Ontario Energy Board | **Commission de l'énergie de l'Ontario**

Ontario

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.

BEFORE: Christine Long
Presiding Member

Emad Elsayed
Member

Cathy Spoel
Member

DECISION and ORDER
December 11, 2014

This is an application by Horizon Utilities Corporation (Horizon or the Applicant) for 5 years of distribution rates to come into effect on January 1 of each year from 2015 to 2019. Horizon has applied under a Custom Incentive Rate (CIR) plan, one of the options available to it under the Board's Renewed Regulatory Framework for Electricity (RRFE). Horizon submits that it will have significant capital expenditure requirements over the next 5 years and a CIR application best suits those circumstances. The application is brought under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) (the Act).

The following parties were given intervenor status and are referred to in this Decision and Order.

- Association of Major Power Consumers of Ontario (AMPCO);
- Building Owners and Operators Association (BOMA);
- City of Hamilton (the City);
- Consumers Council of Canada (CCC);
- Energy Probe (EP);
- School Energy Coalition (SEC);
- Sustainable Infrastructure Alliance of Ontario (SIA); and
- Vulnerable Energy Consumers Coalition (VECC).

All but the City were found to be eligible for costs.

The Settlement Proposal

Horizon and the intervenors (with the exception of SIA and the City (hereinafter referred to as the Intervenors)), negotiated a partial settlement of all issues related to the revenue requirements for 2015 through to 2019. However, the issues related to cost allocation and rate design were not settled. On September 22, 2014 Horizon and the Intervenors filed a partial settlement proposal with the Board (the Settlement Proposal). This was the first settlement proposal to be filed for a rate application under the CIR process.

An oral hearing commenced September 30, 2014. As well as hearing evidence on the unsettled issues, at the request of the Board, Horizon presented a witness panel to explain how the application, as modified by the Settlement Proposal, met the Board's policy objectives set out in the RRFE, namely; customer focus, operational effectiveness, public policy responsiveness, and financial performance

The Board advised the parties during the hearing that it would accept the Settlement Proposal (the Settlement Agreement). In coming to this decision, the Board has taken into account various factors which are discussed below.

Horizon has chosen to apply for a 5 year CIR on the basis that it has significant capital investment needs over the next few years. Horizon's evidence is that these requirements arise in part due to the need to upgrade a significant part of its urban and suburban infrastructure as it has come to or is beyond the end of its useful life.

Horizon prepared and filed a stand-alone, consolidated Distribution System Plan (DSP) in which the company outlined its asset management process and associated capital expenditures.

The Board is satisfied on the basis of the pre-filed evidence and the oral testimony of Horizon's witness panel, that the DSP represents a well thought out and balanced response by Horizon to its infrastructure needs. The DSP was supported by several third party assessments and the level of distribution system expenditures was substantiated by an independent third party asset condition review, which was further validated by an independent assurance review.

The Board finds that the Settlement Agreement will allow Horizon adequate resources to undertake the work that forms the basis of its application. Some of the studies suggest proceeding with renewal at a faster pace than proposed by Horizon, but the Board is satisfied that Horizon has appropriately balanced the need to invest in its facilities, while proceeding at a pace that it can sustain without sacrificing ongoing operational needs. The Board also finds that the pace of work proposed by Horizon will not result in an unacceptable burden on ratepayers.

The Board finds that there are several features in the Settlement Agreement which satisfy the RRFE's objective that benefits of efficiency improvements would be shared with customers. The proposed earnings sharing mechanism and the Capital Expenditure Variance Account are examples of such features. The "efficiency adjustment" concept and the proposed reduction in Horizon's submitted Operating, Maintenance and Administration (OMA) also provide incentives for Horizon to maintain or improve its operational effectiveness and to seek further productivity improvements.

The Board also finds that Horizon has engaged in a reasonable level of customer engagement as expected by the RRFE. Horizon's witnesses were candid in discussing the advantages and disadvantages of the various approaches used, some of which, such as the online workbook, were novel but somewhat disappointing in terms of customer take-up. The Board commends Horizon for its willingness to try new approaches and to reassess and refine them as necessary.

In terms of financial performance, the Board agrees that the Settlement Agreement will allow Horizon to have distribution rates which are sufficient to allow it to meet its obligations to its customers while maintaining its financial viability.

