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**BY E-MAIL**

June 24, 2013

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Submission  
Application by Hydro Ottawa Limited for a Licence Amendment (Exemption  
from Section 6.5.4 of the Distribution System Code)  
Board File Number EB-2013-0072**

In accordance with Procedural Order No.1, please find attached Board staff's submission respecting the above referenced application.

Yours truly,

*Original signed by*

Gona Jaff  
Project Advisor, Applications and Regulatory Audit

Attachment



**ONTARIO ENERGY BOARD**

**STAFF SUBMISSION**

**HYDRO OTTAWA LIMITED**

**APPLICATION FOR  
LICENCE AMENDMENT**

**(EXEMPTION FROM SECTION 6.5.4 OF THE DISTRIBUTION SYSTEM CODE)**

**EB-2013-0072**

**June 24, 2013**

## INTRODUCTION

Hydro Ottawa Limited (“Hydro Ottawa”) filed with the Ontario Energy Board (the “Board”) an application under section 74 of the *Ontario Energy Board Act, 1998*. The application seeks an amendment to Hydro Ottawa’s electricity distribution licence to reflect an exemption from the requirements to eliminate long term load transfer (“LTLT”) arrangements in relation to 40 customers.

LTLTs occur when a customer is located in the licensed service area of one electricity distributor (the “geographic distributor”) but physically connected to another electricity distributor’s distribution system (the “physical distributor”). Under the LTLT arrangement, the LTLT customer is billed by the geographic distributor and pays the geographic distributor’s electricity distribution rates which may be higher or lower than the physical distributor’s electricity distribution rates. Section 6.5.4 of the Board’s Distribution System Code (the “DSC”) requires that by June 30, 2014, a geographic distributor that serves an LTLT customer to either physically connect the customer or negotiate with the physical distributor and permanently transfer service to the physical distributor.

In its application, Hydro Ottawa is seeking an exemption from the LTLT elimination provisions in order to maintain its LTLT arrangements with Hydro One Networks Inc. (“Hydro One”) with respect to 40 customers. The subject customers are located within Hydro Ottawa’s service area but are physically served by Hydro One’s distribution system. They are being charged Hydro Ottawa’s approved distribution rates which are presently lower than Hydro One’s distribution rates. According to the application, it is not economically efficient for Hydro Ottawa to expand its distribution system to connect the subject customers and transferring the customers to Hydro One will result in a significant rate increase for the subject customers. Hydro One supports Hydro Ottawa’s application.

The Board issued its Notice of Application and Hearing (the “Notice”) on April 19, 2013 in which Hydro One was deemed to be an intervenor in this proceeding. On May 21, 2013, the Board issued Procedural Order No. 1 which made provision for interrogatories (“IRs”) and submissions by Board staff and Hydro One. Board staff filed IRs on May 31, 2013 and responses were filed by Hydro Ottawa on June 10, 2013.

Board staff is filing this submission pursuant to Procedural Order No 1. Board staff’s submission will provide a brief overview of the Board’s LTLT elimination policy and will highlight some of the issues that, in Board staff’s view, are relevant to the Board’s determination of Hydro Ottawa’s application.

## THE BOARD'S LTLT ELIMINATION POLICY

Section 6.5.4 of the DSC requires geographic distributors to eliminate their LTLT arrangements by June 30, 2014 and sets some related reporting requirements. Section 6.5.4 of the DSC, in part, states:

During the period between May 1, 2002 and June 30, 2014, a geographic distributor that services a load transfer customer shall either:

- a. negotiate with a 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, in Ontario, electricity distributors' service areas were fixed through legislation on the basis of municipal boundaries. They had exclusive service territories in which they were obligated to provide electricity. LTLTs were often used to manage service area boundary issues. Specifically, where new customers were not located near the distribution system of their franchise electricity distributor, the franchise electricity distributor would enter into an LTLT arrangement with a neighboring electricity distributor to provide physical supply to the franchise customers.

In 2002, the Board established its policy on the elimination of LTLTs. The policy was established as a result of the "commercialisation of the distribution sector and the concomitant discontinuation of the use of municipal boundaries as demarcation identifiers of distribution franchise service areas"<sup>1</sup>. The original elimination date was May 1, 2007 which was extended to January 31, 2009<sup>2</sup> and then further extended to June 30, 2014<sup>3</sup>.

