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**BY E-MAIL**

February 10, 2016

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Entegrus Powerlines Inc.  
2016 Electricity Distribution Rates  
OEB Staff Submission  
OEB File No. EB-2015-0061**

Please find attached OEB staff's submission on the filed settlement proposal for Entegrus Powerlines Inc.'s 2016 cost of service rate application. This document is also being forwarded to Entegrus Powerlines Inc. and to the Vulnerable Energy Consumers Coalition, Energy Probe Research Foundation, and the School Energy Coalition.

Yours truly,

*Original Signed*

Stephen Vetsis  
Advisor – Electricity Rates and Prices

Encl.

# **2016 ELECTRICITY DISTRIBUTION RATES**

**Entegrus Powerlines Inc.**

**EB-2015-0061**

**OEB STAFF SUBMISSION**

**February 10, 2016**

## INTRODUCTION

Entegrus Powerlines Inc. (Entegrus) filed a complete application with the Ontario Energy Board (the OEB) on August 28, 2015 seeking approval for changes to the rates that Entegrus charges for electricity distribution, to be effective May 1, 2016. Entegrus filed a Settlement Proposal between all parties to the proceeding on February 3, 2016, following a settlement conference held on January 12 and 13, 2016.

This submission reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Entegrus' application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

OEB staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of the filing of Entegrus' settlement proposal.

### Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework for Electricity* (RRFE), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow Entegrus to achieve its identified outcomes in the four incentive rate-setting years that will follow. OEB staff submits that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

Notwithstanding the above, in order to assist the OEB's consideration of the three issues noted below, OEB staff makes the following submission:

- Residential Rate Design
- Standby Rates

- Gross Load Billing

## Residential Rate Design

OEB staff wishes to comment on Entegrus' proposal to implement the OEB's new rate design policy for residential customers. The parties to the settlement proposal agreed to Entegrus' proposed approach of moving base rates for all service areas to the current fixed/variable split of the Chatham-Kent service area in 2016.<sup>1</sup> The resulting harmonized residential rates would then transition to a fully fixed charge in equal steps of \$1.64 over the 2017-2019 period. The increase to the fixed charge for residential customers in 2016 for each of Entegrus' service areas is summarized in the table below.

**Table 1 – Increase to Fixed Charge by Service Area in 2016**

| <b>Service Area</b>                       | <b>Increase to Fixed Charge in 2016</b> |
|---|---|
| Chatham-Kent                              | \$0.00                                  |
| Strathroy, Mt. Brydges and Parkhill (SMP) | \$4.45                                  |
| Dutton                                    | \$5.54                                  |
| Newbury                                   | \$6.46                                  |

Under the OEB's new rate design policy for residential customers<sup>2</sup>, distributors are required to transition their residential distribution rates towards a fully fixed rate structure in equal steps over a four year period starting in 2016. The Filing Requirements<sup>3</sup> state that distributors should apply for an exception to the standard approach for implementation in order to mitigate the impact for customers where either:

- the fixed charge would have to increase by greater than \$4 in order to transition to a fully fixed rate over four years

<sup>1</sup> The Chatham-Kent service area has the highest fixed variable split of all of Entegrus' service areas; 74% fixed and 26% variable.

<sup>2</sup> Board Policy: A new Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015.

<sup>3</sup> Filing Requirements for Electricity Distribution Rate Application – 2015 Edition for 2016 Rate Applications, Chapter 2 – Cost of Service, July 16, 2015.

- ii) where the overall bill impact for a low volume customer<sup>4</sup> would exceed 10%

Entegrus' proposal deviates from the OEB's standard approach by allowing for an increase to the fixed charge of greater than \$4 for all service areas, excluding Chatham-Kent, and by not transitioning in equal steps in each year.

OEB staff notes that this is Entegrus' first rebasing application since the OEB approved the disposition of historical smart meter costs in each of Entegrus' service areas. As a result, several of Entegrus' service areas have rate riders related to the recovery of historical and incremental smart meter costs which will either expire or be reflected in 2016 base rates, respectively. If the removal of these fixed charges is considered, the increase in fixed charges is well below the \$4 threshold for all service areas. The overall change in fixed charges for each service area is summarized in the table below.

