March 6, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

**via RESS and email**

Dear Ms. Walli:

**RE: EB-2015-0006 Proposed Amendments to the Distribution System Code: Elimination of Load Transfer Arrangements between Electricity Distributors**

On February 20, 2015 the Ontario Energy Board (the "Board" or "OEB") issued its Proposed Amendments to the Distribution System Code ("DSC") relating to the elimination of the remaining Long Term Load Transfer ("LTLT") arrangements between electricity distributors ("the Proposed Amendments").

This is the submission of the Group of Distributors ("the Group")[1] regarding the Proposed Amendments. The submission has been filed via the Board's web portal and two (2) requisite paper copies have been couriered to the Board.

## General Comments

The Group appreciates the opportunity to provide feedback to the Board on its Proposed Amendments to the DSC. In principle, the Group supports the Board's Proposed Amendments to the DSC, but foresees complications that could arise upon implementation that may produce unintended consequences. These unintended consequences relate primarily to: asset ownership; customer service and satisfaction; and administration. Accordingly, the Group strongly recommends that the Board holds either a day-long workshop or organizes a working group to address the issues raised as a result of the Proposed Amendments. Such a working group should consist of a broad range of affected stakeholders, including various electricity distributors (members of the Group would be pleased to attend), Hydro One Networks Inc., that has the greatest amount of LTLT arrangements, and relevant rate payer groups.

## LTLTs – Current Situation

LTLTs and embedded supply points are tools used by geographic and physical distributors to serve customers in a least cost and least disruptive manner. LTLT arrangements are a market solution motivated by economic prudence and convenience that was popularized during amalgamation.

[1] The Group is comprised of the following electricity Local Distribution Companies : Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., and Veridian Connections Inc.

Service territories change through: mergers and acquisitions; municipal boundary changes, and as new customer growth occurs along the boundaries between electricity distributors. The cost effectiveness and flexibility of LTLT arrangements will continue to represent the most economically efficient way to serve certain customers. The Group submits that LTLT solutions must continue as they are in the best interest of electricity customers in Ontario.

Indeed, the Board has supported the continuation of the unmetered embedded supply point arrangements that exist between the gas utilities. The continuation of these arrangements between the gas utilities represents the most economically efficient way to serve certain customers. The Group is perplexed by the asymmetrical regulatory treatment between electricity distributors and natural gas distributors.

Distributors have been working diligently to eliminate LTLTs in their service areas by either connecting customers as it becomes cost-effective to do so, or by applying to the Board for a Service Area Amendment ("SAA") to transfer these customers and the associated territory to the physical distributor. The CLD, of which members of the Group are a part, filed comments in response to the *Review of the Board's Policies and Processes to Facilitate Electricity Distributor Efficiency: Service Area Amendments and Rate-Making Associated with Distributor Consolidation (EB-*2014-0138) as follows:

> *"The CLD suggest that existing LTLT arrangements be permitted to remain if both the physical and geographic distributor together certify to the Board their acceptance and confirmation of the arrangement as being in the best interest of the end-use customer(s). In situations where such joint certification is not provided, the Board should consider the facts of each LTLT arrangement individually, and render decisions to these existing arrangements on a case-by-case basis."*

The Group supports the status quo treatment of LTLT arrangements where they are the least cost and least disruptive arrangement for the end customer. The Group respectfully disagrees with the moratorium on any new LTLT arrangements, as proposed in section 6.5.6 of the Proposed Amendments. These Proposed Amendments contradict the Board's focus on ensuring the development of an economically efficient distribution system.

Further consultation should be held on this issue; the Board should allow the LTLTs to continue under the current arrangement until such consultation has been completed. LTLT policy should not be made in haste; policy oversights may lead to potentially significant practical issues related to: asset ownership; customer service and satisfaction; and administration that are difficult to resolve.

