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Our File No. 155905

November 12, 2015

VIA RESS, EMAIL AND COURIER

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attention: Kirsten Walli
Board Secretary

Dear Ms. Walli:

Re: EB-2015-0075 - BOMA Submission

Please find attached BOMA's Submission.

Yours truly,

FOGLER, RUBINOFF LLP

Thomas Brett
TB/dd
Encls.
cc: All Parties *(by email)*

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EB-2015-0075

Horizon Utilities Corporation

Application for electricity distribution rates and other charges effective January 1, 2016.

SUBMISSION OF

BUILDING OWNERS AND MANAGERS ASSOCIATION, GREATER TORONTO ("BOMA")

November 12, 2015

Tom Brett
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Counsel for BOMA

Submission

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1. Proposed Deferral Account

Horizon has asked for approval of an Accounting Order to establish a Deferral Account effective January 1, 2016, to record incremental costs related to the implementation of monthly billing (Annual Updated Filing ("Filing"), T2, p44).

BOMA has several concerns with this request.

First, Horizon is asking that the account have a capital sub-account and a sub-account for Operation, Maintenance, and Administration. The proposed capital sub-account is contrary to the Board's policy, as stated in EB-2014-0198 (p3). There, the Board stated:

> "With respect to the costs associated with the transition to monthly billing, the OEB notes that distributors can apply for a deferral account with evidence demonstrating that such an account would meet the eligibility requirements. The eligibility requirements are described in section 2.12.7 of the OEB's Filing Requirements for Electricity Distribution Rate Applications. <u>Any deferral account would generally be for incremental administration costs. Prudently incurred capital expenditures would be included in rate base at the next cost of service application</u>" (our emphasis).

Horizon has not submitted any evidence as to why the Board should make an exception in this case.

Second, while asking to be reimbursed for its capital and operating costs of implementing monthly billing for the residential and general services under 50 kV rate classes, Horizon has not deducted any of the savings that it would likely receive from moving to monthly billing. These include notably, a reduction in rate base due to lower working capital which will result in a reduction to the return, depreciation, and tax components of its "revenue requirement" and the savings which should be realized from its efforts to increase the number of its customers on electronic billing (for example, the utility's e-bill and e-post by Canada Post). On the latter point, the company's evidence is that there are currently on a few thousand of its 214,257 bimonthly billed customers on electronic billing. Given the large percentage of the incremental cost of implementing monthly billing accounted for by postage, paper and envelopes, the savings should be substantial. Horizon claims, in its response to EP.2(b), that these savings were included as in rates in EB-2014-0002 is unsupported by evidence from that case, including in Horizon's response to BOMA.8(a), including any estimate of the amounts. [The only specific reference to estimated e-billing savings was at Attachment 3, Customer Service, to the IR reply, which includes an item: E-billing for Multi-Account Customer with 2016 projected savings of $17,000.00].

Third, the amounts Horizon proposes for inclusion in the account to recover in rates are substantial, accounting for over $6 million over a four year period prior to 2019, with additional annual increases due to "postage, printing, and stationery costs" (Filing T2, p45). These are gross amounts and do not reflect offsetting savings (reduced costs) amounts that should also be entered into the accounts, such as savings from electronic billing and the reduction to working capital which are caused by the move to monthly billing. As to the former point (impact on working capital), the company's evidence is that the revenue requirement impact of the reduced working revenue requirement due to the move to monthly billing is set out at EP.2(k)(iii), Table 2. The amounts are: 2016

($1.407 million), 2017 ($1.460 million), 2018 ($1.528 million), and 2019 ($1.592 million). These amounts largely offset the estimated incremental costs for each of those years to implement monthly billing. The savings should be recorded in the account as well as the costs, given the Board's new working capital allowance policy, issued on June 3, 2015, and given that Horizon will, in fact, realize substantial savings over the next few years due to the lower working capital it requires with monthly billings. It would be unreasonable to allow Horizon to recover incremental costs caused by the change to monthly billing from its ratepayers, while denying those ratepayers the benefits (via lower working capital) that flow from that change.

Horizon's evidence is that its current working capital requirement would decrease from its current 12% to 8.7% once residential and general service <50 customers are on monthly billing (EP.2(h)). The 8.7% figure was based on a lead-long study performed by Navigant for Horizon as part of the EB-2014-0002 application.

Unfortunately, Horizon has not included the resulting reduction of revenue requirement in rates in its 2016 rates application, nor does it intend to record the reductions in the proposed deferral account. Horizon is currently using a 12% working capital requirement in its forecast rate bases over the custom IRM term.

