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BY E-MAIL

October 16, 2019

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

**Re: EnWin Utilities Ltd.
Application for 2020 Electricity Distribution Rates
OEB Staff Submission on the Unsettled Issue
Ontario Energy Board File Number: EB-2019-0032**

In accordance with Procedural Order No. 4, please find attached OEB staff's submission on the unsettled issue in the above proceeding.

Yours truly,

Original Signed By

Tina Li
Project Advisor – Electricity Distribution - Major Rate Applications & Consolidations

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON THE UNSETTLED ISSUE

2020 ELECTRICITY DISTRIBUTION RATES

ENWIN UTILITIES LTD.

EB-2019-0032

October 16, 2019

Introduction and Summary

EnWin Utilities Ltd. (EnWin Utilities) filed a cost of service application with the Ontario Energy Board (OEB) on April 26, 2019 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that EnWin Utilities charges for electricity distribution, to be effective January 1, 2020. The OEB issued an approved issues list for this proceeding on August 20, 2019. A settlement conference was held on August 22 and 23, 2019. EnWin Utilities filed a partial settlement proposal on September 24, 2019. The only unsettled issue concerned EnWin Utilities' proposal to eliminate the Intermediate rate class and to move the three customers that currently constitute that class into the GS 50 to 4,999 kW class.

From a general rate-making perspective, OEB staff agrees with EnWin Utilities that the elimination of the Intermediate rate class makes sense as a matter of rate design. OEB staff notes that the overall rate impacts are not material and there appears to be no significant adverse impacts on other rate classes. However, OEB staff has concerns about the lack of engagement with three Intermediate customers by EnWin Utilities. In addition, EnWin Utilities has not explained why the overlap between the Intermediate class and the GS 50 to 4,999 kW class – which it calls a “historical anomaly” – came about in the first place. As a result, OEB staff submits that it cannot outright support EnWin Utilities' proposal at this time. OEB staff would not be opposed to the OEB accepting EnWin Utilities' proposal if the OEB is satisfied with EnWin Utilities' response to the question of why the subject class was grandfathered originally and why those reasons do not continue to apply today.

EnWin Utilities' Proposal

EnWin Utilities stated in the application that the benefits of its proposal regarding the elimination of the Intermediate class were as follows:

This rate class design will provide a common large General Service rate class design moving forward for all ENWIN customers. This will assist in meeting ENWIN's goal of assisting with customer energy literacy by simplifying ENWIN's tariff sheet and will also assist in avoiding rate shock which could occur due to year-to-year customer migration between the current GS >50 kW rate class and current Intermediate rate class.¹

¹ Application, Exhibit 7, page 3.

In its Argument in Chief, EnWin Utilities explained that its tariff structure is “unique” in that the GS 50 to 4,999 kW class and the Intermediate class (GS 3,000 to 4,999 kW) overlap. The definition of the Intermediate class in the OEB approved tariff refers to customers who have an average monthly demand between 3,000 and 4,999 kW and who were “classified as Time of Use prior to market opening.” As EnWin Utilities noted, “The practical effect of the condition that a customer must be ‘classified as Time of Use prior to market opening’ is to grandfather in existing Intermediate Class customers.”² New customers with a demand between 3,000 and 4,999 kW, who were not in existence prior to market opening, could not qualify for the Intermediate Class. EnWin Utilities further explained that:

As a direct consequence of this historical anomaly, ENWIN Utilities currently has existing customers whose demands are similar in exceeding 3,000 kW but being less than 4,999 kW, but are included in either the GS 50-4,999 KW Class or in the Intermediate Class depending on whether or not they were ‘classified as Time of Use prior to market opening.’³

EnWin Utilities also noted that “The issue of addressing the Intermediate Class anomaly was raised in ENWIN Utilities’ last cost of service proceeding, but was deferred pending the outcome of rate design consultations that were ongoing at that time.”⁴ EnWin Utilities argued that the existing Intermediate class customers would see an overall bill decrease under the proposed rate structure “compared to their existing estimated 2019 total bills”.⁵

OEB Staff Submission

Ratemaking principles support the proposal

As a matter of principle, OEB staff agrees with EnWin Utilities’ proposal to eliminate the Intermediate class, for the following reasons:

1. It is fairer to treat all customers with demand between 50 to 4,999 kW the same

EnWin Utilities submitted in its Argument in Chief that the principal advantage of merging the two rate classes would be to “eliminate the unusual situation of

² Argument in Chief, para. 12.

