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BY EMAIL

May 6, 2008

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Applications for the elimination of Long Term Load Transfer Arrangements
Hydro One Networks Inc. and Whitby Hydro Electric Corporation
Board File Number EB-2007-0917
Hydro One Networks Inc. and Peterborough Distribution Inc.
Board File Number EB-2007-0947

Please see attached Board Staff's submissions for the above proceeding. Please forward the attached to Hydro One Networks Inc., Whitby Hydro Electric Corporation and Peterborough Distribution Inc.

Yours truly,

Original signed by

Gona Jaff
Case Manager

ONTARIO ENERGY BOARD

STAFF SUBMISSION

Applications for Licence Amendment and Leave to Sell Distribution Assets

Hydro One Networks Inc. and Whitby Hydro Electric Corporation
Board File Number EB-2007-0917
and
Hydro One Networks Inc. and Peterborough Distribution Inc.
Board File Number EB-2007-0947

May 6, 2008

INTRODUCTION

Hydro One Networks Inc. ("Hydro One") has filed a joint application with Whitby Hydro Electric Corporation ("Whitby Hydro") under sections 74 and 86(1)(b) of the *Ontario Energy Board Act, 1998* (the "Act"). Hydro One has also filed a joint application with Peterborough Distribution Inc. ("Peterborough Distribution ") under sections 74 and 86(1)(b) of the Act. The applications are prompted by the requirement to comply with the Board's policy, articulated in the Distribution System Code (the "DSC"), that long term load transfers ("LTLTs") are to be eliminated by January 31, 2009.

The purpose of this document is to provide the Board with the submissions of Board staff after its review of the evidence filed in the applications. The methodology used by staff in its review of the applications was to identify any inconsistency between the applications and the Board's Filing Requirements for Service Area Amendment Applications taking into consideration the following:

- The policy established by the Board respecting the elimination of LTLTs as set out in the DSC,
- The criteria established by the Board for customer rate impact mitigation as set out in the Board's 2006 Electricity Distribution Rate Handbook, and
- The principles articulated by the Board in its combined decision on service area amendments ("SAA") dated February 27, 2004 (RP-2003-0044).

Below, staff provides comments on the Board's policy respecting the elimination of LTLTs and the applicants' approach for eliminating their LTLT arrangements (i.e. the proposals to transfer the load transfer customers to the distributor that provides the physical supply of electricity to the customers). Staff also comments on the distribution rate impact on the affected customers and possible rate impact mitigation measures.

THE APPLICATIONS

The Application by Hydro One Networks Inc. and Whitby Hydro Electric Corporation

The application seeks an order of the Board to amend the applicants' distribution service areas and approve the sale of distribution assets from Whitby Hydro to Hydro One.

The proposed service area amendment would transfer twenty seven residential customers who are currently served electricity by Hydro One but are located within Whitby Hydro's licensed service area, to Hydro One's licensed service area. The affected customers will be subject to higher distribution rates. According to the application, for customers moving from Whitby Hydro to Hydro One, an average residential customers consuming 1,000 kWh per month will experience an increase of $23.96 on the delivery portion of the monthly electricity bill. This represents an impact of 59.3% on the delivery portion of the bill and 23.7% on the total bill.

The Application by Hydro One and Peterborough Distribution

The application seeks an order of the Board to amend the applicants' licensed distribution service areas and approve the sale of distribution assets from Hydro One to Peterborough Distribution.

The proposed service area amendment would transfer four customers who are currently served electricity by Peterborough's distribution system but are located within Hydro One's licensed service area, to Peterborough Distribution's licensed service area. It will also transfer two customers who are currently served electricity by Hydro One but are located within Peterborough's licensed service area, to Hydro One's licensed service area. The two customers proposed to be transferred to Hydro One will be subject to higher distribution rates. According to the application, for customers moving from Peterborough Distribution to Hydro One, an average residential customer consuming 1,000 kWh per month will experience an increase of $31.18 on the delivery portion of the monthly electricity bill. This represents an impact of 93.9% on the delivery portion of the bill and 34.0% on the total bill.

