



November 16, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Horizon Utilities Corporation Custom IR - 2016 Annual Filing
Board File No. EB-2015-0075

Dear Ms. Walli:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Adam White", with a long horizontal flourish extending to the right.

Adam White
President
Association of Major Power Consumers in Ontario

Copy to: Horizon Utilities Corporation

EB-2015-0075

**Horizon Utilities Corporation
Custom IR Application - Annual Filing**

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

Final Submissions of AMPCO

November 16, 2015

EB-2015-0075
Horizon Utilities Corporation
AMPCO Submissions

- Horizon filed a Custom Incentive Rate-making (Custom IR) application April 17, 2014 for electricity rates effective January 1, 2015; January 1, 2016; January 1, 2017; January 1, 2018; and January 1, 2019 (EB-2014-0002).
- The Ontario Energy Board (OEB) approved the Settlement Agreement in Horizon's Custom IR application on December 11, 2014.
- Horizon Utilities Corporation (Horizon) filed its first Annual Filing to its 5 year Custom Incentive Rate-making (Custom IR) application on August 12, 2015 for adjustments to 2016 rates in accordance with the Board's Decision, for rates effective January 1, 2016.
- Horizon's 2016 Annual Filing addresses off-ramps, agreed upon reopeners, generic policy changes implemented by the Board, annual adjustments, mandatory changes as a result of the Distribution Code (DSC) amendments and changes in legislation. These changes result in adjustments to Horizon's forecast 2016 Revenue Requirement.
- Since the Board approved the Settlement Agreement in EB-2014-0002, Horizon identified that the following guidelines, reports and policy changes have been implemented and Horizon has appropriately incorporated and considered the impact of these changes in the current application and revenue requirement calculation to set 2016 rates:
 - **OEB Cost of Capital Parameter Update – October 15, 2016**

- **OEB Electricity Price Change (Updated RPP)** – Effective November 1, 2015
 - **OEB Policy** – Ontario Electricity Support Program (EB-2015-0148)
 - **OEB Policy** – New Rate Design for Residential Electricity Customers (EB-2012-0410)
 - **OEB Policy** – New Cost Allocation Policy for Street Lighting Rate Class – June 12, 2015 (EB-2012-0383)
 - **Amendments to DSC regarding billing frequency** – April 15, 2015 (EB-2014-0198)
 - **Amendment to O.Reg. 493/01** - Removal of Debt Retirement Charge to Residential customer for implementation January 1, 2016
 - **Distributor Stretch Factor Assignments** – July 30, 2015
- Firstly, AMPCO submits Horizon's final 2016 Revenue Requirement calculation needs to include the recent updates to the Cost of Capital Parameters (October 15, 2016) and the Electricity Price Change (Updated RPP) effective November 1, 2016. Horizon's application dated August 12, 2015 contemplates these updates.¹
 - As a result of the changes for the cost of capital parameters and electricity price change and resulting changes to the cost of power, Horizon calculates the 2016 Base Revenue Requirement will increase \$107,275,705 from \$119,070,262 in EB-2014-0002 to \$119,182,767.²
 - AMPCO's submissions below are focussed on the following impacts that result from implementation of the above proposed changes:
 - New Monthly Billing Policy - New Deferral Account
 - New Cost Allocation Policy for Street Lighting Rate Class

¹ EB-2015-0075 Tab 1 Page 2

² JTC3(a)

- Update to Load Profile for Street Lighting Rate Class
 - Adoption of New Distribution Rate Design
 - Inclusion of OESP Rate
 - Changes to Working Capital
 - Update to Stranded Meter Rate Rider
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- In addition to the above list, AMPCO notes that on June 3, 2015 the OEB updated its policy for the calculation of the allowance for working capital for electricity rate applications. Effective immediately, the OEB adopted a new default value of 7.5% of the sum of the cost of power and operating, maintenance and administration (OM&A) costs, which replaces the current default value of 13%. The policy includes a provision that distributors who do not wish to use the default value can request approval for a distributor-specific working capital allowance supported by the appropriate evidence from a lead-lag study or equivalent analysis. AMPCO's submissions on this issue are included under the discussion on Changes to Working Capital.

