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BY COURIER

March 6, 2015

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

Dear Ms. Walli:

EB-2015-0006 – Proposal to Amend Distribution System Code (DSC) – Hydro One Comments On Proposed Amendments to the DSC Pertaining to LTLT Elimination

In accordance with the Ontario Energy Board's Notice of Proposal to amend the Distribution System Code, issued on February 20, 2015, Hydro One provides the attached comments for the Board's consideration.

An electronic copy of the complete application, including the attached updates has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

EB-2015-0006
PROPOSED AMENDMENTS TO THE DISTRIBUTION SYSTEM CODE PERTAINING TO LONG TERM LOAD TRANSFERS

HYDRO ONE COMMENTS

Hydro One Networks Inc. (“Hydro One”) welcomes the opportunity to comment on the Ontario Energy Board’s (“Board’s”) proposed amendments to the Distribution System Code that aim to facilitate the elimination of the remaining long term load transfer (“LTLT”) arrangements between electricity distributors (“LDCs”).

With that in mind, Hydro One’s comments, provided below, are guided by the following objectives:

- The ability to impose the least possible disruption and inconvenience to affected customers.
- The need for a clear and mutual understanding of the proposed changes and processes by all parties, including the affected customers.
- The OEB’s desire to eliminate LTLT arrangements in a timely fashion.
- The utilization of Board-approved tools to ensure an LTLT elimination process which is as systematic and cost-effective for distributors as possible.

Hydro One has the following key recommendations:

1. All LTLT arrangements should be eliminated on the same timeline – regardless of physical distributor rates.

2. With respect to the proposed amendment to section 6.5.4, a rate mitigation plan should be offered for customers moving to higher distribution rates, consistent with the Electricity Distribution Rate Handbook.

3. To be consistent with the Board Policy of avoiding cross-subsidization for all customers, the Board should take this opportunity to require the elimination of all cases where distribution customers are served by one LDC’s assets but paying another LDC’s rates, including interval-metered customers that are supplied through a retail point of supply.

4. An efficient process should be developed that mitigates the cost to eliminate LTLTs and thus reduces the impact on LDC customers. As a result, the six-month timeline to eliminate LTLT arrangements under proposed section 6.5.3 should be re-evaluated because it does not allow enough time to complete the necessary assessments. Further, Hydro One recommends that distributors be provided an opportunity to provide input on the proposed streamlining process, then, based on that understanding the timeline for implementation can be set.

5. LTLT elimination activities should not hinder overall sector consolidation activities. As such, LTLT arrangements between distributors that are currently before the Board for MAAD approval, or have obtained MAAD approval, should be exempted from any LTLT elimination activities.

COMMENTS AND RECOMMENDATIONS ON PROPOSED AMENDMENTS

1) HYDRO ONE'S PROPOSAL TO ELIMINATE ALL LTLT ARRANGEMENTS AT THE SAME TIME

> *"Where the transfer of a load transfer customer to the physical distributor would result in an increase in distribution charges, the load transfer customer would remain a customer of the geographic distributor until there is a change in ownership of the account (e.g., the current customer closes the account and a new customer opens a new account). Upon such a change in account, the property associated with the account would need to be transferred to the physical distributor; i.e., there would need to be a service area amendment to transfer the property and the new customer to the physical distributor (proposed new section 6.5.4)"*[1].

The proposed amendment, as suggested, does not address the OEB's desire for the expedited elimination of cross-subsidization. Hydro One suggests that the proposed amendment actually prolongs the existence of the issue.

Waiting for a customer to move, or for a new account to be set up at a customer address, in order to eliminate LTLTs creates multiple issues for distributors. For example, Hydro One will be required to participate in over 1,000 site-specific Service Area Amendments ("SAAs") and, consequently, amend its distribution licence over 1,000 times over an unknown period of time.

[1] EB-2015-0006 – Notice of Proposal to Amend a Code – February 20, 2015 – Pg. 3

Determination of Account Change and Impact on Distributor's Processes

The proposed amendment for s. 6.5.4 states that "*…the load transfer customer(s) will remain a customer of the geographic distributor until such time as the customer account changes*"[2]. What constitutes a customer account change may be interpreted differently amongst LDCs. For instance, is a customer account change:

- a change in service requested and/or rate class,
- a change in principal account holder regardless of individual situations (e.g., tenants, divorced couples, deceased relatives, or simple primary account holder information changes), or
- a change in *property owner* (NB: this is not always synonymous with *customer account holder)?*

This type of customer information (that is, whether the property owner is the account holder, etc.) is outside the purview of a physical distributor and may even fall outside the line of sight of a geographic distributor. Furthermore, each distributor billing system may use a slightly different data model. It is evident that monitoring and acting on these situations can quickly become convoluted.

