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BY COURIER

October 28, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON, M4P 1E4

Dear Ms. Walli:

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

In accordance with the Ontario Energy Board's Notice of Revised Proposal to amend the Distribution System Code, issued on October 14, 2015, Hydro One provides the attached comments for the Board's consideration.

An electronic copy of the comments has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Attach.

EB-2015-0006
REVISED 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") revised proposed amendments to the Distribution System Code ("Code" or "DSC") that aim to facilitate the elimination of the remaining long term load transfer ("LTLT") arrangements between local distribution companies ("LDCs").

Generally, Hydro One is in concurrence with the proposed revisions and the Board's justification for amending the Code. Specifically, Hydro One agrees that:

- all load transfer customers be transferred to the physical distributor at the same time, and, where applicable, rate mitigation be applied;
- more than six months will be required to transfer all remaining LTLT customers;
- the delivery charge be used as the determining factor on whether the customer transfer will result in a bill decrease or increase for the load transfer customer; and
- resources should not be expended on load transfer elimination activities where a MAADs application has been submitted or approved

Hydro One considers the revised proposed amendments to reflect Hydro One's initial comments, and seeks no further changes to the language of the proposed amendments. However, Hydro One does have comments and concerns that predominately relate to the proposed rate mitigation approach.

The revised amendments propose that full rate mitigation be applied where the transfer of the customer to the physical distributor would result in a bill increase until there is a change in account involving the load transfer customer moving[1]. Hydro One submits that maintaining full rate-mitigation for an indefinite period of time (until there is a *customer move*) creates unreasonable administrative burden on that LDC and harms its ratepayers, contrary to OEB principle to protect the interest of consumers with respect to prices.

Hydro One requests that the OEB consider an alternate rate mitigation approach that is set for a defined time period.

[1] EB-2015-0006 – Notice of Revised Proposed Amendments – Page 6

1) FAIR AND EQUITABLE CUSTOMER TREATMENT – AVOIDING CROSS-SUBSIDIZATION

Currently, LTLT customers are served by a physical distributor but pay the rates charged by their geographic distributor. Any shortfall between the geographic distributor's rate and the actual cost to serve these customers (the physical distributor rate) are recovered through the rates of the rest of the geographic distributor's customers and then settled between distributors. This was the cross-subsidization that the OEB's February 20, 2015 Proposed Amendments intended to eliminate, which stated:

- *There are a number of undesirable outcomes associated with load transfer arrangements that the Board has previously identified (e.g. cross-subsidization)* [page 2]
- *The proposed amendment will also eliminate the cross-subsidization that currently occurs due to load transfer arrangements…*[page 4]

While the proposed mitigation plan may eliminate the cross-subsidization that currently occurs, respectfully, Hydro One submits that the implementation of a full rate mitigation plan without a pre-determined end date, does not resolve cross subsidization issues; it simply takes it from one pot and puts it in another (i.e. now the physical distributors customers are responsible for paying the shortfall). Therefore, Hydro One will need to recover the mitigation costs from Hydro One rate payers.

2) INDEFINITE FULL RATE MITIGATION IS NOT PRACTICAL

Hydro One understands that the elimination of LTLTs may result in large rate increases to some customers, which is why Hydro One originally suggested the implementation of a rate mitigation plan. However, the proposed indefinite full rate mitigation plan (which could extend to over 50 years for some customers) poses an unreasonable administrative burden on the physical distributor.

Prior to transition, physical distributors will need to modify systems to provide bill credits to customers. Over time, tagged customer accounts, currently estimated to be over 1,000 customers, will need to be manually audited to confirm the validity of the credits. Processes will need to be developed to validate whether a customer should continue to receive credits (e.g., reviewing documentation pertaining to customer account changes and the reasons for them), and a periodic review of the rate credit amount should be undertaken. In the long term, as changes and/or updates to billing systems occur, these customer accounts will need to be separately monitored to ensure that new systems are tested and no implementation issues arise. As with any IT project, unique situations, such as customer-specific bill credits, create anomalies that increase exposure to operational risks and implementation costs. Therefore, managing this indefinite credit could create additional problems down the road for physical distributors.

In order to comply with the proposed DSC amendments, there will be some onus placed on the customer to continue to qualify to receive the indefinite credit; namely, the customer will need to provide all necessary documentation to prove that any name change is for one of the acceptable reasons noted by the Board and not for other unacceptable circumstances such as inheritance.

Hydro One suggests that an indefinite rate mitigation approach is unreasonable, unnecessary and inconsistent with previous decisions and OEB practices. Hydro One reiterates a previously noted Board Decision on rate mitigation that specifically dealt with LTLTs:

> *"Mitigating the cost burden on customer 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"*[2].

Hydro One submits that LTLT customers, like all other customers, should be expected to pay rates that reflect the cost to serve them. The transition to this should not be prolonged indefinitely and therefore Hydro One suggests that a mitigation plan for some defined period of time (e.g., 10, 15 or 20 years) is a more equitable and reasonable approach to mitigate any potential rate shock that LTLT customers will experience. For example, a customer whose rate mitigation credit is $20/month, over a 10-year plan, would see that credit decline by $2/month/year. Hydro One proposes that this type of approach would be easier to implement and administer, and avoid the need to monitor customer moves, name changes, family status, etc.

3) REGULATORY DEFERRAL/VARIANCE ACCOUNT REQUEST – RECOVERY OF MITIGATION COSTS

The current annual estimated cost of rate mitigation for residential customers is between $300,000 to $500,000 and for general service customers $150,000 - $200,000 depending on the rate classes customers transition to and the volumes consumed. Estimating that the average rate mitigation will extend for 20 years, the cumulative balance may be well over $10 million.

Hydro One believes that rate mitigation to fulfill its obligations to eliminate LTLTs, will be material. Hydro One will be requesting the establishment of a deferral/variance account to track these costs for future recovery.

4) STREAMLINING AND SIMPLIFYING THE APPLICATION PROCESS - COMPLYING WITH THE 18 MONTH TIMELINE

In order to comply with the 18 month timeline to eliminate LTLT agreements contemplated in section 6.5.3, Hydro One proposes to use a standardized unit cost on asset valuations to expedite the process with over 50 LDCs. This may mean that assets are sold above or below net book value but it will ensure that the remaining connections are eliminated as quickly as possible. Given the level of materiality of the assets and the intent to eliminate these connections over 18 months, Hydro One suggests using an average unit price to streamline the process. This will require OEB approval and concurrence from other LDCs. As noted, under this approach, there may be situations where an LDC may not fully recover an asset sold. Similarly, there may also be situations where an asset that is worth more than the purchase price is acquired. Hydro One anticipates that this win-some/lose-some approach will save costs that would otherwise be utilized to gather detailed field asset information and subsequent pricing information and is fundamental in meeting the OEB's proposed timelines.

[2] EB-2007-0917 & EB-2007-0947 – Decision and Order – July 25, 2008 – Page 9

CONCLUSIONS

As previously noted, Hydro One's comments are provided from the perspective that a consistent, equitable and systematic process for eliminating LTLTs is required. Lastly, Hydro One submits that once these DSC amendments are finalized, all LDCs should be afforded an opportunity to comment on the proposed streamlined filing guidelines including comments on the proposed unit-cost approach for asset transfer applications.