New Deferral Account – New Monthly Billing Policy

- The OEB's amendment to the DSC requires that distributors transition to monthly billing for residential and GS<50 kW customers by December 31, 2016.
- Horizon plans to implement monthly billing for all Residential and GS<50 kW customers by December 31, 2016.³
- In the current application, Horizon applied for approval for an Accounting Order to establish a deferral account to record incremental capital and operating costs related to the Board's initiative to implement monthly billing

³ Board Staff IR#3

to residential and small commercial customers by December 31, 2016.

- In a letter from Horizon dated November 5, 2016, Horizon withdrew its request for a deferral account related to the costs of monthly billing.
- AMPCO supports Horizon's withdrawal of this request.

Street Lighting Rate Class:

Implementation of New Cost Allocation Policy & Update to Load Profile

Cost Allocation Policy

- Horizon made certain adjustments in response to the OEB's new Cost Allocation Policy for the Street Lighting rate class.
- In accordance with the new policy, Horizon calculated the impact of the Street Lighting Adjustment Factor (SLAF) and included the SLAF in updated cost allocation models for the years 2016 to 2020. Horizon also narrowed the revenue to cost ratio policy range for the Street Lighting class from 70%-120% to 80%-120%.
- AMPCO submits Horizon has appropriately incorporated the OEB's new policy regarding the SLAF. AMPCO supports Horizon's updates to its cost allocation models for the years 2016 to 2020 to include the SLAF.
- With respect to Revenue to Cost Ratios, Horizon proposes to adjust the Revenue to Cost ratio for the Street Lighting Class from 170.03% (Status Quo) to 100%.

- Horizon proposes that other specific customer classes make up the shift in revenue of \$0.952 million.⁴
- For rate classes that have a Status Quo Revenue to Cost Ratio greater than the upper limit of the revenue to cost ratio policy range applicable to that rate class, distributors have typically proposed movement in the ratio to the upper limit of the Board's policy range. In the case of the Street Lighting rate class, the upper limit is 120%.
- Horizon indicates it did not reduce the Street Lighting percentage to 120% as would be the norm, because the Revenue to Cost Ratio for the Street Lighting class had been under 100% previously.⁵
- AMPCO submits that Horizon's proposal to adjust the ratio further to 100% has greater impacts on other rate classes compared to an adjustment to 120%.
- AMPCO notes that other customer classes have Status Quo ratios above 100% (Residential, Large Use (1) and USL) and Horizon is not proposing movement to 100% for these customer classes.
- AMPCO does not support Horizon's proposal to reduce the Street Lighting percentage to 100%. In AMPCO's view, Horizon's has not provided sufficient evidence that its circumstances are unique.
- AMPCO submits the appropriate movement is to the top of the Board policy range or 120%. At 120%, the reallocation of revenue applicable to other rate classes is \$0.593 million compared to \$0.952 million.⁶

⁴ JTC9(a)

⁵ Bard Staff IR#12

⁶ JTC9(a)

Update to Load Profile

- Horizon also seeks approval to update the load profile for the Street Lighting rate class.
- Horizon updated the Street Lighting load profile for the City of Hamilton to reflect a reduction of 1,600 kW, as a result of the City of Hamilton's LED Conversion Project. The Street Lighting load profiles for the three remaining Street Lighting customers were based on the hourly load profiles prepared by Hydro One the 2006 Cost Allocation Informational Filing (2006 CAIF) that was based on 2004 demand.
- Horizon confirms that no other customer load profiles are being updated.⁷
- Horizon updated the Cost Allocation model for the change in Street Lighting demand but did not update the Revenue Requirement Work Form.
- The impact of the load profile change in the cost allocation model is a decrease in rates for Street Lighting and a further increase for other rate classes.
- In Horizon's Custom IR application (EB-2014-0002), Horizon proposed to update the load profile information for the large use class by using current hourly use information which resulted in updated profiles which are flatter than previous load profiles for these classes. However, for the remaining classes Horizon proposed to use load profiles that were based on the profiles developed by Hydro One Networks Inc. for the Cost Allocation Informational Filing in 2006 that reflected 2004 load data.

