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November 16, 2015

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: **EB-2015-0075 – Horizon Utilities Corporation**
2016 Distribution Rates
Vulnerable Energy Consumers Coalition (VECC) – Final Submissions

Please find enclosed the final submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Yours truly,

Michael Janigan
Counsel for VECC

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Registered Intervenors

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HORIZON UTILITIES CORPORATION
2016 RATE APPLICATION

EB-2015-0075

FINAL ARGUMENT - VULNERABLE ENERGY CONSUMERS COALITION

1. INTRODUCTION

On April 16, 2014 Horizon filed a Custom Incentive Rate ("CIR") Application[1] with the OEB for electricity distribution rates effective January 1, 2015; January 1, 2016; January 1, 2017; January 1, 2018 and January 1, 2019. After both an interrogatory process and a technical conference, Horizon and the Intervenors participated in a Settlement Conference that led to a partial settlement which was filed with the Board on September 22, 2014.

With the exception of a few matters[2], the Settlement Proposal set out parties' (including Horizon's) agreement as to the revenue requirement[3] for each of the years 2015 through 2019, subject to certain annual adjustments, re-openers and off-ramps. On October 10, 2014, the Board advised that it accepted the Settlement Proposal. With respect to the unsettled issues, an oral hearing was initiated starting September 30th, 2014 and after receiving submissions from the parties, the Board issued a Decision on these matters on December 11, 2014.

On December 18, 2014, Horizon filed a Draft Rate Order with the Board setting out the revenue requirements, cost allocation and rates for each of the years 2015 through 2019 based on the (partial) Settlement Proposal, and the Board's subsequent Decision on the unsettled matters. On January 8, 2015 the Board issued a Rate Order approving final rates for Horizon effective January 1, 2015, with the exception of rates for the Standby Rate classification which it approved on an interim basis.

[11] EB-2014-0002
[2] These were issues related to Cost Allocation and Rate Design per Settlement Proposal, page 4
[3] Settlement Proposal, page 10

As noted above, the Settlement Proposal included a number of "adjustments" which would be updated annually including: a) changes in the cost of capital, b) changes in working capital, c) changes in tax rates, d) changes in other 3rd party pass-through charges, e) CDM results that vary from plan and give rise to additions to the LRAM variance account, f) disposition of deferral and variance accounts and g) any additional annual adjustments as identified by the Board in developing the Custom IR Application process[4].

The Settlement Proposal also included re-openers which were items that may not arise every year but could result in a change to the revenue requirements and/or distribution rates in a particular year as appropriate. These included: a) changes to income tax rates and laws, b) changes to Ontario Market Rules or OEB Codes that would impact costs or revenues, c) changes to Board policies on distributor rate design, d) changes to environmental laws that would impact business requirements and processes resulting in increased expenditures, e) changes to technical requirements beyond the control of the utility, f) items that would meet the OEB's Z-factor criteria, g) Ministerial Directives or similar required government action, h) accounting framework changes, and i) changes to the revenue allocated to unmetered load customers resulting from changes Board policies on cost allocation for unmetered loads[5].

As a result, it was expected that Horizon would provide an Annual Update Filing which would address the various annual adjustments and reopeners and provide revised rate for approval by the OEB as necessary.

2. HORIZON'S 2016 ANNUAL UPDATE FILING

On August 12, 2015 Horizon filed its Annual Update for 2016 rates. In the filing Horizon set out:

- A revised revenue requirement for 2016 based on changes to the Working Capital Allowance portion of rate base[6] and also noted that the cost of capital

[4] EB-2014-0002, 1-Staff-2 and 1-Energy Probe-5
[5] EB-2014-0002, 1-Staff-2 and 1-Energy Probe-5
[6] Tab 2, pages 41-42

calculations would be updated once the Board issued the Cost of Capital Parameters for 2016[7].

