.

the balance on the account would be disposed of either as a recovery from other members of the large use class or to a credit to those customers. And Horizon proposes that the true-up, if any, would take place at the end of the five-year rate plan; that is, at the next rebasing.

Horizon submits that this is a reasonable approach to a very recent event which has potentially very significant financial consequences for the utility.

And finally, number six, the maintenance of fixed/variable splits. Horizon acknowledges that in certain instances it has proposed increases in fixed monthly service charges where those charges are already above the ceiling established in Horizon's cost allocation study.

We submit that there are cases in which the Board has allowed increases in monthly service charges that are above the ceiling where the increases are maintaining existing fixed/variable splits, and those applications and the corresponding decisions were made and issued after the Board's 2007 report on the application of cost allocation for electricity distributors.

Notably, the Board approved the maintenance of fixed/variable splits in Horizon's 2011 cost-of-service application, notwithstanding that the monthly service charges for the residential, GS less than 50, and GS over 50, and the large-user class exceeded the Board's ceiling.

Horizon submits that it remains reasonable to allow the maintenance of the fixed/variable splits in the current case before you. Doing so allows for the possibility of less volatility in revenue, and we submit that this is particularly important where the settlement agreement already involves reductions to Horizon's revenue requirement from that originally proposed in the application.

So now, Madam Chair, just moving back to the outstanding issues, 1.4: Do any of Horizon's proposed rates require rate smoothing or mitigation? In appendix H to the settlement proposal, Horizon provided tables of distribution, bill impacts, and total bill impacts based on the settled revenue requirement and Horizon's approach to cost allocation and rate design.

In response to Undertaking J2.2, Horizon provided updated impact tables reflecting the movement of the 9 megawatt customer with dedicated assets from the LU1 class to the proposed LU2 class.

Horizon submits that no rate mitigation is necessary for any of the years in the period covered by this application, and we would note that total bill impacts are far below 10 percent in each year for all customer classes.

The distribution component of the LU2 class appears to increase significantly in 2016 and 2017 on a percentage basis compared to 2015, 2016 respectively, but those customers will have experienced significant decreases in 2015 due to the creation of the LU2 class, and the increases that do occur in 2016 and 2017 reflect the refurbishment of the Gage transmission station, and you look at the table. And I understand that this isn't going to be exactly right now, because things have happened since August 1st, but it will still be indicative, won't it?

MS. BUTANY-DeSOUZA: Yes. Yes.

MR. SHEPHERD: Yes. So if you take a look at the middle line here, it has the LU(2) class has $5.9 million less allocated to it because of direct allocation. Right?

MS. BUTANY-DeSOUZA: Yes.

MR. SHEPHERD: And then that's split up, residential pays 2.1 million and so on, all the way across, right? Basically we're all paying that because -- and this is the subsidy amount that you were talking about, right?

MR. BASILIO: Correct.

MR. SHEPHERD: Okay. Then another thing that you did is you identified secondary costs included in the US of A accounts that were treated as primary, right?

MS. BUTANY-DeSOUZA: Yes.

MR. SHEPHERD: You, meaning you and Mr. Todd.

MS. BUTANY-DeSOUZA: We, meaning Elenchus have performed that activity. We provided them with the data.

MR. SHEPHERD: That didn't actually help the large-user class, and -- the LU(2) class, and the reason is because they're not allocated any of that stuff anymore anyway, right? Their allocation of that stuff is zero.

So that you can't -- whether you split up the classes or not is irrelevant to them. Right?

MS. BUTANY-DeSOUZA: That's right.

MR. SHEPHERD: But it does help the large-user 1 class because some of the things they were allocated as primary now are treated as secondary and are allocated to other classes, right?

MR. BASILIO: In addition to GS greater than 50 and standby, yes.

MR. SHEPHERD: Oh, I was going to get there.

MR. BASILIO: Okay.

MR. SHEPHERD: We're the beneficiary of this, in fact, right?

MS. BUTANY-DeSOUZA: Yes.

MR. SHEPHERD: Because that $768,000 is, again, it is primary -- things that you thought were primary that with this more detailed calculation are now treated as secondary, right?

MS. BUTANY-DeSOUZA: That's right.

MR. SHEPHERD: And secondary is more allocated to residential and small commercial than it is to large commercial and large user?

MS. BUTANY-DeSOUZA: That's correct.

