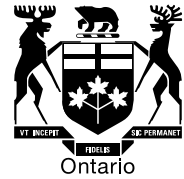


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BY EMAIL

November 16, 2016

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Horizon Utilities Corporation (Horizon Utilities)
Application for Rates
OEB Staff Submission
OEB File Number EB-2016-0077**

In accordance with Procedural Order No.1, please find attached the OEB Staff Submission in the above proceedings. This document is being forwarded to Horizon Utilities Corporation and to all other registered parties to this proceeding.

Horizon Utilities is reminded that its Reply Submission is due by November 25, 2016, should it choose to file one.

Yours truly,

Original Signed By

Donald Lau
Project Advisor
Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

**2017 ELECTRICITY DISTRIBUTION RATES
YEAR 3 CUSTOM IR**

Horizon Utilities Corporation

EB-2016-0077

November 16, 2016

**OEB Staff Submission
Horizon Utilities Corporation
2017 electricity distribution rates, year 3 custom IR
EB-2016-0077**

Introduction

Horizon Utilities Corporation (Horizon Utilities) filed an application for its annual update to its 2015-2019 Custom Incentive Regulation (Custom IR) application (EB-2014-0002) with the Ontario Energy Board (OEB) on August 11, 2016 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that Horizon Utilities charges for electricity distribution, effective January 1, 2017 (the Application). Specifically, Horizon Utilities has applied for approval on the following matters:

- New distribution rates effective January 1, 2017, based on annual adjustments as agreed upon in the approved Settlement Proposal and the Decision in EB-2014-0002; the Horizon Custom IR proceeding;
- Approval of the calculation for 2015 regulated Return on Equity for the purpose of the earning sharing
- Approval of the calculation for 2015 capital additions for the purpose of the 2015 Capital Investment Variance Account
- Approval for the continuation of the implementation of the New Distribution Rate Design for residential customers
- Approval to reduce the 2017 Street Lighting Class revenue-to-cost ratio (RCR) by 6.67% to 113.33% from the 2016 RCR of 120%
- Approval to recover the remaining balance of stranded meter assets including a return on those assets equal to the short term debt rate as established by the OEB in its 2017 Cost of Capital parameters
- Approval for clearance of the Group 1 deferral and variance accounts by class-specific rate riders effective January 1, 2017 to December 31, 2017 with the exception of 1580 Sub-account RSVA – Wholesale Market Service Charge CBR Class A
- Approval for the clearance of the balance in Account 1589 RSVA - Global Adjustment attributed to new Class A customers as of July 1, 2015 by means of customer specific bill adjustments

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Horizon Utilities.

Annual Adjustments

Horizon has made the following adjustments as per the approved Settlement Proposal:

Changes in the Cost of Capital

At the time the Application was filed, the 2017 Cost of Capital parameters were not available. This filing was updated with the 2016 Cost of Capital parameters issued by the OEB on October 15, 2015. Since then, the 2017 Cost of Capital parameters have been issued and will be updated by Horizon Utilities.

Changes to Working Capital

Horizon Utilities has updated the following inputs to its working capital:

- Cost of Power and Global Adjustment were updated with the most recent rates at the time of the filing effective from November 1, 2015 to October 31, 2016. Horizon Utilities will update the filing with the most recent rates effective November 1, 2016 to October 31, 2017.
- Retail Transmission Service Rates were updated to incorporate 2015 demand for Horizon Utilities and 2016 Uniform Transmission Rates and Hydro One Sub Transmission Rates;
- The Smart Metering Entity Charge has been updated to incorporate 2015 Residential and GS < 50 kW customer count with no change to the Rate Rider;
- The RPP vs. non-RPP volumes were updated for 2015 actuals;
- The Wholesale Market Service Rate was updated from \$0.0044/kWh to \$0.0036/kWh ; and
- The Ontario Electricity Support Program charge of \$0.0011/kWh has been included in the Wholesale Market Service Charge in the Cost of Power.

Changes in Other Third Party Pass Through Charges

Other than the changes to the estimates identified above under “Changes to Working Capital”, Horizon Utilities has not made any changes to third party pass through charges.

OEB staff submits that the requested annual adjustments set out above, are consistent with the 2015-2019 approved Settlement Proposal in the Custom IR application (EB-

2014-0002).

