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November 2, 2018

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St.
Toronto, ON

Dear Ms. Walli:

**Re: EB-2018-0049 Lakefront Utilities Inc. 2019 Electricity Distribution Rates
Vulnerable Energy Consumers Coalition (VECC) Submissions on the
Preliminary Question**

In accordance with Procedural Order No. 1 dated October 22, 2018, enclosed please find VECC's submissions on the preliminary question. We have also directed a copy of the same to the Applicant.

Yours truly,

John Lawford
Counsel for VECC

Copy to: Lakefront Utilities Inc.

Lakefront Utilities Inc.
Application for electricity distribution rates and standby
charges effective January 1, 2019

EB-2018-0049

VECC Submissions on Preliminary Question

Lakefront Utilities Inc. (Lakefront Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 13, 2018 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2019. Lakefront Utilities' IRM application is based on a Price Cap Incentive Rate-setting option with a five-year term.

Lakefront Utilities' application included a request to establish a standby charge for specific classes of customers that install load displacement generation and require the electricity distributor to provide reserve capacity to back up their generation facilities.

In Procedural Order No. 1 dated October 22, 2018, the OEB determined that prior to proceeding to hear Lakefront Utilities' IRM application, it will first make a determination on the following preliminary question:

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

Background

Lakefront Utilities indicates it is currently in discussions with two General Service (GS) customers, with combined heat and power (CHP) projects, regarding Lakefront Utilities providing reserve capacity to back up their facilities, paid for by an additional charge i.e. a standby rate. The standby rate would apply to an account that has Load Displacement Generation and requires the distributor to provide back-up service.

Based on expected demand reductions, Lakefront Utilities estimates an annual revenue loss of over \$100,000 in the absence of a standby charge (\$5,000 from one project and \$95,000 from the other). The latter estimated loss exceeds Lakefront Utilities' materiality threshold which, as determined in Lakefront's 2017 Cost of Service (COS) application, is \$50,000 based on an estimated revenue requirement for the 2017 test year of \$4,414,540.¹

Firstly, VECC has some concerns regarding Lakefront Utilities' calculation of the annual lost revenues for each of the two CHP projects. An explicit statement of assumptions has not been provided. For example, it is unclear how the estimated electricity savings have been calculated for purposes of establishing the Standby electricity. Further, it is unclear if the calculations include an estimation of outage time related to load displacement generation. When an outage occurs, there is no loss in demand billed revenue for the month. Further discovery may show that estimated annual lost

¹ EB-2016-0089 Ex 1 P 130

revenues are not above Lakefront Utilities' materiality threshold when outages are taken into consideration.

Secondly, due to the complexities introduced through the introduction of new rates that have not existed before, VECC submits an IRM application is not the suitable place to establish a standby rate. This typically should be done as part of a COS application so that a holistic and fair view of costs and cost allocation can be undertaken to ensure the "right" rate is designed. VECC does not agree with Lakefront Utilities that based on its approach, a change to the rate design and cost allocation study is not needed.² This point has not been validated.

In the recent Erie Thames Powerlines Corporation (ETPL) COS application (EB-2017-0038) ETPL withdrew its request for standby rates in part due to complexity of the issue and the OEB's current review of commercial and industrial rate design. The Settlement Proposal dated October 4, 2018 reflects acceptance of ETPL's request to withdraw its proposals for: (i) the implementation of Gross Load Billing; and (ii) Standby Charges, both proposals applicable to customers with load displacement generation to reflect the fact that the current dollar impact on customers is not material. Further, the Settlement Proposal states³, "The Parties agree that the issues underpinning both proposals are complex and involve matters of policy that are currently being considered by the Board."⁴

Consistency with Previous Decisions

Lakefront Utilities indicates its standby charges would be consistent with a previous OEB Decision under similar circumstances, EB-2015-0073 Guelph Hydro Electric Systems Inc. VECC wishes to point out that Guelph Hydro's request for new standby rates for the General Service > 50kw rate classes with load displacement generation was part of a COS application, not an IRM application. Further, the OEB accepted the Settlement Proposal and indicated standby rates would remain interim.⁵

Conclusion

For the reasons discussed above, VECC submits the OEB should not consider Lakefront Utilities' request for standby charges in an IRM application.

² EB-2018-0049 Page 29

³ ERIE THAMES POWERLINES CORPORATION SETTLEMENT PROPOSAL October 4, 2018, P22

⁴ EB-2015-0043

⁵ DECISION AND RATE ORDER EB-2015-0073 GUELPH HYDRO ELECTRIC SYSTEMS INC, November 26, 2015 P5