³ *Ibid*, para. 13.

⁴ *Ibid*, para. 14.

⁵ *Ibid*, para. 15.

grandfathering some customers into the Intermediate Class while other customers with otherwise similar cost drivers are placed into a different rate classification.”⁶ OEB staff agrees that this is a good reason to eliminate the class. In OEB staff’s view, it is a basic principle of ratemaking that like customers should be treated alike. As a result of a historical anomaly, that is not currently the case for some EnWin Utilities customers. Put another way, it does not make sense for two notional customers in EnWin Utilities’ service territory with identical load profiles to pay different rates.

In addition, OEB staff notes that EnWin Utilities stated that “ENWIN believes the customers in the Intermediate rate class are sufficiently similar to other customers in the existing GS > 50 rate class to warrant consolidation of the rate classes.”⁷

Further, in terms of the services and costs to connect customers with higher levels of demand, there is little to distinguish between a customer slightly below the 3,000 kW threshold from an Intermediate class customer in the 3,000 to 4,999 kW range. OEB staff is of the view that similar to the 50 kW threshold for identifying small General Service customers, the 3,000 kW threshold was a convenient if somewhat arbitrary breakpoint. It made sense for some, but not all, distributors, and many distributors established a common GS 50 to 4,999 kW class.

2. The proposed approach is consistent with most other electricity distributors in the province

OEB staff reviewed a total of 60 OEB-approved 2019 tariffs and rate schedules for electricity distributors, and notes that 40 (67%) electricity distributors have one rate class for GS 50 to 4,999 kW, while only 20 (33%) have more than one rate classes within the GS 50 to 4,999 kW range. More importantly, OEB staff is not aware of any other distributors that have overlapping rate classes.

3. There might be cost efficiency from the proposed combined approach

OEB staff notes that there might be additional costs incurred to keep the three existing customers in the Intermediate class separate from other customers who are falling into the category of GS 50 to 4,999 kW but whose monthly peak demand falls between 3,000 and 4,999 kW. In responding to an Association of Major Power Consumers in Ontario (AMPCO) interrogatory, EnWin Utilities provided the

⁶ *Ibid*, para. 16.

⁷ EnWin Utilities’ Response to OEB staff’s Interrogatory 3-Staff-79, August 1, 2019.

estimated cost allocation to each class prior to and after class consolidation.⁸ OEB staff notes that the estimated cost of \$13,620,575 allocated to the combined GS 50 to 4,999 KW class after the class consolidation is \$65,158 lower than the sum of the cost allocated to the uncombined GS 50 to 4,999 kW rate class (\$13,328,029) and the cost allocated to the Intermediate class (\$357,886) prior to the class consolidation.

5. Other classes will not be significantly affected

EnWin Utilities also explained in the response that the proposed merger of the classes “does not have adverse impacts on the allocation of costs to other customer classes”.⁹ OEB staff’s analysis of the revenue requirement work forms filed by EnWin Utilities for both scenarios indicates that the proposed class merger does not have significant impact on the other classes of customers, especially the Residential class customers: 53.57% of the total service revenue requirement is allocated to the Residential class customers under the proposed combined approach vs. 53.51% under the uncombined scenario.¹⁰