Earnings Sharing Mechanism

The approved Settlement Proposal provided for a deferral account for earnings in excess of the OEB's annual approved regulatory return on equity (ROE), as adjusted in the Settlement Proposal. Earnings in excess of the approved ROE would be divided on a 50/50 basis between Horizon Utilities and its ratepayers. Horizon Utilities has calculated a ROE of 9.275% for the purpose of the Earnings Sharing Mechanism and states that no earnings sharing is required for 2015 as this ROE is less than the approved ROE. For the purpose of the *Reporting and Record Keeping Requirements* (RRR 2.1.7 and 2.1.5.6) Horizon Utilities has calculated 9.856% and 9.998%. The OEB approved ROE for 2015 was 9.30%. The results are shown in the table below.

2015 Regulatory ROE	2015 Actuals as per 2.1.7	2015 Actuals as per 2.1.5.6	2015 Actuals ESM	Custom IR Application EB-2014-0002
Regulatory Net Income including Merger Costs and before 2.1.5.6 Adjustments	\$22,685,184	\$22,685,184	\$22,685,184	\$20,859,301
Add Back Merger Costs		(\$4,516,459)	(\$4,516,459)	
(Deduct Net Interest Revenue) on DVAs		\$283,677	\$283,677	
Add back Net Interest Expense on DVAs		(\$154,943)	(\$154,943)	
Deduct non rate regulated items		\$2,034,823	\$2,034,823	
Add back Interest Expense on P&L		(\$7,075,166)	(\$7,075,166)	
Deduct Deemed Interest		\$9,679,670	\$9,679,670	
Regulatory Net Income after 2.1.5.6 Adjustments and before ESM Adjustments	\$22,685,184	\$22,433,582	\$22,433,582	\$20,859,301
Deduct Smart Meter Disposition Rider Revenue			\$538,510	n/a
Deduct Rate of Return on Stranded Meters Revenue			\$95,777	n/a
Deduct 1/5th of One-time costs incurred for the Custom IR Application			\$495,385	n/a
Regulatory Net Income after ESM Adjustments	\$22,685,184	\$22,433,582	\$21,303,911	\$20,859,301
Current Income Taxes including Out of Period Tax Adjustments	\$3,846,718	\$3,345,582	\$3,046,219	\$3,336,809
Exclude Out of Period Tax Adjustments	n/a	n/a	(\$550,218)	n/a
Current Income Taxes - Current Period	\$3,846,718	\$3,345,582	\$3,596,437	\$3,336,809
Regulatory Net Income	\$18,838,466	\$19,088,001	\$17,707,474	\$17,522,493
Deemed Equity	\$191,137,302	\$190,920,512	\$190,920,512	\$188,413,901
Return on Equity	9.856%	9.998%	9.275%	9.300%

OEB staff submits that all but one of the adjustments made to the regulatory net income reported in RRR 2.1.5.6 by Horizon Utilities are consistent with the approved Settlement Proposal for the purpose of earnings sharing. These adjustments include the following:

- Exclude revenue associated with the Smart Meter Disposition Rider for Smart Meter installations from 2012 - 2014;
- Exclude the Rate of Return on Stranded Meters at the short term debt rate of 2.11%;
- Include one-time costs incurred for Horizon Utilities' Custom IR Application, calculated as one-fifth of \$2,476,925 in each of 2015 through 2019; and

- PILs calculated from actual to reflect the adjusted net income as a result of any revenue and expense adjustments.

In addition to the adjustments agreed to in the approved Settlement Proposal, Horizon Utilities has excluded an out of period tax adjustment of \$550k from the calculation of the net income for the purpose of earnings sharing.

The approved Settlement Proposal did not make provision for an adjustment for out of period tax adjustments; therefore OEB staff submits that the out of period tax adjustment should be included for the current year's ROE calculation for purpose of earnings sharing. As a result, the ROE for the ESM would be 9.56% and Horizon would be required to record \$251,041 in the ESM deferral account (50% of the difference between the net income at 9.56% and the net income at 9.30%).

Capital Investment Variance Account (CIVA)

The approved Settlement Proposal provided for a deferral account to refund ratepayers any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Horizon Utilities will determine the impact to revenue requirement of the variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

Horizon Utilities reported 2015 capital additions of \$46.6M, which is \$8.3M higher than the forecasted capital additions of \$38.3M. Since the capital additions are above the forecast no entry was made to the CIVA.

Horizon Utilities has filed their 2015 capital additions compared to the approved capital additions in the Custom IR. The summary can be found in the table below.

