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May 5, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, Suite 2700
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Re: OEB File # EB-2014-0138
Review of the Board's Policies and Processes to Facilitate Electricity Distributor Efficiency:
Service Area Amendments and Rate-Making Associated with Distributor Consolidation

Purpose

The purpose of this correspondence is to respond to the Board's "Invitation to Comment" on the above-noted file.

Specifically, through this correspondence Woodstock Hydro Services Inc. (Woodstock Hydro) intends to comment on Section B – ***Service Area Amendments (SAAs)***, and in particular Stakeholder Question ii – ***facilitation of SAAs that result in alignment with municipal boundaries***.

Woodstock Hydro is fully supportive of the Board's *RRFE* initiative and its underlying principles of customer focus, operational effectiveness, public policy responsiveness and financial performance.

Woodstock Hydro agrees with the statements of certain participating distributors who commented as stakeholders that "an approach that would allow for rationalization at or near boundaries, either municipal or service areas, could improve the efficient use of distribution assets" (March 31, 2014 OEB Staff Discussion Paper, p. 8).

EB-2014-0138 SAA-Related Questions

With respect to SAAs, the March 31, 2014 OEB Staff Discussion Paper poses the following questions:

1. *Should the Board's SAA policy facilitate SAAs that have the effect of aligning a distributor's service area with municipal planning boundaries?*
2. *If so, in what way?*
3. *What are the benefits and risks of such an approach for Incumbent Distributors, Applicant Distributors and their respective ratepayers?*
4. *What role should municipal planning, community energy plans and regional planning have in the SAA process?*

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Woodstock Hydro Response

1. ***Should the Board's SAA policy facilitate SAAs that have the effect of aligning a distributor's service area with municipal planning boundaries?***

   Yes.

   The March 31, 2014 OEB Staff Discussion Paper discusses a circumstance where there is a "proposed connection lying adjacent to an isolated pocket of distribution customers served by the Incumbent Distributor, but … contiguous to a dense, highly developed distribution system operated by another distributor" (p. 6). Board staff commentary further states: "inefficient historical connections should not serve as support for new proposals" (p. 6).

   In the March 31, 2014 OEB Staff Discussion Paper, Board staff further suggest that "an SAA that involves contiguous distributors but that is opposed by the Incumbent Distributor may nonetheless be in the public interest where the SAA results in the most effective use of existing distribution infrastructure and a lower incremental cost of connection for the customer or group of customers".

   While these philosophical concepts may be a true statement, in reality there is presently **no mechanism** to force an unwilling Incumbent Distributor to "come to the table" and negotiate an SAA due to it being in the public interest, nor any forum whereby an Applicant Distributor could prove that they should be so forced.

   In at least two historical instances, Woodstock Hydro has been unsuccessful in negotiating an SAA with the Incumbent Distributor, in circumstances where, in our opinion, the SAA would have been beneficial to the ratepayers using principles that take into consideration a larger set of criteria.

   Therefore, the SAA process must be revised so that this type of application is independently and thoroughly evaluated.

2. ***If so, in what way?***

   It is reasonable to expect that the contiguous Incumbent Distributor will be resistant to the loss of assets and customers and will be an unwilling participant in negotiations. Should they be willing to negotiate at all, the Incumbent Distributor may command an exorbitant and unreasonable purchase price for the asset-transfer. Therefore, the Ontario Energy Board must be the arbiter of a forced SAA that is determined to be in the public interest.

   It is our contention that the Ontario Energy Board should implement a structured process whereby the merits of an asset transfer between the Incumbent and Applicant Distributor would be weighed by the Board through a hearing process that assesses not only economic efficiency, but also distribution rates, reliability and customer preference for the area in question prior to the issuance of a verdict as to the future Distributor. The Board would rule on the future Distributor and would also confirm the fair-market-value purchase price for the assets in question according to a pre-determined formula.

