



Ontario Energy Board Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0075

HORIZON UTILITIES CORPORATION

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

BEFORE: Christine Long
Presiding Member

December 10, 2015

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1 INTRODUCTION AND SUMMARY

Horizon Utilities Corporation (Horizon) is the electricity distributor that serves approximately 245,000 customers in the City of Hamilton and the City of St. Catharines. Horizon filed an Application with the Ontario Energy Board (OEB) to change the rates it charges to its customers for electricity distribution, to be effective January 1, 2016 (the Application). Under the OEB Act, (electricity) distributors must apply to the OEB to change the rates that they charge customers.

Horizon filed a Custom Incentive Regulation (Custom IR) Application in 2014 for electricity distribution rates for the period 2015-2019. The OEB accepted a partial settlement reached between Horizon and the intervenors in that proceeding and held an oral hearing on the issues of cost allocation and rate design. The OEB issued its decision on the outstanding issues on December 11, 2014.

The partial settlement proposal and decision (the Settlement Proposal and related decision¹) included the provision for Horizon to update its rates to reflect certain changes on an annual basis. It also provided for a number of reasons that would justify reopening the Application. This Application is Horizon's first annual update to its Custom IR Application and includes a number of adjustments and changes due to reopeners.

The OEB has accepted all of Horizon's proposed changes for 2016 except for two changes related to the cost allocation model. Horizon had proposed an update to the street lighting load profile, which the OEB has not approved. Horizon has also proposed to move the revenue-to-cost ratio for the street lighting rate class to 100%. The OEB has approved phasing in the implementation of the change in the ratio for this class, starting with a move to 120% for 2016.

¹ EB-2014-0002, Decision and Order, December 11, 2014

2 THE PROCESS

Horizon published a Notice of Application (the Notice) on its website, and served the Notice on individuals the OEB determined to be appropriate. The Notice indicated that anyone interested in participating in the Application process should apply for intervenor status.

Seven parties, who each represented different groups of customers affected by the Application, participated in the proceeding. These parties were:

- Association of Major Power Consumers in Ontario (AMPCO)
- Building Owners and Managers Association (BOMA)
- City of Hamilton (the City)
- Consumers Council of Canada (CCC)
- Energy Probe Research Foundation (Energy Probe)
- School Energy Coalition (SEC)
- Vulnerable Energy Consumers Coalition (VECC)

The OEB provided parties and OEB staff the opportunity to ask Horizon questions about its evidence in person at a technical conference, which was not transcribed. Horizon responded in writing to a number of undertakings from the technical conference.

On November 5, 2015, Horizon withdrew its request for approval of a new variance account for the implementation of monthly billing. The parties and OEB staff made written submissions on November 16, 2015 and Horizon filed a reply submission on November 23, 2015.

3 STRUCTURE OF THE DECISION

The OEB has organized this Decision into sections, reflecting the issues as presented in Horizon's Application. Each section covers the OEB's reasons for approving or denying the proposals included in the Application and affecting 2016 rates. The last section addresses the steps to implement the final rates that flow from this Decision.

As a preliminary matter the OEB wishes to address an argument raised by SEC and CCC with respect to their claim that the OEB's failure to allow for interrogatories and/or a transcribed technical conference was inappropriate. SEC and CCC submitted that the OEB did not allow for a proper evidentiary record on which to decide the matter. The OEB disagrees. The parties were allowed to ask questions at the technical conference and to ask for undertakings to ensure that there is a proper evidentiary record.

Procedural fairness issues must be considered in the specific context of each case². Horizon's Application is for an annual rate adjustment that is expected to be mechanistic. This mechanistic adjustment resulted from the decision in Horizon's Custom IR Application, which involved a very detailed and thorough examination of the Application that proceeded by way of an oral hearing. In the context of this annual adjustment Application, proceeding by way of a non-transcribed technical conference and not providing for a separate interrogatory phase was in no way inappropriate. Parties were given the opportunity to ask questions of Horizon at a technical conference. Parties who sought to have evidence added to the record had the opportunity to do so through undertaking responses.

² Dunsmuir v. New Brunswick, 2008 SCR at paragraph 79

4 REOPENERS

The parties to the Settlement Proposal and related decision in Horizon's Custom IR Application agreed to the following reopeners:

- changes to income tax rates and laws
- changes to the Ontario Market Rules or OEB codes
- changes to environmental laws
- changes to technical requirements beyond the control of the utility
- items that qualified for a Z-factor
- accounting framework changes
- changes to the permitted market rates to be charged for wireless pole attachments

Horizon's evidence indicated that none of these reopeners is applicable to this annual filing and no party disagreed.