In addition, elimination of LTLTs under the proposed changes could potentially take several decades to complete, especially in rural areas of the province where it is not uncommon for a property to remain under the same ownership for a long period of time.

Administrative Burden

Using customer account changes as the 'trigger' for an account transfer will require geographic distributors to compile, monitor, and cross-reference LTLT customers in any move-in/move-out processes. This will be in addition to regular co-ordination efforts with physical distributors to eliminate LTLTs, such as receiving notification from lawyers and coordinating field staff to make necessary equipment changes at the premises. To add to the administrative burden, the Board may have to review these LTLT lists periodically to ensure that geographic distributors are complying with s.6.5.4, and, all the while, LTLT arrangements will continue.

The "Swiss Cheese" Effect

Over the decades it will take to completely eliminate LTLTs on a site-specific basis, boundary areas between LDCs will begin to take on a "Swiss cheese" effect, for example when an LTLT arrangement, through an account change, is eliminated and the customer is transferred to the physical distributor. That customer is now billed by that

[2] EB-2015-0006 - Notice of Proposal to Amend a Code – February 20, 2015 – Attachment A

distributor, but the remaining LTLT neighbours on both sides continue to be billed by the geographic distributor. This exacerbates the existing administrative issues for the two distributors that are the result of LTLT arrangements. Such arrangements will only increase customer confusion and annoyance.

2) HYDRO ONE'S PROPOSED RATE MITIGATION APPROACH

Hydro One can appreciate that the intent of the delay in migrating customers to "higher-priced" distributors is to mitigate rate shock. However, this delay contradicts previous Board decisions related to the principle of cross-subsidization where the Board has stated "*The Board's policy on the elimination of LTLT's is based on the principle of avoiding cross subsidization between customers. 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. The application of this principle of avoiding cross-subsidization is not triggered by the magnitude of the cross-subsidization. A higher quantum does not trigger the principle, nor does a de minimis amount justify not applying the principle"*[3].

In alignment with that decision, Hydro One supports fair and equitable treatment of all customers and as such, proposes that all LTLTs be eliminated at the same time, regardless of whether the affected customers will be paying higher or lower distribution charges.

In situations where the LTLT elimination results in a total bill impact greater than 10%, Hydro One proposes that the customer be eligible for a rate impact mitigation plan. Hydro One also proposes that the geographic distributor, whose rates are currently subsidizing the LTLT arrangement, fund the rate mitigation plan to transition these customers to the physical distributor and that the physical distributor will implement the mitigation plan.

For example upon transfer, the customers acquired by the physical distributor will be charged the physical distributor rates. However, the physical distributor will establish a credit to each transferred LTLT customer. The credit will be equivalent to one-half of one year's increase on the distribution charges of the bill based on the individual customer's previous 12 months' consumption and based on the rates in effect at the time the code amendments come into effect (e.g., if the impact on the distribution charges of the bill is $200 per year, the credit to the customer would be $100). This amount would be calculated by the physical distributor, agreed to by the former geographic distributor, and remitted from the geographic distributor to the physical distributor who would in turn reflect it as a bill adjustment on the customer's bill(s). The credit could be applied to the customer's account in equal installments over the course of one year's bills beginning with the first bill after the transfer is complete. Alternatively, the credit can be applied as a lump sum credit on the first bill after the transfer is complete.

[3] EB-2013-0308 – Decision and Order – October 10, 2013 – Pg. 5

This rate mitigation plan is consistent with the Board's Electricity Distribution Rate Handbook and consistent with previous Board decisions[4] where the Board ordered a similar simple rate impact mitigation plan.

Hydro One believes this approach is consistent with a previous Board decision and order that dealt specifically with LTLTs, where the Board stated *"Mitigating the cost burden on customers and providing them with time to arrange their budgeting to accommodate the new rates must be balanced with the need to limit cross-subsidies among customers and control the administrative costs (which are borne by customers) associated with the mitigation process"*[5].

Hydro One submits that the administrative costs anticipated from the proposed amendments, as well as the Board's objective of eliminating undesirable outcomes associated with load transfer arrangements (e.g., cross-subsidization), outweigh the cost burden on the customers that will be transitioned to their respective physical distributors. As such, Hydro One proposes that it would be fair to proceed with transitioning all LTLT customers to the physical distributor immediately, through a rate mitigation approach if necessary, instead of delaying the transition for an unforeseeable amount of time.

3) FAIR AND EQUITABLE TREATMENT FOR ALL CUSTOMERS SERVED

As detailed throughout these comments, Hydro One proposes that all LTLTs be eliminated to ensure fair and equitable treatment for all customers. As such Hydro One proposes moving forward with eliminating all LTLTs in Attachment 1 by transitioning customers to their appropriate physical distributor.