2015 Capital Additions	Actuals	Custom IR Application EB-2014-0002	Actuals vs. EB-2014-0002
Gross Capital Additions	\$51,750,516	\$42,947,524	\$8,802,992
Less Capital Contributions	\$5,107,300	\$4,633,000	(\$474,300)
Net Capital Additions	\$46,643,216	\$38,314,524	\$8,328,692

OEB staff submits that the calculation for the purpose of entry to the CIVA are consistent with the approved Settlement Proposal.

Efficiency Adjustment

The approved Settlement Proposal included an Efficiency Adjustment intended to incent Horizon Utilities to maintain or improve its cohort position based on the OEB's Stretch Factor Assignments. The Efficiency Adjustment would operate as a proxy stretch factor in the event that Horizon Utilities is placed in a less efficient cohort than the starting point in any year during the Custom IR term. The Efficiency Factor is calculated by the difference between the stretch factor of the starting point and the stretch factor of the ending point. The starting point for Horizon Utilities was Group III for the purpose of calculating 2015 stretch factors. Horizon Utilities remains in Group III for the purpose of calculating 2017 stretch factors and therefore no Efficiency Adjustment is required.

Special Studies Deferral Account

The approved Settlement Proposal included a deferral account to record costs related to the development of a Specific Service Charge study to determine the appropriateness of Horizon Utilities' Specific Service Charges. Horizon Utilities confirmed that at this time no studies have commenced and therefore no costs have been recorded to date.

Continuation of New Distribution Rate Design

The OEB has directed distributors to transition to a fixed monthly distribution charge over a four-year transition period commencing in 2016 and ending in 2019. Horizon Utilities has incorporated the second year adjustment for 2017. The 2017 fixed rate is \$21.56, an increase of \$2.50 from the previous year.

OEB staff submits that the method used to calculate the fixed rate is in accordance with the OEB policy *A New Distribution Rate Design for Residential Electricity Customers*¹ and no mitigation is required

Street Lighting Class RCR

The Street Lighting Adjustment Factor and the load profile for the Street Lighting class, which was approved in Horizon Utilities' Customer IR application, have been incorporated in the cost allocation model. The resultant RCR ratios can be seen in the table below.

¹ EB-2012-0410, A New Distribution Rate Design for Residential Electricity Customers, April 2, 2015

Rate Class	2017 Board Approved EB-2014-0002 Before Rate Design ¹	2017 Inclusive of SLAF Before Rate Design	OEB Approved Range
Residential	103.61%	101.46%	85%-115%
GS < 50kW	98.38%	98.98%	80%-120%
GS > 50 to 4999kW	94.32%	96.07%	80%-120%
Standby	71.72%	73.04%	80%-120%
LU (1)	112.36%	113.25%	85%-115%
LU (2)	66.17%	67.45%	85%-115%
Sentinel Lights	98.77%	93.61%	80%-120%
Street Lighting	82.43%	120.60%	80%-120%
Unmetered and Scattered Load	119.88%	114.47%	80%-120%

As directed by the OEB in the last Custom IR update², Horizon Utilities has reduced the 2017 RCR by 6.6% as a gradual change to have the RCR at 100% in 2019. Horizon Utilities has also proposed to bring LU(2) within the OEB acceptable range. Rate design is intended to adjust each RCR for each rate class such that it stays within the OEB approved range. The RCR after rate design can be seen in the table below. The RCR for the LU(2) has increased from 66.17% to 85% however, the total bill impact for this class is a decrease 2%.

Rate Class	2017 Board Approved EB-2014-0002 After Rate Design ¹	2017 Inclusive of SLAF After Rate Design	OEB Approved Range
Residential	103.30%	101.35%	85%-115%
GS < 50kW	98.38%	98.98%	80%-120%
GS > 50 to 4999kW	94.32%	96.07%	80%-120%
Standby	71.62%	73.04%	80%-120%
LU (1)	112.02%	113.12%	85%-115%
LU (2)	85.00%	85.00%	85%-115%
Sentinel Lights	98.77%	93.61%	80%-120%
Street Lighting	82.43%	113.33%	80%-120%
Unmetered and Scattered Load	119.52%	114.35%	80%-120%

OEB staff submits that the proposed rate design is consistent with the OEB's Decision and Order and the OEB's Policies.

Remaining Balance of Stranded Meter Assets

Horizon Utilities has applied for the recovery of the remaining balance of stranded meter assets including a return on those assets equal to the short term debt rate established by the OEB in its 2017 Cost of Capital parameters.

