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April 5, 2019

VIA E-MAIL

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: EB-2018-0028 – Energy + Inc. – 2019 Distribution Rates  
Reply Submission of the Vulnerable Energy Consumers Coalition (VECC)**

On behalf to the Vulnerable Energy Consumers Coalition (VECC) we have have attached their Reply Submission with respect to the above-noted proceeding.

Yours truly,

*Original signed*

John Lawford  
Counsel for VECC

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Intervenors – via email



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**ENERGY+ INC.  
EB-2018-0028  
2019 Distribution Rates**

Reply Submission  
Of the  
Vulnerable Energy Consumers Coalition  
(VECC)

April 5, 2019

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**Vulnerable Energy Consumers Coalition**

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## **1. INTRODUCTION**

1.1 On March 15, 2019, Energy+ Inc. (“Energy+”) filed its Argument in Chief summarizing its proposals and evidence in respect of each of the unsettled items<sup>1</sup> related to its 2019 Rate Application (EB-2018-0028). Six parties filed Arguments in response to Energy+: OEB Staff (Staff), School Energy Coalition (SEC); Consumers Council of Canada (CCC), Toyoto Motor Manufacturing Canada Inc. (TMMC), Hydro One Networks (HON) and the Vulnerable Energy Consumers Coalition (VECC).

1.2 This Reply Argument sets out VECC’s response to a number of the arguments advanced by the other parties in this proceeding. In addition to the items set out herein, VECC repeats and relies on the positions taken and arguments set out in its March 29, 2019 Argument.

## **2. COST ALLOCATION**

**Issue 3.2: Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios appropriate?**

### **Principles of Cost Allocation**

2.1 In its argument Staff states<sup>2</sup>: *“An underpinning objective of cost allocation is that similar customers be treated similarly, and different customers be treated differently”*. TMMC takes a similar position stating<sup>3</sup>: *“fairness suggests that similarly situated customers within Energy+’s customer base should be afforded similar treatment”*. VECC agrees with the principle that “similar customers be treated similarly”.

2.2 In its argument Staff went on to discuss when customers should be treated as similars stating<sup>4</sup>:

*“Bonbright has asserted that equals be treated equally. Some customers will cost more to serve than others. Some of this difference will be due to factors within the customer’s control, and some will be due to accidents of location.*

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<sup>1</sup> Energy+ Settlement Proposal: EB-2018-0028, page 13

<sup>2</sup> Page 17

<sup>3</sup> Paragraph 38

<sup>4</sup> Page 18

*Many of these factors are more in the control of the distributors than customers, such as the age of assets used to provide service and the location of distribution assets, and therefore it wouldn't be fair to differentiate customer bills on these factors".*

VECC agrees with Staff that it is customer characteristics that are within a customer's control such as load profile and service voltage that should be the basis for determining if customers are "similar".

2.3 VECC submits that, in those instances where direct allocation is not applicable, the "pooling approach" described in its March 29<sup>th</sup> Argument<sup>5</sup> and used in the Board's current cost allocation model is the appropriate basis on which to define similar customers for purposes of cost allocation. It focuses on the services customers require from the distributor as opposed to the specific assets used. In doing so it treats all customer requiring similar services the same. In contrast, as noted in VECC's Argument<sup>6</sup>, TMMC's proposals fail to treat customers in other end-use classes the same as it proposes TMMC should be treated. The specifics are dealt with the following sections and in VECC's March 29<sup>th</sup> Argument.

### **Direct Allocation**

2.4 There is general agreement amongst all parties who addressed this issue that the asset-related costs<sup>7</sup> attributable to the feeders supplying TMMC should be directly allocated. The use of direct allocation in this instance is supported not only by the fact the facilities are used 100% exclusively by TMMC (as required by Board policy) but also by the fact that TMMC specifically requested a level of service that dictated this supply arrangement<sup>8</sup>. However, beyond this point there is no agreement amongst parties.

2.5 TMMC<sup>9</sup> and Staff<sup>10</sup> also support the direct allocation of the OM&A costs related to the feeders, while SEC<sup>11</sup> does not due to the quality of the OM&A data. VECC's

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<sup>5</sup> Energy+ response to VECC TCQ-70 c)

<sup>6</sup> Paragraphs 3.36 and 3.43

<sup>7</sup> This would include rate base, capital contributions, depreciation, interest and return on equity

<sup>8</sup> Exhibit KXX1.1, Tab 7

<sup>9</sup> TMMC Argument, paragraph 47

support<sup>12</sup> for the direct allocation of these costs is qualified by the recommendation that, if done, the range of reasonableness for the class' revenue to cost ratio should be increased in light of the uncertainty regarding the cost data.