**Proposed Amendments**

The proposed amendment to section 6.5.3 of the DSC states:

> *Where the elimination of the load transfer arrangement, by transferring the load transfer customer(s) to the physical distributor, will result in the load transfer customer(s) paying lower distribution charges the load transfer customer(s) shall be transferred to the physical distributor by* ***[insert date of six months after coming into force of amendments]****. The geographic distributor shall apply to the Board for a service area amendment to the necessary licence(s) to effect the transfer.*

The Group supports the proposed amendment to section 6.5.3, in principle. The Board's amendment aligns with the Group's preference for solutions that result in the least cost and least disruption for customers; it is consistent with one of the methods used by Group members to eliminate their LTLTs. The Group submits, however, that the six month time period included in amendment 6.5.3 is very short and is potentially unachievable, particularly for those distributors that have a number of SAAs to file. The Group recommends that an implementation timeline of one year be provided to achieve this, assuming that the Board creates a streamlined process for the administration of such applications. Further, the issue of asset ownership/ asset transfer must be addressed in order to facilitate the intended outcome of this amendment.

The proposed amendment to section 6.5.4 of the DSC states:

> *Where the elimination of the load transfer arrangement will result in the load transfer customer(s) paying higher distribution charges if the load transfer customer(s) are transferred from the geographic distributor to the physical distributor, the load transfer customer(s) shall remain a customer of the geographic distributor until such time as the customer account changes. Once a new customer account is opened, the load transfer arrangement must be eliminated by transferring the new customer to the physical distributor. The geographic distributor shall apply to the Board for a service area amendment to the necessary licence(s) to effect the transfer.*

The Group understands the principle behind this Proposed Amendment, insofar as it protects existing customers from rate increases as a result of the elimination of LTLTs. However, the Proposed Amendment fails to recognize complications that may arise upon implementation, including issues related to: asset ownership; customer service and satisfaction; and administration.

<u>Asset Ownership</u>

LTLTs are predominantly situations in which the physical distributor directly connects to the meter at the end-use customer of the geographic distributor. In most cases, the physical distributor owns 100% of the connection assets except for the meter.

There are situations in which the physical distributor is connected to the assets of the geographic distributor, and not the end-use customer. This situation is similar to a host distributor serving an embedded distributor without a meter at the demarcation point between the distributor's assets. In these situations, it is unclear as to how the assets of the geographical distributor should be treated, in terms of both valuation and timing of asset transfer from the geographic distributor to the physical distributor, as contemplated whether under section 6.5.3 or section 6.5.4. For example, if the geographic distributor owns the distribution transformer and secondary lines serving their LTLT customers, the Group seeks clarity as to at which point these assets would be transferred from the geographic to the physical distributor.

The Group strongly urges the Board to create an industry working group to address these issues before implementing any of the Proposed Amendments to the DSC.

Customer Service and Satisfaction

The Group interprets the intent of the OEB's Proposed Amendment 6.5.4 to protect the current property owners from an immediate rate increase as a result of the elimination of the LTLT for as long as they own the property. Additionally, new owners will be a customer of the physical distributor and charged "higher distribution rates" from the outset; and as such not be subjected to a bill increase had they been transferred from the geographic distributor to the physical distributor sometime after taking possession of the property.

The wording in the Proposed Amendment 6.5.4 related to "customer account changes" can include several scenarios that do not involve a change in property ownership. "Customer account changes" may be the result of a property ownership change; however, it also includes scenarios such as: a name change for the account due to divorce or the death of a spouse.

Another issue occurs when there is a delay in the geographic distributor being advised of the purchase and sale of a property. The geographic distributor cannot apply to the OEB for a service area amendment to the necessary license(s) to effect the transfer until it is notified of the purchase and sale of the property. However, the geographic distributor may not be provided notice from the previous homeowners of the pending purchase and sale of a property and the new owners have already occupied the residence for some period of time (potentially a month after the transaction). Ultimately, the service area amendment has not yet been approved by the OEB; therefore neither the geographic nor the physical distributor will effect the change until the service area amendment has been approved by the OEB so as to not violate their respective distribution licenses. Finally the meter of the geographical distributor must be replaced by the meter of the physical distributor. There is a high probability that the new homeowner could receive a first month's bill from the geographic distributor prior to the approval of the service area amendment because the billing for each customer is tied to billing cycles that vary by the day of the month.