MR. SHEPHERD: Okay. Now, there is one line in here which is "replace LU class with the two other classes", and I didn't understand how that had an impact separate from the direct allocation and the identification of secondary costs. Do you know the answer, or can we get Mr. Todd back on the screen to tell us?

MS. BUTANY-DeSOUZA: I don't know the answer, but I do know that Mr. Todd could assist with this answer.

MR. SHEPHERD: So Mr. Todd, did you hear that

MR. SHEPHERD: And so --

MR. TODD: Well, with the amended would be -- my understanding is that with development that that had caused at least some of those who did not have historic tracking to initiate tracking of primary and secondary separately.

So in the future this should be less of an issue. There is less need to do the estimation of...

MR. SHEPHERD: So -- and here's why I'm asking about this, because this had nothing to do with creating the large-user class, right? This is something you had to do separately to get the allocations right. Right?

MS. ARSENEAU: That's correct.

MR. SHEPHERD: And what you were doing in essence is correcting a -- I was going to say a flaw, but it is not a flaw. A component of how cost allocation was being done that was not as precise as it could be, and you were making it better.

MS. BUTANY-DeSOUZA: I would offer that, yes, it is a refinement. In our case -- and perhaps this is a case of other LDCs -- I'm sure Mr. Todd will clarify as necessary. But many LDCs started with the 2006 informational filing, and that often became the basis of the first forward test year cost-of-service filing.

And absent any further refinement or undertaking to get more specific, for lack of a better term, the 2006 informational filing continued from that historical filing to be the basis on which the cost allocation was made.

And so in Horizon's case, both in 2008, though I wasn't there, I do know that that was the case, that the 2006 informational filing was the basis. I do know that it was the case in the 2011 filing. The refinement and the greater specificity is in the current filing.

MR. SHEPHERD: All right. And so if the --

MR. TODD: Excuse me, excuse me. Just to complete that picture, I should point out that we were not specifically asked to look at the primary and secondary split.

The way this came about was that we were looking at overall cost allocation model to say kind of what you referred to, Mr. Shepherd: Does it make sense?

One of the things we observed was there was an unusually high proportion of primary relative to secondary, and that led us to wonder, compared to other LDCs -- we did cost-allocation models that we've looked at. So that led us to ask the question of them: Are you sure you got the splits right? Can you go back and take a look at it? Because either you simply have more primary than other -- electrical portion of the primary compared to other LDCs, or you're not allocating things in a manner consistent with those. And as they looked more closely they came up with something that was closer to others.

MR. SHEPHERD: The reason I was spending a little bit of time on this, more than I'd planned, but still, that -- it is important -- is if you turn to 7-SEC-45 -- and this is -- and if you look at the table, this is not up-to-date, right? But it is going to be fairly closely indicative of

MS. LONG: Please be seated.
Mr. Shepherd, please continue.
MR. SHEPHERD: Thank you. I hope to be finished in 15 minutes, which would be my 90 minutes, I think.
MS. LONG: Okay.
MR. SHEPHERD: I just want to finish off on the load profile question, with two things.
First -- and we're still on 7-SEC-50, if we have it around. At some point have you -- and this could be either for Horizon or for Elenchus -- have you calculated the dollar impact of this change, this load profile change?
MS. ARSENEAU: No, we have not.
MR. SHEPHERD: It's a zero-sum thing, right? You have a certain pot of costs that are allocated, for example, with 12 CP, and so if there's less -- a lower 12 CP for large users, then everybody else pays more. Right?
MS. ARSENEAU: That's correct.
MR. SHEPHERD: Okay. So it is possible to calculate the impact of using this load profile rather than the last one, isn't it? It is just math?
MS. ARSENEAU: That's correct.
MR. SHEPHERD: Okay. Can you undertake to do that, please?
[Witness panel confers]
MR. ROGER: Sorry, Mr. Shepherd, could you repeat what the transcript undertaking would entail so I can try to figure out how long it would take us to do it?
MR. SHEPHERD: In fact, I was going to clarify. What

indicated that they won't do this work anymore.

So the information that we had, though Mr. Todd referred to it, the 2006 informational filing that is based on 2004 data, effectively represented the best information that we have -- that we've had at the time of preparing this application, though generally I would offer that perhaps this is a broader undertaking and one that more than just Horizon is going to face as a challenge, as we all point back to Hydro One as the source of the load profile information or at least the previous source of the load profile information.

