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HydroOttawa

May 3, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: **Amendment to Hydro Ottawa Limited Application seeking an exemption from Section 6.5.4 of the Distribution System Code – EB-2013-0072**

Please find attached an amendment to Hydro Ottawa Limited (hereinafter "Hydro Ottawa" or "HOL"'s March 18, 2013 application seeking an exemption from section 6.5.4 of the Distribution System code (hereinafter the "DSC").

The amended application reflects a minor modification to the number of affected Long Term Load Transfer (hereinafter "LTLT") "customers" and corresponding adjustment to the per customer cost of extending Hydro Ottawa's network to reach 40 rather than 44 customers. Hydro Ottawa became aware of the need to make this adjustment upon preparing the packages to be forwarded to its affected LTLT customers. Hydro Ottawa learned that at least one customer had recently terminated its service while two other accounts were system duplicates. Hydro Ottawa further learned that a fourth account is a vacant lot that has yet to activate electricity service. While the later vacant lot has consistently been referred to as a LTLT customer in Hydro Ottawa's compliance reports, there nevertheless is no service currently being provided to this location and hence the adjustment.

The remaining 40 customers are active accounts and are being billed by Hydro Ottawa. In two cases, the customer is billed separately for service received at its residence and small commercial business. Hydro Ottawa confirms that a copy of its application has been served on all 40 affected customers, as well as Hydro One.

Hydro Ottawa regrets any inconvenience to the Board, Board staff or interveners occasioned by this amendment.

Respectfully,

Patrick Hoey
Director, Regulatory Affairs
Hydro Ottawa Limited.

Hydro Ottawa Application to the OEB

Seeking an exemption from section 6.5.4 of the Distribution System Code
Pertaining to 40 Long Term Load Transfers

March 18, 2013

Amended May 3, 2013

Table of Contents

1.0 Executive Summary

1. By way of this application, Hydro Ottawa Limited (hereinafter "Hydro Ottawa" or "HOL") seeks an exemption from the application of section 6.5.4 of the Distribution System Code (hereinafter "the DSC") so that it may cease activities related to the elimination of 40 long term load transfer (hereinafter "LTLT") arrangements. The investment necessary to eliminate the 40 LTLTs arrangements that are the subject of the current application is not a prudent investment and accordingly is not a least cost solution for either the affected LTLT customers or for Hydro Ottawa ratepayers. This application is consistent with the Ontario Energy Board (hereinafter "the OEB" or "the Board")'s recent Renewed Regulatory Framework for Electricity Distributors (hereinafter "RRFE") as it relates to optimizing and prioritizing infrastructure investments as well as supporting integrated infrastructure planning. This application is further informed by the report of the Ontario Distribution Sector Review Panel entitled *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First* (hereinafter "the Distribution Sector Review Panel Report") and the recommendations made to the Ontario Minister of Energy to consolidate 73 local distribution companies into 8 to 12 larger regional distributors.

2. Hydro Ottawa does not seek a temporary exemption or an extension of time within which to comply with the OEB's direction to eliminate LTLT arrangements. Rather, Hydro Ottawa seeks an open exemption in order that the 40 LTLT arrangements that are the subject of the current application remain with Hydro Ottawa and continue to benefit from Hydro Ottawa's leading edge customer service. This application is filed on the grounds that a) expanding Hydro Ottawa's network to supply the 40 LTLT customers with an electricity service they currently have, is not economically prudent, b) entering into a service area amendment with Hydro One Networks Inc.'s (hereinafter "HONI") is not in the interests of Hydro Ottawa's LTLT customers and c) purchasing the assets from HONI would not fully eliminate the LTLT. This application is further submitted on the grounds that the conditions that once gave rise to the need for the elimination of LTLT arrangements have largely been addressed and that forward looking industry conditions and future potential for mergers and amalgamations provide compelling industry and market circumstances warranting an open exemption.

3. Industry conditions economically justify the continuance of Hydro Ottawa's 40 LTLT arrangements. Hydro Ottawa seeks the flexibility to refrain from investing in what will amount

to network duplication and increased rates for Hydro Ottawa's customers with little to no discernible benefit to Hydro Ottawa's LTLT customers or its ratepayers. Permitting the status quo represents the least cost and least disruptive solution to Hydro Ottawa's 40 LTLT customers and to its ratepayers and accordingly Hydro Ottawa encourages the Board to approve Hydro Ottawa's application and find the status quo treatment of Hydro Ottawa's 40 LTLT arrangements to be in the public interest.

2.0 Introduction

2.1 Relief Sought

4. Pursuant to Section 74(1) of the Ontario Energy Board Act, 1998, Hydro Ottawa Limited. herein requests that the Board amend 5.1(b) of Hydro Ottawa's licence exempting it from the requirement to comply with the Long Term Load Transfer provisions set out in section 6.5.4 of the Distribution System Code. Specifically, Hydro Ottawa seeks an exemption from the application of sections 6.5.4 of the DSC for 14 of its LTLT customers that were scheduled to be eliminated in the 2013 and 26 that were expected to be eliminated in the 2014 time period. By way of secondary relief, Hydro Ottawa further seeks an exemption from the requirement to report annually its LTLT elimination progress and compliance with section 6.5.4. Instead, Hydro Ottawa proposes to report on an annual basis the total number of LTLTs still in effect, should the Board require this information.

2.2 Grounds for relief sought

5. Hydro Ottawa seeks an exemption from the application of 6.5.4 on the grounds that:
   a) the cost to Hydro Ottawa customers of continued compliance with section 6.5.4 of the DSC is prohibitive and outweighs the long term net benefits to Hydro Ottawa's customers and accordingly is <u>**not**</u> the least cost or least disruptive solution to Hydro Ottawa LTLT customers or ratepayers;
   b) Transferring Hydro Ottawa's LTLT customers to HONI via a service area amendment is not a option due to expected rate impacts to Hydro Ottawa's LTLT customers;

c) Acquiring the distribution assets of the physical distributor serving LTLT customers, in most cases, does not eliminate the LTLT arrangement, it merely moves the demarcation point up the system to create a new LTLT arrangement;

d) the OEB's original objectives compelling the LTLT elimination policy have largely been met;

e) the OEB's expressed objective of prioritizing and optimizing capital spending in the RRFE is inconsistent with the LTLT elimination policy;

f) Status quo ensures optimal use of existing infrastructure and efficient use of existing resources offers the lowest long run economic cost of service to all parties and has no impact on quality or reliability and accordingly is in the public interest.