- A revised cost allocation to customer classes based on the Board's Cost Allocation model issued July 16, 2015 which incorporated the Board's new cost allocation policy regarding Street Lighting. In applying the model Horizon also revised the 2016 load forecast for Street Lighting and updated the associated load profile[8].
- A revised proposal with respect to the Revenue to Cost ratios for 2016 that reflected the results of the updated cost allocation but also include a revised approach for determining the adjustments required to the resulting status quo revenue to cost ratios[9].
- A revised set of proposed rates for 2016 that reflected the above changes and also incorporated the Board's new policy regarding distribution rate design for residential customers[10].
- A revised set of RTSRs derived using the Board's updated RTSR model and the most recently available UTRs, STRs and actual load data[11].
- A request for clearance of the balances included in certain deferral and variance accounts by means of class-specific rate riders effective January 1, 2016 to December 31, 2016[12].
- A request to establish a new deferral account to record costs to implement the monthly billing policy established by the Board[13]. However, this request was subsequently withdrawn[14].

After reviewing the Application and considering the responses provided by Horizon to questions posed at the Technical Conference and subsequent undertakings, VECC has concerns regarding two aspects of Horizon's proposal:

[7] Tab 2, page 5
[8] Tab 2, pages 5 and 18
[9] Tab 2, pages 20-21
[10] Tab 2, pages 33-34
[11] Tab 2, page 10
[12] Tab 2, pages 4 and 46
[13] Tab 2, page 4
[14] Horizon Letter of November 5, 2015

- Cost Allocation, and
- Residential Rate Design.

The following sections set out VECC's submissions on each of these topics. As Horizon has noted[15], the 2016 Annual Filing is being submitted pursuant to the Board's Decision (EB-2015-0002) on its CIR Application. Therefore in addressing these issues VECC has (and submits the Board should also) be guided by the provisions of the EB-2014-0002 Settlement Proposal (which was accepted by the Board), the Board's Decision regarding the unsettled matters, and any relevant Board policies issued subsequent to the Decision.

3. COST ALLOCATION

HORIZON APPLICATON

The rates that Horizon is requesting approval for are set out in Appendix B of the filing. In developing these rates, Horizon has used its updated 2016 Revenue Requirement and employed the Cost Allocation model issued by the Board on July 7, 2015, which reflects the Board's new cost allocation policy with respect to street lighting[16].

In its application of the Board's Cost Allocation model, Horizon has updated not only the 2016 revenue requirement from that approved as part of the EB-20014-0002 Settlement Proposal, but also updated the load profile for the Street Lighting rate class used in the cost allocation model[17]. Furthermore, Horizon has proposed a different approach to determining the revenue to cost ratio adjustments required a result of the cost allocation model results than approved in EB-2014-0004[18].

Finally, in response to questions posed for the Technical Conference[19], Horizon has indicated that it is also seeking approval for the 2017-2020 cost allocation inputs and approach set out in its current Application (excluding the revenue requirement).

[15] Tab 1, page 1
[16] Tab 2, page 10
[17] Tab 2, page 18
[18] Tab 2, pages 20-21
[19] Response to Technical Conference Question 4.0-VECC-6 c)

VECC'S SUBMISSIONS

In VECC's view Horizon's proposals with respect to its 2016 Cost Allocation give rise to three (inter-related) issues:

i. Should the Horizon use the new cost allocation model that was issued by the Board earlier this year and which reflects the new Street Lighting cost allocation policy for purposes of determining 2016 rates under its CIR plan?

ii. Should Horizon update the 2016 forecast kWhs for Street Lighting as approved as part of the EB-2014-0004 Settlement Proposal for purposes of the current Application? A related issue is whether the load profile used in the Cost Allocation for 2016 rates should be updated.

iii. What principles/approach should be used in establishing the revenue to cost ratio adjustments for 2016?

There is also a fourth issue regarding Horizon's requested approval for the cost allocation inputs and approach to be used for 2017-2020. However, this issue is largely addressed as part of resolving the first three issues.

Appropriate Cost Allocation Model for 2016 Rates

On June 12, 2015, the Board issued a new Cost Allocation Policy for the Street Lighting. Shortly thereafter, on July 16, 2015, the Board issued an updated version of its Cost Allocation model that incorporated the policy changes with respect to Street Lighting – namely the introduction of a "street light adjustment factor" in the allocation of primary system and line transformer costs. It is this model that Horizon has used in its 2016 Annual Update Filing.

Cost allocation (and specifically the treatment of Street Lighting) was one of the unsettled issues the Board dealt with in its EB-2014-0002 Decision and in its findings stated[20]:

> *The Board is currently undertaking an initiative which will review the physical configuration of street-lighting connections (daisy chain) and how costs should be*

[20] Page 13

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.

The related provisions of the Settlement Agreement (Proposal) that the Decision was referring to are found under Issue 2.4 of the Settlement Proposal wherein the parties agreed to a number of annual adjustments and re-openers as proposed by Horizon in its Application and further explained in response to interrogatories. In particular, the response to Staff 2 specifically noted as one of the re-openers: "Changes to the revenue allocated to unmetered load customers resulting from changes to Board policies on cost allocation for unmetered loads".

With respect to the Board's Street Lighting cost allocation policy, the June 2015 letter from the Board outlining the cost allocation policy change specifically addressed the issue of implementation as follows:

Consistent with past practice, the OEB will implement the changes to street lighting cost allocation policy only through cost of service and Custom IR applications. Where the OEB has addressed the matter of adjustments to street lighting cost allocation and/or rate design in a prior decision, adjustments consistent with the decision will be made in subsequent mechanistic incentive rate-setting mechanism (IRM) applications or as part of a Custom IR annual update.

VECC notes that the Board's letter indicates that the changes in cost allocation policy will only implemented through cost of service and Customer IR applications, which would typically preclude its adoption during an IRM or CIR period after the initial COS or CIR application has been made. However, in Horizon's case, the annual update envisioned as part of its CIR plan gives rise to a revised revenue requirement and therefore the requirement for an updated cost allocation during each year of the plan. As a result, VECC submits that it is appropriate for Horizon to use the July 2015 Cost Allocation model for purposes of its 2016 Annual Filing Update consistent with the Board's EB-2014-0002 Decision.

Update to Street Lighting Load Forecast and Load Profile

Horizon has changed the load forecast used in the 2016 Cost Allocation model from that adopted by parties and approved as part of the EB-2014-0002 Settlement Proposal, reducing the demand by 1,750 kW per month[21]. This difference is the result of two factors:

i. The impact of an LED street light conversion program by the City of Hamilton in 2015 that is estimated to reduce Street Lighting demand by 1,600 kW[22].
ii. The demand for March 2015 of 6,573.63 kW (the last month prior to the commencement of the City of Hamilton's LED conversion) was used as the pre-LED conversion monthly demand as opposed to the 6,727.2 kW in the EB-2014-0002 Draft Rate Order[23].

Horizon also adopted a new load profile for Street Lighting rather than simply a pro-rata adjustment to the load profile used in the cost allocation for the EB-2014-0002 Draft Rate Order[24]. In this regard, there is an important distinction to be made as between: a) the load forecast for a particular class, which defines the total kWh and kW billing determinants for a year, and b) the load profile for a class which establishes the distribution of the kWh throughout the hours of the year and thereby establishes the various CP and NCP factors used in the cost allocation.

In VECC's view neither of the adjustment to the Street Lighting load forecast nor the change in the Street Lighting load profile should be adopted by the Board.

The Board's June 12, 2015 Letter regarding the new Street Lighting Cost Allocation policy the Board indicates that it is adopting "the recommendations included in the Navigant study for the allocation of costs associated with the different street lighting configurations". The Navigant recommendations are found at page 23 of its report and are as follows:

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[21] TCQ 4-VECC-3 d)
[22] TCQ 2-Staff-11
[23] TCQ 4-VECC 3 d)
[24] TCQ 4-VECC 3 e) and JTC 12

1. The allocation of the primary and line transformer assets and related costs to street lighting be calculated using a newly devised "street lighting adjustment factor" instead of the existing allocation that is based on number of street lighting connections.

2. The street lighting adjustment factor is calculated as the ratio of i) the four highest monthly non-coincident peak demands (NCP46) for the residential customer class divided by the number of residential customers, and ii) the NCP4 for the street lighting customer class divided by the number of streetlight devices.

3. No change for the allocation of the secondary assets and related costs, which is based on the number of connections.

VECC notes that there is no reference in these recommendations to either the load forecast or the load profiles used for Street Lighting.

Furthermore, while the matter of load profiles for cost allocation is addressed in the Board's June 2015 letter, it is done under a separate heading distinct from the section dealing with the implementation of its new cost allocation policy for Street Lighting. In addition, the section regarding load profiles deals not with just the load profiles for Street Lighting but with the issue of updating load profiles for all customer classes. As a result, it is VECC's submission that the Board's direction regarding the implementation of changes to the cost allocation for Street Lighting does not address issues with respect to either the load forecast or the load profiles used for cost allocation.

Finally, in EB-2014-0002, the Board specifically addressed a proposal by Horizon to update the load profiles for its two large use customer classes and found that[25]:

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

[25] EB-2014-0002 Decision, page 6

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.

Overall, VECC submits that Horizon's proposal to update the 2016 load forecast and load profile for Street Lighting is:

- Not supported by the Board's new cost allocation policy for Street Lighting and therefore not subject to the re-opener provisions of the Settlement Proposal,
- Inconsistent with the 2015-2019 load forecast agreed to as part of the approved Settlement Proposal[26], and
- At odds with the Board's findings in its EB-2014-0002 Decision regarding updates to load profiles.

For purposes of the inputs to the Cost Allocation to be used for 2016 rates, VECC submits that Horizon should use the load forecast as set out in the (approved) EB-2014-0002 Settlement Proposal and the Street Lighting load profile for 2016 as used in the Draft Rate Order filed with Board in the same proceeding.

Horizon expresses the concern that, without this update, the City will not be able to realize the benefits of its LED conversion program until Horizon's next rebasing in 2020[27]. This is incorrect. Even if the load forecast and load profile for Street Lighting is not updated in the Cost Allocation, this does not prevent Horizon from updating the billing determinants for the City of Hamilton to reflect the LED conversion. VECC notes, that such an update is comparable to what would occur if a residential customer undertook CDM measures that had not been incorporated in the load forecast approved and used for the CIR period.

Revenue to Cost Ratio Adjustment Approach

In Horizon's 2016 Annual Update Filing the status quo revenue to cost ratios for the Large Use (2), Street Lighting and Sentinel Lighting classes all fall outside the Board's target ranges for the respective classes[28]. In the filing, Horizon is proposing to increase

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[27] Tab 2, page 14
[28] Tab 2, page 20

the revenue to cost ratio for Large Use (2) to 85% (the lower end of the class' target range) and decrease the Street Lighting ratio to 100%. The shortfall in revenues that results from these adjustments is recovered from all classes with ratios below 100%, with the exception of the Standby class where the variable rate is set so as to be equivalent to that for the GS>50 class[29]. Horizon points[30] out that, with the exception of the proposed change in the Residential ratio to 100%, this approach is consistent with that used in EB-2014-0002 and approved by the OEB. VECC notes if the Board adopts VECC's submissions regarding cost allocation model and inputs, the status quo ratio for Street Lighting will still exceed 120%[31] and the issue regarding the revenue to costs ratio adjustment approach will still exist.

Horizon is aware that normally, if the Cost Allocation model produced a result of 160.09%, as its 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[32]. Indeed this is the approach that the Board approved for Horizon's 2015-2019 CIR plan in the EB-2014-0002 Decision[33]. However, Horizon argues that an exception should be made in order to recognize that the Street Lighting ratio would not have been adjusted upwards as it has been in previous applications, if the new policy had been in place previously[34].

In VECC's view, this logic is inconsistent with the Board's standard practice of implementing policy changes on a prospective basis[35]. It is also inconsistent with the Board's findings with respect to the motion brought forward by the City of Hamilton during the EB-2014-002 proceeding wherein the OEB stated[36]:

> *the Board finds that there is no reason why street lights should be singled out for special treatment pending the review. This in fact is the direction set out by the*

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[29] JTC 15 and JTC 27
[30] Tab 2, pages 20-21
[31] This can be seen by dividing the Street Lighting Revenues at Status Quo Rates ($2,578,963 per the Cost Allocation model filed with the Application) by the Allocated costs With NO Update to Street Lighting ($1,793,324 per JTC 27)
[32] TCQ 2-Staff 13
[33] Page 10
[34] Tab 2, page 21 and TCQ 2-Staff-13
[35] Per the Board's October 7, 2014 letter to Mr. Jay Shepherd regarding the Working Capital Allowance policy
[36] Board Decision, October 29, 2014

Board in the Review of the Board's Cost Allocation Policy for Unmetered Loads EB-2013-0383 Report where the Board introduced the need for further work on the cost allocation methodology as it related to street lights. The Board did not suggest that the revenue-to-cost ratios or rates for street lights should be frozen pending the result. As the Board decided in the City's motion made in the Hydro One proceeding:

> *"The Board has not refrained from setting final rates, even though the ranges have been known to be in a state of flux. The Board considers certainty of rates paid at the time of system use to be a very important attribute of a fair and reasonable ratemaking scheme."*

Similarly, VECC submits that there is no reason to single Street Lighting out for special treatment with respect to the adjustment of revenue to cost ratios now the Cost Allocation review has been completed.

