



April 23, 2003

E-mailed & faxed

Mr. Paul Pudge
Board Secretary
Ontario Energy Board
P.O. Box 2319, 26th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Sir:

Re: **OEB Procedural Order No. 2: Combined Distribution Service Area Amendments Proceeding - Board File No. RP-2003-0044**

Newmarket Hydro Ltd. hereby submits, in accordance with the Board's Procedural Order No. 2 Paragraph 3, issues for consideration by the Board and the principles that the Board should adopt for dealing with applications for distribution service area amendments. This is further to our letter of April 17, 2003.

Considerations that the Board should address in their development of guiding principles for service area amendments are outlined below.

There should be three main guiding principles:

1. Any decisions made must be in the best interest of the customer.
2. The customer requesting service in a greenfield development (i.e. an area where no electricity servicing exists) should be allowed to choose their distributor provided it can be demonstrated that other parties are held harmless.
3. Where customers are already being serviced, and in order to avoid customer confusion and promote distribution system efficiencies, there should be no duplication of facilities. A clearer definition of "service area" may need to be developed.



Our comments regarding the issues listed on Appendix "A" to Procedural Order No. 1 "Draft Issues List" are attached also.

In accordance with paragraph 5 of Procedural Order No. 2, we are filing one electronic copy in Word, and five (5) hardcopies of this letter.

Should you have any questions or require any further information, please contact the undersigned at (905) 953-8548 or e-mail address COO@nmhydro.on.ca

Sincerely,

Gaye-Donna Young, P.Eng.
Chief Operating Officer

GY/

cc: List of Parties to RP-2003-0044
D. Gibson – McCarthy Tetrault

Item 1 Draft Issues List – Customer Preference

Firstly, “customer” needs to be identified more clearly. The following is a list of different customers:

- Existing consumers in the Applicant Distributor’s service area – consumer A
- Existing consumers in the Incumbent Distributor’s service area – consumer B
- Existing consumer to be transferred from Incumbent Distributor’s service area to the Applicant’s service area – customer T
- Consumer requesting connection of proposed development – consumer R
- Developers (who are customers as defined by the Distribution System Code).
- Future consumers (end-use customers) - A, B, & T
- Municipalities?

Once the type of customer is identified, the question of “What role should customer preference play in the Board’s consideration of service area amendments can be better addressed”.

Provided that existing consumers are held harmless due to changes in service area, customer preference should be given primary consideration i.e. consumer A’s rates should not go upward because of addition of consumer T. Likewise there should be no stranded costs to be borne through rates of consumer B. If new consumers T benefit from improved value i.e. cheaper rates and improved service levels, then application should be approved on this basis. The onus would be on the Applicant to demonstrate the aforementioned criteria are met. Hence, there should be no difference in the treatment of amendment applications relating to either new or existing customers, especially when a non-incumbent distributor is the Applicant doing so to satisfy a customer’s request to them for connection.

Item 2 Draft Issues List – Impact on Customers within “Amendment Area”

If overall, in the foreseeable future, the service level with respect to reliability, quality, and price of electricity service is as good as or better than what these customers would have received if there were no service area amendments, then the amendment should be approved. There should be no difficulty in determining the impacts of a potential service area amendment. Some of the impacts to be considered are:

- Distribution rate impact i.e. if the loss adjusted distribution rates will be lower for the customer (assuming service levels are relatively the same).
- If the proposed “amended area” is already developed, determine if service levels are as good or better i.e. compare overall service levels to that of the incumbent utility’s levels - both on a system-wide basis, as well as for the proposed “amended area”. The reason for comparing both being that the “amended area” may be experiencing significantly reduced levels of service compared to the overall incumbent distribution system. The Board could measure impacts based on the service level indicators outlined in Chapter 7 of the Electricity Distribution Rate Handbook (EDRH).
- In a “green field” situation, the service levels of both distribution companies for the regional geographic area in the vicinity of the proposed “amended area”

needs to be compared. The reason for comparison at this level is so that a distribution utility with a wide and/or diverse service area spanning several regions across the province would not be able to take advantage of averaging for service level comparisons.

- Ease of access to a distribution system is another measure of service level to be considered in addition to the service levels outlined in Chapter 7 of the EDRH. Access should be timely and economical for a developer or customer requiring connection to a distribution system.

Item 3 Draft Issues List – Impact on Applicant, Incumbent Distributor, and Existing Customers

As mentioned under Item 1 above, provided that existing consumers of both distributors are held harmless due to changes in service area, amendments to service areas should be allowed. Most significant impacts potentially are:

- Distribution rate changes
- Changes in service levels
- Stranded costs to incumbent distributor
- Access to distribution system

Note that for development of green fields, there would be no stranded costs incurred by incumbent distributors. If economic evaluations are conducted properly, new customers would pay their fair share and existing customers would be held harmless.

Item 4 Draft Issues List – Overlapping Service Areas

The Board should consider that allowance of overlapping service areas without limitations will cause confusion for customers as well as inefficiencies in distribution systems due to the duplication of effort. Already there is a proliferation of distribution lines, and overlapping service areas would exacerbate this situation much like what is experienced in the deregulated telecom industry. Municipalities are already struggling to manage rights of ways to fit everyone who wants to be there.

Environmentally, it would be a waste of resources and would tend to move costs and eventually rates, upwards. To resolve this, the Board may have to consider defining “area” and the extent or scope of “overlapping”. Does s. 70(6) of the OEB Act mean that within a reasonably sized geographic area, more than one distributor can serve? Could embedded distributors be considered to have overlapping service areas in terms of OEB Act s. 70(6)?

Item 5 Draft Issues List – Minimum Filing Requirements for Service Area Amendment

Minimum filing requirements should be:

- a plan of the proposed amended service area with clear boundaries defined
- customer request for an offer to connect
- proposed distribution rates
- list of any existing customers directly impacted (within the “amended service area”) and how they would be impacted i.e. lower rates, comparable or improved service levels, etc.