6. The facts presented in this application will demonstrate that the costs of extending Hydro Ottawa's network to connect the 40 LTLT customers in question outweigh the benefits to Hydro Ottawa's LTLT customers and ratepayers and, accordingly, would result in an uneconomic business decision were Hydro Ottawa to proceed as mandated. In what follows, Hydro Ottawa will demonstrate that the Board has previously indicated that, while committed to the elimination of load transfers, this is not an end unto itself and that other considerations, such as economic efficiency, safety, service and ratepayer impact must be given weight in any determination of the Board. Granting an exemption from the application of section 6.5.4 of the DSC as it relates to Hydro Ottawa's 40 LTLT arrangements will not result in material harm to any customer or stakeholder and accordingly is in the public interest.

3.0 Background

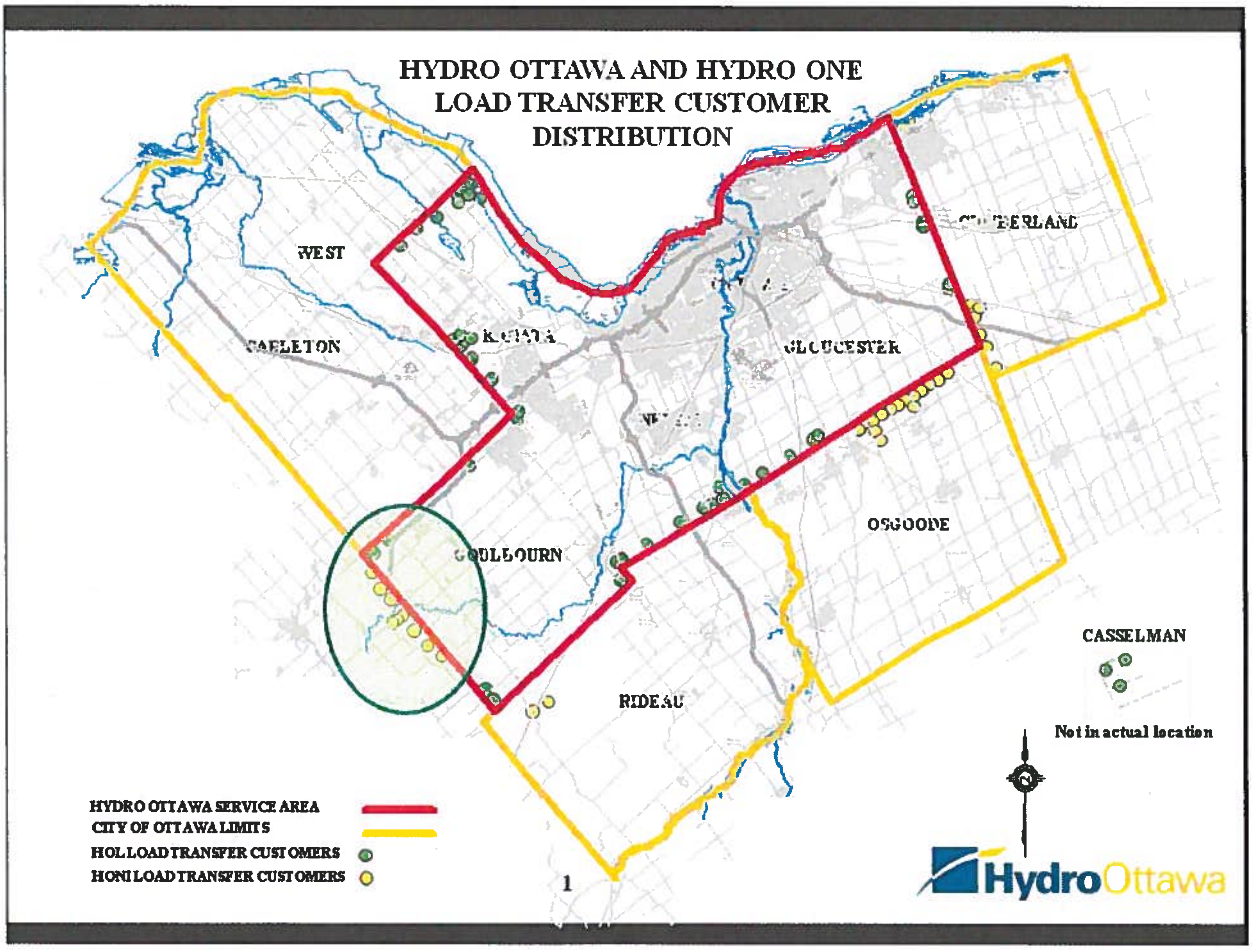
3.1 Long Term Load Transfers

7. Long term load transfers are arrangements between a geographic distributor and an adjacent physical distributor. A load transfer occurs when a customer is located in the licensed service area of one distributor (the "geographic distributor")[1] but has a direct physical connection to the electricity network of another distributor (the "physical distributor"). The arrangement arises where the geographic distributor in not in a position to serve the customer without incurring

[1] And is the customer of the geographic distributor

unreasonable expenditures for system expansion."[2] LTLT arrangements are struck between the geographic distributor and its neighbouring/adjacent or physical distributor for the convenience of the customer and of both distributors as well as economic necessity. Figure 1 below provides an illustration of LTLT arrangements of both Hydro Ottawa and HONI in and outside of Hydro Ottawa's distribution service area.

Figure 1



8. LTLT arrangements became accepted business practices between electric utilities due to changing utility service areas resulting from amalgamations. LTLT arrangements were "gentlemen agreements" entered into between two distributors (geographic and physical) out of economic prudence and convenience. LTLT arrangements ensure that customers who build residences or businesses in vacant lots could be physically connected to the electricity system by the closest physical distributor using the most economically feasible arrangement while receiving

[2] Paragraph 269 RP 2003-004, OEB Decision with reasons dated February 27, 2004

service from its geographic distributor which may be the municipal electric utility. LTLT arrangements were often established as near-permanent arrangements in place until circumstances warranted additional investment. The temporary or permanent nature of LTLT arrangements in many cases is affected by the distance the customer is to the network facilities of its geographic distributor as much as by the development that occurs in the areas surrounding the LTLT customer. The duration of the LTLT arrangement was, in some cases, also the result of significant rate differences between utilities. The justification for LTLT arrangements was to provide planning relief to the geographic distributor in a manner that was economically viable and of no consequence to the end customer.