2.6 In the case of TMMC's meters, only TMMC<sup>13</sup> supports the direct allocation of the associated costs.

### **One or Two Large Use Classes**

2.7 TMMC is the only party that fully supports the creation of two Large Use customer classes. SEC states<sup>14</sup> that it "does not take a strong view on the issue" and goes on to point out there are arguments both for and against two Large Use classes. VECC observes<sup>15</sup> that there is a case for two Large Use classes if the costs related to the two feeders are directly allocated, but otherwise there is not. Staff agrees<sup>16</sup> with Energy+ and does not support the creation of two Large Use classes.

### **Treatment of Bulk (>50 kV) Facilities**

2.8 Staff<sup>17</sup>, SEC<sup>18</sup> and VECC<sup>19</sup> all agree with Energy+ that TMMC should be allocated a share of Energy+'s bulk facility costs. In contrast, TMMC argues<sup>20</sup> that it should be excluded from the allocation of Energy+'s bulk facility costs.

2.9 TMMC argues that it should be treated "similarly" to the Embedded Distributors<sup>21</sup>.

As noted in VECC's Argument<sup>22</sup>, adopting this approach would result in treating TMMC differently from all of Energy+'s other customer classes, where bulk costs are allocated on total load (including load that is not served by Energy+'s bulk facilities). Fundamental changes would be required as to how bulk costs are allocated in order

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<sup>10</sup> Staff Argument, page 19

<sup>11</sup> SEC Argument, paragraph 53

<sup>12</sup> VECC Argument, paragraph 3.22

<sup>13</sup> TMMC Argument, paragraph 39

<sup>14</sup> Paragraph 61

<sup>15</sup> VECC Argument, paragraph 3.30

<sup>16</sup> Staff Argument, page 19

<sup>17</sup> Staff Argument, page 20

<sup>18</sup> SEC Argument, paragraph 60

<sup>19</sup> VECC Argument, paragraph 3.38

<sup>20</sup> TMMC Argument, paragraph 34

<sup>21</sup> TMMC Argument, paragraph 38

<sup>22</sup> VECC Argument, paragraph 3.35

to align the treatment of other end-use customer classes with TMMC's proposals for allocating bulk facility cost to Large Use customers. Neither Mr. Pollock's evidence nor TMMC's argument address the need for such changes. Also, neither party acknowledges the fact that such changes would be problematic from an implementation perspective<sup>23</sup>.

- 2.10 VECC recognizes that the allocation of bulk facility cost to Embedded Distributors is outside the scope of the proceeding. However, TMMC's use of the treatment of Embedded Distributors as the appropriate precedent is problematic. Staff's argument as to why TMMC should be allocated a share of the bulk facility costs is as follows<sup>24</sup>:

*OEB staff notes that transmission stations owned by LDCs are categorized as bulk assets and allocated through the cost allocation model, while transmission stations owned by a transmission company are charged to the distributor through Uniform Transmission Rates (UTRs), and normally recovered through RTSRs. Customers do not have a choice whether they are connected to an LDC owned transformer station, or a transmission company owned transformer station. Both bulk assets and RTSRs are charged to all customers. OEB staff submits that the Large Use rate class should be no different, i.e. the demand of both customers should be used to determine the allocation of the bulk assets.*

- 2.11 VECC notes that precisely the same argument and rationale could be applied to Embedded Distributors. In VECC's submission, if there is a precedent to be followed it's the cost allocation treatment currently applied to all of Energy+'s other end-use customer classes, where bulk facility costs are allocated to all classes based on total load.

## **Underground Facilities**

- 2.12 Again Staff<sup>25</sup>, SEC<sup>26</sup> and VECC<sup>27</sup> all support Energy+'s position that, if the costs of the dedicated feeders are directly allocated, then TMMC should be allocated a

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<sup>23</sup> See VECC Argument, paragraphs 3.36 and 3.37

<sup>24</sup> Page 20

<sup>25</sup> Staff Argument, page 20

share of the cost of the underground conduit but not the underground conductor. TMMC<sup>28</sup> is the only party advocating that, in such circumstances, it be exempt from the allocation of underground conduit costs.

