EB-2018-0028
REDACTED VERSION

ONTARIO ENERGY BOARD

IN THE MATTER the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15 (Schedule B);

AND IN THE MATTER OF an application to the Ontario Energy Board by Energy+ Inc. pursuant to Section 78 of the *Ontario Energy Board Act* for approval of its proposed distribution rates and other charges effective January 1, 2019.

CONTAINS CONFIDENTIAL INFORMATION

Toyota Motor Manufacturing Canada Inc. ("TMMC")

Response to Interrogatories

of

OEB Staff

October 25, 2018

Staff-TMMC-1

Reference: **TMMC Written Evidence of Jeffry Pollock, Large User Class Cost Allocation**

Preamble: Mr. Pollock stated that no load displacement generation (LDG) related adjustments to the demand allocators should be made to the Large Use class.

Mr. Pollock also stated that the two dedicated feeders serving TMMC should be directly assigned to TMMC.

Questions:

(a) Please explain in what situations a distributor should create a separate Standby rate class and discuss if TMMC agrees with Energy+'s approach of implementing a Standby charge to all customers in the GS>50 kW and larger rate classes that have LDG (i.e. not creating a separate Standby rate class).

(b) Please provide a cost allocation model in which TMMC is a separate rate class.

(c) Mr. Pollock stated that "Energy+'s LDG adjustments are contrary to the Board's directions on cost allocation. Specifically, with respect to LDG, the Board directed distributors to explain in its Filing Summary: (a) What steps were taken to gather relevant data to assess the existence of diversity, and (b) What steps were taken to reflect any diversity of generation in its filing. As previously stated, Energy+ assumed zero diversity for TMMC's generator outages, and it provided no explanation for this assumption."

(i) Please discuss if it is TMMC's opinion that these two questions apply only to a distributor who proposes a separate Standby rate class. If so, please explain why it still applies to Energy+'s situation. If not, why not.

(ii) Please explain how the filling questions listed in Board's directions lead to the conclusion that "the first step in allocating total costs to the LDG classification is to determine a proper cost-based rate for providing distribution service to the class, irrespective of the impact of LDG."

(iii) Please discuss if suitable data cannot reasonably be obtained to assess whether or not an outage of the LDG would occur at the time the large user class reaches its monthly peaks, what methodology should be used to estimate such information.

(d) Does TMMC give Energy+ access to its hourly metered data of the LDG?

(e) Please reconcile Schedule JP-3 Total Fixed Assets for Feeders of **$[$[redacted]]** and Schedule JP-5, page 1 of 2, Directly Allocated Net Fixed Assets of $251,979.

(f) The Cost Allocation model provides a mechanism for directly allocating Uniform System of Accounts (USoA) balances. Mr. Pollock's proposed Cost Allocation model does not directly allocate USoA balances. Instead, it leaves the entire USoA balances to be allocated normally, and then performs a direct allocation (not on any USoA balance) to the Large User rate class,

and offsetting direct allocations to other rate classes. Why has the direct allocations of feeder assets, as well as associated OM&A and depreciation been performed as standalone items instead of directly on the related trial balance accounts?

Response:

(a) A class cost-of-service study is ideal to determine the cost to provide distribution service when a class's load characteristics are consistent and recurring. Standby distribution service is neither consistent nor recurring because the frequency and duration of forced outages can vary widely from year-to-year, and the required maintenance will depend on the wear and tear and the need for major equipment overhauls. With such widely-varying load characteristics, creating a separate rate classification for Standby service would introduce instability to the CCOSS.

Accordingly, Mr. Pollock believes the better approach would be to exclude all Standby service from the CCOSS so that proper cost-based Supplementary Service rates can be developed for each rate classification. The Supplementary Service rates would provide a basis for designing a Standby tariff. That Standby tariff could be structured to apply to all rate classifications.

For example, Mr. Pollock's proposed Standby rate design was specifically derived from the cost-based Large Use rate design as developed from TMMC's Revised CCOSS. Similar rates could be derived for the other rate classifications with LDG customers. Because the Standby rates would be derivatives of cost-based Supplementary rates, they too would be cost based.

(b) Staff has granted TMMC until Monday, October 29 to provide a response.

(c) (i) A cost-based rate should always recognize the characteristics of the load that is subject to that rate. Diversity is an important characteristic, particularly for LDG because forced and scheduled outages almost never occur simultaneously for all customers with LDG. Similarly, forced and scheduled outages seldom occur coincident with either a class's peak demand or the system peak demand. This principle is specifically recognized in the rules of the Federal Energy Regulatory Commission (FERC) that apply to the design of Standby rates in the U.S. (18 CFR 292.305). These rules have been adopted by many state regulatory commissions. Accordingly, diversity must be recognized irrespective of whether Standby service rates are derived directly from a CCOSS or by derivatives of cost-based Supplementary service tariffs, as TMMC is proposing.