9. Geographic distributors have an obligation to serve customers residing in their distribution service area. The geographic distributor provides service to the LTLT customer in accordance with its Conditions of Service and is responsible for billing and collecting its rates from the customer as well as responding to any customer inquiries and complaints. The geographical distributor is further responsible for ensuring that information related to service outages are properly communicated to the LTLT customer. The physical distributor's costs for serving the LTLT customer are recovered from geographic distributor via a mutually agreed upon settlement arrangement.

10. Some geographical distributors' territories border multiple distributors. In the case of Hydro Ottawa's however, its distribution service area is completely surrounded by HONI's service territory and hence all of Hydro Ottawa's LTLT arrangements are with HONI.

3.2 Section 6.5.4 of the DSC Code: The LTLT elimination policy

11. Section 6.5.4 of the DSC code was enacted July 14, 2000 and formed part of the original DSC. The requirements imposed on geographic and physical distributors were the result of working group discussions designed to address issues arising from the multitude of LTLT arrangements in the province. Board Staff summarized[3] the concerns as relating to cross-subsidization, customer confusion and inconsistent settlement processes.

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[3] OEB Staff Submission filed May 6, 2008 in the proceeding initiated under EB-2007-0917 and EB-2007-0947 available at: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/39021/view/BoardStaff_SUB_Honi_Whitby_20080506.pdf.PDF

12. The Board itself, however later clarified in its decision rendered July 25, 2008,[4] that its policy on the elimination of LTLTs was adopted as a result of:

    a) the commercialization of the distribution sector and the concomitant discontinuation of the use of municipal boundaries as demarcation identified of distribution franchise service areas;

    b) the potential that LTLTs can give rise to cross subsidization between customers, namely that customers being served under the terms of LTLTs that are paying less than other similar customers who are not being served under the terms of an LTLT agreement are being subsidized.

13. To address these concerns, section 6.5.4 of the DSC set out obligations requiring geographic distributors to eliminate their LTLT arrangements by May 1, 2007 and to file an implementation plan for the elimination of its LTLTs by December 31, 2007. According to the DSC, LTLT arrangements can be eliminated either by negotiating the transfer of the customers to the physical distributor or by the geographic distributor extending its system to connect the customers. Specifically, section 6.5.4 of the DSC requires that a geographic distributor either:

    a) Negotiate with a physical distributor that provides load transfer services so that a 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 system to connect the load transfer customer and service the customer directly.

14. On January 31, 2007, the OEB extended the deadline for compliance with section 6.5.4 of the DSC to recognize two government initiatives that were expected to accelerate the pace of voluntary consolidation, namely a) a transfer tax exemption in relation to the transfer of electricity assets to publicly owned utilities and b) the lifting of the moratorium on the purchase and sale of the electricity distribution assets by HONI.

[4] The OEB's Decision and Order in the proceeding initiated under EB-2007-0017 and EB-2007-0947 available at: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/73468/view/dec_order_ed_honi_whitby_peterborough_20080725.pdf.PDF

15. On June 10, 2009 the OEB issued a notice of amendment to the code wherein it amended section 6.5.4 of the DSC code to extend the deadline by which geographic distributors must eliminate load transfer arrangements to June 30, 2014. The June 10, 2009 amendment further instituted annual reporting obligations on geographic distributors starting in 2011 and ending in 2013. Said annual reports are intended to provide the OEB a description of the geographic distributor' progress in eliminating its load transfers, the method employed to eliminate the load transfer and the date these transfers were eliminated.

4.0 Hydro Ottawa's compliance with Section 6.5.4 of the DSC

16. Pursuant to the Board's directions set out in sections 6.5.4.1, Hydro Ottawa filed its original implementation plan on December 31, 2007 and its updated implementation plan on November 30, 2010. Pursuant to the Board's directions set out in section 6.5.4.2, Hydro Ottawa filed progress updates to its implementation plan on November 30, 2011 and November 30, 2012.

17. In its November 30, 2012 updated implementation plan, Hydro Ottawa reported to the OEB that as of September 30, 2012, Hydro Ottawa had successfully eliminated 72% or 211 of its 293 LTLT arrangements within its service area of the City of Ottawa and Village of Cassleman leaving 82 LTLT arrangements to eliminate. Of the remaining 82 LTLT arrangements, Hydro Ottawa has 38 LTLT arrangements in various stages of completion with some nearing completion and others having third party material and resource commitments being made.[5] This leaves 40 LTLT arrangements that, pursuant to section 6.5.4 of the DSC, are to be eliminated by June 30, 2014.

18. In order to comply with the Board's forward-looking compliance requirement to eliminate all LTLT arrangements by June 30, 2014, Hydro Ottawa will be required to invest an additional $2.1 million or an average of $52.5K per LTLT customer over the $4.1 million it has already invested or committed.

19. In its November 30, 2012 implementation update report, Hydro Ottawa reported to the Board its position that it would continue to explore all viable options that would allow it to retain its

[5] Eliminating LTLT arrangements requires long term resource planning, commitment and coordination with third parties such as HONI, Bell Canada, Rogers Communications and contractors. Most LTLT elimination projects take upwards of a year to complete.

remaining LTLT customers but that if an acceptable solution could not be found to the benefit of all stakeholders, it would consider other options (such as filing for an exemption)[6] for some or all of its remaining LTLT customers.

20. In what follows, Hydro Ottawa demonstrates that of the three options available to it to remain in compliance with section 6.5.4 of the DSC, namely to a) invest in the expansion of Hydro Ottawa's network; b) negotiate the transfer of Hydro Ottawa's customers to HONI via a service area amendment or c) purchase the distribution assets of HONI and, where necessary apply for a service area amendment, none of these options represent the best long term solution for either the 40 affected LTLT customers or all of Hydro Ottawa's ratepayers. What's more, Hydro Ottawa is only in a position to control one of said options (expanding to connect LTLT customers) while the remaining options remain outside its exclusive control. Hydro Ottawa will demonstrate that continuing to expand its network to connect its remaining 40 LTLT customers is not a solution that is in the best interests of Hydro Ottawa's customer base.

5.0 Building facilities to connect the remaining LTLT customers is not economically justifiable

21. As noted above, in order to eliminate the 40 LTLT arrangements by June 30, 2014, Hydro Ottawa would need to invest an additional $2.1 million over the $4.1 million it has already invested or committed. Expressed in a different manner, the average cost to eliminate the first 249 LTLT arrangements was approximately $21K per customer. The average per LTLT customer investment Hydro Ottawa would need incur to eliminate its remaining 40 LTLT customers is approximately $52.5K per LTLT customer, nearly three times the average amount incurred or committed to eliminate the 249 LTLT arrangements to date.

