Lakefront Utilities Inc.

October 29, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
Toronto, ON M4P 1E4

Re: Lakefront Utilities Inc. Procedural Order No. 1

Dear Ms. Walli:

On October 22, 2018 Lakefront Utilities Inc. (LUI) received a letter from the Ontario Energy Board (the Board) advising the utility of the procedures related to its application for electricity distribution rates and standby charges effective January 1, 2019.

Included in Procedural Order No. 1 is the requirement for Lakefront Utilities to file its written submission on the following preliminary question:

"Should the OEB consider Lakefront Utilities' request for standby charges in an IRM application?"

Lakefront Utilities agrees with the proposed preliminary question and submits the following as support for the approval of a standby charge. Should the board have questions regarding this matter please contact me at agiddings@lusi.on.ca.

Respectfully Submitted,

Adam Giddings, CPA, CA
Management of Regulatory Compliance and Finance
Lakefront Utilities Inc.

Lakefront Utilities Inc's 2018 Distribution Rates were approved by the OEB on December 14, 2017 and were based on Lakefront's 2017 Cost of Service Application (EB-2016-0089). The Cost of Service application included a Cost Allocation Model, a Revenue-to-Cost Model, and a Rate Design Model, used to determine Lakefront's individual customer class fixed and variable distribution charges.

Lakefront is currently in discussions with two General Service (GS) customers regarding combined heat and power (CHP) projects. Both customers have acknowledged that they will require Lakefront Utilities to provide reserve capacity to back up their facilities when the load displacement generation (LDG) is available. Further, with the development of the Smart Grid, Smart Meters and installation of MIST meters, Lakefront envisions more customers embracing load displacement generation or behind-the-meter generation as a solution for energy savings and energy independence from the grid.

The standby rate is charged to customers who have their own load displacement generation and require reserved capacity in case their generation goes offline, and they need energy from the distribution grid. This rate enables Lakefront to recover the distribution costs for the system capacity that is reserved for the customer and not available for other customers.

Calculation of Standby Rate

To maintain distribution revenue neutrality during its Cost of Service period, Lakefront proposes that it is appropriate to set a standby charge that is equal to the variable distribution charge for each of the GS 50 to 2999 kW and GS 3000 to 4999 kW customer classes. A standby charge ensures that the revenue-to-cost ratios are maintained within the customer class should a single customer install load displacement generation and require Lakefront Utilities to provide standby power. Furthermore, the proposed standby rates hold Lakefront's distribution revenue neutral from any future load displacement projects that would reduce the load assumed in Lakefront's load forecast. Further, in the absence of Lakefront Utilities not being kept whole, other rate classes would eventually experience future rate increase and consequently subsidize the CHP/LDG projects.

Based on the estimated electricity savings, Lakefront Utilities would estimate an annual revenue loss of over $100,000 in the absence of a standby charge. In the absence of a standby charge and based on the material annual revenue loss, Lakefront may be forced to proceed with a Cost of Service application earlier than intended.

Details	CHP Project #1	CHP Project #2
Generator Nameplate Capacity	287	4,000
Estimated Electricity Savings (kW)	44	235
Standby Electricity	243	3,765
2018 Rate (per kW)	3.4089	2.1063
Monthly Lost Revenue - 2018 Rate	$830	$7,931
Annual Lost Revenue - 2018 Rate	$9,955	$95,171

Lakefront's proposed standby charges would be consistent with previous Decisions by the Board under similar circumstances, mainly EB-2015-0073 – Guelph Hydro Electric Systems Inc.

> "Subject to this adjustment, the Parties accept the evidence of Guelph Hydro that the proposed interim standby rates for the General Service >50 KW rate classes are appropriate. The standby rates are appropriate because they recovered the cost for keeping Guelph Hydro's assets available for the required power when load displacement generation is not available." [1]

Lakefront Utilities believes that, based on this approach, a change to the rates design and Cost Allocation Study will not be needed.

Customer Classification

Lakefront is not seeking approval for a separate customer class which would require additional efforts, and costs, including incremental administrative costs, IT costs (bill print format changes, billing system set-up), and customer service costs. Customers with load displacement generation would continue to belong to the standard rate class that provides them with standard distribution service. Further, customers would pay proposed distribution rates (including the monthly service charge) and all non-competitive charges for the applicable rate class, for the metered load demand and only the volumetric rate for the metered generated demand, while all other customers would continue to be charged all items on the tariff applicable to their rate class.

The standby rates would not apply to customers with microFIT or FIT contracts. Lakefront currently has a separate rate class and tariff for MicroFIT customers. FIT customers do not require standby power because FIT customers are in contract with the IESO to inject power into the system, instead of displacing load or using generated power for their own facility. This is the distinction from a load displacement customer that requires standby or backup power when the generator is not generating.