Horizon did submit that there were three applicable reopeners related to OEB policy changes and Ministerial Directives. These are addressed individually below:

4.1 Cost Allocation for Street Lights

On June 5, 2015, the OEB issued a new cost allocation policy for street lighting, which required the implementation of a street lighting adjustment factor (SLAF) and the narrowing of the range for the revenue to cost ratio (RCR) for the street lighting class to 80%-120%³. The policy stated that adjustments consistent with the decision should be made as part of a Custom IR annual update. Horizon updated its 2016 cost allocation model with the SLAF. Horizon also updated the load profile for the street lighting class because the City of Hamilton had converted its street lights to light emitting diodes (LEDs) which reduced the load. Because of these two changes, the RCR for the street light class increased to 160.09% from 81.35%. Horizon proposed to reduce the RCR to 100%.

Horizon provided evidence, in its response to Undertaking JTC 9(a) to indicate changes to the revenues allocated to the street lighting class as follows:

³ Issuance of New Cost Allocation Policy for Street Lighting Rate Class, EB-2012-0383, June 12, 2015

Scenario	Allocated Revenues
Cost allocation model updated for OEB's new cost allocation policy for street lighting, updated load profile and adoption of a RCR of 100%	(\$1,128,091)
Cost allocation model updated for OEB's new cost allocation policy for street lighting and a RCR of 100%	(\$952,160)
Cost allocation model updated for OEB's new cost allocation policy for street lighting and a RCR of 120%	(\$592,405)

SEC submitted that all of the proposed changes, i.e. implementation of the new cost allocation policy for street lighting, the update to the street light load profile and the changes to the RCRs, increased the bill impact from 4% in the Settlement Proposal and related decision to almost 7% for the GS < 50 kW and GS > 50 kW classes.

Horizon also requested that its proposed revisions to the cost allocation model be approved for 2017-2019. Each of these proposed changes will be addressed individually below.

i) Implementation of OEB policy re SLAF

All parties submitted that Horizon had correctly implemented the SLAF in the cost allocation model.

Findings

The OEB accepts Horizon's update for the SLAF. The policy provided that adjustments be made as part of a Custom IR update. The OEB is satisfied that Horizon has implemented the policy correctly.

ii) Adjustment of RCR for Street Lighting Class

The City of Hamilton supported Horizon's proposal to adjust the RCR for the street lighting class from 160.09% to 100%. OEB staff and all other parties did not support the move to 100% and recommended that initially the RCR for street lighting should move to the upper boundary of the OEB's approved range, i.e. 120%.

Horizon submitted that the street lighting class had experienced substantial rate volatility over the years, from a RCR of 15.6% in 2008 to 160.09% in this annual filing. Horizon acknowledges that in its decision on Horizon's 2008 cost of service Application, the OEB recommended phasing in the adjustment of the RCR for street lighting into the OEB's range by moving to the bottom end of the OEB range (70% at that time) and that normal practice would be to move the street lighting class to the edge of the OEB's range, however given the unique history of the cost allocation for the street lighting class, it was just and reasonable to move to 100% at this time.⁴

OEB staff did submit that the adjustment of the RCR for the street lighting class from 120% to 100% could be phased in and Horizon agreed that should the OEB decide that the RCR for street lighting should be set at 120% for 2016, then the applicant could move to 110% in 2017 and 100% in 2018.

Findings

The OEB accepts OEB staff's recommendation that the implementation of a RCR of 100% for the street light class should be phased in, as has been past practice, starting with a move to 120% for 2016. Moving the RCR to 100% should be done over subsequent years at a reduction of 6.6% per year for three years. This progression will assist in gradually phasing in the change.

iii) Update to Street Lighting Profile

Horizon has proposed to update the load profile used for the street lighting class in the cost allocation model. The City of Hamilton has converted its street lights to LEDs, resulting in reduced demand. With this update to the class load profile, costs would be reallocated from the street lighting class to other classes. The City of Hamilton supported this update while all other parties opposed the change, indicating that it was not fair to other classes that may also have implemented conservation measures that would affect their load profiles.

Findings

As the OEB stated in the Decision and Order issued for Horizon's Custom IR Application⁵, while the use of up to date data is preferable, there is no advantage to selective updating. Until data that is more accurate is available for all classes, Horizon

⁴ Horizon response to OEB staff Technical Question 13, October 23, 2015

⁵ EB-2014-0002, Decision and Order, December 11, 2014

must continue to use the existing load profiles for the purpose of its cost allocation model.

iv) Cost Allocation Model for 2017-2019

Horizon has requested approval of its cost allocation model, as presented in this Application, for 2017 to 2019. OEB staff, Energy Probe and VECC supported the use of the updated models, with the exception of the update to the street lighting load profile as described above. OEB staff noted that this approval should be subject to any further revisions to the cost allocation policy or models that the OEB directs utilities implement during a Custom IR rate plan term.

