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August 22, 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: Hydro Ottawa Limited Motion to Review Ontario Energy Board  
August 2, 2013 Decision - EB-2013-0072**

1. Attached please find a motion brought by Hydro Ottawa to review the Board's decision dated August 2, 2013 denying Hydro Ottawa's application seeking an exemption from the provisions set out in section 6.5.4 of the Distribution Service Code. As reflected in the motion, Hydro Ottawa asks that the Board establish a procedure by which the motion can be heard and disposed of on an expedited basis through written submissions.
2. A copy of Hydro Ottawa's Motion to Review is being provided directly to Hydro One.

Respectfully,

A handwritten signature in black ink, appearing to read "Patrick Hoey", written over a faint, stylized line drawing of a signature.

Patrick Hoey  
Director, Regulatory Affairs  
Hydro Ottawa Limited.

c.c Gona Jaff – Ontario Energy Board  
Andrew Skalski – Hydro One  
Pamela Jones – Hydro Ottawa Limited

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application  
pursuant to section 74 of the *Ontario Energy Board Act 1998*  
by Hydro Ottawa Limited for an order to amend its electricity  
distribution licence (ED-2002-0556)

**AND IN THE MATTER OF** the Board's Decision  
and Order dated August 2, 2013 (EB-2013-0072)

**Motion to Review and Vary OEB Decision and Order  
Dated August 2, 2013 (EB-2013-0072)**

Pursuant to section 44.01 of the Ontario Energy Board (hereinafter "the OEB" or "the Board")'s Rules of Practice and Procedure, Hydro Ottawa Limited (hereinafter "Hydro Ottawa") hereby files a Motion seeking a Review and Variance of the Board's decision rendered August 2, 2013 denying Hydro Ottawa's application for an exemption from the requirement to comply with Section 6.5.4 of the Distribution Service Code (DSC).

**Proposed Method of Hearing:**

Hydro Ottawa proposes that the Motion be heard by way of written submissions.

**The Motion is for:**

1. A review by the Board of its decision to deny Hydro Ottawa an exemption from the obligation to comply with section 6.5.4 of the DSC in light of the new facts presented in this motion.
2. An order that this motion be heard and disposed of on an expedited basis.
3. Such further relief as the Board deems just.

**The Grounds for Motion are:**

**Overview**

1. On page 6 of its Decision, the Board stated that "Dealing with the issue of cross subsidization remains an objective of the Board and granting the requested relief would not be consistent with this objective." In addition, the Board stated on page 5 of its Decision "the policy addressees the recognition that LTLTs can give rise to cross subsidization between customers. Customers

being serviced under the terms of the LTLTs that are paying less than other similar customers who are not being served under the terms of an LTLT agreement are being subsidized.”<sup>1</sup>

### **Hydro One Intra-Company Cross Subsidization**

2. Hydro One does not experience any intra-company cross subsidization with regards to the 40 affected LTLT customers because Hydro Ottawa pays Hydro One the appropriate rates for the services provided to the 40 affected customers. Hydro One is therefore kept whole. Hydro One effectively charges these customers the same rates as similar customers on the Hydro One system. To be clear, the other Hydro One customers’ rates will not change regardless of whether these 40 LTLT customers are either Hydro One customers or Hydro Ottawa customers.
3. Hydro One customers paying less (or more) than their neighbours who are similar but are Hydro Ottawa customers is not cross-subsidization. Each customer, whether served by Hydro One or Hydro Ottawa is paying the appropriate distribution rates for their distributor.