2.13 TMMC<sup>29</sup> also cites the treatment of Embedded Distributors as precedent for its exemption from the allocation of the cost of underground conduit on the basis that similar customers should be afforded similar treatment. However, VECC would again note that the current treatment of Embedded Distributors is the exception, as opposed to the rule. All of Energy+'s other end-use customer classes requiring primary service are allocated primary underground conduit costs based on their total load, regardless of whether the load is served using overhead or underground facilities. In VECC's view this is the more relevant precedent.

### **Embedded Distributors**

2.14 While the treatment of Embedded Distributors is outside the scope of the current proceeding VECC finds it necessary to respond to two specific points on this matter that Hydro One Networks has raised in its argument.

2.15 First, in its argument HON states<sup>30</sup>:

*"Hydro One supports the following aspects of the Application: a) Energy+'s proposal to use the Ontario Energy Board's ("the Board's) cost allocation model to allocate costs to the embedded distributor rate classes of Hydro One, as well as to the embedded distributor rate classes of Waterloo North Hydro Inc. and Brantford Power Inc.*

2.16 However, as noted in Staff's argument<sup>31</sup>, the cost allocation model is not used to allocate costs to the embedded distributors. Rather, an entirely different cost allocation methodology, namely that set out in Appendix 2-Q, is used to allocate a portion of the cost of shared facilities to the Embedded Distributor classes. The

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<sup>26</sup> SEC Argument, paragraphs 54 & 55

<sup>27</sup> VECC Argument, paragraph 3.48

<sup>28</sup> TMMC Argument, paragraph 35

<sup>29</sup> TMMC Argument, paragraph 38

<sup>30</sup> Paragraph 5

<sup>31</sup> Page 21

“direct allocation” functionality of the Board’s cost allocation model is then used to attribute these costs to the embedded distributor classes. Indeed, it was the issues arising from the fact the Board’s cost allocation model is not used to allocate cost to the embedded distributor classes that were excluded from the scope of the current proceeding.

2.17 Second, HON’s argument states<sup>32</sup>:

*The direct allocation of costs to distributors was explicitly examined in detail in EB-2010-0219 and documented in the above-mentioned Report dated March 31, 2011, wherein the Board confirmed the appropriateness of using direct allocation for embedded distributors, using the methodology subsequently included as appendix 2-Q in the Chapter Filing Requirements.”*

2.18 However, contrary to what this statement implies, Appendix 2-Q does not identify the cost of assets would be eligible for direct allocation based on the Board’s criterion of 100% exclusive use. Rather, as noted above and in Staff’s argument<sup>33</sup>, Appendix 2-Q uses an alternative “allocation” methodology to determine the portion of shared distribution asset costs attributable to the embedded distributor classes.

### **3. RETAIL TRANSMISSION SERVICE RATES AND LV RATES (ISSUES 3.5 & 3.6)**

#### **3.5 Are the proposed Retail Transmission Service Rates and LV Rates Appropriate?**

##### **LV Costs**

3.1 Staff’s argument<sup>34</sup> supports VECC’s position<sup>35</sup> that Energy+ should be charging embedded distributors for low voltage. Staff’s only exception is where a feeder passes through Energy+’s service territory such that it is both host and embedded on that feeder to the same distributor. Staff argues<sup>36</sup> that, in such circumstances, if there is a reciprocal agreement with that distributor to not apply sub transmission charges in exchange for not applying LV charges in respect of the same load, then it

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<sup>32</sup> Paragraph 3

<sup>33</sup> Page 21

<sup>34</sup> Staff Argument, page 28

<sup>35</sup> VECC Argument, paragraph 3.67

<sup>36</sup> Staff Argument, page 28



is appropriate to not apply LV charges. Staff's argument claims that such situations exist and references testimony from the oral proceeding.

3.2 VECC has reviewed the transcript<sup>37</sup> and the specifics<sup>38</sup> around the situation cited.

From this review it is unclear to VECC whether HON, as an embedded distributor, is not included in HON's billing of ST charges because: i) HON, as an embedded distributor, is fed off a line owned by HON as a host distributor but there is a reciprocal agreement regarding the application of ST and LV charges or ii) HON as an embedded distributor is not fed off lines owned by HON as a host distributor. This is something Energy+ may wish to address in its Reply.