Findings

Subject to the findings in this Decision and any changes in policy or cost allocation models that the OEB directs utilities to implement during a Custom IR rate plan term, the OEB approves Horizon's cost allocation models for 2017-2019.

4.2 Residential Distribution Rate Design

On April 2, 2015, the OEB issued the Report of the Board: A New Distribution Rate Design for Residential Electricity Customers, which stated that distribution charges for the Residential class would transition to a fully fixed service charge over a four-year period. In a July 16, 2015 letter, the OEB stated that it "expects that all distributors will file an application for 2016 rates to begin the implementation of fixed residential distribution rates"⁶. Distributors are expected to transition to a fully fixed residential charge in equal increments over a four year period unless the required increase to the fixed rate would increase by more than \$4 in any year, or if bill impacts are unusually large. In recognition of the potential impact on lower volume customers, the bill impacts of changes would be assessed for residential customer at the 10th percentile of consumption.

Horizon provided evidence that the annual increase in the fixed charge for the Residential class was \$2.47⁷ and that for the 10th percentile customer, the impact of the change in distribution rate design was 4.95%, i.e. less than 10%⁸.

⁶ OEB Letter to all Licensed Electricity Distributors, RE: Implementing a New Rate Design for Electricity Distributors, OEB File: 2012-0410, July 16, 2015

⁷ Horizon's Response to JTC 3(a), November 6, 2015

⁸ *ibid*

OEB staff submitted that Horizon has correctly implemented the OEB policy on residential rate design and that mitigation is not required. AMPCO, CCC, Energy Probe and VECC submitted that Horizon should consider the total bill impact, incorporating all changes that affect the customer's bill on January 1, 2016 (i.e. Debt Retirement Charge, Ontario Clean Energy Benefit, and Ontario Electricity Support Program) in determining whether mitigation was required. AMPCO submitted that the total bill impact of all changes for a customer in the 10th percentile was 14.02%⁹ and therefore mitigation was required.

CCC also submitted that Horizon must clearly define for its customers the nature of the new changes in this Application and how they will affect the bill going forward and the OEB should assess whether Horizon's customer communication materials are sufficient, especially for low volume customers.

Findings

The OEB finds that Horizon has correctly implemented the OEB's policy on distribution rate design for residential customers.

The OEB expects that all distributors will transition to fixed rates in equal increments over a four-year period. The OEB has established two main tests for considering whether a deviation from this expectation is warranted. The first is if the increase to the monthly fixed charge would need to be greater than \$4 to achieve the transition within four years. Horizon's proposal to increase the fixed charge by \$2.47 passes this test.

The second test is "if other rate changes being made as a result of other OEB decisions, which together with the policy change, could result in unusually large bill impacts".¹⁰ Given that the impact of the change on individual customers will vary by consumption, the OEB established that acceptable bill impacts would be evaluated for a residential customer at the distributor's 10th percentile. Horizon's proposal also passes this second test.

As the policy paper notes, and the filing requirements echo, the assessment is designed to consider "the combined effects of the shift to fixed rates and other bill impacts associated with changes in the cost of distribution service"¹¹. Changes to the bill resulting from the provincial government's decision to phase out the Ontario Clean Energy Benefit and the Debt Retirement Charge are not within the scope of the

⁹ Horizon's Response to Technical Conference Question 5-VECC-7, October 23, 2015

¹⁰ A New Distribution Rate Design for Residential Electricity Customers, April 2, 2015 p26

¹¹ Chapter 3 - Filing Requirements - Incentive Rate-Setting Applications, p9.

evaluation. While these impacts may be appreciable, the OEB's test recognizes that these changes neither are the OEB's decision nor of a magnitude that the OEB typically has tools to mitigate, especially in an Application with a scope as narrow as this annual update.

4.3 Regulatory Charges

On November 19, 2015, the OEB issued a decision approving three regulatory charges: the Rural or Remote Electricity Rate Protection charge (RRRP), wholesale market service rate (WMS) and the Ontario Electricity Support Program (OESP) charge of \$0.0011/kWh effective January 1, 2016.