² EB-2015-0075, Decision and Order, December 10, 2015

OEB staff submits that this method is consistent with the approved Settlement Proposal made in the Custom IR proceeding³.

Disposition of Group 1 Deferral and Variance Accounts (DVA)

The approved Settlement Proposal was silent on the disposal of DVAs during the Custom IR period. However, in accordance with the OEB’s policy Horizon Utilities has requested disposition of Group 1 accounts.

Horizon Utilities total Group 1 DVA balance excluding Account 1589 amounts to a credit of \$11,142,114. The balance of Account 1589 – Global Adjustment is a debit of \$2,657,566 and is applicable only to Non-RPP Class B customers. Horizon Utilities’ total balance for Group 1 accounts including interest calculated to December 31, 2016 is a credit of \$8,484,548. In accordance with the *Electricity Distributors’ Deferral and Variance Account Review Initiative*⁴ the Group 1 Deferral and Variance Account balance exceeds the disposition threshold of \$0.001/kWh. Horizon Utilities requests a disposition of these accounts over a one-year period.

Horizon Utilities has proposed to dispose of the Group 1 balance through rate riders as set out in the tables below.

Customers	DVA Rate Rider 1	DVA Rate Rider 2	CBR B Rate Rider	GA Rate Rider	GA Bill Adjustment
WMPs	x				
Class A (Jan 1, 2015 - Dec 31, 2015)	x	x			
Class B non-RPP (Jan 1, 2015 - Jun 30, 2015)/Class A (Jul 1, 2015 - Dec 31, 2015) Customers	x	x	x		x
Class B non-RPP (Jan 1, 2015 - Dec 31, 2015) Customers	x	x	x	x	
Class B RPP Customers	x	x	x		

³ EB-2014-0002, Settlement Proposal, September 22, 2014

⁴ EB-2008-0046, Electricity Distributors’ Deferral and Variance Account Review initiative, July 31, 2009

Description	Account	Amount
Low Voltage	1550	\$478,187
Smart Meter Entity Charge (Residential and GS<50kW Classes Only)	1551	(\$23,038)
Retail Transmission Network Charge	1584	(\$1,252,342)
Retail Transmission Connection Charge	1586	(\$231,630)
IRM 14	1588	\$184,542
All Customers - DVA Rate Rider 1		(\$844,280)
Power	1588	(\$864,097)
Wholesale Market Service Charge excluding CBR	1580	(\$10,558,125)
All Customers ex WMPs - DVA Rate Rider 2		(\$11,422,222)
Wholesale Market Service Charge - CBR Class A	1580	\$125,919
All Class A Customers ex WMPs - CBR A Bill Adjustment	1580	\$125,919
Wholesale Market Service Charge - CBR Class B	1580	\$1,124,388
All Class A Customers ex WMPs - CBR B Bill Adjustment	1580	\$1,124,388
Global Adjustment - Non-RPP Class B Customers Jan 1/2015 -Dec 31/2015	1589	\$2,564,617
Global Adjustment - New Class A Customers July 1/2015	1589	\$92,950
Class B Non-RPP Customers only - GA Rate Rider/Bill Adjustment		\$2,657,566
Total (Repayment to)/Recovery from Customers		(\$8,358,629)
Disposition via Rate Rider		(\$8,577,498)
Disposition via Customer Specific Bill Adjustments - GA for New Class A Customers July 1/2015		\$92,950
Disposition via Customer Specific Bill Adjustments - CBR A		\$125,919

OEB staff submits that the balances of the Group 1 DVAs reconciles to the RRRs and disposition is in accordance with the *Electricity Distributors' Deferral and Variance Account Review Initiative* and the *Accounting Procedures Handbook for Electricity Distributors*.

Disposition of Account 1589 RSVA – Global Adjustment (GA)

Horizon Utilities had six customers who were formerly Class B customers who qualified as Class A customers effective July 1, 2015. As such, these customers should be allocated only the portion of the GA account balance which accrued prior to their classification as Class A customers. Horizon Utilities proposed that these customers be allocated their portion of the GA account balance based on their percentage of non-RPP Class B volume during the period they were Class B customers. This results in \$92,950 to be allocated through specific bill adjustments to the six customers.

OEB staff submits that this proposal is consistent with the methodology provided in the DVA Work Form for customer specific bill adjustments.

All of which is respectfully submitted