22. The approximate annual cost to Hydro Ottawa's customers to invest the $2.1 million in its network to reach its remaining 40 LTLT customers is approximately $230K. This amount is calculated based on Hydro Ottawa's weighted average cost of capital approved in its last rate case (6.70% grossed up by the average tax used for PILS approved in its last rate case (25%)). This yields a total cost to be recovered in annual revenue requirement of approximately $176K. In addition, there would be a depreciation expense of approximately $52.5K assuming an

[6] Hydro Ottawa signaled to the Board in its 2007 Implementation plan that it may seek an exemption for some LTLTs

average depreciation rate of 2.5%. This must be compared to the approximate annual cost of maintaining status quo calculated as the rate difference between the rate paid to HONI for its service to Hydro Ottawa's LTLT customers and the rates paid by Hydro Ottawa's LTLT customers which is approximately $21K[7]. The difference between the two options is approximately $209K.[8]

23. Hydro Ottawa respectfully submits that investing $2.1 million to supply its 40 LTLT customers with a service they currently receive is not economically justifiable. Moreover, doing so would result in stranded assets and unnecessary network duplication. To Hydro Ottawa, spending an average of $52.5K to supply electricity service to a customer who is already receiving electricity service is not a prudently incurred cost. This is especially true when compared to the status quo option, whose costs are approximately $21K a year.

24. The Board specifically recognized the need to avoid uneconomic network duplication where in paragraph 84 of its Decision with Reasons rendered in the proceeding initiated under RP-2003-0040, the Board concluded:

> The promotion of economic efficiency in the distribution sector is one of the Board's guiding objectives in the regulation of the electricity sector." ..... "Economic efficiency would include ensuring the maintenance or enhancement of economies of well-defined boundaries between distributors, the lowest incremental cost connection of a specific customer or group of customers; <u>optimization of use of the existing system configuration and ensuring that the amendment does not result in any unnecessary duplication or investment in distribution lines and other distribution assets and facilities</u>. (Emphasis added).[9]

25. The Board went on to note the following in paragraph 89 of RP 2003-0040:

> A consistent application of the Board's emphasis on economic efficiency should result in connection decisions which optimize the existing infrastructure. This enhances the local distribution company's return on its investments, and should result in rewards for shareholders and ratepayers. <u>Ensuring that connection decisions are made on the basis of an effective use of existing infrastructure will create a system-wide, indeed a province-wide avoidance of unnecessary expenditures, and the attendant implications for electricity rates</u>. Inefficient connection activities work to the prejudice of local distribution utilities, and their customers[10] (Emphasis added).

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[7] This amount is determined using the annual cost differences between the two rates times the number of residential and commercial customers composing the 40 LTLT arrangements.
[8] $230 - $21K
[9] Paragraph 84, RP-2003-0040
[10] Paragraph 89 of RP-2003-0040

26. As discussed in more detail below, the touchstone of economic efficiency is one that underlies each of the Board's policies and regulations as is its direction of ensuring the effective use of existing infrastructure and avoidance of system-wide unnecessary expenditure causing negative impacts to rates. As noted by the Board, failing to adhere to economically efficient asset management practices can be prejudicial to the local distribution company as well as their customers. It is for these reasons that Hydro Ottawa is using the opportunity presented by this application to identify a compliance policy that risks resulting in economically inefficient investments.

27. In this regard, Hydro Ottawa notes that it signaled to the Board, as early as in 2007 that the costs of expanding its network to serve certain LTLT arrangements were either entirely dependent on future growth in demand or that the costs were simply uneconomic. In fact, in its 2007 LTLT implementation report and in each of its subsequent updated reports, Hydro Ottawa signaled to the Board that the costs of expanding Hydro Ottawa's network to serve certain customers[11] would be warranted "where future growth and the eventual expansion of the Hydro Ottawa distribution system is simply a matter of time, or where Hydro Ottawa may pursue sustainment or enhancement projects that could improve the project economics".[12] Hydro Ottawa noted that it would "continue the load transfers until such time as Hydro Ottawa extends its distribution system, acquires HONI's distribution feeders or portions thereof, or the service area boundary changes"[13].

28. For at least one customer Hydro Ottawa was clear in each of its 2007 Implementation report that directly serving said customer[14] would be uneconomical as the construction costs would exceed any likelihood of load growth to justify the project. Hydro Ottawa further indicated that it would seek an exemption for said customer. Table 1 below sets out the projects as categorized in 2007 and as recently updated in 2012. Apparent from Table 1 is that more projects that were formally deemed by Hydro Ottawa to be Category C (dependent on future growth) now fall into Category D (uneconomic). There are several reasons underlying the re-assessment for certain of the LTLT projects. The main reason why the projects impacting

[11] Hydro Ottawa categorized these customers as Category C customers
[12] Hydro Ottawa's LTLT Elimination Implementation plan filed November 2007.
[13] Ibid.
[14] Hydro Ottawa categorized these customers as Category D.

Hydro Ottawa's remaining 40 LTLT customers are delayed or re-categorized is simply that circumstances did not unfold as expected largely due to the downturn in the global economy.

Table 1

LTLT Elimination Projects	# of LTLT Customers	2007 Grouping	2012 Grouping
Principle Street Cassleman	1	C	C
Route 700 & Principle Road Castleman	12	C	C
Mer Bleu (Cluster 1) Gloucester	3	C	C
Dobson Lane, Goulbourn	2	C	C
McCordick Road Goulbourn	5	C	C
Huntmar Road (Cluster 2)	2	C	C
Huntmar Road (Cluster 3)	1	C	C
Montee Lafontaine Casselman	2	B	D
Route 500, Casselman	2	C	D
Rothbourne Road (Cluster 2) Goulbourn	3	D	D
Thomas Dolan Parkway (Cluster 2) & Dunrobin Road – part 1	1	C	D
Thomas Dolan Parkway (Cluster 2) & Dunrobin Road – part 2	1	C	D
Brophy Road Nepean	5	C	D
Total	40		

29. Hydro Ottawa submits that the financial and opportunity costs are not justifiable to Hydro Ottawa's ratepayers. Investing an average of $52.5K to connect a customer is not economically prudent in the face of numerous other capital spending requirements that, in Hydro Ottawa's opinion will benefit its larger customer base.