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Economic Efficiency

Clearly, it is important to ensure that the future Distributor will be able to construct and maintain the distribution assets in the acquired area and service the customers in an efficient manner at a reasonable cost. The March 31, 2014 OEB Staff Discussion Paper states,"economic efficiency is a primary consideration in assessing an SAA application". We contend that this should be ***a*** factor, but should not be considered as a **primary** or sole consideration. The factors described below must be part of the assessment and approval process.

Rates

The SAA approval process should evaluate the approved rates of the Incumbent and Applicant Distributor (existing and proposed in light of the transaction), in order to determine the rate impact for each class of customer affected by the SAA. To the extent that the Applicant Distributor can offer lower rates to the affected ratepayer, this is an important consideration.

Reliability

Service quality and system reliability metrics for both the Incumbent and Applicant Distributor must also be considered when the OEB is assessing an SAA. A lower result indicates that customer enjoyment of electricity service is interrupted less frequently, and for shorter durations (typically reflective of faster response time or a more resilient system). From the ratepayers' perspective, reliability (both response time and frequency) are very important considerations over the long term. While there may be incremental costs to connect the affected area that are short-term barriers, the cost may be "worth it" to the ratepayers in exchange for higher reliability over the long term.

Customer Preference

A renewed, balanced scorecard approach to SAAs would further benefit from taking into consideration customer preference. In the case of expansion to municipal boundaries, it is likely that the following types of comments would be received from affected customers:

1. Consistency of value-added customer service to local economic development officials in their pursuit of industry relocation. Further, all assessments of local and regional electrical needs would inherently reflect an understanding of the 'pulse' of the local business community.
2. Working exclusively with one distributor allows for consistency for developers.
3. The LDC exhibits a strong community profile and has strong ties with local government.
4. The LDC provides a local, coherent leadership position with respect to conservation and demand reduction and these activities are desired by community leaders for customers in the targeted area.
5. Conservation targets and benchmarks could be articulated and tracked by the LDC for the entire municipality, allowing for shared targets with municipal leaders.
6. Load forecasts could be articulated for the entire municipality, allowing for shared targets with municipal leaders.

In a scenario where the Incumbent Distributor would sell the targeted assets within an expanded municipality to the Applicant Distributor at a determined fair-market value, there would need to be an appropriate assessment of the overall impact of the transaction on the Incumbent Distributor. Both materiality and the no-harm test for the remaining customers within the affected rate class of the Incumbent Distributor should be considered. For example, would the loss of customers create harm to the remaining customers within that rate class of the Incumbent Distributor? From a cost allocation perspective, what impact would the loss of customers have on all remaining customers of the Incumbent Distributor?

3. ***What are the benefits and risks of such an approach for Incumbent Distributors, Applicant Distributors and their respective ratepayers?***

Incumbent Distributor Risks

A prudent transaction, efficiently executed within a clearly defined/streamlined regulatory process for SAAs should pose little or no risk to the Incumbent Distributor. In the majority of anticipated cases, any near-term losses ensuing from a loss of customers would be mitigated by the proceeds of the sale and managed in the longer-term through rate applications.

While risks are an important consideration, Woodstock Hydro concurs with this statement originally put forth by the Board in 2004:

> *However, while recognizing certain disadvantages faced by Hydro One in its efforts to attract customers, these circumstances cannot be permitted to compromise the optimized growth of the system as a whole in the areas where most growth actually occurs - that is in the areas within and contiguous to existing urbanized zones currently served by well developed electricity distribution systems.*

Incumbent Distributor Benefits

The cost to service locations that are potentially geographically distant from the closest service centre would be eliminated. An SAA may also enable the Incumbent Distributor to redirect its resources to other service areas that may require more attention. Incremental OM&A and future capital replacements for assets would be eliminated for the Incumbent Distributor, thus further increasing efficiencies.

Applicant Distributor Risks

A prudent transaction, efficiently executed should pose little or no risk to the Applicant Distributor. A clearly defined and streamlined regulatory process for SAAs would mitigate the risk of delays or complications which could introduce increased cost to the Applicant and the Incumbent with little or no added value to the affected customers.