⁷ AMPCO IR#1

- The Board did not approve the selective updating of one customer class as the Board was concerned that inequity may result from selective updating. The Board determined that until more accurate data is available for all classes Horizon must continue to use the existing load profiles for the purpose of its forecast.
- AMPCO further notes that as part of the Settlement Agreement in EB-2014-0002, the load forecast is not to be updated.
- Consistent with the Settlement Agreement and the Board's Decision on a similar issue in EB-2014-0002, AMPCO submits that the Board should not approve Horizon's request to update the load profile for the Street Lighting rate class. Accordingly, the Cost Allocation model should not be updated to reflect a change in the load profile for the Street Lighting class.
- AMPCO submits the impact of the LED conversion project would be more appropriately captured under the LRAMVA, noting Horizon's load forecast will be updated at its next rebasing application.

Adoption of New Residential Rate Design

- Horizon seeks approval for the adoption of a new distribution rate design in accordance with the Board's new policy issued April 2, 2015⁸ that rates for residential customers be migrated to a fully fixed monthly distribution charge over a four-year transition period commencing in 2016 and ending in 2019.

⁸ EB-2012-0410 A New Distribution Rate Design for Residential Electricity Customers dated April 2, 2015

- AMPCO supports Horizon's proposed transition to fully fixed rates for residential customers.
- In a letter issued by the Board on July 16, 2015, the Board requests that bill impact analysis for the new fixed rate design be provided for customers at the lowest 10th percentile of electricity consumption.
- Horizon determined that the lowest 10th percentile of electricity consumption is 221 kWh. Horizon provided the bill impacts at this consumption.
- AMPCO notes that the bill impact analysis for 221 kWh of electricity consumption does not incorporate the following planned change between 2015 and 2016s:
 - Elimination of the Debt Retirement Charge for 2016 at \$0.007/kWh.
 - Inclusion of the OCEB for 2015 (10% reduction on total bill) along with its planned elimination in 2016.
 - OESP charge to be implemented in 2016 estimated by Horizon to be \$0.00145/kWh.⁹
- Horizon re-did the bill impact analysis including the planned changes between 2015 and 2016. The results show the total bill impact for the 221 kWh customer is greater than 10% (14.02%).¹⁰¹¹
- AMPCO submits that the bill impact analysis needs to consider the above three planned changes as the addition of these planned changes puts further upward pressure on rates and represents the true impacts realized by customers.

⁹ Tab 2 Page 3

¹⁰ VECC IR#7;

¹¹ JTC3(b)

- As part of the final Draft Rate Order, AMPCO submits that the final bill impact analysis should incorporate the above planned changes between 2015 and 2016, and mitigation plans should be developed for the lowest 10th percentile residential customer and other customers where total bill impacts are greater than 10%.

Inclusion of New Ontario Energy Support Program (OESP) Rate

- Horizon seeks approval to implement the OESP rate on January 1, 2016 to be recovered by all rate classes.
- The OESP provides targeted support to low-income customers who have been approved. It will be funded through electricity rates as a volumetric charge and will be delivered as a reduction on qualifying customers' bills.
- The Board released details on the new OESP charge indicating it commences January 1, 2016 at a cost of about \$1 per month for the typical residential electricity consumer.¹²
- Horizon indicates it is awaiting the OEB's Decision on the final volumetric rate to be recovered from all rate classes. The OEB estimates the volumetric rate to be between \$0.0013/kWh-\$0.0016/kWh which results in an increase to Cost of Power and Revenue Requirement of approximately \$7 MM and \$61,000, respectively. Horizon estimated the charge at \$0.00145/kWh.
- Horizon has not updated the models and schedules as a result of implementation of the OESP commencing January 1, 2016.¹³

¹² OEB News Release November 2, 2015 New Program Helps Low-Income Ontarians with Electricity Bills

¹³ JTC3(a)

- When the final volumetric rate is available, Horizon indicates it plans to update its Tariff of Rates and Charges, the Cost of Power and Revenue Requirement in preparing its Draft Rate Order.¹⁴
- AMPCO supports Horizon's proposal.