So I am not sure that that will come up as a generic proceeding before the Board, but it is certainly an issue not limited to Horizon.

MR. SHEPHERD: Well, you actually reminded me of something I forgot to ask you.

MS. BUTANY-DeSOUZA: Oh, no.

MR. SHEPHERD: Thank you so much.

What I don't understand with this is for all the other classes you're using 2004 load profiles that are clearly going to be wrong, and you rejected the possibility of using three years of smart-meter data, which would at least be more right than 2004 data, wouldn't it? Why wouldn't you use the better wrong one rather than the worse wrong one?

MS. BUTANY-DeSOUZA: I guess what I -- I'm sure Mr. Todd will jump in as well from an expert standpoint, but what I would offer from a Horizon standpoint is that, in the world of "wrongness", perhaps, there is no way to distinguish between whether the 2004 dated data versus the limited sample set from the last three years of smart-meter data is necessarily -- is necessarily correct -- whether one is actually better than the other, where the 2004 data that Hydro One has provided is the weather-normalized load profiles that Mr. Todd had referred to.

MR. SHEPHERD: Well, you did have -- you have had in the last ten years quite a significant push to reduce peak loads in your conservation programs and elsewhere in the industry, and now you have time-of-use rates, so presumably those things have affected load shapes, right?

MS. BUTANY-DeSOUZA: Yes. They may have, but we did respond to a technical question in this regard, and that was 7-VECC-87 technical question.

And in that we also identified that, first, that we need -- that a source would be the smart-meter data, but that there is an access issue related to the data, meaning that it's costly and -- well, it is cost-intensive is probably the best way to put it, and we've estimated the cost at between $400,000 and a million dollars in order to access and analyze the smart-meter data in order to create the load profiles that would be required.

But this is where I go back to, as we've been thinking about it, that this is broader than just a Horizon issue, given that kind of related cost expenditure that will likely be experienced by other LDCs as well.

With that, there might be something that Mr. Todd

Undertaking No. J1.3

Reference: Page 142 of Transcripts Volume 1

To take the load profile from 2011, the old load shape, and the new peak allocators from that, for 2015, then put in the new demand allocators and run it.

Response:

Horizon Utilities has filed a live excel version of the Cost Allocation model (based on the version filed with the Settlement Proposal) with the Load Profiles for the LU (1) and LU (2) customers based on the Load Profile from 2011, scaled to match the Load Forecast for 2015.

Tables 1 and 2 below provide a comparison of the Fully Allocated Costs, Proposed Distribution Revenues, Status Quo Revenue to Cost Ratios, and Proposed Revenue to Cost Ratios between the two scenarios.

Table 1: Comparison of 2015 Fully Allocated Costs and Distribution Revenues

	Fully Allocated Costs (Per Settlement Agreement)	Fully Allocated Costs (Per J1.3)	Variance	Distribution Revenues (Per Settlement Agreement)	Distribution Revenues (Per J1.3)	Variance
Residential	$ 68,263,922	$ 68,024,901	$ (239,021)	$ 66,927,936	$ 66,931,078	$ 3,141
GS < 50 kW	$ 15,617,872	$ 15,514,168	$ (103,703)	$ 14,825,036	$ 14,555,095	$ (269,941)
GS >50 to 4999 kW	$ 22,962,722	$ 22,698,857	$ (263,865)	$ 20,614,214	$ 20,247,974	$ (366,240)
Standby	$ 1,452,849	$ 1,424,543	$ (28,305)	$ 715,033	$ 704,071	$ (10,962)
Large Use (1)	$ 1,919,882	$ 2,554,787	$ 634,905	$ 2,067,358	$ 2,761,481	$ 694,123
Large Use (2)	$ 440,080	$ 440,618	$ 538	$ 487,871	$ 488,463	$ 592
Sentinel Lights	$ 44,722	$ 44,722	$ (0)	$ 44,838	$ 42,621	$ (2,217)
Street Lighting	$ 3,342,981	$ 3,342,966	$ (16)	$ 2,629,966	$ 2,582,078	$ (47,888)
Unmetered and Scattered	$ 393,301	$ 392,768	$ (532)	$ 448,163	$ 447,554	$ (609)