30. To conclude, the costs to Hydro Ottawa to comply with the obligations set out in section 6.5.4 of the DSC code cannot be understated. More importantly, these costs outweigh any long term net benefit to Hydro Ottawa's rate payers and accordingly are not in the public interest.

6.0 Transferring Hydro Ottawa's remaining LTLT customers to HONI is not an economically viable option for Hydro Ottawa customers

31. The second option available to geographic distributors to eliminate the LTLT arrangements is to negotiate with the physical distributor to transfer the customer to the physical distributor via a service area amendment. This option was raised in a letter addressed to EDA President Mr. Charlie Macaluso, by then Board Chair Howard Wetston who signaled the Board's recognition

of prohibitive construction costs associated with eliminating some LTLT arrangements. Mr. Wetston wrote:

> The DSC does not require or anticipate that all load transfers would be eliminated by the addition of connection assets by the geographic distributor. While physical connection may provide an efficient solution in some cases, it is equally the case that the most cost effective solution would result from negotiation between utilities leading to customer transfers. (Emphasis added)[15]

32. Hydro Ottawa respectfully submits that negotiations leading to customer transfers via service area amendments presume successful negotiation between the parties. Not all negotiations lead to mutually acceptable arrangements or beneficial outcomes for the end customer. One significant issue that can impede negotiations regarding service area amendment relates to service and rate impacts incurred by the affected customers.

33. Accordingly, customer transfers are not always the most cost effective solution, least of which for the LTLT customer. To the contrary, and as discussed in more detail below, customer transfers are highly disruptive to the customer and, as in the case of Hydro Ottawa, result in rate increases to Hydro Ottawa's LTLT customers if they become HONI customers.

34. Table 2 below illustrates the approximated monthly, annual and percent difference a Hydro Ottawa customer would experience were they transferred to HONI. Table 2 illustrates that if Hydro Ottawa's customers were transferred to HONI and HONI assumed billing responsibility for Hydro Ottawa's remaining LTLT customers, the residential customers (using up to 800 kWh) monthly bills would increase 26.1% and result in these customers paying an additional $29.76 a month or an additional $357.12 a year. Small commercial customer bills (using up to 2000kWh) would increase 27.73% and result in these customers paying an additional $75 a month or an additional $900.72 a year. Importantly, these increases would occur absent any increase in value to the customer resulting from a change of electricity distributor. These customers would merely continue to receive the same electricity service, just billed by a different supplier.

[15] Page 2, Letter dated May 16, 2006 from Howard Wetston of the OEB to Charlie Macaluso of EDA

Table 2

Hydro Ottawa Residential (800kWh/month) Hydro Ottawa (2013)	HONI – Medium Density R1 (2013)	Monthly Impact	Annual Impact	Percentage Bill Increase
$113.93	$143.70	$29.76	$357.12	26.12%

Hydro Ottawa small commercial (<50 kW) at 2000kWh/ month (2013)	HONI – General Service Energy Billed < 50 (2013)	Monthly Impact	Annual Impact	Percentage Bill Increase
$270.66	$345.73	$75.06	$900.72	27.73%

35. Customer rate impacts has been an ongoing concern of the Board and its staff as evidenced in its submission in the proceedings to consider similar relief sought by Whitby Hydro and Peterborough Distribution pursuant to EB-2007-0917 and EB-2007-0947. The OEB staff noted the following:

> 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 <u>all parties</u> based on the criteria identified in the Filing Requirements and in the above Board decision. <u>This assessment is especially important in cases where customers will experience unfavourable rate impacts as a result of the SAA</u>.[16] (Emphasis added)

36. The unfavourable rate impacts and the limited benefits of rate mitigation on customers triggering political and customer concerns, is what led HONI to seek grandfathering treatment of LTLT arrangements in 2009. Specifically, Hydro Ottawa notes that in a letter to the Board dated April 20, 2009 (filed as Attachment A), Susan Frank of HONI wrote the following in response to the Board's decision to extend the compliance deadline:

> Recent applications have highlighted <u>a serious problem with eliminating LTLTs</u>. We currently have two applications that have generated customer and government concerns. No resolution that is satisfactory to these customers has been determined. <u>Some customers will be subject to large bill impacts</u>. [17] (Emphasis added)

> And

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[16] OEB Staff Submission filed May 6, 2008 in the proceeding initiated under EB-2007-0917 and EB-2007-0947 available at: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/39021/view/BoardStaff_SUB_Honi_Whitby_20080506.pdf.PDF

[17] Paragraphs 2 and 3 of HONI's letter dated April 20, 2009 submitted pursuant to EB-2009-0095 filed as Attachment A.

> The additional time only delays the inevitable. Until this issue of large bill impacts can be resolved HONI cannot file any new applications to eliminate LTLTs.[18]

37. In the same letter from HONI, Susan Frank indicated its support for the continuance or grandfathering of LTLT arrangements. The following statement from Susan Frank of HONI is instructive:

> In a previous submission and correspondence HONI supported the option of grandfathering existing LTLTs. The existing LTLT arrangements have proven effective in the past, have resulted in few customer complaints and the required settlement processes are in place.[19] (Emphasis added)

38. Hydro Ottawa acknowledges that while HONI has recently jointly filed for some service area amendments, or sold its assets to dispense with a handful of LTLT arrangements, HONI nevertheless has confirmed with Hydro Ottawa that it continues to support the status quo treatment of LTLT arrangements in order to avoid unfavorable customer rate impacts.

39. Hydro Ottawa respectfully submits that transferring via a service area amendment its remaining 40 LTLT customers to HONI is not a least cost or least disruptive solution to Hydro Ottawa's LTLT customers and therefore, it is not a viable option for eliminating its remaining LTLT arrangements.

7.0 Purchasing HONI's distribution assets serving the LTLT arrangements does not eliminate the LTLT arrangement

40. The final option available to Hydro Ottawa to eliminate its LTLT arrangements is to negotiate the purchase of HONI's distribution assets serving Hydro Ottawa's remaining 40 LTLT arrangements. While on its face, this may appear as a workable solution, the network assets serving each LTLT arrangement are not easily isolatable. The question of purchasable assets becomes complicated when non-LTLT customers are fed by the same feeder as an LTLT customer. Even if the geographic distributor were to successfully negotiate the purchase of the network assets serving the LTLT customer up to the drop point, it would also need to negotiate the full or partial purchase of other network elements serving these LTLT customers and or

[18] Paragraph 2 and 3, Ibid.
[19] HONI Networks letter dated April 20. 2009.

install a wholesale metering point at the demarcation/boundary point or install a parallel feeder on joint use poles.