### **Hydro Ottawa Intra-Company Cross Subsidization**

4. Hydro Ottawa experiences intra-company cross-subsidization as a general rule given the postage stamp rate design methodology employed by the Board. Within each rate class, if Hydro Ottawa has spent more than the average cost to serve a customer, then those customers who have received this service are being cross-subsidized by those customers who are at the average costs or below the average cost to serve.
5. Specifically with respect to the OEB’s LTLT elimination policy, Hydro Ottawa and every other electric utility in Ontario are effectively allowed to cross subsidize those customers who had LTLT arrangements eliminated by “expanding the geographic distributor’s distribution system to connect the load transfer customer and service that customer directly”.<sup>2</sup> This occurred because the additional costs spent by utilities to expand the system out to these customers does not result in any additional revenues from these customers (since they already were customers paying full rates) yet the additional costs were recovered through revenue requirement. Therefore, any LTLT customers eliminated through the geographic distributor’s expansion of its network are being cross-subsidized by all other customers.
6. An alternative method to eliminate the LTLT arrangement would have the geographical distributor acquire the full distribution network serving the LTLT arrangements from the physical distributor. Again, the affected LTLT customers would be cross subsidized by all other ratepayers because the acquisition would not result in any additional revenues from these

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<sup>1</sup> Page 5 of OEB Decision and Order in the proceeding EB-2013-0072

<sup>2</sup> Section 6.5.4 of the DSC.

customers (since they already were customers paying full rates) yet the additional costs were recovered through revenue requirement. Therefore, any LTLT customers eliminated through acquisition of the physical distributor's assets are being cross-subsidized by all other customers.

7. Therefore the only solution offered by the OEB's DSC for eliminating LTLT arrangements that does not result in any "intra-company" cross subsidization for the geographic distributor would be for the geographical distributor to transfer the customers to the physical distributor.

#### **Grounds for Motion: New Facts**

1. On page 5 of the Board's Decision, the Board states that "Hydro Ottawa pay Hydro One based on Hydro One's approved distribution rates, the difference between the amount paid by Hydro Ottawa and the amount collected is recovered from all Hydro Ottawa customers."<sup>3</sup>
2. The evidence provided by Hydro Ottawa was that there was an annual differential of approximately \$21,000 between the amounts collected from the 40 affected Hydro Ottawa's customers through its rates and the amount paid to Hydro One for the services provided to those 40 customers. In fact, the approximate \$21,000 is *de minimis* and will not cause rates for the remaining approximate 305,000 Hydro Ottawa customers to be changed. In order to affect the rates of Hydro Ottawa's 305,000 ratepayers, the annual difference in the revenue requirement would have to exceed \$140,000. Put another way, the differential of approximately \$21,000 does exist; however, transferring the 40 affected customers to Hydro One will not affect rates for the other 305,000 customers of Hydro Ottawa. Hydro Ottawa believes that this is unique to Hydro Ottawa because the *de minimis* amount for the rate differential (of approximately \$21,000) versus its large total revenue requirement of approximately \$160 million.
3. Given these new facts, Hydro Ottawa respectfully submits that the public interest is not served by denying Hydro Ottawa its requested exemption and *de facto* mandating the transfer of Hydro Ottawa's 40 LTLT customers to Hydro One with its attendant bill impacts. Hydro Ottawa submits that its application seeking an exemption from compliance is in the public interest since, with these new facts, its application and request would represent a "Pareto Optimal" solution. The 40 affected customers would be better off (given the lower rates and total bills through Hydro Ottawa versus Hydro One) by remaining as Hydro Ottawa customers while at the same time, all other Hydro Ottawa customers would be no worse off since their rates are unaffected by the arrangement between Hydro Ottawa and Hydro One.

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<sup>3</sup> Page 5 of OEB Decision EB-2013-0072

## **Conclusion**

4. In its March 18, 2013 application seeking an exemption from the application of section 6.5.4 of the DSC, Hydro Ottawa demonstrated that its proposal was economically efficient, was the least impacting on both distributors and their customers and that the public interest would be served. Hydro Ottawa's was motivated by maintaining its long standing reputation of maintaining compliance with the OEB's regulations while engaging in prudent long term business planning.
5. Hydro Ottawa maintains its position that its proposal to maintain the status quo treatment of its remaining 40 LTLT arrangements results in the least cost least disruptive solution. Given the new facts that there are no rate impacts on the other approximate 305,000 Hydro Ottawa customers, Hydro Ottawa maintains that its request for an exemption represents a "Pareto Optimal" solution that is in the public interest and seeks the indulgence of the Board to reconsider its Decision of August 2, 2013.