ONTARIO ENERGY BOARD

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 or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2016.

SUBMISSIONS OF THE CITY OF HAMILTON

I INTRODUCTION

1. Horizon Utilities Corp. ("Horizon") has submitted its Annual Filing pursuant to its Custom Incentive Rate-setting mechanism approved by the Ontario Energy Board ("OEB") in 2014-0002. In the Annual Filing Horizon proposes, among other things, to adjust the way in which it calculates rates for its street lighting class.

2. The City of Hamilton (the "City") is the principal customer of Horizon in the street lighting class. If Horizon's proposal for the rates for the street lighting class is accepted there will be a substantial reduction for the rates for that class.

3. The City has intervened to support Horizon's proposed rates for the street lighting class, for the reasons set out below. The City's submissions herein are limited to that issue.

II BACKGROUND

4. In EB-2012-0383, the OEB undertook a review of its cost allocation policy for unmetered loads. In the Report of the Board dated December 19, 2013, the OEB made the following observation:

> The Board remains concerned with the allocation of costs to daisy-chain configured systems. The disparity in the cost allocation result between a street lighting customer configuration with multiple

> devices per connection and a street lighting customer with a device to connection ratio close to 1:1 appears to be disproportionate when compared to actual costs to serve the street lighting rate class. The Board believes that further investigation is necessary before making a determination. The Board will issue a letter shortly to begin a consultation process for this single issue.[1]

5. The City submits that the implication of that statement is that, depending on the configuration of street lighting systems, the rates charged to the members of the street lighting class may have been incorrect, that is that they may not have been just and reasonable.

6. The City intervened in Horizon's Custom IR application. It asked the OEB to freeze the rates for the street lighting class until the consultation process contemplated by the OEB in its Report in EB-2012-0383 was completed. The City's concern, namely that it would be premature to approve rates for the street lighting class based on a cost allocation methodology that might soon be changed, was heightened when, on August 21, 2014, while Horizon's Custom IR application was pending, the OEB issued a letter indicating that it had engaged Navigant Consulting Limited ("Navigant") to undertake a study of, among other things, the existing methods of cost allocation and their appropriateness for application to the various street lighting system configurations.

7. The intervenors and Board Staff opposed the City's request that the rates for the street lighting class be frozen. They took the position that, among other things, rates for that class be based on the then-existing best available information.

8. In its Decision and Order, dated December 11, 2014, in EB-2014-0002, the OEB denied the City's request that the rates for the street lighting class be frozen. In doing so, the OEB made the following statement:

> 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

[1] Report of the Board, *Review of the Board's Cost Allocation Policy for Unmetered Loads* EB-2012-0383, December 19, 2013, p. 6.

> view that the Settlement Agreement provides that Horizon will adjust street lighting rates accordingly.[2]

9. The City submits that the logic of the OEB's decision in EB-2014-0002 is that, depending on the outcome of the Navigant study, the City, and therefore its residents, may be paying more for its street lighting services than they should be. They would, in other words, be paying for costs which they did not cause.

10. The Navigant study was released on June 12, 2015. The study confirmed the City's concerns that the way the street lighting costs were determined, and therefore the rates being paid for street lighting services, needed to be changed. Navigant recommended a new approach.

11. On June 12, 2015, the OEB issued a new policy regarding the cost allocation for two major types of street lighting configurations, namely, one-device-per-connection (1:1) systems, and multiple-device-per-connection (daisy-chain) systems. The OEB stated that a new street lighting adjustment factor ("SLAF") would be used to allocate costs to the street lighting class for primary and line transformer assets. The OEB adopted the recommendations of the Navigant study.

12. The result of applying the SLAF to Horizon's street lighting class would, without other adjustments, result in a nearly 50% reduction in the costs allocated to that class.

13. Had the formula recommended by Navigant been in place for 2015, the first year of Horizon's Custom IR term, the City and its residents would have paid substantially less in rates for street lighting services. Given that the factual circumstances underlying the SLAF existed throughout 2015, the rates charged to Horizon's street lighting class in 2015 were, in retrospect, neither just nor reasonable.

III HORIZON'S PROPOSAL FOR THE STREET LIGHTING CLASS

14. Horizon's proposal for the rates for the street lighting class for 2016 has three components, as follows:

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[2] *Decision and Order*, EB-2014-0002, December 11, 2014, p. 13.

(a) Carrying out of the OEB's new SLAF policy;

(b) A reduction in demand due to the installation by the City of LED lights; and

(c) A change in the revenue-to-cost ratio for the street lighting class.

15. The combination of these factors will result in a reduction in the costs allocated to the street lighting class in the amount of approximately $1.1 million annually, according to Technical Conference Undertaking Response JTC9(b).

16. Of the three components listed in paragraph 14 above, the City submits that the first two should be accepted essentially automatically. The first, namely the application of the SLAF, carries out an OEB policy.

17. The second, namely the reduction in demand due to the installation by the City of LED lights, reflects the Provincial Government's policy on conservation. One of the OEB's objectives, set out in section 1 of the *Ontario Energy Board Act, 1998*[3], is to promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario. Were the OEB not to incorporate the reduction in demand into the calculation of the street lighting rates it would be providing a disincentive to the pursuit of conservation measures.

