



May 5, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Board File EB-2014-0138
Review of the Policies and Processes to Facilitate Electricity Distributor Efficiency- Service Area Amendments and Rate Making Associated with Distributor Consolidation**

Innisfil Hydro Distribution Systems Limited (“IHDSL”) respectfully submits to the Ontario Energy Board (the “Board”), its response to Board File EB-2014-0138 Review of the Policies and Processes to Facilitate Electricity Distributor Efficiency.

IHDSL is appreciative of the opportunity to provide input on the Board’s review of policies to facilitate electricity distributor efficiency through amendments to policies on service area amendments.

This submission also provides comment and or concerns on the questions put forth in the Board’s letter dated March 31, 2014.

Yours respectively,

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.cc George Shaparew, President, CEO Innisfil Hydro Distribution Systems Limited
Laurie Ann Cooledge, CFO, CMA, CPA

Service Area Amendments

IHDSL is a licensed electricity distributor (ED-2002-0520) that owns and operates electricity distribution systems that provide service to the Town of Innisfil and south Barrie. Until 2009, the service territory and municipal boundaries were homologous. The Barrie-Innisfil Adjustment Act changed the municipal boundaries.

Our service territory is very large, 292 SQ KM with a rural density, and our service territory boundaries are contiguous with 2 LDC's on the eastern, southern and northern boundaries. The eastern boundary is Lake Simcoe. With the passing of The Oak Ridge's Protection Act 2001, future developments were pushed north of Holland Marsh into IHDSL's service territory. The Ministry of Infrastructure introduced the Simcoe Sub-Area Amendment effective January 2012. The Growth Plan for the Greater Golden Horseshoe includes an amendment that allows the County of Simcoe and the cities of Barrie and Orillia to grow, while curbing sprawl and continuing to protect green spaces and valuable farmland.

IHDSL has undertaken a very thorough long term plan process projecting consistent increased densification over the next 20 plus years. The planning process was undertaken with our municipalities, transmitters and contiguous LDC's. The potential change in policies on Service Area Amendments with respect to "open competition" and boundary changes to emulate municipal boundaries will negate our planning process which is underway. Furthermore, consideration should be given for rural LDC's that are transitioning to urban densification. Customers within high density LDC's are currently benefiting from the evolutionary stage of transitioning from rural to urban densities. IHDSL has consistently communicated our densification projections in our Cost of Service submissions which are reflected in our approved capital spend.

IHDSL's position is that our customers (existing and future) deserve the opportunity to realize the economic benefits of increased densification as exemplified by current high density LDC's and that mergers and acquisitions should be as the result of a mutually agreed transaction not the slow death of a LDC that will never transition to from rural to urban. .

IHDSL provides the following responses to the questions put forth in the EB-2014-0138 discussion paper:

Questions

1. What are the benefits of an "open for competition" approach to un-serviced areas? How would the Board implement such an approach in light of section 28 of the Electricity Act, 1998 and existing licence conditions?

By definition, there are no "un-serviced areas" in this province. All of Ontario is serviced by a number of Board licensed electricity distribution companies, all with contiguous borders with each other.

An "open for competition" approach should only be sanctioned by the Board for certain areas of a licenced distribution territory if a Licenced Distributor cannot fulfil its obligations as required by *Section 28 of the Electricity Act, 1998*

2. Under an “open for competition” approach: (i) how will the Board ensure that all prospective new customers will receive an offer to connect on fair and reasonable terms?

If a Licenced Distributor cannot meet its obligations for certain areas of its licensed distribution territory as required by *Section 28 of the Electricity Act, 1998*, the Board may be required to intervene. An “open for competition” approach is one temporary option the Board has to guarantee connections as mandated by *Section 28 of the Electricity Act, 1998*.

3. Under an “open for competition” approach: (ii) how should the interests of Incumbent Distributors and their ratepayers be taken into consideration?