In anticipation of the OESP charge, Horizon also requested in its Application for approval to update the cost of power used for its working capital allowance to include the three regulatory charges approved by the OEB on November 19, 2015. OEB staff did not support the updating of the cost of power for the OESP, as it was not clear what the net effect of the OESP would be on the working capital allowance and it was not material. AMPCO supported the updating of the cost of power with the OESP. Horizon submitted that updating the cost of power for the OESP was consistent with the Settlement Proposal and related decision, which allowed annual adjustments to the cost of power for flow-through charges. Horizon also submitted that the materiality of the item is not sufficient reason to disallow the adjustment.

Findings

Horizon's draft Tariff of Rates and Charges flowing from this Decision should reflect these new charges, as well as the OESP credits to be provided to enrolled low income customers as per the Decision and Order issued November 19, 2015¹².

There is nothing in Horizon's Settlement Proposal and related decision that would restrict Horizon from updating the cost of power for the OESP charge, despite its immateriality. Since the update to the cost of power for the three regulatory charges approved on November 19, 2015 is consistent with the Settlement Proposal and related decision, the OEB accepts it.

¹² EB-2015-0294, Decision and Order, November 19, 2015

5 ANNUAL ADJUSTMENTS

The parties to the Settlement Proposal and related decision in Horizon's Custom IR Application agreed that rates would be annually adjusted for a number of items. Each is addressed below.

5.1 Changes in the Cost of Capital

The Settlement Proposal and related decision included an update to the cost of capital parameters based on the OEB's annual update. On October 15, 2015, the OEB issued cost of capital parameters for 2016 Applications and Horizon appropriately updated its revenue requirement and stranded meter rate rider for the revised parameters. No parties objected to the updates.

Findings

Horizon has correctly updated its rates for the latest cost of capital parameters.

5.2 Changes in the Working Capital Allowance

Horizon updated the Working Capital Allowance to account for updates to:

- Retail Transmission Service Rates to incorporate 2014 demand and 2015 Uniform Transmission Rates;
- Smart Metering Entity Charge to incorporate 2014 Residential and GS < 50 kW customer counts;
- Cost of Power incorporating the November 1, 2015 RPP prices, the ratio of RPP vs. non-RPP volumes for 2014 actuals and the November 19, 2015 update to the WMC, RRRP and the new OESP.

Except for the update related to the OESP, which is discussed under item 4.3, no parties objected to these annual updates.

In calculating its revenue requirement for 2016, Horizon used a Working Capital Allowance (WCA) percentage of 12%, which had been accepted as part of the Settlement Proposal and related decision in Horizon's Custom IR. Horizon stated that the percentage was based on a lead/lag study and no reopener or annual adjustment for the percentage was provided for in the Settlement Proposal and related decision. In response to Energy Probe Technical Conference Question 2-EP-11(b), Horizon estimated the change in the WCA percentage with the implementation of monthly billing at 8.7%.

On June 3, 2015, the OEB issued a letter announcing a new default working capital allowance of 7.5% in place of the previous 13%. Distributors who do not wish to use the default value could request approval for a distributor-specific working capital allowance supported by the appropriate evidence from a lead-lag study or equivalent analysis.

BOMA submitted that based on the June 3, 2015 letter and the recalculated 8.7% WCA percentage, Horizon should adjust its WCA as it qualified as a Z-factor event. AMPCO also submitted that Horizon should use the 8.7% WCA percentage on the basis that it was part of the annual adjustments in the Settlement Proposal and related decision.

Horizon states that the OEB's June 3, 2015 letter identified that adjustments to the WCA percentage would only be made in a rebasing Application unless otherwise provided for and no such provision exists in Horizon's case.

Findings

Horizon's updated Working Capital Allowance is accepted. Based on the OEB's letter of June 3, 2015, which stated that "[c]hanges to working capital allowances costs will be implemented only in cost of service and Custom IR Applications unless otherwise determined by the OEB in a prior decision", Horizon's continued use of a WCA percentage of 12% is accepted.

5.3 Changes in Other Third Party Pass Through Charges

The updates related to changes in other third party pass through charges are discussed above in section 3.3.2.

5.4 Earnings Sharing Mechanism (ESM)

The Settlement Proposal and related decision for Horizon's Custom IR included an ESM based on a year's financial results. Absent 2015 final results, Horizon submitted that the ESM was not applicable to this Annual Filing. No parties disagreed.

Findings

Horizon should report on the ESM for 2015 as part of its 2017 Annual Filing.

5.5 Capital Investment Variance Account (CIVA)

The Settlement Proposal and related decision included a CIVA base on a year's capital additions. Absent 2015 final results, Horizon submitted that the CIVA was not applicable to this Annual Filing. No parties disagreed.

Findings

Horizon should report on the CIVA for 2015 as part of its 2017 Annual Filing.

