

# **ONTARIO ENERGY BOARD**

## **OEB STAFF SUBMISSION ON THE PRELIMINARY QUESTION**

**2019 ELECTRICITY DISTRIBUTION RATES**

**Lakefront Utilities Inc.**

**EB-2018-0049**

**November 2, 2018**

## Introduction

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*. Through the application, Lakefront Utilities seeks approval for changes to the rates that it charges for electricity distribution, effective January 1, 2019. Lakefront Utilities also requested approval for standby charges for specific classes of customers that install load displacement generation and require Lakefront Utilities to provide reserve capacity to back up their facilities when the load displacement generation is not available.

Procedural Order No.1 indicated that prior to proceeding to hear Lakefront Utilities' IRM application, the OEB would first allow for written submissions in order to make a determination on the following preliminary question:

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

Lakefront Utilities filed its submission on the preliminary question on October 29, 2018. In its submission, Lakefront Utilities reiterated the reasons it provided in its IRM application.<sup>1</sup>

The purpose of this document is to provide the OEB with the submissions of OEB staff on the preliminary question.

## OEB Staff Submission

For the reasons set out below, OEB staff is of the view that the OEB should not consider Lakefront Utilities' request for standby charges in this application.

The OEB requires electricity distributors to file an application for a change in distribution rates in accordance with the *Filing Requirements for Electricity Distribution Rate Applications* (the Filing Requirements). These Filing Requirements outline the information that the OEB requires an electricity distributor to file when it makes an application under the rate-setting methods set out in the *Handbook for Utility Rate Applications*.

Lakefront Utilities' application is based on a Price Cap Incentive Rate-setting option (Price Cap IR) with a five-year term. The Price Cap IR option involves the setting of

---

<sup>1</sup> Lakefront Utilities' 2019 IRM Application, August 13, 2018, EB-2018-0049, pp. 28-32

rates through a cost of service application in the first year. Mechanistic price cap adjustments in each of the ensuing four (adjustment) years, based on inflation and the OEB's assessment of the electricity distributor's efficiency, are then addressed through IRM applications. Lakefront Utilities filed its application in accordance with Chapter 3 of the Filing Requirements, which addresses IRM Applications.

Chapter 2 of the Filing Requirements sets out the requirements for a cost of service application. More particularly, Chapter 2 sets out the specific requirements for electricity distributors requesting standby charges. Chapter 2 states that an electricity distributor that seeks changes to its standby charges, including a change in the methodology on which these rates are based, must provide full documentation supporting its proposal, and confirm that all affected customers have been notified of the proposed change(s).<sup>2</sup> Lakefront Utilities is next scheduled to file a cost of service application for 2022 rates. Lakefront Utilities' last rebasing application was for 2017 rates.

OEB staff notes that Chapter 3 of the Filing Requirements specifically provides that "the IRM process is not the appropriate way for a distributor to seek relief on issues which are specific to only one or a few distributors, more complicated relative to issues typical of an IRM application, or potentially contentious".<sup>3</sup> In addition, OEB staff notes that the OEB applied this position in an OEB decision in which the OEB rejected another electricity distributor's request to implement gross load billing through an IRM application.<sup>4</sup> Gross load billing is another way an electricity distributor can charge a load displacement generator for electricity distribution.

The primary reason provided by Lakefront Utilities for the request for standby charges is to allow it to maintain distribution revenue neutrality during its cost of service period. However, during an IRM term electricity distributors are expected to deal with many different changes to the assumptions that underpin their rates arising from their most recent cost of service proceeding (whether its deviations from their planned OM&A spending, their capital plan or their forecasted load for the period). OEB staff is of the view that unless Lakefront Utilities demonstrates potential financial harm in the absence of new standby charges for 2019, that such a request should be denied. If in the event Lakefront Utilities demonstrates financial harm (i.e. projected regulatory earnings of more than 300 basis points below its deemed ROE), then it is open to Lakefront Utilities to file a stand-alone application for relief.

OEB staff also notes that Lakefront Utilities has not demonstrated that its customers have been notified of the details of its proposal other than indicating that it has had

---

<sup>2</sup> Filing Requirement for Electricity Distribution Rate Applications issued July 12, 2018, Chapter 2, p. 47

<sup>3</sup> Filing Requirement for Electricity Distribution Rate Applications issued July 12, 2018, Chapter 3, p. 30

<sup>4</sup> Cambridge and North Dumfries Hydro Inc., Procedural Order No. 2, EB-2014-0060, November 25, 2014

discussions with two General Service customers regarding potential combined heat and power projects and that Lakefront Utilities anticipates more customers in the future embracing load displacement generation.<sup>5</sup>

Finally, OEB staff notes that there is a policy consultation<sup>6</sup> currently ongoing that is examining this very issue on an industry wide basis. OEB staff anticipates that this policy consultation will conclude well before Lakefront Utilities' next rebasing application and the outcome of the consultation may address the implementation timeline of any new stand by charge methodology.

All of which is respectfully submitted.

---

<sup>5</sup> Lakefront Utilities' 2019 IRM Application, August 13, 2018, EB-2018-0049, p. 29

<sup>6</sup> Rate Design for Commercial and Industrial Customers, EB-2015-0043