3.3 Hydro One Networks' argument states<sup>39</sup>:

*"Energy+'s proposal appropriately reflects that LV costs are upstream (host utility) costs associated with serving Energy+'s end-use customers and should not be charged to Energy+'s embedded distributors. To do so would effectively and inappropriately shift costs to another utility's end-use customers."*

3.4 Hydro One Network's argument also states<sup>40</sup>:

*"Energy+'s total LV costs in 2019 are \$507,967 1 and the embedded distributor classes2 contribute only \$41,445 3, or less than 8.2% of that total amount. As such, it is not reasonable that all embedded distributor classes should pay for the recovery of LV costs that are 92% driven by the electricity needs of Energy+'s own end-use customers."*

3.5 VECC notes that the second quote effectively contradicts the claim in the first quote that LV costs are associated only with serving Energy+'s end-use customers. VECC also notes that based on the harmonized RTSRs filed with the interrogatory responses<sup>41</sup>, Embedded Distributors are only responsible for 5.3%<sup>42</sup> of the revenues, even with HON#2 included. Since RTSR revenues are used as the

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<sup>37</sup> Volume 2, pages 133-136

<sup>38</sup> Energy+ response to VECC IR 47

<sup>39</sup> Paragraph 5

<sup>40</sup> Paragraph 8

<sup>41</sup> Energy+ response to Staff IR# 87 a)

<sup>42</sup> Total RTSR Connection revenues are \$8,639,061 of which \$461,996 are attributed to Embedded Distributors

allocation basis for LV costs, the embedded distributor classes would attract less LV costs than the 8.2% actually attributable to the embedded distributor classes. As result, VECC submits that neither of these points raised by Hydro One support the exclusion of Embedded Distributors from the allocation of LV costs.

### **3.6 Is the proposal for using gross load billing for Retail Transmission Rates for customers who have load displacement generation appropriate?**

3.6 With respect to RTSRs and gross load billing, Staff argues<sup>43</sup> that “*gross load billing issue is a complex matter and that Energy+ should continue to use the same approach to the settlement of these activities as it has been using to date pending any further direction from the OEB*”. However, in the case of Standby, Staff’s position is that<sup>44</sup>:

*Finally, OEB staff notes that a staff paper has made several proposals for standby rates. As a staff paper, this is not the policy of the OEB, however, it is foreseeable that a policy could be developed prior to Energy+’s next rebasing. OEB staff submits that whatever method for standby charges is approved in this proceeding, given the generic policy and any transition has not been determined, it would be reasonable for Energy+ to apply the approved standby charge until its next rebasing.*

3.7 VECC does not understand the logic behind arguing:

- i. In the case of Gross Load Billing, a situation where no process has been initiated to address the issue, Energy+ should await the outcome of a yet to be established process rather than adopting gross load billing which Staff acknowledges<sup>45</sup> is an approach that has “merit” and would “ensure that there are no cross-subsidies between customers”, while
- ii. In the case of Standby, a situation where there is an established process and a Staff Report has been issued, Energy+’s proposal should be implemented and take precedent until Energy+’s next rebasing over any approach to Standby rates adopted by the Board.

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<sup>43</sup> Page 27

<sup>44</sup> Page 31

<sup>45</sup> Staff Argument, page 26

3.8 In VECC's view, if anything, the arguments should be reversed.

**4. STANDBY CHARGE FOR CUSTOMER CLASSES WITH LOAD DISPLACEMENT GENERATION (ISSUE 3.7)**

**3.7 Is the proposal for implementing a standby charge for the Large Use, GS 1,000 to 4,999 kW and GS 50 to 999 kW customer classes with load displacement appropriate?**

4.1 Staff's Argument<sup>46</sup> supports Energy+'s Standby Charge proposal. In contrast, SEC<sup>47</sup> and VECC<sup>48</sup> don't support either Energy+'s or TMMC's Standby Charge proposals and argue that the Board should await the outcome of the current Rate Design for Commercial and Industrial Customers consultation (EB-2015-0043). Only TMMC<sup>49</sup> supports Mr. Pollock's Standby Charge proposal.

4.2 As noted in the previous section VECC does not understand the logic behind the position Staff has taken on Standby charges relative to its position on gross load billing for RTSR.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED**

**APRIL 5, 2019**

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<sup>46</sup> Staff Argument, page 30

<sup>47</sup> SEC Argument, paragraph 44

<sup>48</sup> VECC Argument, paragraph 3.77

<sup>49</sup> TMMC Argument, paragraph 63