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**Commission de l'énergie  
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**BY E-MAIL AND WEB POSTING**

July 16, 2013

**To: All Rate-Regulated Licensed Electricity Distributors  
All Participants in Consultation Process EB-2010-0219  
All Other Interested Parties**

**Re: Allocation of Host Electricity Distributor Costs to Embedded Distributors  
Board File No.: EB-2010-0219**

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This letter sets out the Board's approach to the allocation of host electricity distributor costs to embedded distributors.

**Background**

There are several instances in Ontario where one electricity distributor (the host distributor) provides electricity service to another distributor (the embedded distributor) whose distribution system is located in or adjacent to the host distributor's licensed service area. Any distribution charges levied by a host distributor on its embedded distributor are ultimately recovered from the embedded distributor's customers.

In September 2010, the Board initiated a consultation regarding revisions to its electricity distribution cost allocation policy, including the allocation of host electricity distributor costs to embedded distributors. In its March 31, 2011 report entitled "Review of Electricity Distribution Cost Allocation Policy", the Board concluded that further data and analysis was required on proposed thresholds above which a host distributor would be expected to create a separate rate class for its embedded distributors.

**Staff Analysis**

Since issuance of the Board's Report, Board staff has analyzed data filed by distributors under the Board's Electricity Reporting & Record Keeping Requirements as well as information filed in rate proceedings. Staff also collected additional data from electricity distributors to determine how many distributors are embedded, the loads involved, the

charges levied by the host distributor, the dollar amounts billed, the total cost of power supplied to embedded distributors and other pertinent information. Staff also reviewed the ownership profile of the interconnection assets that are used to serve embedded distributors, as ownership of these assets is expected to affect the distribution charges levied by the host distributor. Staff noted that there are 32 distributors that are fully or partially embedded in the service area of Hydro One Networks Inc. ("Hydro One"). The Board has already approved a "Sub Transmission" rate class for these distributors. The focus of this review was therefore on all of the remaining host distributor arrangements.

For the remaining host distributor arrangements the results of staff's analysis are as follows:

- There are 14 host distributors providing service to 15 embedded distributors. These are listed in Appendix A. No embedded distributor is fully embedded in a host distributor. In other words, only part of any given embedded distributor's power needs are met by the host distributor, with the remainder being provided by a transmitter such as Hydro One.
- Of the 14 host distributors, seven already have a separate Board-approved rate class for their embedded distributors. The seven host distributors that do not have a separate rate class provide only a fraction of a percent of their respective embedded distributors' load. Distribution charges are generally levied based on applicable general service rate classes, and are not material for either the host or the embedded distributor. In six of the seven cases, the embedded distributor is Hydro One.
- The ownership of the feeders and transformers that are used to provide power to embedded distributors was reviewed in relation to the seven instances where the host distributor does not have a separate embedded distributor rate class. In four cases the assets are owned by the host and in two others they are owned by the embedded distributor (one host distributor did not provide sufficient information on asset ownership).
- Host distributors are not all consistently reporting data pertaining to their embedded distributor(s).

### **The Board's Approach**

As a result of Board staff's analysis, the Board does not believe that it is necessary at this time to establish a threshold above which a host distributor would be expected to create a separate rate class for its embedded distributors. Rather, the Board considers it more appropriate for this issue to continue to be addressed on a case-by-case basis. Accordingly, the Board will revise its filing requirements for electricity rate applications to make provision for the following to be filed by any host distributor that does not, at the time of filing, have a separate Board-approved rate class for its embedded distributor(s):

1. The identity of the host distributor's embedded distributor(s);

2. Information regarding the host distributor's embedded distributor(s), including the load served by the host distributor, the ownership of relevant assets and the distribution charges levied;
3. Where the host distributor is proposing the establishment of a separate rate class for its embedded distributor(s), the rationale for that proposal and supporting evidence;
4. Where the host distributor is not proposing the establishment of a separate rate class for its embedded distributor(s), evidence supporting the continued appropriateness of the rate class that is being used for the purposes of levying distribution charges on the embedded distributor(s); and
5. Evidence that the host distributor has consulted with its embedded distributor(s) prior to preparing its cost allocation model and filing its rate application, and a statement as to whether the embedded distributor supports the host distributor's approach to the allocation of costs to it.

These filings would be required as part of the cost of service rate applications. The Board expects to include the above in the next revision to filing requirements for electricity rate applications, expected to be issued later this month.

Any questions relating to the Board's policy in this area should be directed to the Market Operations Hotline at 416-440-7604 or [market.operations@ontarioenergyboard.ca](mailto:market.operations@ontarioenergyboard.ca). The Board's toll free number is 1-888-632-6273.

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary

**APPENDIX A**  
**List of Host and Embedded Distributors**

Host Distributor	Embedded Distributor
<i>Embedded Distributors with an Approved Embedded Rate Class</i>	
Brantford Power	Brant County Power
Cambridge & North Dumfries Hydro	Hydro One
Cambridge & North Dumfries Hydro	Waterloo North Hydro
Erie Thames Power	Hydro One
Haldimand County Hydro	Hydro One
Hydro One Brampton	Hydro One
Kitchener Wilmot Hydro	Waterloo North Hydro
ELK Energy	Hydro One
<i>Embedded Distributors without an Approved Embedded Rate Class</i>	
Brant County Power	Brantford Power
Canadian Niagara Power Inc. (CNPI)	Hydro One
Entegrus	Hydro One
Essex Power	Hydro One
Halton Hills Hydro	Hydro One
Innisfil Hydro	Hydro One
North Bay Hydro	Hydro One