ELIMINATION OF LONG TERM LOAD TRANSFERS

A load transfer occurs when a distributor (i.e. physical distributor) supplies electricity directly to another distributor's (i.e., the geographic distributor's) customers. The physical distributor charges the geographic distributor in accordance with a load transfer agreement. The arrangement typically arises where the geographic distributor is not in a position to serve the customer without incurring unreasonable expenditures for system expansion.

Section 6.5.4 of the DSC requires geographic distributors that serve load transfer customers by January 31, 2009, to either:

(a) negotiate with the physical distributor that provides load transfer services so that the physical distributor will be responsible for providing distribution services to the customer directly, including application for changes to the licensed service areas of each distributor; or

(b) expand the geographic distributor's distribution system to connect the load transfer customer and service that customer directly.

Historically, electricity distributors in Ontario have had exclusive service territories in which they were obligated to provide electricity supply. In some cases where new customers were not located near the distribution system of their franchise distributor, the franchise distributor would enter into an LTLT agreement with a neighboring distributor to provide physical supply to the franchise customers. The LTLT arrangements; in some cases, created a set of issues such as:

- inappropriate cross-subsidization between the load transfer customers and the existing customers,
- customer confusion with respect to customer service since two distributors provided service to the same area, and
- inconsistent settlement processes amongst distributors.

Presently, the electricity distribution licence of a distributor specifies the area in which the distributor is authorized to distribute electricity. According to section 70 (6) of the *Ontario Energy Board Act, 1998,* unless it provides otherwise, a licence shall not hinder or restrict the granting of a licence to another person within the same area and the licensee shall not claim any right of exclusivity. Accordingly, there is a degree of flexibility in the management of distribution service areas that was not previously available.

THE SAA APPROACH TO ELIMINATE LTLTs

As indicated above, one option available to geographic distributors to eliminate an existing LTLT arrangement is to negotiate with the physical distributor to have the physical distributor take over responsibility for supply of the associated existing customers through amendments to their distribution service areas. Exercising this option necessitates an application to the Board to amend the applicants' licensed distribution service areas and possibly to approve the sale of associated distribution assets.

The Board's SAA Filing Requirements sets out the information the Board requires to decide an SAA application.

Section 7.2 states:

> *Applicants must demonstrate how the proposed SAA optimizes the use of existing infrastructure. In addition, applicants must indicate the long term impacts of the proposed SAA on reliability in the area to be served and on the ability of the system to meet growth potential in the area. Even if the proposed SAA does not represent the lowest cost to any particular party, the proposed SAA may promote economic efficiency if it represents the most effective use of existing resources and reflects the lowest long run economic cost of service to all parties.*

The Board's combined decision on SAA dated February 27, 2004 (RP-2003-0044) states:

> *…The Board encourages parties to work together to eliminate these load transfers by determining which distributor can most rationally serve the customer(s) in question, from an economic efficiency, system planning, reliability and safety perspective. The Board will look favourably upon service area amendments where applicant and incumbent distributors consent to a rationalization or*

> *elimination of load transfer arrangements, including any financial arrangements which may be required.*

In assessing the two methods available to distributors to eliminate their LTLTs (i.e. SAA or physical connection), staff notes that distributors need to assess the long term impact of each method on all parties based on the criteria identified in the Filing Requirements and in the above Board decision. This assessment is especially important in cases where customers will experience unfavourable rate impacts as a result of the SAA.

Staff submits that based on the Board's guidance above, that applicants should demonstrate that the customer transfer option represents the lowest long-run economic cost of service to the customers as well as to the distributors. In the subject applications, the applicants provided the estimated costs of connection for some of the LTLT customers. In the Whitby application, the applicants also provided the estimated future revenue that would result if the geographic distributor expanded its system to connect the subject customers.