As indicated by the OEB in its Report of the Board: Review of Electricity Distribution Cost Allocation:

> "Some distributor's customers have their own generation facilities that supply all or part of the customers' electricity needs. At times when the customer-owned generation is unavailable, those needs or a part thereof have to be met by the distributor. The costs incurred by the distributors in having facilities ready to supply these customers should be recovered from the same customers, and the rate used for that purpose is called a "standby rate"[2].

Customer Engagement

Lakefront has not initiated a consultation with respect to standby rates with the customers that have expressed interest or are exploring the feasibility of installing load displacement generation in the future. Lakefront will ensure any customer who demonstrates interest in LDG prior to the Decision on Lakefront Utilities' Application (and following the Decision, should the Board grant approval for Lakefront Utilities to implement standby rates), is educated on this topic.

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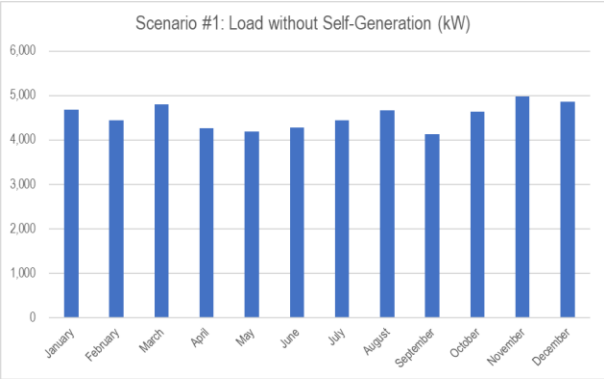
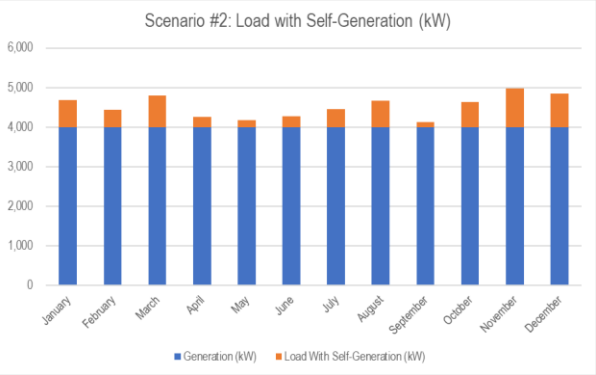
[1] EB-2015-0073. Guelph Hydro Electric Systems Inc. Settlement Proposal. Filed September 24, 2015.
[2] EB-2010-0219. Report of the Board: Review of Electricity Distribution Cost Allocation.

Example

If the standby rates were approved, Lakefront Utilities would be able to sustain distribution revenues at a similar level to that if the DG generation was never installed. To clarify, below is an example of a load profile under the two scenarios – without self-generation and with self generation.

Month	Load Without Self-Generation (kW)	Generation (kW)	Load With Self-Generation (kW)
January	4,684	4,000	684
February	4,447	4,000	447
March	4,802	4,000	802
April	4,260	4,000	260
May	4,185	4,000	185
June	4,283	4,000	283
July	4,448	4,000	448
August	4,664	4,000	664
September	4,134	4,000	134
October	4,632	4,000	632
November	4,975	4,000	975
December	4,855	4,000	855





Further, Lakefront has included a sample bill for a customer without standby charge, with demand of 4,500 kW compared to a customer with a standby charge equal to the distribution volumetric rate.