Horizon's position in this case contradicts the evidence Horizon submitted in its EB-2014-0002 case, in its response to EP.2 – 11(c) (reproduced in this case at EP.2(1)), where it stated it was Horizon Utilities' expectation that it would commence recovery of one-time and ongoing incremental costs, identified in (b) at the same time as the adjustment to working capital. That position is reasonable as the application for the deferral account makes relevant the timing of the introduction of the reduction in working capital allowance. In the circumstances of this case, it is not appropriate for Horizon to wait until rebasing to pass on the benefits of the reduced working capital allowance to ratepayers, notwithstanding the Board's comment on the timing in its June 3, 2015 letter.

In addition, the change in policy on the working capital allowance policy is an unexpected and non-routine event, which provides a cost savings of a material amount for ratepayers, as it falls within the now generally-accepted definition of a Z-factor which the Board set out in EB-2012-0459 (pp19-20). There, the Board stated:

> "The criteria will be as follows:
>
> (i) Causation: The cost increase or decrease, or a significant portion of it, must be demonstrably linked to an unexpected, non-routine event.
>
> (ii) Materiality: The cost at issue must be an increase or decrease from amounts included within the Allowed Revenue amounts upon which rates were derived. The cost increase or decrease must meet a materiality threshold, in that its effect on the gas utility's revenue requirement in a fiscal year must be equal to or greater than $1.5 million.
>
> (iii) Management Control: The cause of the cost increase or decrease must be: (a) not reasonably within the control of utility management; and (b) a cause that utility management could not reasonably control or prevent through the exercise of due diligence.
>
> (iv) Prudence: The cost subject to an increase or decrease must have been prudently incurred."

The definition makes it clear that Z-factor events can cause increases, or decreases, in utility costs.

The change in working capital is a Z-factor and rates should be adjusted accordingly, either directly or through inclusion of the resulting savings in the proposed deferral account.

2. Cost Allocation

Horizon is proposing, as a matter of rate design, to reduce the street lighting class revenue to costs ratio from 160.09% to 100% (Filing, T2, pp20-21).

BOMA does not agree with the proposal. Rather, it suggests that the new revenue to cost ratio be the upper boundary of the range, 120%. A new range for the street lighting rate class (80% to 120%) was established by the Board in EB-2012-0383, Review of Cost Allocation Study for Unmetered Loads, issued June 12, 2015.

Horizon's evidence (reply to Board Staff, Technical Conference Question 11), is that normally, if the Cost Allocation model produced a result of 160.09%, the policy would be to move the class to the top end of the OEB range for that class, in this case, 120%. However, Horizon goes on to suggest that given the unique history of the cost allocation methodology for the street lighting class, it is reasonable to move the street lighting class all the way to 100% rather than to the top of the range. It also stated that the move is made to:

> "recognize that the street lighting ratio would have remained at below 100% if the new street lighting policy (EB-2012-0283) had been in place in past years" (Filing, T2, p21).

While BOMA is sensitive to the peculiar history of Horizon's street lighting rates and the amount of dissent the issue has caused in recent years, BOMA is of the view that Horizon's stated rationale is not a valid reason for changing the normal practice, and may have harmful unintended consequences. BOMA questions whether it is wise to base forward looking rate design decisions, which reflect a new policy, on a desire to explicitly compensate a rate class for benefits it would have received from applying that new policy retroactively. We understand it is a well-intentioned "patch" but suggest a better approach would be to reduce the ratio to the top of the range, at this time, still a substantial (25%) reduction.

3. Impact of Hamilton's Energy Efficiency Program

Hamilton and three other entities have reduced their street lighting load by 1.615 KW in 2016, relative to 2015 by installation of LED street lights. It is in effect an energy conservation program for the entire rate class, undertaken and paid for by the customer. The estimated reductions are based on the manufacturers' specifications and undertakings. The actual results are, of course, not yet tabulated, since the conversion is being done in 2015.

The 2016 proposed revenue requirement for the street light claims declined by $182,359. While the revenue requirement for the other classes have been increased to recover that amount (SEC, Technical Conference Question 3).

Horizon has stated that it will not reduce street light class load (demand) over the IRM period, as load adjustments were not included as annual adjustments in the EB-2014-0002 Settlement Agreement. However, this approach is inconsistent with the Board's overall DSM objectives, which should recognize real DSM reductions as they occur. Accordingly, BOMA would support the establishment of a deferral account to capture the measured savings from the energy conservation initiative, with the balance to be cleared annually.

All of which is respectfully submitted, this 12th day of November, 2015.

Tom Brett,
Counsel for BOMA

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