In alignment with the Board's proposed amendments, and for consistency purposes across all customers, if the proposed amendments come into force, in addition to eliminating these defined LTLT customers, Hydro One would undertake to review its connections with all LDCs, and, make applications to the Board to eliminate other situations where customers are being physically served by one LDC's assets but are paying the rates of another LDC because the customer resides in its geographic territory. Interval metered customers, supplied via a retail point of supply, are one example. Such customers are located geographically within the boundaries of one LDC (and are billed accordingly) but are physically served by another LDC. These situations are not formally captured as LTLTs, but similarly to LTLTs, these customers' billing differences are also settled between LDCs. They also create further forms of cross-subsidization in the same way as do the LTLTs. The Board's intent of eliminating these types of connections is evidenced by the Board's own SAA template, in section 7.3.8, where the Board specifically requests that an applicant "provide a description of any *existing load transfers or retail points of supply that will be*

[4] EB-2007-0917 & EB-2007-0947 – Decision and Order – July 25, 2008 – Pg. 9
[5] EB-2007-0917 & EB-2007-0947 – Decision and Order – July 25, 2008 – Pg. 9

eliminated"[6]. As such, in Hydro One's efforts to help the Board eliminate these situations and address the issue of cross-subsidization, Hydro One will also conduct a review of its interval metered customers supplied from a retail point of supply and, where appropriate, will request relief from the Board to amend its service area to reflect that Hydro One is physically serving these customers.

4) TIMING AND EFFORT RELATED TO THE IMPLEMENTATION OF S. 6.5.3 AND THE NEED FOR AN EFFICIENT ELIMINATION OF LTLTs

> *"Where the elimination of a load transfer arrangement would result in the load transfer customer receiving a reduction in distribution charges by transferring the load transfer customer to the physical distributor, the load transfer customer (i.e., the property associated with the load transfer customer) would need to be transferred to the existing physical distributor within six months of these amendments coming into force through a service area amendment licence application"*[7].

Hydro One's LTLT arrangements (outlined in Attachment 1) with other distributors involve nearly 3,100 customers, of which, nearly 2,000 would be affected by this rule. Hydro One agrees with the intent of the Board's proposed amendment, but views six months as an unreasonable amount of time to eliminate this many LTLTs with 47 different LDCs across the province.

There are benefits to an aggressive LTLT elimination schedule. For instance, such an approach eliminates the incentive for LDCs to pursue prospective greenfield expansion or 'build out' to serve future loads or avoid territory loss which can also lead to uneconomic development and should be discouraged by the Board.

However, a substantial amount of preliminary work is involved in the assessment and processing of an LTLT application. For instance, the establishment of LTLTs between utilities does not necessarily involve any formal consistent approach for individual connection nor is there any formal Board direction guiding the ownership of the connection assets. As a result, the types of assets used vary from one connection to the next. As a simple example, some connections of Hydro One's approximately 3,000 LTLT customers involve pole mounted transformers, while others do not. Therefore, a field verification of all the assets for potential sale or removal would need to be done before the transfer could be completed. Other incremental work to be conducted prior to customer transfer, include tasks such as:

- Assessing any assets that may need to be transferred,
- Preparing and verifying licence amendments including the development of any

[6] Ontario Energy Board Service Area Amendment Template – Section 7.3.8
[7] EB-2015-0006 – Notice of Proposal to Amend a Code – February 20, 2015 – Pg. 3

necessary mapping,
- Coordination between LDCs for purchase and sale agreements and subsequent field activities such as meter changes, and
- Communication strategies (and explanation of a complex issue) with the customer.
- Preparing and reviewing necessary filing documents for OEB approval

Together, these tasks, multiplied by the volume of expected LTLT elimination applications, will take considerable time and effort. The required resources, based on the Board's current proposal, is not included in Hydro One's current Distribution rates, nor incorporated into its proposed Distribution Rate Filing Application currently before the Board for 2015 through 2019 rates.

Consequently, Hydro One supports streamlining the processes involved in eliminating LTLTs so that it is as efficient as possible. Hydro One is in agreement with the Board that streamlining is required but submits that clarity and mutual understanding of the proposed streamlining process will be critical to a smooth process. Therefore, distributors should be allowed to comment on the proposed changes to the filing guidelines for service area amendments involving the elimination of LTLTs. Accordingly, the proposed amendments should only come into force once clarity on those filing guidelines has been achieved.

5) LTLT CUSTOMERS AFFECTED BY MAADs SHOULD BE EXEMPTED FROM LTLT ELIMINATION ACTIVITY

As stated earlier, Hydro One's LTLT arrangements with other distributors involve nearly 3,100 customers. Hydro One is the geographic distributor for nearly 2,000 LTLT customers ("Group A", for ease of reference) and the physical distributor for nearly 1,200 LTLT customers ("Group B").