**Table 2 - Overall Change in Fixed Charges by Service Area**

| Charge  | Rate Zone    |          |          |          |
|---|--------------|----------|----------|----------|
|   | Chatham-Kent | SMP      | Dutton   | Newbury  |
| Monthly Fixed Charge                              | \$0          | \$4.55   | \$5.54   | \$6.46   |
| Historical Smart Meter Costs                      | \$0          | \$(2.00) | \$(1.20) | \$(0.77) |
| Smart Meter Incremental Revenue Requirement Rider | \$0          | \$(0.38) | \$(2.33) | \$(2.40) |
| Stranded Meter Costs                              | \$0.22       | \$0.22   | \$0.22   | \$0.22   |
| <b>Total Change</b>                               | \$0.22       | \$2.39   | \$2.23   | \$3.51   |

OEB staff also observes that the bill impacts for residential customers at Entegrus' lowest 10<sup>th</sup> percentile of consumption are well below the 10% threshold for both RPP and non-RPP customers in all of Entegrus' service areas. In most cases, customer bills will decrease due to the outcomes of this settlement proposal.

<sup>4</sup> The Filing Requirements state that the bill impact should be evaluated for a customer consuming at the distributor's lowest 10<sup>th</sup> percentile of consumption each month.

Given these factors, OEB staff takes no issue with Entegrus' proposal as it effectively achieves the outcomes of completing rate harmonization across the rate zones, providing a timely implementation of the OEB's rate design policy, and ensuring that the bill impacts are not excessive for customers most impacted by this change.

### **Standby Rates**

Entegrus has requested approval of a standby rate that is equal to the applicable volumetric charge for providing distribution service to a General Service > 50 kW or Large Use class customer. This request was in response to a Large Use customer that recently put in to a service a renewable cogeneration facility but wanted to maintain its access to Entegrus' distribution service. The standby rate is to be charged in a month where standby service is provided and will be billed based on the difference between the contracted load transfer capacity and the customer's measured peak demand for the month. The contracted load transfer capacity has been agreed at the historic gross load of the customer before the cogeneration facility was installed.

When performing the cost allocation study, Entegrus adjusted the billed demand from its load forecast to match the contracted load transfer capacity for the Large Use customer and modified the demand allocators to match the maximum contracted load that was to be available for that customer. OEB staff submits that this approach is appropriate and ensures that other customers are not subsidizing the costs of providing standby service. OEB staff notes that a similar approach was approved by the OEB in Horizon Utilities Corp.'s 2015 custom IR application (EB-2014-0002).

### **Gross Load Billing**

On the last page of the tariff included with the settlement proposal Entegrus has included a note indicating that the billing demand for line and transformation connection services charges will be based on the gross demand for customers that have embedded generation facilities. This note was added to account for the renewable cogeneration facility recently put in to service for one of Entegrus'

Large Use customers and matches an identical note on Hydro One Networks Inc.'s rate order for the Uniform Transmission Rates (EB-2014-0357).

When calculating the Retail Transmission Service Rates (RTSRs), Entegrus adjusted the billing determinants for the Large use class to include capacity of the renewable cogeneration facility.

OEB staff recognizes that Entegrus' approach is consistent with the way in which Entegrus will be billed for those charges by Hydro One. It will require the customer who derives benefit from the cogeneration facility to pay for RTSRs for the capacity it uses from both Entegrus and the facility. Absent this change, the incremental transmission charge would have been recovered from all Entegrus' customers.

That being said, this is a generic issue that applies to all distributors with embedded generation. The settlement proposal does not highlight anything unique with the Entegrus situation. Gross load billing was introduced at the transmission level to address the issue of transmission bypass. This issue has not been addressed by the OEB for distribution. For that reason, OEB staff is concerned that all aspects of this issue may not have been considered. If the OEB accepts the settlement, OEB staff submits that it should be under the condition that this approach would be amended if the OEB holds a policy or other review to consider this issue on a generic basis and adopts a different approach.