41. Some of the scenarios that may arise when trying to resolve an LTLT arrangement through an asset purchase with or without service area amendment that illustrate this point are illustrated below:

    a. where a feeder runs across a boundary once; if Hydro Ottawa were to purchase part of the feeder (the part lying entirely within Hydro Ottawa service area servicing only Hydro Ottawa customers), Hydro Ottawa would have to put a wholesale metering point at the demarcation/boundary point and settle with HONI via standard reconciliation based on the wholesale metering point data similar to settling with HONI when individual customer meter data is aggregated. This does not change the relationship with the customer, the customer's experience nor the effort needed to reconcile the energy account amongst the utilities, yet adds the expense of asset purchase.

    b. where the feeder runs along the boundary and on one side are Hydro Ottawa's LTLTs and the other HONI customers and where Hydro Ottawa cannot purchase part of the feeder, the only solutions would be: (1) purchase the entire feeder and do a service area amendment; (2) build a parallel feeder on separate or joint use poles to pick-up the customers; (3) continue the LTLT arrangement;

    c. Where the feeder zigzags across the boundary line and back options presented in b would apply.

42. It is important to recall that in many cases the change to the demarcation point only moves the LTLT arrangement to a different point in the network and hence does not remove the need for an LTLT arrangement. What's more, the acquisition cost of the assets becomes an expense that Hydro Ottawa would need to recover in its revenue requirement. Therefore the acquisition of the distribution assets of HONI by Hydro Ottawa for these LTLT arrangements would amount to "transferring" the LTLT arrangement further up the HONI network at a cost to all Hydro Ottawa customers with no guarantee of fully eliminating the LTLT. Accordingly, under this arrangement, the costs will be greater than the costs associated with the status quo arrangement

but provide no discernible service benefit to Hydro Ottawa's LTLT or end customers. Therefore, this option cannot be found to be in the public interest.

43. Hydro Ottawa is unable to accurately state the approximate purchase price of the assets serving its remaining 40 LTLT customers and has refrained from undertaking such exercise on the grounds that it is not convinced that the LTLT arrangement could be successfully eliminated to the satisfaction of all parties or that the OEB would permit Hydro Ottawa to put the purchase of such assets into its rate base. Regardless, Hydro Ottawa's remaining LTLT customers reside within the geographic footprint of Hydro Ottawa's distribution service area; as such Hydro Ottawa has an enduring interest to retain these customers in a manner that is economical to both its LTLT customers as well as to Hydro Ottawa's entire customer base. Purchasing the network distribution assets of HONI to itself serve the remaining 40 LTLT customers a) in most cases will not resolve the need for an LTLT arrangement and b) may result in an elevated revenue requirement to recover the cost of purchased assets. For these reasons, Hydro Ottawa believes this option is not in the interest of its customer base and hence not in the public interest.

8.0 The objectives of the LTLT policy have largely been achieved

44. As noted above, the LTLT elimination policy came into force to address certain market conditions present at the time, among them a) cross-subsidization between the load transfer customers and existing customers; b) customer confusion resulting from communication challenges between geographic and physical distributors; and c) inconsistent settlement processes among distributors. According to the Board, the LTLT policy was further enacted to ensure a demarcation of distribution service areas absent the use of municipal boundaries.

45. Hydro Ottawa respectfully submits that industry conditions that may have once warranted the LTLT elimination policy have largely been resolved and continued compliance with the LTLT elimination obligations may result in unintended consequences for Hydro Ottawa and its customers.

8.1 Compliance with Section 6.5.4 results in cross-subsidization

46. In the OEB decision arising from the proceeding initiated by EB-2007-0917 and EB-2007-0947 the Board noted that the LTLT policy recognizes that LTLTs can give rise to cross subsidization between customers. Specifically the Board noted "[c]ustomers being served under the terms of LTLTs that are paying less than other similar customers who are not being served under the terms of an LTLT agreement are being subsidized." [20]

47. Hydro Ottawa is unclear as to the precise nature of the concern being articulated by the Board. In particular, it is not clear whether, when referring to "other similar customers" the Board is referring to the "other similar customers" of the physical or geographic distributor. Hydro Ottawa believes the concern regarding cross-subsidization was related to issues arising due to the deficient settlement process at the time which have since been resolved. As discussed in more detail below the settlement arrangements have been refined to the point of satisfaction of most parties. Certainly, HONI has signaled that the settlement arrangements are not an obstacle to the continuance of LTLT arrangements.

48. Regardless, Hydro Ottawa notes that if it proceeds to expand its network to reach its remaining 40 LTLT customers or purchase the distribution assets serving these customers then the expenses incurred will be recovered through its revenue requirement and cross-subsidization between Hydro Ottawa's LTLT customers and its rate payers will occur. However, status quo treatment, where the annual net settlement amount is approximately $21K will result in the smallest amount of cross-subsidization than each of the three other options.

8.2 Customer confusion is no longer an issue

49. The second reason why the LTLT elimination obligation was established was to resolve circumstances that led to customer confusion. Examples of circumstances included any measurement or billing errors, service complaints or unplanned outages.

20 http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/73477/view/dec_order_ed_honi_whitby_peterborough_20080725.pdf.PDF

50. Hydro Ottawa respectfully submits that the confusion the LTLT elimination obligations were intended to address arose largely from municipal amalgamation experienced by many electricity distributors including Hydro Ottawa. Many customers at the time were confused as to who they were to turn to for answers regarding their electricity bills or information regarding planned or unplanned outages. Although Hydro Ottawa received few complaints, the OEB's concern nevertheless remained that LTLT customers would be inconvenienced or disadvantaged if communications originated from the physical distributor rather than the geographic distributor.

51. In the twelve years that have elapsed since amalgamation and the institution of the LTLT elimination obligations, robust customer service processes have been developed to address the rigorous communications needs of LTLT customers. By way of example, Hydro Ottawa notes that now in the case of planned or unplanned outages, HONI will communicate with Hydro Ottawa the estimated repair times in order that Hydro Ottawa can pass this information along to its LTLT customers. Hydro Ottawa submits that any issues of customer confusion have been largely addressed.