The issues identified in asset ownership and customer service for proposed amendment 6.5.4 are also issues that need to be dealt with under proposed amendment 6.5.3; however the difference is the timeframe to complete the transfer of customers seamlessly. Under section 6.5.3, it would appear to the Group that the expectation of the OEB's proposal is that the period to complete the sale of assets, complete the service area amendment process and switch the meter is six months (the Group proposes one year). Under section 6.5.4, although the number of customers involved could be small at any one time, it would appear to the Group that the expectation of the OEB's proposal is to complete the entire process within days so that the new owners are not aware that their hydro service has changed companies.

The Proposed Amendments result in a staggered transition from the geographic to the physical distributor, likely over a lengthy period of time which will lead to customer confusion and dissatisfaction. For example, a customer located within a group of residential LTLT customers moves and closes their account. The new home owner opens their account with the physical distributor. Two distributors will serve the same set of customers, thereby creating a situation in which the new customer, served by the physical distributor, pays higher distribution rates than the remaining customers served by the geographical distributor.

Administration

The Proposed Amendment to section 6.5.4 is administratively burdensome. The Proposed Amendment 6.5.4 will require distributors to track LTLT information for every impacted customer for an indefinite amount of time. It is possible that this process could continue for 50 years or longer since some properties may never change ownership. Monitoring this information for single customers for a prolonged period of time is an inefficient use of distributor resources.

Further, the proposal currently states that distributors must file a separate SAA application for each customer as they are transistioned. The administration burden of filing separate SAA applications for each individual customer is problematic not only for the distributor, but also for the Board who will need to review each of these applications whether for the transfer of a single customer or for groups of customers for the indefinite future. In the letter accompanying the Proposed Amendments, the Board states that approximately 3,500 customers in the province are still serviced by an LTLT arrangement. It is conceivable that the Board may receive as many as 1,750 individual SAA applications, if one assumes that half of those customers are in a situation where they are being served by a physical distributor who has distribution rates higher than that of the geographic distributor.

Other

The staggered transfer of customers from the physical distributor to the geographic distributor has the potential to create "islanded customers" where one or more properties become customers of the physical distributor but are serviced by assets and surrounded by customers of the geographical distributor.

The Group is also concerned with a possible situation where the geographic distributor's system has been built out far enough over time in a holistic manner, that it now becomes cost-efficient to connect some of its LTLT customers to its network. Midway through constructing a line to connect these customers, one of the customers move, thereby causing the property to be transferred to the physical distributor before the geographic distributor was able to connect that property to its network. At this point, if the geographic distributor continues to build out, it would create a situation where all but one of the customers are being served by the geographic distributor.

The proposed amendment to section 6.5.6 of the DSC states:

*A distributor shall not enter into any new load transfer arrangements.*

The Group does not support the inclusion of a moratorium on LTLT arrangements since there are circumstances where it is the least cost and least disruptive arrangement for the end-use customer.

**Conclusion**

The Group appreciates the opportunity to comment on the Proposed Amendments and strongly recommends that the Board establish a working group to address the number of issues related to the elimination of LTLT arrangements. If there are any questions or concerns, please do not hesitate to contact the undersigned.

Yours truly,

[*Original signed on behalf of the Group by]*

George Armstrong

Vice President, Corporate Services

Veridian Connections Inc.


| | |
|---|---|
| Indy J. Butany-DeSouza | Patrick J. Hoey |
| Horizon Utilities Corporation | Hydro Ottawa Limited |
| (905) 317-4765 | (613) 738-5499 X7472 |
| indy.butany@horizonutilities.com | patrickhoey@hydroottawa.com |
| Colin Macdonald | George Armstrong |
| PowerStream Inc. | Veridian Connections Inc. |
| (905) 532-4649 | (905) 427-9870 x2202 |
| colin.macdonald@powerstream.ca | garmstrong@veridian.on.ca |