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Applicant Distributor Benefits

Where SAA policy would open the door for the Applicant Distributor to service all customers within the municipal or regional boundary, a clear and undeniable benefit in being able to consistently serve the **entire** municipality is possible. Customer confusion over who their electricity service provider is would be eliminated. Developers and local contractors will enjoy clarity and consistency in working with one utility within the municipal service territory.

Without an SAA process, there is the potential that two distributors must each build up its infrastructure on their respective sides, along with appropriate redundancy of supply. The Incumbent Distributor may need to introduce more capital infrastructure than would otherwise be necessary in the broader service territory to ensure redundancy of supply and resiliency. Equally, the Applicant Distributor must do the same thing "on their side". In the meanwhile, the ratepayers on opposite sides of the street in what appears now to be the middle of the municipality are serviced by different trucks, wait a longer or shorter period of time for power to be restored during an outage, and pay different rates for the same electricity and the same service. It is akin to two garbage trucks going up and down the same road. It is impossible to imagine a scenario where this is efficient.

From the perspective of utility benchmarking and the driver behind this initiative – namely the RRFE and achieving efficiency and economies of scale within the sector, modest incremental additions of distribution assets and the associated new service work (metering, distribution, billing and customer service) can often be handled with no impact on headcount. This would result in a reduction to OM&A costs per customer, a key metric in the sector. SAAs are one of the few ways that an LDC which has reached its current borders can grow to become more efficient.

Ratepayer Benefits

The benefits for the ratepayers are clear, particularly if the rigours of the SAA process are applied – as long as the Applicant Distributor can prove that rates and reliability are either the same or better, then the ratepayer in the affected area is the clear beneficiary.

In the case of Applicant Distributors whose shares are wholly-owned by a municipal Shareholder, the ability to expand to municipal borders has the benefit of being able to consistently service ALL of the Shareholder's ratepayers. This eliminates confusion relating to service provider for the residents of the municipality.

It is our contention that a narrow assessment of the impact on the other ratepayers within the Applicant Distributor's service territory from the perspective of near-term incremental costs to connect is inappropriate. In a municipal context, for example, the ability of the municipality to offer and, more importantly, influence, reliability, rates, customer service, responsiveness, etc. through their direct control over the Distributor is compelling and attractive. Ratepayers across the service territory benefit from the creation of attractive land parcels in expansion areas that bring new customers (of all classes) to the area. It is more appropriate to ensure that there is a reasonableness check when assessing economic efficiency.

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Ratepayer Risks

A prudent transaction, efficiently executed should pose little or no risk to the ratepayer. The regulatory approval process as recommended above should take into consideration all of the factors for the affected ratepayer. While there may be differences in rates or reliability, the prudence review would ensure that any negative impact would be offset by positives in other areas. For example, if the transaction was approved but rates would be higher as a result, it would be due to the fact that customer preference or overall system reliability was a key driver for the SAA being approved by the Board.

4. ***What role should municipal planning, community energy plans and regional planning have in the SAA process?***

The regional planning process should espouse and embrace the notion that existing LDCs will be the de-facto distributor for the municipality that they currently serve. As municipalities grow, the LDC will grow as well. This should allow for logical rationalization with respect to long-term planning with respect to transmission as well as distributed generation.

Community Energy Plans, Conservation targets, load forecasts, locate services, economic development, community initiatives, etc. would now service and include the entire community.

Municipal planners would be in a position to more effectively liaise and engage with the local distribution company, secure in the knowledge that they are growing together.

In conclusion, we strongly encourage the Board to consider the advantages of making amendments to the Board's SAA policy that would improve the opportunities for Applicant Distributors to purchase assets from the Incumbent Distributor where such a purchase would align the Applicant's service area with municipal planning boundaries. We believe that this move would create immediate opportunity for increased efficiency and performance in the sector and increased focus on the best interests of the customer.

Sincerely,

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cc: Patricia Eitel, Manager of Accounting & Regulatory Affairs, Woodstock Hydro Services Inc.