Table 2: Comparison of 2015 Status Quo and Proposed Revenue to Cost Ratios

	Status Quo R:C Ratio (Per Settlement Agreement)	Status Quo R:C Ratio (Per J1.3)	Variance	Proposed R:C Ratio (Per Settlement Agreement)	Distribution Revenues Proposed R:C Ratio	Variance
Residential	103.1%	103.4%	0.3%	103.1%	103.4%	0.3%
GS < 50 kW	88.5%	89.1%	0.6%	99.6%	98.5%	(1.1%)
GS >50 to 4999 kW	83.9%	84.8%	0.9%	94.6%	94.1%	(0.6%)
Standby	59.7%	60.8%	1.1%	54.8%	55.0%	0.2%
Large Use (1)	162.7%	123.7%	(39.0%)	115.0%	115.0%	0.0%
Large Use (2)	896.1%	895.0%	(1.1%)	115.0%	115.0%	0.0%
Sentinel Lights	93.2%	93.2%	0.0%	105.0%	105.0%	0.0%
Street Lighting	73.7%	73.7%	0.0%	82.9%	81.4%	(1.4%)
Unmetered and Scattered	142.6%	142.8%	0.2%	120.0%	120.0%	0.0%

Horizon Utilities submits that the Load Profiles that it has used were determined based on the best information available to the utility, and therefore provide a better input to the Cost Allocation Model. As discussed on pages 142 and 143 of Volume 1 of the Transcript for the Oral Hearing dated September 30th 2014, Horizon Utilities believes that issues relating to updating Load Profiles in rebasing years are not limited to Horizon Utilities. It may be appropriate that this issue is explored generically by the OEB.

allocation study and the changes that you're making that affect large-user rates.

I am going to give you a list of what I think are the four purposes and in what I think are the correct order, and then I'm going to go through them individually, but let's start with the list.

Your primary reason is to make sure that your rates are fair, and so you wanted to get your cost allocation right so that cost causality is tracked as closely as possible. That is the first one.

The second is that you have some customers that could stay where they are but choose to go -- connect to Hydro One, as opposed to yourselves, and those would all be large-user customers, because nobody in their right mind in another class would want to be served by Hydro One because they're so much more expensive.

The third is, you have a rate competitiveness issue, which is sort of like an economic development issue, in the sense -- I don't mean for the city, I mean for you -- because businesses, particularly industrial customers, choose where they're going to locate, and costs are one of the factors.

So if it's relatively more expensive to be in Hamilton or in St. Catharines, they might be less likely to be there, and therefore you wouldn't have their load.

And the fourth is that the four largest customers represent individually your highest risk if they fail, because you lose the most money, and to the extent that you charge them less money, your risk is reduced.

So are those four the sort of, in the correct order, the reasons why you're changing the large-user structure? Accepting that it is a little bit oversimplified?

MR. BASILIO: Well, I'm glad you added the last point. I think it is a little bit oversimplified, and I think, as I tried to articulate to Mr. Warren, certainly we would agree with number 1, that the principal motivating factor, the reason we undertook the study, was to provide good evidence with respect to cost allocation and rate design, recognizing that we had some specific customer concerns as well.

As I have articulated in the technical questions, within the constraints or confines of Board policy -- which aren't so entirely prescriptive -- there are strategies that make sense for us to advance both in the interests of customers and shareholders, and I have articulated those, and I won't go into it again, but City of Hamilton Technical Conference Question No. 12.

Now, with respect to 4, we really haven't discussed this yet in the cross so far. I would agree with you, certainly we've been here -- we're here now twice with respect to one large-use customer, that a default is -- it's probably the -- that's the group that has, with the exception of two that are direct-connects -- wholesale market participants, sorry, certainly a credit default or the prospect of a credit default is a very significant risk issue, so there is no denying that.

That notwithstanding, you know, I wouldn't say it was a principal -- certainly it is a benefit. It is sort of an outcome that, you know, when you look at the whole thing, hey, that's another benefit, but it wasn't a principal driver, I suppose. I just want to clarify that for undertaking the study. But certainly it does help with that situation.

MR. SHEPHERD: That wouldn't motivate you. Charging them less so that you have less risk if they default is not a motivating factor.

MR. BASILIO: It's not a motivating factor. It's a -- certainly it is a benefit insofar as the outcome.

MR. SHEPHERD: Okay. Now, let me just ask --

MR. TODD: Before you ask -- do you hear me?

MR. SHEPHERD: Yes.