GENERAL SERVICE 3000 TO 4999 KW SERVICE CLASSIFICATION
WITHOUT STANDBY

RATE CLASS	GS>3000-4999
NAME	CHP CUSTOMER
LOSS FACTOR	1.0441
WATER HEATER	NO
MONTHS	1
kWh	1,951,881
kW	4500
WAP	0.012348

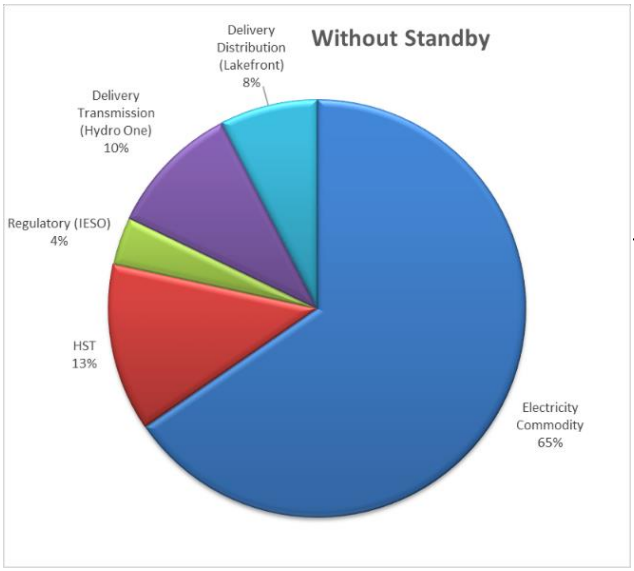
	Rate ($)	Volume	Charge ($)
Cost of Power	0.012348	2,037,959	25,164.72
Global adjustment - Class A			107,495.13
Monthly service charge	5,861.80	1	5,861.80
Distribution volumetric rate	2.1063	4,500	9,478.35
Low voltage service rate	0.5819	4,500	2,618.55
Distribution			**12,096.90**
Transformer allowance	(0.6000)	4,500	(2,700.00)
Retail transmission rate - line and transformation connection service rate	2.0994	4,500	9,447.30
Retail transmission rate - network service rate	2.5428	4,500	11,442.60
Wholesale market service rate	0.0032	2,037,959	6,521.47
CBDR class A			389.58
Rural or remote electricity rate protection charge	0.0003	2,037,959	611.39
Wholesale market charge			**7,522.44**
Standard supply service - administrative charge (if applicable)	0.2500	1	0.25
Sub-total			**176,331.14**
Interval meter read charge			110.00
HST			22,937.35
Total current charges			**199,378.49**

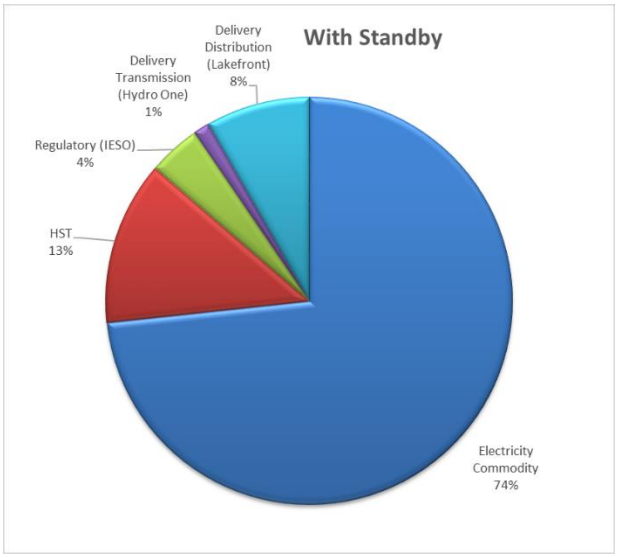
GENERAL SERVICE 3000 TO 4999 KW SERVICE CLASSIFICATION
WITH STANDBY

RATE CLASS	GS>3000-4999
NAME	CHP CUSTOMER
LOSS FACTOR	1.0441
WATER HEATER	NO
MONTHS	1
kWh	1,951,881
kW	4500
STANDBY KW	(4,000)
WAP	0.012348

	Rate ($)	Volume	Charge ($)
Cost of Power	0.012348	2,037,959	25,164.72
Global adjustment - Class A			107,495.13
Monthly service charge	5,861.80	1	5,861.80
Distribution volumetric rate	2.1063	500	1,053.15
Low voltage service rate	0.5819	500	290.95
Standby charge	2.1063	4,000	8,425.20
Distribution			**9,769.30**
Transformer allowance	(0.6000)	500	(300.00)
Retail transmission rate - line and transformation connection service rate	2.0994	500	1,049.70
Retail transmission rate - network service rate	2.5428	500	1,271.40
Wholesale market service rate	0.0032	2,037,959	6,521.47
CBDR class A			389.58
Rural or remote electricity rate protection charge	0.0003	2,037,959	611.39
Wholesale market charge			**7,522.44**
Standard supply service - administrative charge (if applicable)	0.2500	1	0.25
Sub-total			**157,834.74**
Interval meter read charge			110.00
HST			20,532.82
Total current charges			**178,477.56**

Note: The estimated monthly savings in the above examples would be approximately $20,000.





Lakefront Utilities has considered that customers will embrace load displacement generation and additional charges may affect the economics of those projects. As indicated above, the implementation of a standby charge does not impact the revenue allocated to Lakefront Utilities. In addition, based on the example above, the customer would save approximately $20,000 on a monthly bill. Consequently, approval of Lakefront's standby charge will keep the distributor whole, without restricting the ability of customers to implement renewable energy projects.