52. Given the passage of time since 2000 and ongoing efforts by Hydro Ottawa to communicate with its customers, although Hydro Ottawa distribution service area boundaries do not exactly correspond to the municipal boundaries of the City of Ottawa there is a clear delineation of the distribution service area from the customer's perspective. Hydro Ottawa submits that its customers know that Hydro Ottawa is their local electricity distributor regardless of whether their service is provided by assets owned by Hydro Ottawa or through an LTLT arrangement. Hydro Ottawa submits that due to its communication efforts with all customers there is in fact a clear delineation of its distribution service area from the customer's perspective.

8.3 Settlement arrangements are no longer inconsistent or non-cost compensatory

53. At the time the LTLT elimination obligations were established every distributor had to establish settlement arrangements with at least one other distributor and in some cases distributors had to settle with several distributors. Many, including Hydro Ottawa put in place settlement arrangements with HONI. The processes and agreements in place at the time were not as robust as settlement processes are today. As noted above, HONI concurs with the conclusion

that settlement arrangements are no longer a barrier to mutually acceptable LTLT arrangements. In a letter to the Board dated April 20, 2009, Susan Frank of HONI wrote the following in response to the Board's decision to extend the compliance deadline:

> In a previous submission and correspondence HONI supported the option of grandfathering existing LTLTs. The existing LTLT arrangements have proven effective in the past, have resulted in few customer complaints and the required settlement processes are in place.[21] (Emphasis added)

54. Given that an approved and mutually-acceptable settlement process is in place between Hydro Ottawa and HONI, the management of which requires a few hours of accounting annually, Hydro Ottawa considers the transaction costs associated with maintaining this status quo settlement arrangement *de minimus.*

8.4 Non-Contiguous service area boundaries are an admirable but likely unrealistic objective

55. The final reason given by the Board for the enactment of the LTLT elimination policy was to recognize "the commercialization of the distribution sector and the concomitant discontinuation of the use of municipal boundaries as demarcation identifiers of distribution franchise service areas."[22] In other words, the LTLT elimination policy was intended to ensure the continuance of a clear demarcation line between distributors' respective licensed service areas absent the former municipal boundary delineator.

56. The Sector Review Panel Report explicitly recognized the continuing absence of contiguous borders for many LDCs when it noted "the boundaries of many of the LDCs lack any coherence or consistency."[23] The report went on to note that "[a] number of utilities serve a patchwork of widely separated areas with non-contiguous boundaries." The report further noted that "the boundaries of [some] LDCs are a remnant of the cities' pre-amalgamation borders and have not kept pace with change."

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[21] HONI Network's letter to the OEB dated April 20. 2009 in the proceeding initiated by EB-2009-0095
[22] The OEB's Decision and Order in the proceeding initiated under EB-2007-0017 and EB-2007-0947 available at: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/73468/view/dec_order_ed_honi_whitby_peterborough_20080725.pdf.PDF
[23] Page 8, Blue Ribbon Panel's Report entitled "Renewing Ontario's Electricity Distribution Sector: Putting the Customer First".

57. The potential for change to distributor borders is significant particularly in light of the recent recommendations of the Sector Review Panel to consolidate 73 LDCs to 8-10 regional distributors thus raising the possibility of even more re-drawing of service area boundaries.

58. Despite the Sector Review Panel's stance regarding boundaries, it nevertheless concluded the following:

> The new regional distributors must have boundaries that are contiguous and stand should-to-shoulder. Boundaries should follow the existing structure and architecture of the distribution system and take into account the existing HONI Networks service areas.[24]

59. Finally, service area amendments continue as mutually acceptable solutions for some distributors seeking to eliminate LTLT arrangements. Indeed, the enactment of section 6.5.5 of the DSC which allows distributors to establish new LTLT arrangements with leave from the Board calls into question the feasibility of a distributor ever achieving 100% alignment with its licensed service area. Thus, while an admirable goal, it is unrealistic to expect that distributor service areas can or will ever be static.

60. Based on the above, it is clear that the conditions that once gave rise to the need to eliminate LTLT arrangements are either significantly less of an impediment or no longer exist. More importantly, as suggested by Susan Frank of HONI, LTLT arrangements have proven effective and accordingly should be permitted to persist.

9.0 The RRFE provides the opportune impetus for a change to the LTLT policy

61. The OEB's renewed regulatory framework sets out a renewed commitment to the end customer and a renewed focus on efficient network planning and operations. In the words of the OEB:

> The Board's renewed regulatory framework for electricity is designed to support the cost-effective planning and operation of the electricity distribution network – <u>a network that is efficient, reliable, sustainable, and provides value for customers</u>. Through taking a longer term view, the new framework will provide an appropriate alignment between a sustainable,

[24] Ibid, page 39.

financially viable electricity sector and the expectations of customers for reliable service at a reasonable price. [25](Emphasis added).

62. With this new revised regulatory framework come new obligations imposed on the distributor as it relates to network planning obligations. Hydro Ottawa notes that in section 3.4.1 of the Board's October 18, 2012 report the Board concluded that:

> In order to implement the Board's requirements for integrated infrastructure planning, the Board will identify tools and methods to support proposed infrastructure investments in distributor application, including the demonstration of how the distributor has optimized, prioritized and paced investments to take into consideration the total bill impact on customers[26] (Emphasis added).

63. The Board's focus in the RRFE is one that is designed to give electricity distributors more business operating flexibility provided network safety and reliability are maintained. Key features of the RRFE include the focus on efficient operation of the distributor and value for money for the customer. Both these priorities suggest a review[27] of regulatory obligations would be a worthwhile exercise to evaluate the relative value and efficiencies certain obligations provide the distributor and its customers. Distributors should continue to review their business and network planning activities in order to optimize and prioritize resources as well as pace investments to avoid negative bill impacts.

64. Hydro Ottawa continues to focus its financial and operational resources towards projects that are necessary to maintain critical infrastructure and seamless functioning of its electricity distribution network. The plan calls for the annual sustainment budget to be increased to $72 million.[28] This increase is based on the forecasted system need in order to maintain the system and reduce the feasibility of failures for all Hydro Ottawa customers. Diverting scarce resources in order to comply with the LTLT elimination policy also carries with it opportunity costs for which Hydro Ottawa may not expect to recover.

65. Equally important from the RRFE report was the Board's renewed focus on sustainable regional network planning. The following is instructive:

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[25] Page 1 of the OEB's October 18, 2012 Report of the Board Renewed Regulatory Framework for Electricity
[26] Section 3.4.1 of the OEB's Renewed Regulatory Framework for Electricity
[27] Such as that being undertaken by Navigant
[28] Executive Summary of Hydro Ottawa 2012 Asset Management Plan.