MR. TODD: Before you wrap up I would like to make it clear that you were drawing the distinction between purposes of Horizon Utilities' undertaking from their perspective and the purpose as far as Elenchus and the Elenchus Group. It is only the first of those four purposes has any relevance to...

MR. SHEPHERD: Well, yeah, that is not entirely true, now, is it, Mr. Todd? I am looking at your report at page 2, and the first phase of your work was, in fact, review of customer classification.

So the first thing you were being paid to do, if I am not mistaken, was to take a look and see whether the large users should be split up or otherwise restructured; isn't that right?

MR. TODD: That's correct. And the purpose of any restructuring of the class is in order to have more fair rates to the members of the class or classes, to divide them up in a way that allows the cost allocation study to better reflect cost causality.

MR. SHEPHERD: So your intention was to -- the motivating factor in looking at Phase 1 of your work was that the large-use customers were concerned about their rates, and comparisons to other utilities had been done that showed that they were relatively high, but once you've started to do it, the only thing driving your answer is going to be getting the right result from a cost causality point of view; is that fair?

MR. TODD: Yes. And the initial part of your sentence, your question, referred to Horizon's considerations.

Our starting point is Horizon, for whatever reasons it may have, is seeking to have us examine certain questions. For example, often when we do cost-allocation work for utilities, we're not asked to and we do not look at the structure. That is something which a client may or may not ask us to do. They asked us to do that, and to review it, using the standard terms of the cost allocation which link to classification as well as to the cost allocation once you have your class distinguished.

But again, our review, or the purpose of our review, as far as we're concerned, is simply to say, are we doing it in what is the most appropriate way, and that's it.

MR. SHEPHERD: Thank you.

Now, I am back to the Horizon panel. The way that you're proposing to this Board that you reduce the large-user rates -- arising out of the cost study -- there is three components.

The first is, for some of the customers you're saying, we're only going to allocate -- we're going to directly allocate the costs that they're responsible for, because they're served in a particular way, and I am going to talk about that in more detail in a second.

That appears to have a four-and-a-half-million-dollar impact, that direct allocation. I am not sure whether that is true, and I am going to come back to that in a second.

The second is that you did a -- or your consultant did a deeper dive in the accounts, in the US of A accounts, and concluded that some of them, which looked like they were primary assets, actually included secondary assets. And as a result, if secondary wasn't going to be allocated or was going to be allocated differently to a class, you should use sub-accounts rather than the US of A accounts, to be more precise.

Then the third is that the load profiles for large users were redone, and that resulted in flatter load profiles, and therefore lower building determinants.

Are those three right, as a general thing? And then we can go into details in a minute.

MS. BUTANY-DeSOUZA: On a general basis, yes, those kilowatt customers that are served directly off the primary distribution system.

My question is, why aren't you proposing a separate rate class for those customers so they don't bear any of the costs of the secondary system?

MR. TODD: Mr. Todd here. I think that is the question of the principles, and therefore it could be for me to step in on that one.

The one step of the overall cost allocation and rate design process seeks to define customer classes. In this particular process we started with the definition of customer classes. There are principles for how you define them. Essentially it's around demand usage features.

There is not a customer classification basis for dividing that GS class in two. Once you have defined your classes, if there is a categories asset, secondary, that customers within that class use -- not necessarily every one of them -- then the costs are allocated to the full class and reaches that on a class basis.

You do not have subdivision of classes which place customers within the class. Some customers within the class are allocated to different classes than other customers, based on the fact that some customers do not use all of those assets.

That is generally in line with the postage stamp rate concept, that just because some customers in a class may not use particular assets or even a particular type of asset doesn't mean that they, as a member of the class, do not pay those, or share those costs equal to all the others in the class.

So there is no basis for separating the class into two in terms of distinguishing customers.

You would not make a -- it would not be normal to make a -- two customers who are essentially the same, where one is served off of the primary distribution system and others off the secondary distribution system, which is kind of the coincidence of where they're located in the system. I.e., a customer who is right near a primary facility may be served that way, given their less demand within the class.

Other customers for whom it is most economic to serve them off of secondary or serve them secondary, we don't differentiate on that basis. We would serve all customers in the class in the most economical way, and they all get allocated to the costs on the primary and secondary portion of it.

MR. AIKEN: So am I correct, Mr. Todd, then, that what is driving the creation of a large use 2 class is the fact that these are greater than 15,000 kilowatts, whereas the large use 1 would be 5,000 to 15,000? And not the fact that the large use class just happens to have all dedicated assets serving them?