Staff submits that the estimated costs of connection along with the estimated future revenue that would result if the geographic distributor expanded its system to connect the LTLT customers should be provided for all LTLT customers who will experience an unfavorable rate impact as a result of the SAA. Staff also submits that distributors should also confirm the amount that a distributor is allowed to offer a customer as a charge for connecting a customer as per section 3.2.4 of the DSC dealing with expansions. In section 3.2.4 of the DSC, the Board states that the charge shall not exceed the subject customer's share of the difference between the present value of the projected capital costs and on-going maintenance costs for the facilities and the present value of the projected revenue for distribution services provided by those facilities. In cases where customers will experience unfavourable rate impacts as a result of an SAA for the purposes of eliminating load transfers, parties may wish to consider whether customers should be given the option of contributing to the connection costs as per the requirements in the DSC governing expansions, and remaining with the geographic distributor.

The applications before the Board in this proceeding are joint applications where both the geographic and the physical distributor agreed on the statements made in the application. The applicants stated that the proposed SAA is a cost-efficient approach for eliminating the existing LTLTs. In addition, the applicants indicated that the proposed SAA is consistent with existing networks (i.e. avoids duplication of assets) and will have no impact on the infrastructure reliability. In the Whitby application the applicants noted that the estimated cost to connect the subject customers to Whitby's distribution system is $291,000 with estimated annual revenue of $15,449. The applicants also noted that minor future growth is expected in the area where the subject customers are located. The applicants stated that the proposed SAA does not impose any issues for future potential growth and will have no impact on the infrastructure reliability.

In the Peterborough application, the estimated cost of connecting the customer on Hilliard Street, in the City of Peterborough is $35,000 but no calculation of expected revenue is provided. The applicants noted that this customer may be eliminated in the future because of a proposed redevelopment of the area although nothing is currently planned. Furthermore, no calculation of the estimated cost of connection or expected revenue is provided for the customer located on Douro 9th Line, in the City of Peterborough. However, the applicants stated that Peterborough Distribution would be required to build three kilometers of line in order to serve this customer. The applicants also noted that this customer is located on the Trent University campus and Trent University has its own distribution system. If the university decides to expand in the area, it may possibly use its own internal system. The applicants stated that these proposed SAAs will have no impact on the infrastructure reliability and will not impose any issues for future potential growth in the area.

Staff invites parties to comment on whether this information is sufficient in demonstrating that the SAA is the most cost efficient option.

RATE IMPACTS ARISING FROM THE PROPOSED SAA

When existing customers are transferred from one electricity distributor to another, there may be a rate impact to those customers. In some cases rates may decrease and in some cases rates may increase.

The load transfer customers proposed to be transferred to Hydro One from both Whitby Hydro and Peterborough Distribution will be subject to higher distribution rates. These customers have been receiving electricity from Hydro One's distribution system but have been charged the distribution rates of the geographic distributor.

Section 7.3.1 of the Board's SAA Filing Requirements requires that applicants provide evidence of attempts to mitigate impacts where customer and/or asset transfers are involved.

In the 2006 EDR, the Board established a threshold test for determining whether or not an applicant is required to file a mitigation plan. In section 13.1 of the 2006 EDR handbook, the Board stated that the applicant must file a mitigation plan if total bill increases for any customer class or group exceed 10%. The Board has applied this test in most rate applications since 2006.

The subject applicants did not submit rate mitigation proposals. The immediate impact of the rate increase on the customers is above the Board's 10% threshold. Staff invites parties to address the matter of whether rate mitigation should be considered and if so, what would constitute appropriate rate impact mitigation measures and implementation methodologies and which distributor should be administratively and financially responsible for rate impact mitigation. In providing their views on rate impact mitigation, staff would ask parties to also address the matter of cross-subsidization and whether the Board should consider prolonging cross-subsidization for the sake of mitigating impacts.

All of which is respectfully submitted