"Under the RRFE, the Board expects that network planning will include the transmitter, distributors, system operator and planner and others as needed to encourage the most cost-effective development of Ontario's electricity network infrastructure."[29] (Emphasis added)

66. The economic rationale underlying the Board's direction as regards sustainable regional network planning was echoed by the Ontario Distribution Sector Review Panel wherein its December 13, 2012 report[30] it noted that "some LDCs have found it in their interest to install new equipment at their boundaries instead of leveraging assets owned by an adjacent utility." The Panel further concluded that the Board's renewed framework is an acknowledgment of the fragmented nature of the distribution system is an impediment to the cost-effective planning and development of electricity infrastructure in the province.

67. Based on the above it is clear that the cost efficient development of Ontario's electricity network infrastructure must necessarily examine projects whose fundamental outcome results in the duplication of network assets. On behalf of its customers, Hydro Ottawa respectfully proposes that the Board begin with re-examining its policy governing the elimination of LTLT arrangements for Hydro Ottawa.

10.0 Sector Review Panel Recommendations may result in further industry consolidation

68. As noted above, the industry is on the cusp of potential consolidation as triggered by the recommendations of the Sector Review Panel to the government. These recommendations are anchored in the widely held understanding that significant investment is required in the future to ensure the electricity distribution system is capable of meeting the evolving needs of the consumer and the province. The panel's recommendations proceed from the premise that greater efficiencies are achievable through consolidation and proceeding in such a manner will have downstream benefits to the industry and rate payers.

69. In this regard, Hydro Ottawa notes that on page 14 of the Sector Review Panel report, the panel argues:

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[29] Page 5 of a speech delivered October 24, 2012 by Rosemarie Leclair, entitled "Delivering Value through Better Performance".
[30] Entitled "Renewing Ontario's Electricity Distribution Sector: Putting the customer First."

As a result of the current structure of the distribution sector, there are more facilities and distribution equipment in Ontario than are needed to efficiently serve electricity customer.[31]

And on page 25:

Boundaries are an obstacle because they inhibit the efficient use of capital and resources. With fewer boundaries between utilities, they would be able to install new switches and sub-station so that they serve a wider area. In addition, physical plants can be rationalized, eliminating the need for multiple control rooms in favour of one advanced system control centre with computerized monitoring and controls.[32]

70. Requiring electricity distributors to continue to invest in building facilities to serve customers who already have service within a distribution service area whose boundaries have the potential to change in the next five years is inefficient and will waste the time and resources of Hydro Ottawa and the Board. The recommendations of the Distribution Sector Review Panel clearly compliment Hydro Ottawa arguments in favour of an exemption from the continued application of section 6.5.4 of the DSC.

11.0 Status Quo represents the least cost, least disruptive long term solution

71. For Hydro Ottawa, LTLT arrangements are an efficient business practice facilitated by a mutually-agreed upon settlement arrangement that is non-impacting to the end customer and results in the least cost and least disruptive solution to all electric utility's ratepayers. Hydro Ottawa respectfully submits that LTLT arrangements in its distribution service area make optimal use of existing infrastructure and resources and avoid costly network duplication.

72. Hydro Ottawa submits that LTLT arrangements provide the long run least cost solution to LTLT customers and to Hydro Ottawa's general customer base and do not represent an impediment to further expansion where development is warranted. Most importantly, there is no impact to the quality or reliability of service provided to Hydro Ottawa's LTLT customers that are physically served by HONI. In this regard, Hydro Ottawa notes that the DSC requires that the physical distributor retain responsibility for system reliability and equipment failures associated with the equipment owned or operated that is used to deliver electricity to the load

[31] Page 14, Blue Ribbon Panel's Report entitled "Renewing Ontario's Electricity Distribution Sector: Putting the Customer First".
[32] Ibid, page 25.

transfer customer. The physical distributor is also required, pursuant to the code to allow access to its equipment to geographic distributor for the purposes of ensuring system reliability and safety.

73. Hydro Ottawa respectfully submits that, of each of the options available to it, status quo treatment of its remaining LTLT customers maintains the most optimal and rational use of existing infrastructure and makes efficient use of existing resources. Hydro Ottawa further submits that, as a result of the provisions contained in the DSC, there is no risk to degraded quality or service reliability resulting from the continuance of Hydro Ottawa's remaining LTLT arrangements.

74. Based on the above, it is clear that granting Hydro Ottawa an exemption from the requirement to comply with the provisions of section 6.5.4. of the DSC code pertaining to LTLT arrangement is the least cost and least disruptive solution that offers the lowest long run economic cost of service to all parties and has no expected impact on quality or reliability and accordingly is in the public interest. It is for these reasons, why Hydro Ottawa seeks an exemption from the application of section 6.5.4 of the DSC for the 40 LTLT customers that are the subject of the current application that were scheduled to be eliminated in the 2013 and 2014 time period giving Hydro Ottawa the flexibility to invest the $2.1 million in other network projects to the benefit of all ratepayers.

12.0 Conclusion

75. The Ontario electricity distribution industry is on the cusp of significant and transformative change. The Board is aware of the scope and breadth of change that awaits the industry and is taking proactive steps to remove obstacles preventing distributors from addressing the many changes. By way of this application, Hydro Ottawa seeks financial and operational flexibility to eliminate its LTLT arrangements when network expansion occasioned by area development warrants it. As illustrated above, this application is motivated by a number of recent developments including the OEB's RRFE and the recent release of the Distribution Sector Review Panel's Report both of which focus on the need to find economic efficiencies in the construction and management of distribution utilities. This application is further motivated by the long term economic impact to all stakeholders which clearly weighs in favour of maintaining

the status quo. Finally, this application is motivated by the need to revisit the conditions that once gave rise to the need for an LTLT elimination policy.

76. As illustrated above, of the three options available to Hydro Ottawa for eliminating its LTLT arrangements, none represents the least cost or least disruptive solution for Hydro Ottawa's customers, nor do they result in long term benefit to stakeholders. Conversely, maintaining the status quo until conditions warrant otherwise, has no expected impact on customer service, safety or service reliability that Hydro Ottawa customers have come to expect and enjoy.

77. For all the reasons articulated above, Hydro Ottawa respectfully seeks an exemption from the policy set out in section 6.5.4 of the DSC requiring that it eliminate 40 LTLT arrangements by June 30, 2014.