According to the Board's proposed s.6.5.3, 155 LTLT customers within Group A should be transferred within a six-month timeline to physical distributors which now are either owned by Hydro One (and transitioning toward integration) or the subject of potential Hydro One acquisition via Mergers, Acquisitions and Asset Divestitures ("MAAD") applications under Board review. Another 112 LTLT customers (of Group B) which are physically served by Hydro One would be transferred to Hydro One under site-specific SAAs pursuant to the proposed s. 6.5.4, should their customer accounts change before the Board's decision on the pending acquisitions are issued.

Hydro One submits that, in these circumstances, the wisest course, from a customer perspective (as well as operationally and financially for distributors) would be to "grandfather" the current LTLT arrangements, until:

- in the case of a "live" application, a Board Decision is issued and
- in the case of an approved acquisition or merger, or the approval of the subsequent MAAD applications, the affected customers are integrated.

Hydro One submits that this approach would enable the systematic elimination of LTLTs under the MAADs process already underway and therefore wording to this effect should also be incorporated into the Board's proposed changes for the Distribution System Code. Otherwise, the affected customers may find themselves arbitrarily "transferred" twice, with accompanying billing and rate changes, leading to considerable confusion and complaints. This also allows the two distributors in the MAADs process to settle their operational and other matters in a reasonable, cost-effective manner.

CONCLUSIONS

Hydro One's recommendations are provided from the perspective that a consistent, equitable and systematic process for eliminating LTLTs is required. Refining the specifics of the changes and the proposed timeline would be time well-spent to ensure a process which is manageable for the LDCs and therefore, also customer-friendly.

Total Inbound and Outbound LTLT Customers by LDC

	Group A[1]	Group B[2]
LDC	Total Inbound	Total Outbound
Atikokan Hydro (TCA for Union Gas)	N/A	1
Bluewater Power Distribution Corp.	30	17
Brant County Power	107	27
Burlington Hydro	N/A	36
Cambridge & North Dumfries Hydro	17	28
Canadian Niagara Power	5	N/A
Centre Wellington	5	6
Collingwood Utilities Services Corp. (COLLUS)	5	1
ELK Energy Inc.	39	N/A
Entegrus (Chatham-Kent Energy)	48	20
Entegrus (Middlesex Power)	21	5
EnWin Utilities Ltd.	14	N/A
Erie Thames Power Lines (includes 3 inbound West Perth accts & 1 outbound West Perth acct)	57	7
Espanola Regional Hydro	20	9
Essex Power Corp.	38	13
Festival Hydro	20	19
Greater Sudbury Hydro	20	5
Haldimand County Hydro	125	N/A
Halton Hills Hydro	70	49
Hearst Power Distribution Co.	6	5
Horizon Utilities	115	160
Hydro 2000	13	1
Hydro One Brampton	9	22
Hydro Ottawa	266	70
Innisfil Hydro Distribution System	58	N/A
Kitchener-Wilmot	71	N/A
Lakefront Utilities Inc.	12	14
Lakeland Power	38	10

Total Inbound and Outbound LTLT Customers by LDC

	Group A[1]	Group B[2]
LDC	Total Inbound	Total Outbound
London Hydro	6	6
Midland Power	3	5
Milton Hydro	57	103
Newmarket-Tay Power Distribution Ltd.	N/A	7
Niagara Peninsula Energy Inc.	177	111
Norfolk Power	47	112
Orangeville Hydro	19	1
Orillia Power Distribution Corp.	N/A	2
Oshawa PUC Networks Inc.	N/A	8
Ottawa River Power Corp.	4	11
Parry Sound Power Corp.	10	31
PowerStream Inc. (Barrie)	74	19
Rideau St. Lawrence	20	9
Sioux Lookout Hydro	32	N/A
St. Thomas Energy Inc.	3	12
Thunder Bay Hydro	21	53
Tillsonburg Hydro	7	6
Veridian Connections Inc.	68	69
Wasaga Distribution Inc.	10	3
Waterloo North Hydro	125	50
Welland Hydro Electric System Corp.	3	N/A
Wellington North Power	6	2
Westario Power	28	42
West Perth Power	3	N/A
West Coast Huron Energy	N/A	1
Woodstock Hydro	2	N/A
TOTAL	**1954**	**1188**

[1]Represents situations where Hydro One is the georgraphic distributor in an LTLT arrangement as per Hydro One's last annual statement filed with the Board November 25, 2013

[2]Represents situations where Hydro One is the physical distirbutor in LTLT arrangements as per Hydro One's submission to the Board of September 10, 2014