MR. TODD: That's correct. The division -- what we did was we looked at the -- essentially the diagram, the chart showing the loads of all of the existing LU customers, their loads. And there was a clear bundling, if you want, or consistency well below the 15 threshold and clarification.

MR. SHEPHERD: So, Mr. Todd, is it direct allocation that is the criteria, or is it 15 megawatts? Or both?

MR. TODD: In our recommendation, the criteria is 15 megawatts.

MR. SHEPHERD: I didn't hear you.

MR. TODD: I believe in Horizon's -- can you hear me now?

MR. SHEPHERD: Yes.

MR. TODD: In our recommendation, the –- and I'm sorry, my documents aren't quite as readily available as they should be. Mike, correct me if I'm wrong, but our recommendation, I believe, includes only the 15 megawatts, and I believe that Horizon in its proposed tariff it included meets the requirement that it's using dedicated assets, which they all do, and on a forward-looking basis I suppose that would mean that they similarly would qualify would need the relevant load and they would need dedicated facilities, which of course that would be a matter of design. Given the difference between the LU(1) and LU(2) customers, you would be talking about upgrading the facilities. I would expect almost for certain for any new addition to the LU(2) class.

MR. SHEPHERD: So simply put, although there is a 15-megawatt criteria, the key criteria from the point of view of cost allocation is dedicated assets? Because otherwise you would have to allocate costs differently to that class, right?

8-SEC-52

[8-3-1] In EB-2012-0047, Hamilton-Wentworth Catholic District School Board argued successfully to have its Bishop Ryan Collegiate Institute, a high school under construction, with a forecast 630 kW average monthly demand, served by the Applicant rather than Hydro One. Please confirm that the current Application proposes to increase the rates for Bishop Ryan school, now that it has been built and is being served by the Applicant, by 38% by 2019.

Response:

Horizon Utilities has calculated the distribution bill impact for this customer at 34.8% when comparing proposed 2019 rates to 2014 existing rates.

that term than I do, but I would have thought that particularly when one of them has been in financial difficulty for several years, they would be relatively high-maintenance.

I can recall applications where you filed detailed information on this very customer.

MR. BASILIO: Beyond that filing, though, the monitoring of their situation is largely by way of the public record, articles in newspapers, corporate filings that are public. And as most would know, public companies really don't say a lot about those things until there, in fact, is an insolvency.

So again, that is not a lot of maintenance.

I mean, if we have 12 meetings a year where two people are present, and, you know, those meetings are an hour -- I would be surprised if they're much more than an hour for a regular customer. You know, if you had 24 meetings a year where a couple of Horizon representatives are present at, you know, the -- and I will just round to -- I hate to throw out a figure here, but let's say $50 an hour. It ends up being a pretty small amount if you're trying to directly allocate customer service costs to this class.

Again, most of the other elements that are here are taken electronically.

MR. SHEPHERD: Thank you.

I wonder if you could turn to 8-SEC-52. Do you have that?

MS. BUTANY-DeSOUZA: Yes, we do.

MR. SHEPHERD: This is a high school, a relatively large high school on Hamilton Mountain; right? You're familiar with the school?

MS. BUTANY-DeSOUZA: I am familiar with this school.

MR. SHEPHERD: And they may be one of the few customers that actually fought to have Horizon serve them.

But it is true, isn't that, that you're proposing that their distribution bill for 630 kilowatts now, 630 kilowatts, is $23,000 a year in 2015, right? Will you accept that, subject to check? 630 kilowatts?

MS. BUTANY-DeSOUZA: Subject to check, I will accept that.

MR. SHEPHERD: Okay. At any point in this process, did you look at customers like that -- and they're, by the way, very close to a transformer station, right? They're close to Nebo?

MS. BUTANY-DeSOUZA: Yes, they're relatively close to Nebo Road. That's right.

MR. SHEPHERD: So did you at any time look at customers like that and say: Well, if they're paying 23 and -- for their 630 kilowatts, how is that relative to the 108 that we want to charge this average 39-megawatt big industrial customer? Did you ever do that analysis and say: Is this fair?

[Witness panel confers]

MS. BUTANY-DeSOUZA: So we didn't specifically look at the example provided in 8-SEC-52, but the distinction that we've drawn here and the basis of the creation of the LU(2) class, as we have previously identified, is about specific load level and then dedicated assets.