(c) (ii) Creating a separate rate classification for Standby service would add instability to the CCOSS because the amount of service is nonrecurring due to the random nature of forced outages and different annual maintenance needs. That stated, cost-based rates for Standby distribution service can be derived from the corresponding cost-based rates for Supplementary service in the manner discussed in Mr. Pollock's evidence. Further, the same methodology can be applied to all rate classes and the results included in a single Standby tariff.

(c) (iii) How a Standby rate is structured can automatically compensate for the lack of load data to specifically measure diversity. The varying and non-recurring nature of Standby service also means that diversity can vary from time to time and from class to class. However, a Standby rate can be structured to accommodate this variability. The more Standby service that is used in a billing month, the lower the diversity. If Standby service is used for an entire billing month, the level

of service would closely resemble Supplementary service. Under this circumstance, a Standby customer should pay the same for distribution service as a non-Standby customer.

This philosophy is reflected in the Standby rate design discussed in Mr. Pollock's evidence. Specifically, the combination of a Maximum Volumetric rate and Daily Volumetric rate charges different amounts for Standby distribution service depending on how much service is actually used. This is because the Daily Volumetric rate would only apply when Standby service is actually used. The more service is used, the lower the diversity and the higher the Standby charges. By contrast, if little or no Standby service is used, diversity would be high, and the LDG customer would pay only the Maximum Volumetric rate and the corresponding Daily Volumetric rate but only if Standby service is used during on-peak hours.

Please see TMMC's response to VECC 5.2.

(d) Yes.

(e) The $251,979 of directly allocated net fixed assets is based on current rates, while the [**$**[redacted]] is the revenue requirement assuming that the Large Use class revenue-to-cost ratio is 1.0

(f) TMMC used the cost allocation model to directly allocate the feeder costs. However, we did not have sufficient time to separate the costs by Uniform System of Accounts (USoA) balances. Hence, it was necessary to allocate an off-setting credit to the other classes to account for the directly assigned costs to the Large Use class.

Staff-TMMC-2

Ref: TMMC Written Evidence of Jeffry Pollock, Large User Class Cost Allocation

Preamble: In discussing concerns with the approach Energy+ has taken to LDG, Mr. Pollock notes that "The higher the diversity, the lower the distribution volumetric rate required to recover the cost of providing Standby distribution service".

Mr. Pollock also states that:

TMMC represents about 81% of the Large Use class energy sales. Accordingly, I have removed 81% of the Large Use class's 4NCP and 12NCP demands. The revised 4NCP and 12NCP demands are developed in Schedule JP-4.

Questions:

(a) Has TMMC considered any alternative methodologies to prepare 4NCP and 12NCP allocators that would reflect the loss of diversity in removing TMMC from the 4NCP and 12NCP allocators?

(b) Why has TMMC focused only on the 4NCP and 12NCP allocators if it believes this modification is appropriate, why not the 1NCP as well?

(c) Please provide a derivation of the proposed PNCP4b allocator as entered in sheet E2 Allocators of the Cost Allocation model.

Response:

(a) No. However, the purpose of removing TMMC's loads from the 4NCP and 12NCP allocation factors is to recognize the different type of distribution service that TMMC receives as compared to the distribution service provided to the other Large Use customer. It is not designed to reflect the loss of diversity.

(b) The 4NCP and 12NCP allocation factors were used to allocate distribution costs in this proceeding. None of the distribution costs were allocated using the 1NCP allocators.

(c) The allocation factor "PNCP4b" is the PNCP4 allocation factor from the Company's study with LDG removed and not adjusted to remove TMMC demands. The derivation of the proposed PNCP4b allocator is provided in the workpapers to Schedule JP-5 Errata on tab I8 Demand Data.

Staff-TMMC-3

Ref: TMMC Written Evidence of Jeffry Pollock, Large User Class Rate Design

Preamble: Mr. Pollock proposed three separate Distribution Volumetric Rates for the large user class:

- Bulk Distribution Volumetric Rate: to recover the allocated costs Bulk distribution facilities;
- Primary Substation Volumetric Rate: to recover the allocated costs of Primary Substation facilities (i.e., dedicated feeders and associated poles, towers, and fixtures); and
- Primary Distribution Volumetric Rate: to recover the allocated costs of the integrated Primary Distribution network.

Questions:

(a) Please provide, if available, precedents that separate Distributor Volumetric rates were approved by a regulator.