5.6 Efficiency Adjustment

The Settlement Proposal and related decision included an Efficiency Adjustment if the OEB's benchmarking analysis placed Horizon in a less efficient cohort. Horizon's starting point was Cohort III and the OEB's Empirical Research in Support of Incentive Rate-Setting: 2014 Benchmarking Update for Determination of Stretch Factor Assignments for 2016 issued on July 30, 2015, placed Horizon in Cohort III. As a result, Horizon submitted and no party disagreed, that an Efficiency Adjustment was not required.

Findings

No Efficiency Adjustment is required as part of this Annual Filing.

5.7 Off-ramps

The parties to the Settlement Proposal and related decision in Horizon's Custom IR Application agreed that the OEB's policy in relation to off-ramps, as stated in the Renewed Regulatory Framework for Electricity Distributors Report¹³ would continue to apply to Horizon. In order to determine if an off-ramp should apply, final information from 2015 is required. No parties objected to Horizon's proposal to provide an update on its 2015 results in its 2017 Annual Filing.

Findings

The OEB accepts Horizon's proposal.

¹³ Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012, p. 11

6 DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

Horizon has proposed disposing of Group 1 Deferral and Variance Accounts (DVAs) balances of \$9,527,458 over a one-year period. Horizon identified that the balance exceeds the disposition threshold of \$0.001/kWh. OEB staff submitted that Horizon had correctly computed the rate riders to recover the balance.

In Undertaking JTC 11, Horizon indicated that it had revised the tariff sheets for the Large Use (1) and Large Use (2) customer class to clarify that only Class A customers as of December 31, 2014 will be exempt from the 2016 Global Adjustment Rate Rider.

Findings

Horizon's proposed rate riders for disposition of Group 1 DVAs, as shown in Horizon's Deferral and Variance Work Form filed on August 12, 2015, and as clarified in Undertaking JTC 11, are approved.

7 IMPLEMENTATION

New rates are to be effective January 1, 2016.

Horizon's draft rate order should reflect the findings of this Decision. The OEB expects Horizon to file detailed supporting material, including all relevant calculations showing the impact of the Decision on its proposed revenue requirement, the allocation of the approved revenue requirement to the classes, and the determination of the final rates, including bill impacts.

The draft rate order supporting documentation shall include, but not be limited to, filing a completed version of the revenue requirement work form and the cost allocation excel spreadsheets, which can be found on the OEB's website.

A Rate Order will be issued after the steps in Section 8 are completed.

7.1 Regulatory Charges

On November 19, 2015, the OEB issued a decision approving three regulatory charges. These regulatory charges are established annually by the OEB through a separate order. These charges are paid for by electricity consumers.

The charges include the Rural or Remote Electricity Rate Protection charge (RRRP), Wholesale market service rate (WMS) and the Ontario Electricity Support Program (OESP) charge.

The RRRP program is designed to provide financial assistance to eligible customers located in rural or remote areas where the costs of providing electricity service to these customers greatly exceeds the costs of providing electricity to customers located elsewhere in the province of Ontario. The RRRP program cost is recovered from all electricity customers in the province through a charge that is reviewed annually and approved by the OEB.

WMS charges recover the cost of the services provided by the Independent Electricity System Operator (IESO) to operate the electricity system and administer the wholesale market. These charges may include costs associated with: operating reserve, system congestion and imports, and losses on the IESO-controlled grid. Individual electricity distributors recover the WMS charges from their customers through the WMS rate.

The OESP is a new rate assistance program for low-income electricity customers. Starting January 1, 2016, eligible low-income customers will receive a monthly credit on

their bills. At the same time, all electricity customers in the province will begin paying a charge to fund the program, which will be referred to as the OESP charge.

The proposed Tariff of Rates and Charges flowing from this Decision should reflect these new charges as well as the OESP credits to be provided to enrolled low income customers.

8 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Horizon Utilities Corporation shall file with the OEB, and shall also forward to the intervenors, a draft rate order attaching a proposed Tariff of Rates and Charges reflecting the OEB's findings in this Decision and Order by December 16, 2015.
2. OEB Staff and intervenors shall file any comments on the draft rate order with the OEB, and forward the comments to Horizon on or before December 18, 2015.
3. Horizon shall file with the OEB and forward to the intervenors responses to any comments on its draft rate order within 7 days of the date of the receipt of the submission.

All filings to the Board must quote the file number, EB-2015-0075, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/> and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Jane Scott at jane.scott@ontarioenergyboard.ca and Board Counsel, Maureen Helt at maureen.helt@ontarionenergyboard.ca .

DATED at Toronto December 10, 2015

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary