EB-2015-0075

Horizon Utilities Corporation

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

ENERGY PROBE RESEARCH FOUNDATION („ENERGY PROBE")

ARGUMENT

November 16, 2015

HORIZON UTILITIES CORPORATION
2016 RATES APPLICATION

EB-2015-0075

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

Horizon Utilities Corporation ("Horizon") filed an application on August 12, 2015 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B) and under the OEB's Filing Requirements for Incentive Regulation Rate Applications seeking approval for changes to its electricity distribution rates to be effective January 1, 2016. On August 27, 2015 Horizon filed an amendment to its application correcting Appendix C to the application.

The application for 2016 rates is the second year under Horizon's Custom IR approved by the Board in EB-2014-0002.

This is the argument of Energy Probe Research Foundation ("Energy Probe") on a number of issues that have arisen as a result of this application.

B - SUBMISSIONS

Energy Probe has identified a number of issues for which Horizon is seeking approval in this application. Energy Probe has identified issues related to the changes in the stranded meter rate rider, cost allocation related to street lighting changes, and the fixed/variable charges for residential customers.

i) Stranded Meter Rate Rider

As part of the approved EB-2014-0002 Settlement Proposal dated September 22, 2014 ("Settlement Proposal"), Horizon agreed to remove stranded meters from rate base and move them to a deferral account for recovery over three years. Included in that recovery is a return on those assets equal to the short term debt rate as established by the Board in its Cost of Capital Parameters for each of 2015, 2016 and 2017 (Settlement Agreement, page 11).

As shown in the response to Undertaking JTC 10, Horizon has updated the short term debt rate from 2.11% to 1.65%. Energy Probe submits that this is in accordance with the approved Settlement Proposal. Further, Energy Probe submits that Horizon has correctly updated the calculation of the rate rider for the stranded meters, and that the change in this rate rider should be approved by the Board.

ii) Cost Allocation Changes Related to Street Lighting

There are three issues related to cost allocation changes for the street lighting class.

a) New Model & Board Policy

Horizon has updated the cost allocation model to reflect the updated Board policy with respect to the allocation of costs to the street lighting class. This new cost allocation policy for the street lighting rate class (EB-2012-0383) was issued by the Board on June 12, 2015.

Energy Probe submits that the Horizon has properly included changes related to the Board policy and that this is consistent with the Settlement Proposal.

Energy Probe submits that the Board should adopt the result of the new cost allocation model as provided by Horizon. However, as noted in the sections that follow, Horizon has made a number of other changes that Energy Probe submits should not be accepted by the Board.

b) Load Profile

As part of the change for the street lighting class, Horizon is proposing to update the load profile for this class. Energy Probe submits that the Board should reject this proposal.

First of all, Horizon has not actually calculated a new load profile for its street lighting rate class. In fact, it only calculated a new load profile for one customer in that class (Undertaking JTC 12 and JTC 17). No new street lighting profiles were estimated for the other three customers in that class.

Horizon justifies this request by quoting part of the June 12, 2015 Board letter related to the issuance of the new cost allocation policy for the street lighting class. In particular, Horizon quotes (Tab 2, pages 12-13) from page 4 of that letter as follows:

"There may be merit in updating load profiles to be more reflective of an individual distributor's circumstances. The OEB expects individual distributors to be mindful of material changes to load profiles and to propose updates in their respective cost of service or Custom IR applications when warranted."

However, Energy Probe notes that this paragraph is under the heading "Distributor Load Profiles". This section was related to load profiles of all rate classes, not just street lighting. Indeed, the first paragraph under this heading states:

"A number of members of the Unmetered Loads Working Group expressed concern that load profiles used for cost allocation should be updated for all customer rate classes. Specific to the street lighting class, certain members cited advances in technology, particularly with respect to LED devices and adaptive controls for street lighting infrastructure as having a significant effect on street lighting load profiles. Load profiles used by most distributors are based on work that was coordinated by the OEB and completed by Hydro One Networks2 in 2006."

Furthermore, the paragraph quoted by Horizon stated that it expected distributors to be mindful of material changes to load profiles and to propose updates in their respective cost of service or Custom IR applications when warranted. Energy Probe submits that this application is not a Custom IR application. It is, in fact, a Custom IR annual update. The Board made this distinction in the June 12, 2015 letter as indicated on page 4 under the heading "Implementation Matters" that where it addressed the matter of adjustments to street lighting cost allocation and/or rate design in a prior decision, adjustments consistent with the decision would be made in subsequent mechanistic incentive rate-setting mechanism ("IRM") applications or as part of a Custom IR annual update.

Finally, the Board has already determined that it is not appropriate to update the load profile of one customer class and not others in the EB-2014-0002 Decision dated December 11, 2014. In that proceeding, Horizon proposed to update the load profile for the large use class only using more current information it had for that class. In that decision (page 6) the Board stated:

"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."

Energy Probe submits that this reasoning is equally applicable to the street lighting class as it was to the large use class. Energy Probe agrees with the Board that there is no advantage in proceeding with partially updated information, as the whole cost allocation exercise is to determine what share each ratepayer group will pay. Energy Probe submits that the Board should direct Horizon to continue to use the existing load profiles until more accurate data is available for all rate classes.

c) Load Forecast

Horizon proposes to update the load forecast for the street lighting class. This is not consistent with the Settlement Proposal in which all the volume and revenues forecasts for the 2015 through 2019 period were set. There is no provision in the Settlement Agreement for updates or changes to any of the load forecasts, regardless of rate class.

Implementing the cost allocation change related to the street lighting class does not require a change in the load forecast for that class. Indeed, as stated in the evidence:

"The Street Lighting kWs have been updated to incorporate the change in forecast consumption levels and load profiles as a result of the City of Hamilton's (the "City") LED conversion program. Horizon Utilities considers this update important as it allows the City to realize the benefits of its conservation program on a timely basis. In the absence of this update, the City would not realize the associated cost allocation benefits of its investment in LED lighting, a significant conservation initiative, until Horizon Utilities' next rebasing year, which is scheduled for 2020." (Tab 2, page 14)

The evidence clearly states that the update to the street lighting load forecast is related to the LED conversion program. It has nothing to do with the change in the cost allocation policy of the Board. The LED conversion program is completely independent of that policy change and is explicitly referred to as a significant conservation initiative.

Energy Probe submits that the Settlement Proposal does not allow for changes to the load forecast as the result of conservation initiatives. Indeed, the LRAM variance account is used to account for the impact of conservation initiatives. Again this is independent of the cost allocation policy change and should be rejected by the Board.

d) Revenue to Cost Ratios

Energy Probe submits that Horizon has followed the methodology approved by the Board in EB-2014-0002 for adjusting the revenue to cost ratios, with one exception.

Table 11 in Tab 2, page 20 of the evidence shows the 2016 cost allocation model revenue to cost ratio for the street lighting class of approximately 160%. Horizon proposed to bring this revenue to cost ratio down to 100%, rather than to the top of the Board approved range of 120%.

Energy Probe submits that this is not appropriate. It is inconsistent with the Board's decision in EB-2014-0002. In the December 11, 2014 decision, the Board found:

"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."

As shown in Table 11, all of the revenue to cost ratios for the other rate classes are already within the Board approved range. Reducing the street lighting class to 120% (the top of the Board approved range), and increasing those below 100% on a proportional basis is consistent with the Board's findings in EB-2014-0002. Decreasing the ratio to 100% is not consistent that decision. Furthermore it discriminates against the customers in the other rate classes that also have revenue to cost ratios above 100%. As shown in Table 11, these include residential, USL and large use (1) customers. Why should street lighting customers enjoy a reduction in their rates as a result of a reduction in their ratio to 100% while these other customers do not get the same treatment?

iii) Fixed/Variable Charges for Residential Customers

Horizon proposes to increase the fixed charge for the residential rate class to $18.80 per month (Undertaking JTC 3(a), Table 33). The bill impact for a residential customer in the 10th consumption percentile consuming 221 kWh is shown in Attachment 1 to Undertaking JTC 3(b). The total bill impact of a customer on RPP is an increase of 14.02%.

In the new rate design, the Board instructed distributors that, for the purposes of implementing the new fixed rate design, a 10% test will be applied to customers who consume much less electricity than the typical residential customer. In particular, if a customer at the 10th percentile consumption level of electricity has a bill impact of 10% or higher, the distributor must make a proposal for a rate mitigation plan (Tab 2, pages 38-39).

The response to Undertaking JTC 3(b) indicates an increase in excess of 10%, when taking into account the planned elimination of the debt retirement charge for 2016, the inclusion of the OCEB for 2015 and its elimination in 2016 and the planned OESP charge to be implemented in 2016.

Energy Probe submits that all of these changes must be taken into account in determining if the 10% total bill impact has been reached. These changes will be reflected in the bottom line total bill impact that will be seen by ratepayers.

Energy Probe submits that the Board should direct Horizon to reduce the monthly fixed charge for residential customers in 2016 to a level that results in a 10% increase or less for a residential customer consuming 221 kWh per month.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe worked with other intervenors in this proceeding to ensure complete coverage of the issues with a minimum of duplication.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

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