The bill impact for customers currently in the Intermediate class will be minor

In its response to one intervenor’s interrogatory, EnWin Utilities provided bill impacts for an Intermediate class customer with consumption 1,142,000 kWh and demand 3,600 kW under two scenarios: combining the two classes and maintaining the status quo.¹¹ The bill impact calculation shows that an Intermediate customer with such consumption and demand would have a monthly total bill (before tax) decrease of \$12,511 (7.59%) under an uncombined scenario as compared to a monthly total bill (before tax) decrease of \$7,100 (4.17%) under a combined class scenario. After the settlement conference, EnWin Utilities provided a bill impact summary for the combined and un-combined scenarios for the unsettled issue.¹²

In the bill impact summary filed after the settlement conference, EnWin Utilities calculated the bill impacts for the three Intermediate class customers using the proposed rates arising from the settlement agreement as compared to existing rates.¹³ The result of the bill impact calculation shows an overall bill decrease for all three

⁸ EnWin Utilities’ Response to AMPCO’s Interrogatory 7-AMPCO-40, August 1, 2019.

⁹ EnWin Utilities’ Response to OEB staff’s Interrogatory 7-Staff-115, August 1, 2019.

¹⁰ Revenue Requirement Work Form – Settlement, Tab. 11 Cost Allocation, September 25, 2019; Revenue Requirement Work Form – Partial, Tab. 11 Cost Allocation, September 25, 2019.

¹¹ EnWin Utilities’ Response to VECC’s Interrogatory 8-VECC-45, August 1, 2019.

¹² Bill Impact Summary_Two Scenarios, September 25, 2019.

¹³ *Ibid.*

customers. However, what this summary does not show is a counterfactual analysis of the bill impacts under the uncombined scenario relative to the merged class scenario for these individual Intermediate customers.

In tables 1 to 3 below, OEB staff has prepared the comparison of the rates and bill impact calculation for three Intermediate customers using the information filed by EnWin Utilities. The results of the analysis show that if EnWin Utilities' proposal to eliminate the Intermediate class were accepted, the three customers now in that class would see an overall rate decrease. However, if the Intermediate class were to be maintained, those customers would see an even larger decrease.

EnWin Utilities is encouraged in its reply argument to provide confirmation of OEB staff's calculations in tables 1 to 3 below or in the alternative to provide corrections.

Table 1: Rates Comparison – Combined Approach vs. Uncombined Scenario

	Combined – Class (GS 50 to 4,999 kW) as proposed by EnWin Utilities	Uncombined - (Intermediate Class)	Rate difference \$	Downward or Upward pressure on Total Bill
	Source (Tariff Schedule and Bill Impact Model – Settlement Excel)	Source (Tariff Schedule and Bill Impact Model – Partial Excel)	OEB Staff Calculation	
	A	B	C=A-B	
	(\$ or \$/kW)			
Monthly Service Charge	107.93	1,766.61	(1,658.68)	↓
Distribution Volumetric Rate	4.9159	2.4216	2.4943	↑
Volumetric Rate Riders - Note 1	(0.2322)	(0.8154)	0.5832	↑
Total Deferral/Variance Account Rate Riders	(0.5004)	(0.4143)	(0.0861)	↓
GA Rate Riders	(0.0034)	(0.0034)	-	
RTSR – Network	2.7166	3.4737	(0.7571)	↓
RTSR - Connection and/or Line and Transformation Connection	1.9000	2.5223	(0.6223)	↓

Note 1: Volumetric rate riders comprise of 2018 Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) rate rider (sunsets April 30, 2020), 2020 LRAMVA rate rider (sunsets December 31, 2020) and Account 1575 rate rider (sunsets December 31, 2024).

As Table 1 shows, if the proposed class merger were accepted, the three Intermediate customers would see some rates go up and others go down. The distribution volumetric rate and the volumetric rate riders would go up. OEB staff notes that, except for the

Account 1575 rate rider, the bill increase from the other two volumetric rate riders pertaining to the LRAMVA are temporary in nature, as the 2018 LRAMVA rate rider expires on April 30, 2020 and the 2020 LRAMVA rate rider expires on December 31, 2020.