The Board therefore concludes that the Settlement Agreement adequately reflects the public interest and will result in just and reasonable rates for customers.

The Unsettled Issues

The Board heard evidence and argument on the following unsettled issues:

1. The appropriateness of inputs to the cost allocation model, specifically the updated allocation of primary and secondary assets to sub-accounts under the Board's uniform system of accounts;
2. The proposed new standby-rates for Large Use (1) (LU(1)) and Large Use (2) (LU(2)) customers that correspond to the variable charges for each of those customer classes;
3. Rate design, specifically:
    i. the fixed/variable split,
    ii. the revenue-to-cost ratios, and
    iii. rate smoothing or mitigation;
4. The street lighting audit, and specifically the device to connection ratio;
5. The Proposed new LU(2) class; and
6. In the event that the Board does not approve the proposed new LU(2) class, a request that the Board authorize the establishment of a new variance account to address potential changes in U.S. Steel Canada's demand over the five-year test period, in light of U.S. Steel's recent announcement that it has sought protection under the *Company's Creditor's Protection Act* (CCAA).

1. Cost Allocation

Horizon engaged Elenchus Research Associates (Elenchus) to review its cost allocation and to determine whether Horizon's approach to cost allocation could be refined to better reflect the principles of cost causality. Mr. John Todd and Mr. Michael Roger, two of the principals of Elenchus, appeared as witnesses.

Two of Horizon’s inputs in its cost allocation study are at issue: i) whether the costs of the assets input as primary and secondary assets to the cost allocation model are appropriate; and ii) whether Horizon’s volumetric inputs which were adjusted for more current load profiles of only large use customers, are appropriate.

I. Allocation of Primary and Secondary Assets

During the course of their study, Elenchus observed that some of Horizon's accounts defined as primary assets in the previous cost allocation model included both primary and secondary assets when examined on a sub-account basis.[1] Horizon undertook a detailed review of these accounts and reclassified some of the costs.

Horizon argued that the allocation of assets to sub-accounts brings greater accuracy to the allocation of costs to Horizon's customer classes. None of the parties took issue with the manner in which this was done, and the resulting reallocation of costs was not opposed by any of the parties.

Board Findings

The Board finds that the proposed changes to Horizon's cost allocation methodology is appropriate as it more clearly reflects actual cost causality.

II. Volumetric Inputs (Load Profiles)

Horizon updated load profile information for the large use class by using current hourly use information. Using more current information resulted in updated profiles which are flatter than the previous load profiles for these classes.[2]

Horizon used load profiles for the remaining classes which were based on the profiles developed by Hydro One Networks Inc. (Hydro One) for the Cost Allocation Informational Filing in 2006. Those profiles reflected 2004 load data.[3]

Horizon stated that Hydro One has not updated this information and Horizon understands that Hydro One will no longer be providing this type of information in the future. Horizon's witnesses stated that while accurate up-to-date load profile data for these classes should be available from smart meter data, it is an expensive and time-consuming process to obtain it. For these reasons, Horizon has not obtained more current information for customer classes, other than Large Use customers. Horizon argued that the best approach is to use the more current data where it is available, and that it would be inappropriate to continue to use "stale" data.[4]

The Intervenors representing the interests of the other customer classes argued that changing one group's load profile without knowing whether other customer class' load

[1] Exhibit 7 Tab 1 Schedule 1 p. 2 of 7
[2] Transcript Day 1 p. 136
[3] Ibid p. 138
[4] Transcript Day 6 p. 4

profiles have also changed, may well result in inappropriate cost allocations. The Intervenors pointed out that the large use customers' load profiles have flattened which means fewer peak load costs are allocated to that class. Consequently, the result is an increase to the other classes as all the costs must be recovered. However, the Intervenors suggested that if updated data was also available for those classes it might show their loads have also flattened, given incentives such as time of use rates which are designed to accomplish such a result. The Intervenors argued that it is not reasonable for the Board to approve a reallocation of costs in these circumstances.

Board Findings

While the use of more up to date data is generally preferable, in this case, the Board is concerned with the inequity that may result from selective updating. The Board is sympathetic to Horizon's difficulty in obtaining updated information for the general service and residential classes, but does not see any advantage in proceeding with partially updated information as the whole exercise is to determine what share each group will pay. Updated current hourly use information data for the large use class should not be used. Until more accurate data is available for all classes Horizon must continue to use the existing load profiles for the purpose of its forecast.