Changes in Working Capital Allowance (WCA)

- For 2015 rates, a WCA of 12% was approved by the OEB as part of the Settlement Agreement in EB-2014-0002. THE 12% WCA was informed by a Lead/Lag Study undertaken for Horizon by Navigant.
- Horizon confirms that the WCA of 12% was based on the mixture of monthly and bi-monthly billing as existed at the time of the Lead/Lag study.
- In EB-2014-0002, in response to Interrogatory 2-Energy Probe-11(b), Horizon calculated that the WCA would decrease from 12% to 8.7% based on modifications to the Lead/Lag study to reflect a potential move to monthly billing.
- Horizon indicates that approximately 10% of its customers are currently billed monthly (24,848/243,089).¹⁵
- If the WCA was changed from 12% to 8.7%, Horizon indicates the impact on the Revenue Requirement would be a decrease of \$1.5 million.¹⁶

¹⁴ EB-2015-0075 Tab 2 Page 41, JTC1, JTC3(a), JTC(11), JTC(16)

¹⁵ VECC IR#10

¹⁶ Energy Probe IR#2 (j)

- As noted on Page 4 of this submission, the OEB adopted a new WCA default value of 7.5% effective June 3, 2015.
- Based on a WCA of 7.5%, the impact on Revenue Requirement is a decrease of over \$2 million.¹⁷
- Horizon submits that neither the 8.7% nor 7.5% WCA applies to it on the basis that the Settlement Agreement in EB-2014-0002 provides for an ongoing WCA of 12%¹⁸ and there is no provision in the Settlement Agreement to update the WCA over the term of the Custom IR.
- AMPCO submits that Horizon's proposed annual adjustments include "any additional annual adjustments as identified by the Board in developing the Custom IR application process."¹⁹ In AMPCO's view, the Board's change to the WCA fits under this potential annual adjustment. On this basis, AMPCO submits Horizon's 2016 WCA should be adjusted to 8.7% to reflect modifications to the Lead/Lag study to reflect monthly billing.

Update to Stranded Meter Rate Rider

- Horizon proposes to update to the Stranded Meter Rate Rider for the cost of capital parameters issued October 15, 2015.
- Horizon calculates that the revised stranded meter recovery is \$8,235,404, a decrease of \$27,982 as compared to the stranded meter recovery calculated in the Settlement Agreement for EB-2014-0002.
- Horizon indicates that when the OEB's 2017 Cost of Capital parameters are released in Q4 2016, Horizon will update the 2017 Stranded meter Rate Rider

¹⁷ AMPCO IR#11

¹⁸ JTC25

¹⁹ JTC2

accordingly.

- Horizon indicates this update was identified in the Settlement Agreement (Tab 2, Page 11).
- AMPCO supports Horizon's proposed update to the 2016 Stranded Meter Rate Rider.
- Horizon proposes that if the 2016 RTSR rates are available, the OEB may update these prior to the finalization of Horizon's Final Rate Order.
- AMPCO submits this update is appropriate.

Additional Annual Adjustments

- The Settlement Agreement in EB-2014-0002 included three additional annual adjustments: Earnings-Sharing Mechanism (ESM), Capital Investment Variance Account (CIVA), and Efficiency Adjustment.
- AMPCO agrees with Horizon that the ESM and CIVA are not applicable to this filing.
- With respect to the Efficiency Adjustment, the latest 2014 Benchmarking Update for determination of the Stretch Factor, places Horizon in Group III among Ontario distributors which is the same group as Horizon's starting point. Accordingly AMPCO agrees with Horizon that no Efficiency Adjustment is required.

All of which is respectfully submitted this 16th day of November 2015.