So they're not -- the large use 2 customers are not attracting other costs.

In the case of the other customer classes, because of the pooling of assets, they are attracting other costs, and that's the driver of -- that's amongst the drivers of the costs...

MR. SHEPHERD: I understand. Okay. I am going to come back to that in a second. I want to ask something specific, though, and this may be for you and it may be for Mr. Todd. I don't know.

I heard Mr. Todd say, I think, this morning that the LU(2) class is not restricted to customers that are directly served from the transmission system. It's not ones that have -- that's not the criteria.

The criteria is 20 megawatts, and that if a customer was over 20 megawatts and not served directly from the transmission system, they would still be in that class; is that right?

Maybe, Mr. Todd, maybe you could help us with that.

MS. BUTANY-DeSOUZA: Before he does, I would just like to draw the distinction that the creation of that class is predicated on a 15-megawatt level. Now, I know that you quoted 20, but that's the load level that distinguishes those customers, and then the presence of being fed by dedicated assets.

Beyond that, I will leave it to Mr. Todd for limited and, therefore, as we've positioned it, below materiality, and we would --

MR. SHEPHERD: Okay, so --

MS. BUTANY-DeSOUZA: -- deal with it.

MR. SHEPHERD: -- is your answer actually simpler than I expected, which is, going back to the point we talked about right at the beginning of this cross, that one of the -- maybe the least factor, but one of the factors in having this new large-user class is it reduces the risk if you lose a customer, and this is exactly that, right, it reduces the risk because they're paying you less.

MR. BASILIO: From a distribution perspective, if we do have an LU(2) class, the amount of distribution revenue we would attract from the large users is much smaller than the large users as a whole if we did not have the LU(2) class.

And so the impact, if we don't have an LU(2) class, is much greater from the large four customers that would otherwise be in the LU(2) class.

So that is really the reason, is it is a relatively insignificant -- our view -- we're happy to take a variance account, frankly, either way. What we have proposed here is that -- because in the -- if we get the LU(2) class, the impact from a distribution revenue perspective is relatively small and manageable across the five years, and therefore, you know, we're not going to ask for the variance account. But we're certainly open to having a variance account in either scenario.

those -- I take it this is right -- the total of all of those costs allocated to this class -- I'm back at 7-SEC-47. All of the shared costs in this class are under $400,000? Because there's four customers and the average is 96; is that right?

Anybody can answer that. I don't care.

MR. BASILIO: We're just trying to validate the 96. When we look at the key drivers --

MR. SHEPHERD: 97, I'm sorry.

MR. BASILIO: Right. The demand-related and the customer-related.

MR. SHEPHERD: Those are all shared costs, right? Multiply by 4, that should be the total for the class, right?

MR. BASILIO: That's correct.

MR. SHEPHERD: Okay. And at any point, did anybody go to other customers and other classes and see what they were paying for these same things, to see whether the balancing was reasonable?

Like, I understand that the model is a complex beast. I get that. But it is not a black box, right? You still have to apply a sanity check to it; true?

MS. ARSENEAU: This particular analysis, no, was not completed for each separate rate class, but we did evaluate the rates and revenue-to-cost ratios as they resulted from the cost allocation model, as compared to one another.

MR. SHEPHERD: Okay. Now, I want to turn to the issue of diving down into the sub-accounts.

the customer classes that are outside the Board's approved ranges.

We believe the approach taken by Horizon to be consistent with Board policy.

We did not perform an audit related to the street lighting -- that was not our task -- but we're of the view that when more accurate information is available, it –- it is appropriate for the company will base its cost allocation on the best information available.

Elenchus recommended the rate for standby customers should be set the same as the volumetric charge of the corresponding customer class. That's consistent with what was done in the last application and was accepted by the Board at that time.

MR. RODGER: Mr. Todd, when you say "the last application," I take it you mean the last Horizon application?

MR. TODD: Yes. The last Horizon cost of service application, of course.

MR. RODGER: Thank you, Mr. Todd.

Ms. Butany, Horizon has also very recently amended its application by adding a proposal for a new variance account in respect of US Steel. And this was recently filed as Exhibit 10.

Could you please describe this request briefly for the Board?

MS. BUTANY-DeSOUZA: Sure. Horizon learned through news media reports on the morning of September 17th, 2014 that US Steel Canada had obtained a court order for protection under the Company's Creditors Arrangement Act, the CCAA.