(i) Precedents in Ontario

(ii) Precedents in other jurisdictions

(b) In OEB's Decision with Reasons dated January 18, 2000, it was stated that "The Board accepts that the use of a two-part rate structure consisting of a monthly service charge and a volumetric charge provides some revenue certainty for the distribution utility." Please discuss why it is appropriate to deviate from this two-part rate structure as proposed by Mr. Pollock.

(c) Have alternatives to deviation from this two-part rate structure been considered? If so, please explain. If not, why not?

Response:

(a) (i) Mr. Pollock has not reviewed any rate design precedents that may be applicable to other local distribution companies in Ontario.

(a) (ii) In other jurisdictions, the differences in the cost of providing different types of distribution service are recognized either through separate delivery voltage adjustments or by separating the distribution classes into the specific types of distribution service provided (*i.e.*, primary substation and primary distribution service). This structure is consistent with the fact that rate design is a continuation of the cost allocation process, but on an intra-rate class basis. The following table provides examples of precedents from other regulatory jurisdictions.

Item	State	Utility	Link	Tariff
1	Texas	Oncor Electric Delivery Company	Oncor Tariff	Primary Service Greater than 10 kW-Distribution Line Primary Service Greater Than 10 kW-Substation
2	Florida	Duke Energy Florida	DEF Tariff	GSD - Voltage Discount
3	Minnesota	Xcel Energy (D/B/A Northern States Power Co.)	NSP Tariff	General Time of Day Service Rate Code A-15, A17, A19 Voltage Discount for Transmission Transformed Voltage

(b) The distribution Volumetric rates for the Large Use class described in Mr. Pollock's evidence and derived in Schedule JP-6 Errata are effectively two separate two-part rates:

1. A two-part rate for Primary Substation service: **[$**[redacted]] per kW, which is the sum of the unbundled Bulk Distribution cost [**$**[redacted]] per kW and the unbundled Primary Substation cost $0.595 per kW.

2. A two-part rate for Primary Distribution service: [**$**[redacted]], which is the sum of the unbundled Bulk Distribution cost [**$**[redacted]] per kW and the unbundled Primary Distribution cost [**$**[redacted]] per kW.

(c) The only alternative considered was to separate the Large Use class into two different rate classifications. Please see TMMC's response to Staff-TMMC-1b.

Staff-TMMC-4

Ref: TMMC Written Evidence of Jeffry Pollock, Standby Distribution Service Rate Design

Preamble: Mr. Pollock stated that the Standby distribution services would consist of two separate charges:

- A Maximum Volumetric Rate to recover the cost of primary distribution facilities: and
- A Daily Volumetric Rate to recover the cost of the bulk distribution facilities.

The Maximum Volumetric Rate would apply regardless of when or how often Standby distribution service is provided. The Daily Volumetric Rate would apply when Standby distribution service is actually used. The sum of the Maximum Demand and Daily Volumetric Rates applied in any month would not exceed the Large Use class Distribution Volumetric Rates.

Questions:

(a) Mr. Pollock stated that "I assumed a 4,600 kW per month Contract Demand. This is the size of one of TMMC's generators. Because simultaneous forced outages rarely occur, it is reasonable to contract for Standby capacity to replace one generator." Please clarify if simultaneous outages of TMMC's two generators have ever occurred. If so, how many times.

(b) On page 47, Mr. Pollock stated that "Energy+ has provided no evidence that it considered the avoided costs resulting from the lower capacity reservation in designing its proposed Standby Distribution Volumetric Rates." Please clarify if the proposed two separate Standby distribution services considered the avoided costs. If so, please explain how.

(c) In the event of a simultaneous forced outage of both of TMMC's generators, would TMMC be willing to curtail its usage, if so, by how much, or would it require Energy+ to service the full load normally serviced by the LDC facility?

Response:

(a) TMMC has experienced simultaneous outages of its two generators on two occasions. These occasions are shown in Schedule JP-7 Revised.

(b) TMMC's proposed Standby rates do not explicitly reflect the avoided costs resulting from the lower capacity reservation.

(c) Schedule JP-7 Revised demonstrates that even with the simultaneous outage of both of TMMC's generators, TMMC's peak demand is still well below the 35 MW peak demand that occurred prior to the installation of TMMC's LDG facilities. Given that Energy+ is serving less peak demand subsequent to LDG, it is unclear what circumstances would require TMMC to curtail load in the unlikely event that a simultaneous forced outage of both TMMC's generators would occur during a system peak period. TMMC is mindful of the fact that emergencies can and do occur from time to time, and it is willing to curtail load as may be necessary in a legitimate emergency.