2. New Standby-Rates

Horizon currently has an interim standby rate for its GS 50 – 4,999 kW class. The rate is based on the variable demand (kW) rate only for that class. There is no fixed monthly charge. Horizon is proposing to expand its standby options to the Large Use rate class, whose loads are 5MW and greater on the same basis as those available to the GS 50 – 4,999 kW class.

BOMA objected to Horizon's proposal. BOMA took the position that the current rate for the GS 50 – 4,999 class is not fair, so extending the standby rate to another rate class would not result in just and reasonable rates.[5] BOMA argued that the rate design is unfair because a customer who had distributed generation for its entire load would pay the same amount to Horizon as a customer taking delivery of power. As a result, there is no incentive to build behind-the-meter generation facilities.[6] BOMA referred to the Minister's Directive to the Ontario Power Authority dated March 31, 2014, where

[5] Transcript Day 5 p. 54
[6] Ibid p. 56 - 57

geothermal and solar power generation is now included as CDM.[7] BOMA proposed that any standby rate should be negotiated directly between Horizon and the individual customer.[8]

Horizon reiterated that its proposal for the large use standby rates is consistent with its existing approach to GS 50 – 4,999 kW customers. Horizon pointed out that the value to the standby customer is that Horizon stands ready to serve when called upon. Horizon submitted that it needs to recover its investment in the facilities standing by.[9]

In addressing BOMA's submission that standby rates should be negotiable, Horizon referred to subsection 78.2 of the Act which states:

> *No distributor shall charge for the distribution of electricity or for meeting its obligations under section 29 of the Electricity Act, except in accordance with an order of the Board which is not bound by the terms of any contract.*

Horizon submitted that it would be neither practical nor efficient to make separate application for each negotiated rate.

These rates are to ensure that customers with load displacement generation can obtain service from Horizon if required by them. The rates are the same as those customers would pay for the same load. While BOMA argued that the interim Standby rate needs to be improved, it did not suggest that the existing rate should be discontinued.

Board Findings

The Board agrees with Horizon that this application is not the appropriate forum to advocate policies that incent distributed generation. The Board has an ongoing consultation for that purpose. The Board does not agree with BOMA's argument. The Standby Rate is optional – no customer is required to take it. The rate is only charged to the extent a customer wishes to be able to take power from the distributor if its own generation is at some point inadequate for its needs. The rate is paid to ensure that power is available when called upon by the customer. Its purpose is to ensure the distributor's costs are covered even if the customer does not actually use the service. The Board sees no reason why large use customers should not also have access to this rate if they want it.

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[7] Ibid p. 60
[8] Ibid p. 62
[9] Transcript Day 6 p. 7

3. Rate Design

There are three aspects of rate design that were contested;

i. The proposed fixed/variable split;

ii. The proposed revenue-to-cost ratios; and

iii. Whether any rate smoothing or mitigation is required.

I. Proposed Fixed/Variable Split

Horizon is proposing to maintain the current fixed/variable split in its rate design for each class. In doing so, some fixed charges are moving further above the ceiling set out in the *Report of the Board, Application of Cost Allocation for Electricity Distributors, EB-2007-0667*.

EP, SEC and VECC argued that if the fixed charges moved further above the top of the range it would be contrary to current Board policy. EP pointed out that the impact of the increase is felt disproportionately by small customers.[10]

Board staff submitted that the Board's current policy direction is to move towards increased fixed charges. Board Staff cited section 2.11.2 of Chapter 2 of the *Filing Requirements for Electricity Distribution Rate Applications* – 2014 Edition for 2015 Rates Applications (the Filing Requirements) which states:

> On April 3, 2014, the Board released its *Draft Report on Rate Design for Electricity Distributors (EB-2012-0410)* which proposed implementing a fixed monthly charge for distribution service. While the policy consultation is still ongoing, distributors can propose a fixed monthly charge within their applications based on the proposed policy options as applicable, for the Board's consideration. In proposing a fixed monthly service charge to recover distribution service costs, the distributor must provide an explanation of the method used to design the fixed charge.