18. Incorporating the reduction in demand would also result in allocating costs according to the best available information, something which the OEB relied on in its Decision and Order in EB-2014-0002 at page 13. Finally, reflecting the decrease in demand would reduce the cost burden borne by the City and its residents by some $182,000, according to Technical Conference Undertaking Response JTC15. The City submits it would be neither reasonable nor fair for it and its residents to bear that additional cost in light of the conservation measures undertaken by the City.

19. The City submits that the first two components of Horizon's proposal for the rates for the street lighting class do not reflect choices on the part of Horizon. They do not reflect, in

[3] *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B

other words, the exercise of discretion by Horizon. The third component of the proposal, namely a change in the revenue-to-cost ratio for the street lighting class, does in some measure reflect the exercise of discretion by Horizon.

20. In its June 12, 2015 announcement of the new cost allocation policy for the street lighting class, the OEB stated that the revenue-to-cost ratio range for the street lighting class should be narrowed from the current 70 % - 120 % to 80% - 120 %. Horizon's prefiled evidence indicates that, without adjusting the ratio for the street lighting class, the ratio would be 160%. It would, in other words, be well beyond the OEB's required range. Horizon proposes that the revenue-to-cost ratio for the street lighting class be 100%.

21. The City submits that the Horizon's proposed revenue-to-cost ratio for the street lighting class reflects a reasonable and fair exercise of its discretion. It reflects what Horizon describes as a "comprehensive approach to establishing appropriate rates for the Street Lighting class"[4].

22. The City further submits that Horizon's proposal for the revenue-to-cost ratio for the street lighting class reflects an appropriate consideration of the past treatment of that class. In proposing that the revenue-to-cost ratio be 100%, Horizon cites, at page 20 of 61 of its prefiled evidence, what it calls the "substantial rate volatility experienced by the street lighting class over the years".

23. In response to a Board Staff Technical Conference question, Horizon expanded on the observation cited in the preceding paragraph, in the following way:

> The cost allocation methodology applicable to the street lighting class has been contested and under review for many years. It was under the previous, contested methodology that Horizon Utilities' rates for its street lighting customers were raised by over 800%. As a result of this dramatic escalation in the street lighting rates, the recent implementation of the Street Light Adjustment Factor approach to setting rates for the street lighting class has produced a revenue to cost ratio of 160.9%. If the new policy had been in place previously, the street lighting ratio would likely have

[4] Technical Conference Undertaking Response JTC23.

> remained well below 100%. The bottom end of the approved range was previously 70%.
>
> In recognition of this rate volatility that has been a direct consequence of the contested methodology for setting street lighting rates, Horizon Utilities is proposing to move the street lighting class to a revenue to cost ratio of 100%.
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> Horizon Utilities is aware that normally, if the Cost Allocation model produced a result of 160.09% as the current Cost Allocation Model shows for the street lighting class, the policy would be to move the street lighting class to the top end of the OEB's range. This would result in a revenue to cost ratio of 100% for the street lighting class. Given the unique history of the cost allocation methodology for the street lighting class, Horizon Utilities believes that it is just and reasonable to move the class to a revenue to cost ratio of 100% at this time, rather than 120% that would apply in the absence of these unique circumstances

24. The City submits that recognition of that "substantial rate volatility" is entirely appropriate. The City submits that, as matter of fairness, the street lighting class should get the benefit of a revenue-to-cost ratio of 100%. If, for example, the revenue-to-cost ratio were set at 120%, the revenue-to-cost ratio would be the highest of all of the rate classes of Horizon. At 100%, it would be in the middle of all of the classes.

25. In its Decision and Order, dated December 11, 2014, in EB-2014-0002, the OEB made the following observation with respect to Horizon's then-proposed revenue-to-cost ratios:

> The Board's policy is not prescriptive on how a utility brings its revenue to cost ratios within the appropriate range… The method chosen by Horizon, while not the only method available, is a reasonable one. [5]

26. In Technical Conference Undertaking Response JTC15, Horizon describes the analysis it undertook to adjust the revenue-to-cost ratios of its rate classes. The City submits that the analysis, and the results, are both reasonable and fair.

27. In deciding whether to approve Horizon's proposed revenue-to-cost ratio for the street lighting class, the OEB might consider whether the proposal has an undue impact on other rate classes. In Technical Conference Undertaking Response JTC27, Horizon sets out its

[5] *Decision and Order*, EB-2014-0002, December 11, 2014, pp. 10-11.

analysis of the impacts of its cost allocation proposal on other rate classes. That analysis confirms, the City submits, that Horizon's proposal is a reasonable one. In addition, Horizon's proposal for the treatment of its street lighting class has a minimal impact on other rate classes. In particular, the proposal that the revenue-to-cost ratio for the street lighting class be 100 % has essentially no impact on the residential rate class. All of the rate classes have had the benefit, for at least the past year, of the overpayment of rates by the street lighting class.

28. The City submits that Horizon's proposed revenue-to-cost ratio for the street lighting class is reasonable. In contrast, setting the revenue-to-cost ratio for that class at 120% would be arbitrary and have no reasonable basis.

IV Conclusion

29. The City submits that Horizon's proposed treatment of the rates for the street lighting class are reasonable, fair, and consistent with OEB policy.

30. The City submits that the OEB should accept Horizon's proposal for the rates for the street lighting class.

All of which is respectfully submitted.

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