Using the consumption and demand information provided by EnWin Utilities in the Bill Impacts Summary – Two Scenarios¹⁴ and the differences in rates in Table 1, OEB staff also calculated the monthly bill impact differences between the counterfactual bill impacts under the uncombined scenario and the bill impacts under the proposed combined approach in Tables 2 and 3 below for each of the affected customers. The calculations in Table 2 and Table 3 are using the rate differences calculated in Table 1 and multiplied by the individual consumption and demand, as applicable, for each of the three Intermediate customers. Two tables are needed for the different time period in test year 2020 because the 2018 LRAMVA rate rider expires on April 30, 2020.

¹⁴ Bill Impact Summary_Two Scenarios, September 25, 2019.

Table 2: Bill Impact Differences for Three Intermediate Customers (January 1 to April 30, 2020)

Monthly Bill Impact Difference - Calculated Using the Rates Differences in Table 2 multiplied by the consumption kWh or Demand kW as applicable											
	Consumption	Demand	Monthly Service Charge	Distribution Volumetric Charge	Volumetric Rate Riders	Total DVA Rate Riders	RTSR - Network	RTSR - Connection	Total Monthly Bill Impact difference (After Tax)	Total Bill \$ (proposed 2020 Settlement)	Bill Impact diff%
	kWh	KW	\$	\$	\$	\$	\$	\$	\$	\$	%
			a	b	c	d	e	f	G= (a+b+c+d+e+f) x 1.13	H (From Bill Impact Summary)	I =G/H
#1	1,998,195	4,168	(1,659)	10,396	2,431	(359)	(3,156)	(2,594)	5,718	299,304	1.91
#2	518,681	3,641	(1,659)	9,082	2,123	(313)	(2,757)	(2,266)	4,758	103,230	4.61
#3	1,008,584	1,935	(1,659)	4,826	1,128	(167)	(1,465)	(1,204)	1,650	149,455	1.10

Table 3: Bill Impact Differences for Three Intermediate Customers (May 1 to December 31, 2020)

Monthly Bill Impact Difference- Calculated on the Rates Differences in Table 2 multiplied by the consumption kWh or Demand kW as applicable											
	Consumption	Demand	Monthly Service Charge	Distribution Volumetric Charge	Volumetric Rate Riders	Total DVA Rate Riders	RTSR - Network	RTSR - Connection	Total Monthly Bill Impact Difference after tax	Total Bill \$ (proposed 2020 Settlement)	Bill Impact diff%
	kWh	KW	\$	\$	\$	\$	\$	\$	\$	\$	%
			a	b	c	d	e	f	G= (a+b+c+d+e+f) x 1.13	H (From Bill Impact Summary)	I =G/H
#1	1,998,195	4,168	(1,659)	10,396	1,318	(359)	(3,156)	(2,594)	4,460	299,304	1.49
#2	518,681	3,641	(1,659)	9,082	1,151	(313)	(2,757)	(2,266)	3,659	103,230	3.54
#3	1,008,584	1,935	(1,659)	4,826	612	(167)	(1,465)	(1,204)	1,066	149,455	0.71

As shown in Tables 2 and 3 above, all three customers would see higher bills under EnWin Utilities' proposed combined approach than they would under the status quo. Overall, the bill impact differences are modest as the most impacted customer (customer #2) would see approximately a monthly bill impact of 4.61% in the first four months of 2020 and 3.54% in the subsequent months of 2020. The bill impact would further decrease after the test year 2020 because the 2020 LRAMVA rate rider expires on December 31, 2020.

OEB staff also notes that, based on the individual load information provided by EnWin Utilities in the bill impact summary, it would appear that customer #3 in the Intermediate class would need to be reclassified as a GS 50 to 4,999 KW class customer, assuming the monthly peak demand of 1,935 kW (below the 3,000 kW threshold for the Intermediate class) represents its average monthly peak demand in 2020. EnWin Utilities may wish to confirm this in its reply submission.