VECC argued that it would be imprudent to pre-judge the outcome of the Board's review of rate design and pointed out that the Settlement Agreement has changes in rate design policies as a re-opener in the event the Board does change its policy.[11]

[10] Transcript Day 5 p. 32
[11] ibid p. 14 - 15

Horizon cited five cases in which the Board has allowed increases which move the fixed charge further away from the ceiling.[12]

Board Findings

The Board accepts Horizon's proposal. While the Board's current policy direction is to move toward an increased fixed charge, this consideration was not the sole basis upon which the Board reached its Decision. The Settlement Agreement contains a re-opener provision which would address any policy change related to an increased fixed charge.

A fixed/variable split above the ceiling was approved in Horizon's last cost of service proceeding.[13] In this application, Horizon has maintained the fixed/variable split.

The Board notes that a principle of rate design is that in most circumstances rate stability is desirable. Counter-direction in rates can be confusing to ratepayers. Horizon has chosen to maintain a fixed/variable split that moves above the ceiling. Intervenors argue that this is contrary to the Board's report in EB-2007-0667.

The Board has reviewed this application in its totality as a custom application. Horizon has used its past fixed charges (approved after the Board's report in EB-2007-0667), as its starting point and has maintained the same ratio.

In considering this custom application, the Board has determined that in this particular case, Horizon's proposal to maintain the fixed charges, even though it may move some fixed charges away from the ceiling, is reasonable.

II. Proposed Revenue-to-Cost Ratios

Horizon proposes to bring the customer classes whose revenue-to-cost ratios are above the upper boundaries of the Board's ranges down to the upper boundary and to allocate the associated revenue shortfall to the rate classes whose ratios are below 100 percent by an equal percentage with the exclusion only of the standby class.

Board staff noted that the proposed revenue-to-cost ratios are appropriate as they are within the approved ranges set by the Board. AMPCO suggested that over the 2016 – 2019 period there should be gradual movement to 100%.

At issue is the distribution of the shortfall in revenues resulting from reducing the revenue-to-cost ratio for some classes. CCC, EP, VECC, and SEC all proposed a step-

[12] Transcript Day 6 p. 9
[13] EB-2011-0131

wise approach to recovering the revenue shortfall as opposed to the equal percentage increases proposed by Horizon. This step-wise approach would increase the lowest ratio to the next lowest ratio. If that was insufficient to make up the shortfall, those classes would then be raised to the next lowest ratio and so on until the shortfall is recovered. EP filed Exhibit K5.1 which showed the revenue-to-cost ratios that would result from this step-wise approach. This approach was approved by the Board in Cooperative Hydro Embrun Inc. EB-2013-0122.

VECC submitted that the year-to-year bill impact of changes on individual customer classes could be smoothed by not reducing the revenue-to-cost ratio for the LU(2) class all the way to 115 percent in 2015, thereby necessitating an increase in the ratio from 68.3 percent to 85 percent in 2016, and from 62.7 percent to 85 percent again in 2017. VECC acknowledged that the current annual bill impacts are below the 10 percent bill impact that would trigger the need to consider bill impact mitigation. VECC submits that rather than looking at each year in isolation, the Board should direct Horizon to take a longer view that results in revenue-to-cost ratio adjustments for the LU(2) class being paced or smoothed over a five-year custom IR period.[14]

Horizon argued that the Board has no definitive policy on recovering shortfalls that arise from reducing the revenues of classes above the allowable revenue-to-cost ranges.[15] Horizon referred to Exhibit K6.1 Tab 4 to illustrate the impacts by class between its proposal and that of EP's step-wise proposal. Horizon pointed out that in its view, generally there is a minimal impact on customers except for the street lighting class.[16] Street lighting is impacted, starting in 2015, by about $24,000 per month.

Board Findings

The Board agrees with the proposal by Horizon to bring customer classes whose revenue-to-cost ratios are above the upper boundaries of the Board's ranges down to the upper boundary and to allocate the associated revenue shortfall to rate classes whose ratios are under 100 percent. Horizon proposes to do this by way of an equal percentage, with the exclusion of the standby class.

The Board agrees with the proposed approach. The end result is that all customer classes will be within the Board's approved ranges. Intervenors have suggested that these changes be made using a stepped approach. The Board's policy is not prescriptive on how a utility brings its revenue to cost ratios within the appropriate

[14] Transcript Day 5 p. 11
[15] Transcript Day 6 p. 15
[16] Transcript Day 6 p. 15-16

range. The Board notes that using Horizon's method, the majority of customers will see a minimal impact. The stepped approach would result in a large change for the street lighting class. The Board favours the approach put forward by Horizon as it will result in a smaller impact for the street lighting class. The method chosen by Horizon, while not the only method available, is a reasonable one.