Presently, the electricity distribution licence of an electricity distributor specifies the area in which the electricity distributor is authorized to distribute electricity. In addition, the licensed electricity distributor cannot claim any right of exclusivity in their service area<sup>4</sup>. The service area of an electricity distributor can be amended by the Board if the Board finds it to be in the public interest. This regime provides for flexibility in the management of distribution service areas that was not previously available and was often managed by LTLTs.

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<sup>1</sup> Board Decision in EB-2007-0017 and EB-2007-0957

<sup>2</sup> Refer to the Board's Notice of Proposal to Amend a Code (EB-2007-0005) for background information.

<sup>3</sup> Refer to the Board's Notice of Proposal to Amend a Code (EB-2009-0095) for background information.

<sup>4</sup> Section 70(6) of the *Ontario Energy Board Act, 1998*

## **HYDRO OTTAWA'S EFFORTS TO COMPLY WITH SECTION 6.5.4 OF THE DSC**

Hydro Ottawa is not requesting an exemption from the LTLT elimination provisions for all of its LTLT arrangements. In fact, Board staff notes that the majority of Hydro Ottawa's LTLT arrangements has been eliminated or will be eliminated. Specifically, according to the evidence, of its 289 LTLT arrangements, Hydro Ottawa has eliminated 211 (73%) and is in the process of eliminating another 38 (13%).

With respect to the remaining 40 LTLT arrangements that are the subject of this application, Board staff notes that Hydro Ottawa has considered the option of expanding its distribution system to connect the customers. In response to Board staff IR No. 5.1, Hydro Ottawa stated that the average cost to connect these 40 customers is approximately \$62,000 per customer. Board staff agrees with Hydro Ottawa that it does not seem reasonable or cost effective for Hydro Ottawa to incur these significant capital costs to connect the subject customers.

## **TRANSFERRING THE 40 CUSTOMERS TO HYDRO ONE**

Another option available to Hydro Ottawa to eliminate the 40 LTLT arrangements is to negotiate to have Hydro One take over responsibility for providing distribution services to the customers directly. Exercising this option necessitates an application to the Board to amend the licensed distribution service areas of both distributors.

Hydro Ottawa states that transferring the 40 customers to Hydro One "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". Hydro Ottawa provided evidence showing the potential bill impact as follows:

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.

In its IR No. 2, Board staff asked Hydro Ottawa to provide impact on the distribution portion of the subject customers' bills if they were transferred to Hydro One. The requested information was not provided. However, given that the distribution portion is typically in the range of one-quarter to one-third of the total bill, it is clear to Board staff that the percentage

increase on the distribution portion of the bill will be considerably higher than the percentage increase provided for the total bill.

Board staff submits that transferring the customers to Hydro One would eliminate the LTLT arrangements and would avoid duplication of assets and unnecessary expenditures by Hydro Ottawa. Board staff recognizes that if transferred to Hydro One, the subject customers will experience a significant rate increase which in Board staff's view is an important factor to be considered. Nevertheless, Board staff submits that the issue of rate impacts resulting from customer transfers is not unique to this case. That is to say, eliminating LTLTs by way of service area amendments (i.e. transferring customers to the physical distributor) in any case can result in either benefit or cost to a particular consumer. Given that the outcome of denying Hydro Ottawa's request is likely a service area amendment proceeding, and the Board generally considers rate impacts as part of these proceedings, Board staff submits that the magnitude of the rate impacts is something the Board should consider in determining Hydro Ottawa's exemption request.

## **TEMPORARY EXEMPTION**

Board staff is of the view that potential consolidations in the electricity distribution sector could affect LTLT elimination requirements. Board staff understands that Hydro Ottawa is not seeking a temporary exemption from compliance with the LTLT elimination provisions in relation to its remaining 40 LTLT customers. Given the circumstances of this case, however, and the potential for future consolidations in the electricity distribution sector, Board staff submits that a five-year temporary exemption is reasonable and is an approach that the Board should consider.

In summary, Board staff submits that:

- Hydro Ottawa has eliminated the majority of its LTLT arrangements.
- It is neither reasonable nor cost effective for Hydro Ottawa to incur significant capital costs to connect the subject customers.
- Transferring the customers to Hydro One would eliminate the LTLT arrangements and would avoid duplication of assets and unnecessary expenditures by Hydro Ottawa. The evidence indicates, however, that such a transfer will result in a significant rate increase for the subject customers.
- A five-year temporary exemption is reasonable and is an approach the Board should consider in light of potential consolidations in the electricity sector.

All of which is respectfully submitted.