Overall, VECC submits there is no justifiable reason why Horizon should depart from the revenue to cost ratio adjustment approach that Horizon proposed and the OEB approved in EB-2004-0002 for use during the 2019-2020 CIR period. The Board should direct Horizon to use the same approach for 2016 which would, based on the information currently available, result in a revenue to cost ratio for Street Lighting of 120%.

Cost Allocation Inputs and Approach for 2017-2019

In response to a Technical Conference Undertaking (JTC 16), Horizon clarified that it was seeking approval of the following for Cost Allocation for 2017-2019:

i. Implementation of the Street Lighting Adjustment Factor ("SLAF");
ii. Use of the Board's Version 3.3 Cost Allocation model;
iii. Street Lighting demand and consumption updated for revised City of Hamilton Street Lighting Demand of 59,684kW per year, as entered on tab "I6.1 Revenue" in the Cost Allocation models;

iv. Street Lighting demand allocators updated for revised City of Hamilton Street Lighting Demand of 59,684kW per year, as entered on tab “I8 Demand Data” in the Cost Allocation models; and

v. 2016 distribution rates, updated for revised City of Hamilton Street Lighting Demand of 59,684kW per year, to be used as the starting point for rate design for 2017-2019.

Consistent with VECC’s previous submissions, VECC submits that for the 2017-2019 period the Board should direct that Horizon to:

- Use the most current version of the Board’s Cost Allocation model (currently Version 3.3 which includes the SLAF)
- Not revise the Street Lighting load forecast or load profile, as proposed in items (iii) through (v) above, but rather use the 2017-2019 Street Lighting load forecast as set out in the EB-2014-0002 Settlement Proposal and load profiles as used in the Draft Rate Order filed in same proceeding.

Furthermore, while not specifically addressed by Horizon, the Board should also direct Horizon to continue to use the revenue to cost ratio adjustment process as approved in its EB-2014-0002 Decision.

4. <u>RESIDENTIAL RATE DESIGN</u>

<u>HORIZON APPLICATION</u>

Horizon has incorporated the first year transition adjustment to a fully fixed charge for Residential customers into its 2016 Application[37]. The resulting change in the fixed charge is less than the $4 impact limit established by the Board[38]. Horizon also provided a total bill impact at 221 kWh per month which it has estimated as being the 10th percentile usage level for the Residential class. The result was 5.03%, again less than the impact limit of 10% established by the Board.

[37] Tab 2, page 33
[38] Tab 2, page 39

VECC'S SUBMISSIONS

VECC's only concerns regarding Horizon's proposed first year transition to a fully fixed charge for Residential is with respect to the total bill impact calculations. The calculations, as performed by Horizon, did not reflect any of the following changes which customers will see in 2016:

- Elimination of the current Debt Retirement Charge ($0.007 / kWh)
- Elimination of the Ontario Clean Energy Benefit (OCEB) (10% of the total bill)
- Introduction of the planned OESP charge (estimated at $0.00145 / kWh).

VECC requested revised impact calculations incorporating these three changes during the Technical Conference process and calculations incorporating these changes indicate that the total bill impact based on 221 kWh per month would be 14.02%[39]. This is the impact that customers will truly see and VECC submits that, consistent with the customer focus of the Board's Renewed Regulatory Framework for Electricity Distributors, this is value the Board should be looking at when considering total bill impacts and the need for mitigation. Given that the total bill impacts anticipated in future years are materially less than 10%[40] and the increases in the service charge will be materially less than $4[41], ways to address the excessive bill impact in 2016 would be to either delay the start of the implementation by one year or implement less than 25 of the transition in the first year.

5. REASONABLY INCURRED COSTS

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably incurred fees and disbursements.

End of Document

[39] TCQ 5-VECC-7
[40] JTC 19
[41] Tab 2, pages 36-38