III. Rate Mitigation

Horizon submits that no rate mitigation is necessary for any of the years in the period covered by this application, and noted that the total bill impacts are far below the 10 percent threshold in each year for all customer classes.[17]

Some Intervenors were concerned about variances in the revenue-to-cost ratios from year to year. VECC referred to the movement specifically in the proposed new LU(2) class. The revenue-to-cost ratios decrease from 2014 to 2015, but increase for 2016 and 2017. While VECC accepted the necessity to increase rates in 2016 and 2017, as a result of capital work specifically for this class, it suggested that the changes in revenue-to-cost ratios should be smoothed by using a longer range view of the revenue-to-cost ratio adjustments.[18]

EP stated that the variance is so great that it should not be approved. It submitted that ratios should not move further away from 100% than the ratios approved for 2015.[19]

In Reply, Horizon referred to Exhibit K6.1, Tabs 5 and 6. Tab 5 shows the distribution bill impacts and total bill impacts relative to the 10% rate mitigation threshold for each rate class over the five years of the Custom IR. Similarly, Tab 6 compared the same array of rate impacts to the variations in the revenue-to-cost ratios. Horizon concluded that there is no material rate volatility, with no undue rate impacts, and therefore no cost allocation smoothing is needed.[20]

Board Findings

The Board finds that no rate mitigation is required. The Large Use class will see a substantial percentage increase in 2016 and 2017, but this follows what will be a very significant decrease in 2015 rates. Horizon's evidence is that this increase results from a large amount of capital work being undertaken which will specifically benefit the Large Use class. Horizon advised these customers that a decrease in rates will be followed

[17] Transcript Day 6 p. p. 18 - 19
[18] Transcript Day 5 P. 10 - 11
[19] Transcript Day 5 p. 36 - 37
[20] Transcript Day 6 p 17 - 18

by an increase in rates in the following years of the rate plan. Horizon's evidence was that none of the members of this rate class objected to this approach. The Board also notes that AMPCO, which represented the interests of this class of customers in this proceeding, did not request any rate mitigation or smoothing. Based on the evidence in this application, the Board is satisfied that rate mitigation is not required.

4. Street Lighting

Horizon updated its street lighting allocation factor for the device/connection ratio. The update was based on *Horizon Utilities City of Hamilton Street Light Audit, November 6, 2013* prepared by Utility Solutions Corporation (the Audit).[21] Horizon stated that the Audit provides the Board with the best, most up-to-date information available. Horizon submitted that the actual ratio of devices to connections was lower than the 2:1 ratio that had been assumed historically and used in Horizon's 2011 cost of service application. Based on this new ratio, Horizon submitted that the City has been underpaying for its service.[22]

Board staff, EP and VECC agreed that the new ratio of devices to connections of 1.3141:1, as proposed by the Audit, should be used. VECC submitted that the Board has historically decided not to narrow the 70 to 120 percent target range for the revenue-to-cost ratio for street lighting because of uncertainty related to terminology and methodology used to allocate costs to street lighting.[23] Energy Probe submitted that Horizon has provided an Audit that results in more accurate data related to the ratio of devices to connections for the street lighting class noting that there is no evidence to support a different ratio.[24]

The City submitted that the evidentiary basis for determining street lighting rates has not been properly established and pointed out that the overall changes to the cost allocation model has raised its electricity costs. The City objected to using the results of the Audit in the cost allocation model on the grounds that, in its view, the Audit was incomplete and contains unresolved issues.[25] The City further stated that Horizon is motivated not just by an interest in allocating costs in accordance with cost causality; but that other evidence suggests that changes to the model were intentionally selected by Horizon in

[21] C of H 7 Interrogatory Response
[22] Transcript Day 6 p. 8
[23] *Report of the Board Review of Cost Allocation Policy for Unmeterd Loads December 19, 2013*
[24] Transcript Day 5 p. 30
[25] Transcript Day 5 p. 19 - 20

order to retain the customers that will form the LU(2) class.[26] The City submitted that the Elenchus analysis is, again, purpose-driven. It was purpose-driven in that they were directed, necessarily or by implication, to find a reason to lower the rates for the Large Use class.