The affected customers were not properly engaged

While OEB staff supports in principle EnWin Utilities' proposal for the Intermediate class elimination, OEB staff is concerned about the lack of proper customer engagement on this issue.

EnWin Utilities' application did not include any evidence of any outreach to the affected customers in the original application. When asked about this by OEB staff, EnWin Utilities responded, "ENWIN's key Account Supervisor is in the process of contacting the three existing customers in the Intermediate class. ENWIN will provide a copy of the customers' responses."¹⁵ OEB staff notes that this response was filed on August 1, 2019, three months after the filing of the application.

Prior to the settlement conference held on August 22-23, 2019, OEB staff followed up on this matter. In its response to a pre-settlement clarification question, EnWin Utilities stated that "ENWIN Utilities confirms that all three Intermediate customers have been provided the associated bill impacts related to ENWIN Utilities' proposal to combine rates classes. ENWIN Utilities will provide any feedback received upon receipt."¹⁶

There is nothing on the record to date that indicates whether the three customers responded to EnWin Utilities' belated outreach efforts, or whether they expressed any concerns. This can be contrasted with the evidence on EnWin Utilities' proposal to

¹⁵ EnWin Utilities' Response to OEB staff's Interrogatory 7-Staff-115, August 1, 2019.

¹⁶ EnWin Utilities' Response to OEB staff's Pre-settlement Clarification Question 16, filed September 25, 2019.

eliminate the Large Use – Ford Annex rate class, and move the sole customer in that class to the Large Use – 3TS rate class. For that proposal (which was accepted by the other parties to the settlement proposal), EnWin Utilities filed a letter of support from the affected customer.

Recognizing that customer engagement is a critical aspect of a utility's application, OEB staff is of the view that EnWin Utilities should have proactively communicated its proposed class mergers with the affected customers before it filed the rate application in April 2019.

Lack of the Information regarding the Grandfathering Practice for the Three Customers

OEB staff notes that although EnWin Utilities provided the rationale for the elimination of the overlapping Intermediate class, it did not provide any information regarding when, how and why this unique situation occurred in the first place. It appears that the classes have overlapped, and that the Intermediate class has been limited to customers who were around prior to market opening, since at least as early as 2006.¹⁷ This “historical anomaly” was continued in 2009, the last time EnWin Utilities rebased.¹⁸ But it is not clear how this anomaly came about, or whether there were good reasons for it at the time. When OEB staff asked EnWin Utilities in the 2009 proceeding whether it intended to maintain the class overlap, EnWin Utilities responded that it would take a “wait and see” approach.¹⁹

Without understanding why the class was grandfathered in the first instance, it is difficult for OEB staff to outright support the proposal. That said, if EnWin Utilities provides the OEB with a satisfactory explanation as to why the conditions or reasons that gave rise to the grandfathering are no longer relevant or appropriate, then OEB staff would not be opposed to the OEB accepting EnWin Utilities' proposal. OEB staff also notes that despite the lack of engagement with the affected customers, all three customers have now been notified of the proposal and have had an opportunity to provide comments directly to EnWin Utilities. OEB staff also notes that AMPCO is an intervenor in this current proceeding and to the extent that they may represent any of the affected customers, will also have an opportunity to file a submission.

OEB staff expects EnWin Utilities to provide any feedback from customers that are not filing submissions directly with the OEB, as part of its reply submission and to confirm

¹⁷ Decision and Order for EnWin Powerlines Limited rates, May 4, 2006 (RP-2005-0020 EB-2005-0359).

¹⁸ Decision and Order for EnWin Utilities Ltd. rates, April 9, 2009 (EB-2008-0227).

¹⁹ Argument in Chief, p. 6.

the nature of the associated bill impact analysis provided to the subject customers (i.e. whether or not the affected customers have been provided with a similar bill impact analysis that OEB staff has laid out above).

All of which is respectfully submitted