The “open for competition” approach should only be allowed as an option when a Licenced Distributor cannot meet its obligations for certain areas of their licenced distribution territory as required by *Section 28 of the Electricity Act, 1998*. The Incumbent Distributor when in default of its Board issued licence retains ownership of any assets of the business that the distributor owned before the order was issued as outlined in *Section 59 (10) of the Ontario Energy Board Act*.

Consideration of an “open competition” approach undermines the long term planning framework/process for an Incumbent Distributor and directly negates the long term benefits of densification to the incumbent rate payers.

4. Should the Board’s SAA policy facilitate SAAs that have the effect of aligning a distributor’s service area with municipal planning boundaries and, if so, in what way?

Municipal planning has relevance within a Distributor’s boundary. Municipal planning boundaries do not necessarily correlate with electricity distribution designs and electrical flows. The incumbent distributor is in the best position to determine capacity requirements regarding system planning. Unless SAA’s are voluntary, there are no benefits to customers by aligning a distributor’s service boundary to the municipal boundaries.

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

The Incumbent Distributor has always had the option of SAA`s with their neighbouring Distributor on a voluntary basis. If the “open for competition” approach is allowed when not voluntary by an Incumbent Distributor that is not in default of its licence, the risks to the Incumbent Distributor and their respective customers are as follows:

- a) Potential Loss of territory with incoming high density customers will impede existing customers the long term benefits that could be achieved with higher economies of scale.
- b) The number of distribution territories in Ontario would increase and be more fragmented if non-contiguous distributors become the successor.
- c) An Incumbent Distributor`s planning process, (short term and long term) will be negated as a result of a non-voluntary SAA.
- d) Non voluntary SAA will be disputed by the Incumbent Distributors. This means expenses involving distributor resources, Board resources, legal, and intervenor costs. All of these costs will be socialized, which will provide negative value to respective ratepayers and further erode customer confidence and transparency of costs.

- e) Territory disputes will generate employment volatility within the industry staff for both Union and non-Union. The resulting volatility may result in a negative value to the respective ratepayers.

If we allow an un-voluntary “open for competition” policy, there will be a ‘race to the bottom’ with regard to bids. Bidders will be undercutting their competition and effectively creating cross-subsidization and negative value for the existing ratepayers.

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

Municipal planning, community energy plans and regional planning all take a long range 20 year plus approach, which supports assets that have an average useful life of 45 years. Unplanned and non-voluntary SAAs focus only on the short term, and will have the propensity of undermining the benefits of long range planning and customer value. Established contracts may need to be cancelled with applicable liquidated damage claims because the following:

- a) Different distribution companies and affiliates.
- b) Different feeder supplies.
- c) Different financing parameters

- 7. For either proposed change to the Board’s current policy: (i) How should the Board approach its analysis?

The Board has issued licenses to electricity distribution companies. Those licences should only be amended if requested by the incumbent distributor or if the incumbent distributor is in default of its licence. The Board should also consider amending Section 6.5 of the DSC by allowing load transfers that are physically metered.

- 8. For either proposed change to the Board’s current policy: (ii) What criteria should be used by the Board and what type of evidence would be necessary?

As above, the Board has issued licenses to electricity distribution companies. Those licences should only be amended if requested by the incumbent distributor or if the incumbent distributor is in default of its licence.

- 9. For either proposed change to the Board’s current policy: (iii) How can the Board ensure that the proposed change would not adversely affect overall economic efficiency in the sector?

Changes to the Board’s current policy will contribute to economic inefficiencies in the industry by injecting risk, socializing costs, eroding customer confidence and nullify long range planning to the disputed areas.

- 10. For either proposed change to the Board’s current policy: (iv) How should the Board assess the impact on existing and future customers in terms of cost and the reliability and quality of electricity service?

Long range planning is required in the electricity distribution industry because the industry is capital intensive and requires years to meet environmental and land planning requirements. With

the proposed change to the Board's current policy, the effect of nullifying long range planning means that the Board cannot be guaranteed the connection of new customer's proceeds in a timely manner.

~Respectfully Submitted on May 5, 2014~