In Reply, Horizon presented a table that itemized the cost impacts due to the mandatory step-wise increases in revenue-to-cost ratios for street lighting in order to raise the revenue-to-cost ratio to the bottom of the range over a period of years, IRM adjustments, and the cost impact of the device to connections ratio. Horizon submitted that the change in the ratio of device to connection represents an amount of $272,000 of the total $1.6 million increase that the Street Lighting class has experienced over the 2007 – 2015 period.[27] Horizon stated that the Audit is the best information that it has.

Horizon also referred to the Settlement Agreement approved by the Board. The Settlement Agreement contains certain re-openers which are defined the Settlement Agreement. The City took the view that if the re-opener provision in the Settlement Agreement captured the outcome of the Navigant cost allocation review process for unmetered loads, then the City's concern would be addressed.

Board Findings

The Board agrees with the ratio of devices to connection as proposed by Horizon. The evidence provided to the Board in the form of the Audit conducted by Horizon is the best information that the Board has before it. To the extent that Horizon and the City contest connections, this appears to be an issue in only a small number of cases.

The Board is concerned that there appears to be confusion between the City and Horizon as to how the current rate order should be interpreted as between a connection and a device. The Board urges Horizon to take the necessary steps to make it clear to the City on what basis they are being billed.

The Board is currently undertaking an initiative which will review the physical configuration of street-lighting connections (daisy chain) and how costs should be appropriately allocated. In the event that there is direction from the Board with respect to a new policy concerning the methodology for cost allocation related to street lighting which is applicable to Horizon, the Board is of the view that the Settlement Agreement provides that Horizon will adjust street lighting rates accordingly.

[26] Transcript Day 5 p. 20 - 22
[27] Exhibit K6.1 Tab 9

5. Creation of Large Use (2) Customer Class

Horizon submitted that its Large Use customers were concerned about electricity costs and how costs were being allocated to them. As stated above, Horizon retained Elenchus to determine whether Horizon's approach to cost allocation could be refined to better reflect the principle of cost causality.[28] According to Horizon, Elenchus found that the largest customers in the Large Use customer class are served exclusively with dedicated facilities, and that keeping those customers in the current large-user class would result in them being allocated costs for pooled distribution facilities that they do not use. Those concerns have been addressed by Horizon through the proposed creation of the LU(2) class.[29]

Initially, Horizon proposed that the criteria for inclusion in the LU(2) class be that the customer has a demand greater than 15 megawatts, and that they are served from dedicated assets. This resulted in four large customers being in the proposed class. Subsequently, as a result of exchanges during the oral hearing process, Horizon revised its proposal to define the proposed LU(2) class as those customers with a demand greater than 5 megawatts, and being served with dedicated assets. Horizon submits that the change in the demand level criterion (from 15 to 5 megawatts) was in recognition of the fact that one of Horizon's large user customers with a demand of 9 megawatts is also served by dedicated assets.

VECC, CCC, and Board staff supported Horizon's proposal on the basis that it is consistent with the principles of customer classification and cost causality. AMPCO also supported the proposal on the basis that those large users that are served by dedicated facilities do not participate in the use of shared, pooled assets. AMPCO suggested that if these customers were to stay in the current large use class, they would be allocated costs for pooled distribution facilities that they do not use and would therefore be subsidizing other rate classes.[30]

Energy Probe suggested that there is no need to create a new large use class as directly allocated costs can be allocated to the existing large use class in the same way as done in the Elenchus study. Energy Probe was concerned about the potential deviation from the concept of postage stamp rates, and submitted that rate classes should be based on load characteristics, not on the location of the assets that serve

[28] Transcript Day 4 p. 5
[29] Ibid p. 5
[30] Transcript Day 5 p. 47

them.[31] The City opposed Horizon's proposal on the basis that there could be several factors driving it other than cost causality (e.g. customer retention).[32] SEC echoed a similar concern. The City suggested that cost causality is only one of many factors that should be considered in ratemaking. BOMA agreed generally with Energy Probe's submission, but suggested that, if approved by the Board, it should be phased over the five-year plan period.[33] SEC disagreed with the principle that customers should not pay for the assets that they do not use. Instead, SEC spoke of the "pooling principle" and suggested that it cannot be ignored for one class only.[34] SEC suggested that "there are lots of other users that have dedicated assets in other classes".