We did not have advance notice about this, and we're still continuing to assess the possible implications of this announcement.

We know that we're exposed for a certain material amount for the period up to September 16th, 2014, and we're continuing to assess the longer-term implications of a reduction or the discontinuance of US Steel Canada's operations in Horizon Utilities' service territory.

At this time, we don't know the full implication of the announcement and what that impact will be on future revenues, but in our evidentiary update that we filed as part of Exhibit 10, we have assessed our exposure if US Steel Canada was to close their operations in Hamilton completely.

We are not proposing a change to the filing of the settlement proposal that was negotiated by the parties and that we had filed as part of our settlement proposal on September 22nd. We cannot discuss the numbers on the public record, as we've talked briefly about, but I would say that if the Board approves the creation of what I have referenced as the LU(2) class, then the exposure to Horizon Utilities, based on our current assessment, is well below the materiality threshold. And at this time we believe that we could manage the risk without a material impact on our ability to deliver on our operations and our capital

MR. WARREN: Yes, you could do that. That is an alternative, isn't it?

MS. BUTANY-DeSOUZA: That would be one alternative that we could have requested; that is not the alternative that we did request.

MR. WARREN: I understand that.

And the fourth alternative, I am going to suggest to you, would be to deal with this loss of revenue by reducing your own operating costs. Right?

MR. BASILIO: It would be. However, I think as a result of the outcome of the settlement, we have largely dealt with our capacity to do that already. And that is why this is an issue for us now.

MR. WARREN: I understand that, Mr. Basilio, but just in theory, absent the settlement agreement, one of the options would be to reduce your costs of operating in order to --

MR. BASILIO: It is not a practical option for us.

MR. WARREN: Those are my questions. Thank you, panel.

MS. LONG: Mr. Warren, were you wanting to ask questions on Undertaking J1.2? Board Staff was going to get copies of that at the lunch break.

So I am just wondering, to the extent that you wanted to, we would take our break now and you could ask questions on that, or perhaps the number that you received in a general sense was enough for your purposes?

MR. WARREN: For my purposes now, the number in a mic issues.

MR. SHEPHERD: The last thing I want to ask about is US Steel, and I have just a couple of questions on that.

The first is can you turn to Exhibit 10, tab 1, schedule 1, page 4? I warned your counsel and asked him to pass this on to you, that I was going to ask this question because I wanted to clarify on the record, but I didn't want it to be an unfair surprise.

Do we have that up? It is Exhibit 10, tab 1, schedule 1, page 4. There we go.

So at lines 6 through 9, you talk about what happens if the Board doesn't approve the creation of the LU(2) class. And it appears to say -- tell me whether this is right -- that if the class isn't approved, then subject, obviously, to the variance account that you're asking for, you can't deliver on your distribution system plan.

And that suggests to me that you're saying -- and this is the question -- that if they don't approve the LU(2) class, then you're not willing to proceed with the settlement agreement.

MR. BASILIO: Well, I just want to be clear. It has a significant impact or material impact on our ability to deliver, because it is a lot of money. It doesn't mean we can't, but certainly that is going to be very challenging to do so, was the question, I think, as a clarification.

Just restating the question, if we don't get this, are we -- are we not going to continue with the settlement proposal? The answer to that is no.

Board with that improved information. No evidence has been filed by any other party in this proceeding that would contradict Horizon's evidence on these matters.

Horizon's proposed creation of a new customer class, its refinement of the way in which primary and secondary assets are treated, and its updating of the device-to-connection ratio for street lights represents a focus on fairness by applying the principle of cost causality to its allocation of costs across its customer classes.

Its use of updated information related to large users, primary and secondary assets and device-to-connection ratios for street lighting will help to ensure that its revenue requirement is recovered from the appropriate customer classes.

Fourth, the request for interim standby rates for large user 1 and large user 2 customers that correspond to the variable charges for each of those customer classes.

Horizon has historically had Board-approved standby rates on an interim basis for its GS over-50-kilowatt customers.

In this application, Horizon simply wishes to expand the availability of standby rates to the large use 1 and large use 2 classes.

Each rate class for which a standby rate is being sought would have a standby rate set equal to the variable rate that is determined for that class in this proceeding.

The proposal for interim rates is in keeping with current Board policy on standby rates, and will enable