Horizon submitted that its proposal was mainly driven by cost causality, but also stated that it is prudent utility management to also make strategic decisions, to the extent that they can, that benefit both the utility and its ratepayers.[35]

Horizon emphasized the notion that customers who use dedicated assets should pay for those assets, but on the other hand, customers should not pay for assets (e.g. pooled assets) that are used by other rate classes.

Board Findings

In response to questions from the Board, Horizon confirmed the following:

1. The current Large Use class includes eleven customers with capacities greater than 5 Megawatts.
2. Of the eleven customers, five use dedicated assets which are not used by the other six customers or any other customer in any other class.
3. The five customers included in the proposed LU(2) class do not use any of the pooled assets that are used by the other six customers or any other customer class.
4. No other customers in any of the other customer classes use dedicated assets.[36]

The Board finds that the proposal put forward by Horizon to establish a new large use customer class (LU(2)) based on having a capacity greater than 5 Megawatts and using

[31] ibid p. 28 – 29
[32] Ibid p. 26
[33] Ibid p. 62 - 63
[34] Ibid p. 100 - 101
[35] Transcript Day 6 p. 31 - 32
[36] Ibid p. 38 - 39

dedicated assets, is appropriate, and reflects the principle of cost causality. The Board, therefore, approves the establishment of the LU(2) customer class.

6. Establishment of a New US Steel Variance Account

Horizon requested that the Board authorize the establishment of a new symmetrical variance account to address potential changes in the U.S. Steel Canada's demand over the next five-year plan period, in light of U.S. Steel's recent announcement that it has sought protection under the *Company's Creditor's Protection Act*, if the Board did not approve the new LU(2) class.

Horizon emphasized that it fully intends to honour the Settlement Agreement that has been approved by the Board and has no intention of revising the load forecast agreed to by the parties, but that it is in both Horizon's interest and the interest of its customers that Horizon has a reasonable opportunity to recover the revenue requirement agreed upon in this proceeding and approved by the Board. Horizon submitted that the proposed variance account will allow for this opportunity.

Horizon stated that if the Board does approve the creation of the LU(2) class, the variance account will not be necessary, as the potential foregone revenue in the event that U.S. Steel Canada ceases its operation in Hamilton will be below Horizon's materiality threshold.

Board staff, VECC, CCC, Energy Probe, and AMPCO supported Horizon's proposal, while BOMA and SEC opposed it. Energy Probe suggested that, given the various potential scenarios regarding U.S. Steel Canada's future, the variance account should be established regardless of whether or not the Board approves the proposed LU(2) customer class.

Board Findings

Horizon only sought the creation of a US Steel variance account in the event that the new LU(2) customer class was not established. As set out above, the Board is approving the establishment of the proposed LU(2) customer class and is therefore not required to make a finding on this issue.

Implementation

The Board directs Horizon to file a Draft Rate Order complete with detailed supporting material, including all relevant calculations showing the allocation of the revenue requirements from the Settlement Agreement to the classes for 2015 to 2019, the determination of final rates and all approved rate riders, including bill impacts, and a calculation showing reconciliation of the total revenues by class to the revenue requirements. Supporting documentation shall include, but not be limited to, the filing of completed versions of the Revenue Requirement Work Form Excel spreadsheet, and the Cost Allocation Excel spreadsheet reflecting the Board's findings. Details of the revenue-to-cost ratios and the fixed variable splits are also to be included.

The Board Orders That:

1. Horizon shall file with the Board, and forward to all intervenors, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings no later than December 18, 2014.
2. Board staff and intervenors shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Horizon no later than December 23, 2014.
3. Horizon shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order including the revised models and proposed rates no later than December 30, 2014.
4. Intervenors shall file with the Board and forward to Horizon their respective cost claims within 7 days from the date of issuance of this Decision and Order.
5. Horizon shall file with the Board and forward to intervenors any objections to the claimed costs within 17 days from the date of issuance of this Decision and Order.
6. Intervenors shall file with the Board and forward to Horizon any responses to any objections for cost claims within 24 days of the date of issuance of this Decision and Order.

7. Horizon shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote the file number, **EB-2014-0002**, be made through the Board's web portal at https://www.pes.ontarioenergyboard.ca/eservice/ ,and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

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DATED at Toronto, December 11, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary