

THE ONTARIO ENERGY BOARD
IN THE MATTER OF the Ontario Energy Board Act, R.S.O.
1990, c. O.13;

AND IN THE MATTER OF a reference to the Ontario Energy
Board by the Minister of Environment and Energy in
respect of the proposed bulk power rates or charges of
Ontario Hydro for 1997.

Hearing held at 2300 Yonge Street,
25th Floor, Hearing Room No. 2,
Toronto, Ontario on Wednesday,
June 26, 1996, commencing at 8:33
a.m.

VOLUME 8

B E F O R E:

J.C. ALLAN
F.A. DROZD

The Presiding Member
Member

A P P E A R A N C E S

(of record)

JOHN CAMPION	)	Board Staff
JENNIFER LEA)	
KELLEY MCKINNON)	
BRUCE CAMPBELL	)	Ontario Hydro
LAURA FORMUSA)	
MARK RODGER	)	Association of Major
Power Consumers in		
Ontario, AMPCO		
ROBERT WARREN	)	Consumers Association of
Canada, CAC		
RICHARD STEPHENSON	)	Power Workers' Union, PWU
ALLAN A. MARK	)	Municipal Electric
Association, MEA		
JACKIE HATHERLY	)	The Utilities Group
PETER BUDD)	
DAVID POCH	)	The Green Energy
Coalition		
IAN MONDROW	)	Independent Power
Producers of Ontario,		
IPPSO		
MARK MATTSON	)	Energy Probe Research

Foundation
 HAROLD ELSTON Ontario Federation of
 Agriculture, OFA
 BRUCE MacODRUM) Toronto Electric
 EILEEN MORIN) Commissioners (carrying
 on business as
 Toronto Hydro)
 MALCOLM JACKSON) Ontario Interlink
 MURRAY J. ELSTON) Industrial Park
 EARL HOTRUM Mississauga Hydro
 MICHAEL JANIGAN Ontario Coalition Against
 Poverty, OCAP

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A P P E A R A N C E S

(of record)
 ELLEN ABBOT) Ontario Natural
 DONALD ROGERS) Gas Association,
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[Preliminary Matters Page: 1524]

---Upon commencing at 8:33 a.m.

~ THE PRESIDING MEMBER: Good morning. Please
 be seated.
 ~ Mr. Stephenson?
 ~ MR. STEPHENSON: Good morning, Madam Chair.
 ~ I don't know if you have had a chance to
 take a look at the document that we are going to be
 speaking to this morning. It seems
 to me it would make
 some sense for you to have it in front of you
 so we could
 have some context on this.
 ~ THE PRESIDING MEMBER: You did not
 distribute it yesterday?
 ~ MR. STEPHENSON: I distributed it in the
 room and I left some copies at the front. So I guess the
 answer is no, you didn't get it.
 ~ THE PRESIDING MEMBER: There are only two of
 us up here, Mr. Tolton. I think we can
 leave this one for

do you have a preference for nine o'clock?
~ MR. ANSHAN: Dr. Levy has a preference for
the morning. I don't think nine o'clock is
critical. It
could be later in the morning, if you wish -
- preferable
in the morning.
~ THE PRESIDING MEMBER: Perhaps it would be
easier if we set ten o'clock then.
~ MR. ANSHAN: That would be fine.
~ THE PRESIDING MEMBER: Are there any other
matters? (No response)
~ To facilitate the panel shuffle we will come
back at a quarter after.
---Recess at 10:50 a.m.

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---On resuming at 11:20 a.m.
~ THE PRESIDING MEMBER: Please be seated.
Are there any preliminary matters?
~ MR. MacODRUM: Madam Chair, before I
introduce our witness, I do want to
just apologize for the
late response to the IPPSO interrogatories. I have
already spoken to Mr. Mondrow about this, but I just
wanted to put on the record my apologies.
~ We were alerted in fact by Ontario Hydro
that these interrogatories existed, and we did search for
them and found them in a pile of
material that we had. It
was my inadvertence, and I apologize to the Board for
that. We did provide copies of our response to it to
everyone early yesterday afternoon
and, as I say, I have
spoken to Mr. Mondrow about it.
~ Madam Chair, Toronto Hydro would like to
call Paula Zarnett as our witness in this proceeding.
~ PAULA ZARNETT, Sworn.
~ THE PRESIDING MEMBER: Mr. MacOdrum, they
don't appear to have made it from the Board Secretary's
office to the dais yet. Do you have any
spare copies of
those interrogatories?
~ MR. MacODRUM: There are probably some in
the box (passing document). We did deliver

copies to the

Board early yesterday afternoon.

~ THE PRESIDING MEMBER: It can take quite a
while for paper to move around here, Mr. MacOdrum. I am

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not suggesting that you didn't; I am just saying we don't
have them up here, and if we could borrow...

~ MR. MacODRUM: As you can tell from my
earlier comments, I am very sympathetic to your situation.

~ Madam Chair, Ms. Zarnett has testified
before this Board last year, so therefore, I will be very
brief in my examination-in-chief.

DIRECT EXAMINATION BY MR. MacODRUM:

~ Q. Ms. Zarnett, you are employed by Toronto
Hydro?

~ A. Yes, I am.

~ Q. And what is your position with Toronto
Hydro?

~ A. I am the Manager of Marketing and Energy
Management.

~ Q. And do you have with you a document
entitled "Written Evidence Filed on Behalf of Toronto
Electric Commissioners 'Toronto Hydro'", dated
June the

11th, 1996?

~ A. Yes, I have that.

~ MR. MacODRUM: And I believe that Ms.
Zarnett's written evidence has been filed as Exhibit No.
2.2.7 in this proceeding.

~ Q. Ms. Zarnett, was Exhibit 2.2.7 prepared
by you or under your direction?

~ A. Yes, it was.

~ Q. And is it Toronto Hydro's evidence in
these proceedings?

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~ A. Yes, it is.

~ MR. MacODRUM: Those are all my questions,
Madam Chair.

~ THE PRESIDING MEMBER: Thank you, Mr.
MacOdrum.

~ Ms. McKinnon?

~ MS. MCKINNON: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. MCKINNON:

~ Q. I have only a few questions, Ms. Zarnett.

~ In Exhibit 2.2.7 on behalf of Toronto Hydro you have noted the concern about demand and energy charge

changes for MEU standard rates and expressed concern in terms of the effect it will have on your customers. And

the focus of the effect on the customers, I take it, is

primarily two things: One, you want to keep the rates down and control your costs; and then secondly, you have

expressed a concern about your medium- and long-term ability to develop and market programs to your customers.

~ Is that a fair assessment of the two main things you have focused on?

~ A. That's a good summary.

~ Q. Now, can you tell me when Toronto Hydro became aware of the prospect of this proposal by

Ontario Hydro to change the demand and energy charge?

~ A. We were invited to a number of consultation meetings. It is my recollection that the earliest was last fall and that there were a number of

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them in the winter.
~ Q. Is it your view that the proposal for change of the demand/energy charges has been the

subject of any real or serious consultation between Ontario Hydro and Toronto Hydro?

~ A. Really, other than our participation at the general meetings that were held, I wouldn't say that we have had specific meetings with Ontario Hydro to go individually into that.

~ Q. I raise that point of the level of consultation specifically because of what you have raised as a concern, that the position this year is different from last year's position -- diametrically opposed, in fact.

~ A. Yes, it is.

~ Q. And it's on that basis that I'm curious to know the extent of any discussions you have had and the

reasons for that or the problems that you have outlined in your evidence with Hydro.

~ A. We have let our accounting exec know where we stand on these things. That's always -- that's a close relationship. But I think that's pretty much the limit of it.

~ Q. Thank you. Now, focusing for a moment on the changed position, if I can put it that way, you

have noted in your filed evidence that this year's proposal is diametrically opposed to last year's in that

last year it was proposed that the demand charge be

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increased and this year it is proposed that the demand charge be decreased.

~ It's somewhat of a hypothetical, but would you agree with me that the proposals last year would have in effect been notice to Toronto Hydro that it should

consider reducing its peak-hour demand or, in other words, peak clip, as the term is used?

~ What I'm really getting at, if I can put the general point maybe more broadly, the proposals for either

an increase or a decrease in the demand charge, do those

affect your planning processes? Was there any real reaction by Toronto Hydro when you learned of the proposal

as last year's or a proposal as this year's? What is the real effect on you?

~ A. Okay. Our peak clipping is not a new thing. We have had it in place for as long as you and I have been alive. So it is not a question

so much that we are running out there and evaluating new proposals today

for additional peak clipping. We are not.

~ We are at the point where there is

considerable renovation in our distribution system to make
some decisions as to whether the facilities for that
continue to be incorporated into the
distribution system

as it is renovated and as to whether we will continue to
maintain and keep in effect the system as we
have now, and

some of that would require some money to be put to it.
~ So yes, we have definitely a decision to
make about that.

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~ As well, we have decisions in terms of our
rate designs and what our programs and what
our messages

to customers will be, and those have to have a high degree
of consistency. You have to repeat it and repeat it
before the customers are willing to
take some action and
to understand it.

~ So on those two bases in terms of rate
design, program design, and to some extent our capital
programs, yes, we have a planning issue.

~ Q. But I take it - and correct me if I'm
wrong - from your response that partly because Toronto
Hydro has been doing peak clipping for so long that you
don't necessarily feel an immediate need to react to a
change -- to a proposal for a change in the demand charge
on an immediate basis.

~ A. Not in terms of construction programs.

~ Q. So your main concern then is the
additional cost and the effect it may then have on the
rates?

~ A. Yes.

~ Q. In your Exhibit 2.2.7, I want to clarify
the second recommendation contained at page 7. I think I
know what you mean by Recommendation 2, but please confirm
if I have it correctly. You've suggested that at some
point a decision be made on the
appropriate level of
demand charges to be applicable over a minimum of five
years.

~ Do I understand that to mean you're

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proposing that a decision be made on demand charges and
that it be fixed for that period of
time so that there
would be a fixed rate for at least five years?

~ A. Not necessary a fixed rate, but
certainly a fixed demand/energy relationship much along
the line as was established by the three-
party agreement

back in the '80s that there was a plan for that, that
everybody knew what to expect from those
relationships.

~ Q. What's the magic to the five years; is
there any particular reason for that period of time as a
choice?

~ A. That's the order of length of time of
payback that customers are inclined to expect on their
investments.

~ Q. If this recommendation were accepted,
what's your view on the impact that a fixed five-year
process would have on prospective changes in the
operations and systems' requirements at Hydro? Have you
considered whether five years is onerous?

~ A. For Ontario Hydro?

~ Q. Yes.

~ A. No, I'm not in a position to answer
that. I can't judge that.

~ Q. So the five-year proposal is a proposal
you've made without considering what potential negative
impacts it might have on changes
in the interim period?

I'm obviously not asking you to tell me what impacts it
would have, but I'm asking whether your recommendation for

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a five-year period has given any assessment to what the
impacts might be.

~ MR. MacODRUM: Just to confirm, you are
asking about negative impacts on Ontario Hydro?

~ MS. MCKINNON: That's correct.

~ MR. MacODRUM: Okay. Not Toronto Hydro?

~ MS. MCKINNON: Ontario Hydro.

~ THE WITNESS: No, that was not considered.

~ MS. MCKINNON: Excuse me just for a minute.

~ Q. A final question, Ms. Zarnett, on the
same issue of the possible five-year period in your

recommendation. If the surplus were to be reduced to the point where peak demand does cause significant costs, in your view should those costs be reflected in the rates as soon as they're known and tested?

~ A. I guess my issue would be with 'as soon as they are known and tested'. There would be some ability to evaluate a trend to see the growth in load and to project the availability of generation and hopefully to plan at least a year or two ahead for changes that should appear. I don't think that anyone should be surprised from one rate submission to the next which direction this is going to move.

~ MS. MCKINNON: Thank you. Those are all my questions.

~ THE PRESIDING MEMBER: Ms. Zarnett, that last answer was a little ambiguous. You don't think that you should be surprised by it bouncing around or you don't

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want to be surprised?
~ THE WITNESS: I don't want to be surprised and I don't think that it's appropriate in terms of the best interests of customers or the business that that should be the case.

~ THE PRESIDING MEMBER: I thought that was what you meant, but I just wanted to make sure.

~ THE WITNESS: Thank you.

~ THE PRESIDING MEMBER: Mr. Poch, do you have questions for Ms. Zarnett?

~ MR. POCH: I do. Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. POCH:

~ Q. Ms. Zarnett, I don't know if you have had a chance to refresh your memory, but attached to the

GEC's prefiled evidence in this case, the evidence of Mr. Goodman and Mr. Carlson, which is Exhibit

2.2.1, as appendix A we attached the two documents, one entitled

"Governing principles for Toronto Hydro's carbon dioxide stabilization and reduction policy", the other "Toronto Hydro's carbon dioxide stabilization and reduction policy", both dated October '95.

~ Are you familiar with those policies?

~ A. Yes.

~ Q. All right. And you can confirm for us that these remain the policies of Toronto Hydro?

~ A. Yes, they are.

~ Q. All right. I take it that as a public institution, these policies are some evidence of

the fact

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that Toronto Hydro believes it should be cognizant of the

societal impacts of its decisions?

~ A. Yes.

~ Q. And you would accept that the same rule should apply or approach should apply to Ontario Hydro?

~ A. It makes sense to me.

~ Q. All right. On page 6 of your evidence, you say that Ontario Hydro has stated that retaining and attracting loads is an important objective.

~ Do you agree with that objective?

~ A. Yes, I do.

~ Q. And would you accept that that objective should be moderated by a due regard for environmental and other social costs?

~ A. I would say that all important factors should be taken into consideration in those policies.

~ Q. And would you agree that environmental and social costs are one such important factor that should

have a moderating influence on the pursuit of that, the objective of load retention?

~ A. Or conversely, an encouraging effect if that's what they indicate.

~ Q. All right. And specifically, do you have any position to offer us on whether environmental and

social costs at this time suggest that retention of electric and space heating loads should

be moderated or

encouraged? Which way do the environmental costs push you
on that particular activity at this time?

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~ A. First of all, I'm not an expert on these
issues, and nothing I say is based on analysis that I have
personally done. The information -- we
currently have an

expert working with us on evaluating these issues. Each
time we bring market proposals to our Commission, one of
the elements that they ask for is this information.

~ With respect specifically to water heating
and space heating loads, a variety of computations have
been made, and some of them appear to indicate that
alternatives would be better than electricity for those
loads.

~ Our current analysis and discussions with
Ontario Hydro have indicated that there is more to look at
on that. And in my view, it would

definitely be a wrong
move to be premature in judging the impacts and perhaps go
contrary to our shared objectives on that by making the
wrong decision as to where those loads should be.

~ MR. POCH: Madam Chair, I transmitted to Mr.
MacOdrum - I believe it was the night before last - a
small excerpt from the final report of the externalities
work group, as it's colloquially referred to, which I
would just like to put to Ms. Zarnett for very limited
purposes at this time. So I'll distribute that.

~ Q. Ms. Zarnett, you've already said you're
not an expert on these matters of environmental,

so I

won't press you for your opinion of the work of the
externalities working group. I just wanted to confirm,
first of all, as -- well, first of

all, perhaps Madam

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Chair, I should get an exhibit number for
this, unless my
friend has some objection.

~ MR. MacODRUM: Perhaps Mr. Poch might also
explain for the record what this document is.

~ MR. POCH: Yes. I think, of course, the

panel will be familiar with the genesis of this, but I think it's appropriate for others reading the record.

~ The externalities working group was a collaborative exercise. It grew out of the EBO 169 Phase

3 decision of this Board, which numerous parties worked together

to try to come to some common understanding of what appropriate values should be used for monetizing externalities in the context of the gas system.

~ The report issued -- it was a -- and the parties to the majority position in that report are listed

on the first of the -- the second of the pages I've included here. And there was, in addition, a dissenting

position of CIPEC, I believe.

~ And I'm just asking Ms. Zarnett to confirm -- well, I'll leave my question for a moment unless my -- first of all, is that a sufficient explanation for my friend's purposes?

~ MR. MacODRUM: I wasn't objecting. I was just asking for an explanation of what the document was.

~ MR. POCH: All right. Then I'll ask the Board if I could have an exhibit number just for this excerpt.

~ MS. McKINNON: Exhibit 2.2.23, Madam Chair.

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---EXHIBIT NO. 2.2.23: Final Report of the Collaborative on Externalities for Natural Gas Integrated Resource Planning in Ontario.

~ MR. POCH: Q. Ms. Zarnett -- first of all, if you can just confirm for me, you're aware that the City of Toronto is a member of this exercise?

~ A. So it says in the document. I never saw it before yesterday.

~ Q. All right. Okay. Now, the document indicates that the City of Toronto is one of the

parties

that agreed to the use of a figure of \$40 a tonne for greenhouse gas emissions on a carbon dioxide

equivalent

basis.

~ And I won't ask you to comment on the appropriateness of that number in light of what you've said, but I would ask you this: Is it the situation that Toronto Hydro generally conducts itself or seeks to conduct itself in conformity with the City of Toronto's positions on such matters and matters of environmental energy policy?

~ A. Well, certainly we're active with the City in its programs, and we support the 20 per cent target.

~ Q. Okay. And let me get a little more specific with you now and ask you if you have any reason to differ from Ontario Hydro's evidence in this case, which indicates that a water heater kept on electricity emits roughly 2 tonnes more greenhouse gas emissions than a gas water heater.

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~ A. Again, this is not my own expertise, but yes, we -- those items are an allocation. All the loads on the system share the generation, and when you take that, what you're doing is allocating--

~ Q. Yes.

~ A. --some of that. All allocations have an element of judgment and assumptions in them. And what we're looking at now is whether those assumptions are the appropriate ones to make.

~ In general, two things: One is, is it appropriate to approach that on the basis of one water heater or all the load and say, what would happen, in fact, in a reasonable scenario if that load were gone and what would be the generation that's displaced?

~ The other issue is, what's the appropriate comparison in terms of gas? And those things are now being examined, and I have been advised that the result is much less than what is indicated in the Ontario Hydro numbers.

~ Q. Well, are you in this hearing challenging Hydro's assessment of what its marginal fuels are?

~ A. I think what's relevant to this question

is what's meant by marginal.

~ Q. All right. Let me ask you - there's
evidence on the record - are you
content that that
evidence form the basis of this Board's decision or are
you seeking to displace it with a different view?

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~ A. We're not leading any evidence on this
matter at all.

~ Q. All right. So then you are not offering
this hearing any evidence at odds with the
implications of
Ontario Hydro's evidence in that regard?

~ A. No, we're not.

~ Q. All right. And I want to be clear about
that because otherwise, of course, I do need to follow
this up.

~ Now, do you have any reason to differ or are
you offering any evidence to suggest that Hydro's
assessment, which is contained in Exhibit 2.46.46, of a
\$73 net present value annually of a peak clipped

water

heater to the system, for the Ontario Hydro system?

~ A. No, I can't comment on that.

~ Q. All right. Now, we'll come back to that
in a moment, because I appreciate, of course, there's a
distinction between Toronto Hydro's system and Ontario
Hydro's system, and I will give you an opportunity to
comment on that.

~ But first let me ask you: In your
principles of -- the governing principles
that I referred

to that are attached to Mr. Goodman's evidence, there's a
section which speaks of selecting initiatives for CO(2)
stabilization which will maintain or improve Toronto's
competitive position.

~ I take it that that was intended that it say
Toronto, not Toronto Hydro's competitive position?

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~ Just to complete the sentence, it goes on to
read:

~ While benefiting customers and the
~ community.

~ A. I believe that's as intended.
~ Q. All right. That being so, have you investigated for the purpose of taking a position on whether or not it's appropriate to try to retain water heaters, for example, on your system, have you investigated what the impact is of a water heater switching or not switching to gas upon the -- from that perspective of Toronto as a whole; that is, including the impacts on customers directly in terms of their rates and - that is, the participating customer - and the impacts on Toronto residents who are subscribers

to the gas, the competing gas system; have you investigated that?

~ A. We have not investigated the impacts on gas rates or the gas system of gaining or not gaining that load.

~ Q. Okay. On page 3 of your evidence, you use a phrase at the bottom: Most current water heating customers are dependent on short-term load control strategy.

~ Is that a euphemism for peak clipping?

~ A. Yes, it is.

~ Q. All right. I think you've been clear in your evidence this morning that Hydro is not actively pursuing new peak clipping, but you do have a significant

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amount of it going on as a result of efforts that have been in place for many, many years?

~ A. Yes, we do, not as much as we used to because a lot of the load has been lost.

~ Q. All right. Let me ask you this then: Presumably -- well, is it your position that there's some -- you've referred to capital projects on your system; that is, Toronto Hydro's system.

Is it your position that peak clipping has value to the Toronto Hydro system at the moment in terms of avoided capital expenditures?

~ A. It is used to meet some of our

operational needs.
~ Q. Okay. And so there's some value in it,
whether it be in terms of avoiding capital
costs or simply
in terms of facilitating operations
and avoiding whatever
control costs or what have you you might
otherwise face;

is that fair?

~ A. Yes.

~ Q. And would you agree with me that Ontario
Hydro, even if it were to remove entirely the
incentive to

peak clip - that is, move to 100 per
cent energy in the
peak period rather than 50 per cent as it's doing so;
rather, moving 50 per cent of the demand costs

- even if
they went to that extreme, whatever value that Toronto
Hydro sees in peak clipping to its system would remain?

~ A. Yes.

~ Q. And you would still have whatever

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appropriate incentive that gives you to peak clip in
place?

~ A. Yes, we would.

~ Q. And then you would presumably still
conduct whatever peak clipping makes sense in light of
that value.

~ A. Yes, we would.

~ Q. All right. But you would lose the
incentive to go beyond peak clipping that makes sense for
your internal purposes, fair?

~ A. Yes.

~ Q. Okay. Finally, I haven't actually seen
the answer, but I understand in answer to IPPSO's
interrogatory you have indicated you don't expect - and
I'm not sure if it applies to both the residential and
commercial or just the residential load retention and
expansion pricing option - to be particularly
effective at

load retention for the City of Toronto; is that correct?

~ A. That's correct.

~ Q. Could you explain that for us?

~ A. Okay. For example, we lost 2,000 water heaters, approximately a kilowatt each, last year and approximately 3,300 the year before.

~ So suppose that we forecast 2,500 as the loss and hope that we will somehow be able to retain through some rate structure a thousand units. Our water heaters are estimated to consume -- they are about 50 per cent load factor, so about 350 kilowatthours a month. On

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the basis that that is load that gets this rate - so it's about a three-cent saving - that would give us a saving of \$10. Okay?

~ Q. Yes.

~ A. The issue that we have is that there is no way to identify which customer is the switcher. So if you get money from a thing like this the logical thing is to put it out as an incentive to every customer to stay with the system.

~ On that kind of basis we are talking about 33 cents per customer. These rates -- a flat-rate water heater is currently charged \$26. Gas is in the order of magnitude of 20. The \$26 already has built into it the benefit of the peak clipping that we do. So that's not -- that's already there, that's not going to give us anything.

~ So then, if you want to iterate again you have to go back and say can we project that we are going to retain any load at all. If we don't, we have given the customers whatever we -- the benefit of whatever we estimated and then lost it after.

~ The additional issue that we feel strongly about is water heating is about seven per cent of

residential load, and the amount that would be forecast to be lost in any one year would be perhaps five or 10 per cent of that.

~ So the amount that we could say would respond to the load retention program is so small relative

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to the overall class that if there's -- that there is a high risk in terms of the forecast, that we would not -- that we might not meet our target and therefore there would be no benefit to be passed on.

~ Q. Presumably - just in your example you spoke of a \$26 flat rate for a water heater - that's a peak clipped water heater?

~ A. That is a peak clipped water heater.

~ Q. Presumably, if Hydro's proposal stands you will have to raise that rate in light of the fact that you won't be obtaining the rate-relief benefit of the peak clipping at the wholesale level.

~ A. That's exactly the point.

~ Q. All right. I take it that would be a significant increase.

~ A. It could be up to 10 per cent.

~ Q. Okay. So closer to \$30 perhaps?

~ A. Yes, that could be the case.

~ Q. All right. If that's the case, if we assume for the moment -- and let me ask you to assume this without necessarily accepting it.

~ A. Okay.

~ Q. But just assume that Hydro is correct in its analysis that the benefits of peak clipping simply aren't there anymore for the system and that therefore \$30 is a rate to your customer that more appropriately actually reflects system costs, in that scenario it sounds to me like you simply can't compete with gas, even if you

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were able to better target the LREP discount and

give them

a rate that is just a bit above marginal costs.

You are

really at the limit.

~

A. In terms of water heaters under that scenario, we are losing them fast now and they are not price-competitive. The future in this is with water heating that is entirely or mostly off-peak.

That's very

competitive with gas.

~

Q. And that's a whole different technology, involves a capital commitment. I assume

that is

an issue

quite apart from this peak clipping question.

~

A. It is in terms of investment, it is in terms of market strategy. But once the customer has gone

to gas they are gone. And that's the issue that we have.

~

Q. Fair enough. If in fact these customers you really just -- when you take a hard look at system costs, if we accept Hydro's view of what those system costs are and you simply can't compete, even giving a discount that gets you much closer to marginal

cost, would

you agree it is simply not in the customer's interests to be retained?

~

A. Well, I know that we make a margin on that load. It is in the interest of our

customers as a

whole that we have additional load wherever possible, particularly in the residential sector, and Ontario Hydro has shown a strategy in the past couple of

years

of being

willing to accept reduced margins in order to retain loads, and that's the area that we are trying to explore.

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~

Q. You agree with the principle that you shouldn't take a loss, the system shouldn't take

a loss to

retain a load?

~

A. I agree with that if that is what -- if that's all that can be looked to for the long term, particularly with loads that are storage

loads that are

manageable.
~ If the situation today is that they don't look cost-effective I think that we shouldn't send them away without looking down the road to see what they can change, how it can be utilized, and whether in the longer term there is a benefit added by such loads to the system, because as long as we have them we can work with those to optimize the costs; once they are gone we are at the mercy of loads that come on and go off, and those will drive our costs for the future.

~ Q. You would certainly agree that there are fixed costs on the gas system, too?

~ A. Yes.

~ Q. And if the gas company were here they would be putting before you that if that load isn't on their system gas customers have fewer colleagues to share the fixed costs with; fair?

~ A. Okay.

~ MR. POCH: All right. Madam Chair, thank you. Those are my questions.

~ THE PRESIDING MEMBER: Thank you, Mr. Poch. I would say that the gas companies are here. ONGA has

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intervened in this proceeding.
~ MR. POCH: Yes. Fair enough, Madam Chair.
~ THE PRESIDING MEMBER: Any other parties other than Ontario Hydro? (No response)
~ Mr. Campbell?
~ MR. CAMPBELL: Thank you, Madam Chair.
Between Board staff and Mr. Poch my areas have been covered.
~ THE PRESIDING MEMBER: Thank you, Mr. Campbell.
~ The Board has some questions. Ms. Drozd?
~ MS. DROZD: Thank you, Madam Chair.
EXAMINATION BY MS. DROZD:
~ Q. Just a couple of questions, Ms. Zarnett.

You heard Mr. Singer earlier this morning refer to the "electricity family" or the--

~ A. The Hydro family?

~ Q. --the "Hydro family", yes. Does Toronto Hydro consider itself part of that family?

~ A. That's a good one. I think that our relationship with Ontario Hydro is extremely close and co-operative and that we do our best to contribute overall

to MEA and to issues that are related to the interests as

a whole. I wouldn't want to say that we have an allegiance to any of those interests over and above the interests of customers.

~ Q. That's a very circuitous answer. I'll perhaps be a little more blunt about it.

Does Toronto

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Hydro consider Ontario Hydro to be a competitor?

~ A. We believe that there is potential for competition between ourselves and Ontario Hydro.

~ Q. Is that potentiality realized at the moment?

~ A. No, it is not.

~ Q. Thank you. You have said that Toronto Hydro does peak clip, that this has gone on for many years.

~ Can you tell me, can you give me an estimate of how much of your load or how much demand

- I'm not sure exactly how it should be phrased - you estimate you have

saved annually by this activity?

~ A. Not really. One of the interrogatories shows the losses of load that we

have had in peak clipped water heating over the last five years.

It is one of

Ontario Hydro's, I believe.

~ Okay. It is question 3 of Ontario Hydro's interrogatories to us. In terms of what

we might still --

what more we might have lost had we not peak clipped, I have no answer for that.

~ Q. I see. Can you tell me, then, earlier today Mr. Boland said that he thought that the peak clipping activity of MEUs had increased in more or less 1994. Do you know whether that is true for Toronto Hydro?
~ A. No, it is not true. The amount of load that we have available to peak clip is less because we have lost the load that we do this with. In 1994 it was

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47 megawatts; in 1995, 43 megawatts; this year, 41 megawatts. So it is decreasing, not increasing.
~ MS. DROZD: I see. Fine. Thank you, Ms. Zarnett. Thank you, Madam Chair.

EXAMINATION BY THE PRESIDING MEMBER:

~ Q. Ms. Zarnett, with all this discussion of the "Hydro family" I'm reminded of one of my favourite toasts, which is: "To good friends and tolerable relations".

~ Could I ask you to turn up your evidence, please, page 4?

~ A. I have it.

~ Q. I don't think the direct question has been put to you. Does Toronto Hydro expect to participate in the residential retention program?

~ A. Under the terms that it has been put forward for purposes of this hearing I would not expect that we will.

~ Q. And if I could turn you to the last page of your evidence you used the word "discriminatory" in describing the aggregation option, and I wondered if you could expand on that. In what sense do you consider it discriminatory?

~ A. Well, for example, if two plants have six megawatts each and they are eligible for this rate and another customer has three plants with four megawatts so it is the same 12, they don't get it. So that's one basis on which it is -- like, there are two situations which are

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alike where one customer gets the benefit of that and in

which another one doesn't.

~ Over all, this is a selection of certain customers for a benefit which is paid by other customers,

and we don't regard that as acceptable.

~ Q. Can I ask you to turn up the response to IPPSO Interrogatory No. 4. It is on the same issue of the

aggregation rate.

~ A. I have it.

~ Q. Could I also ask that you be given the transcript from Mr. Fox's testimony on the third day?

~ MR. MacODRUM: This is Volume 3 of the transcript?

~ THE PRESIDING MEMBER: Yes. Thank you, Mr. MacOdrum.

~ MR. MacODRUM: I'll have to borrow it. (Passing document to witness)

~ THE PRESIDING MEMBER: Q. Could I ask you to turn up pages 538 to -9? Starting about half-way down

page 538 Mr. Fox and I had a discussion with regard to

aggregation and this issue of whose customer is it. Could I ask that you just take a quick look at that?

~ A. Okay. I assume I can stop where it goes into surplus.

~ Q. Where it goes into diversity, yes.

~ A. Okay.

~ Q. Your answer to IPPSO highlights perceptions. You say Hydro would be "perceived"

to be the

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supplier--

~ A. Yes.

~ Q. --in the event of competition?

~ A. Yes.

~ Q. Is this a perception-versus-reality issue?

~ A. Well, what is addressed in selecting

those words, I guess, is the fact that Ontario Hydro has committed that they would make the utility good in terms of the margin.

~ However, what is intended to be addressed here by the interrogatory is the fact that Ontario Hydro

would go to the customer, offer them an arrangement which

resulted in a bill reduction, thereafter bill them, and I

think those customers would regard themselves as Ontario

Hydro's customers. They would have given Ontario Hydro a commitment of first right of refusal, and so on. And if the utility wanted to retain that customer on any other basis they would have to compete for them through the rate

and not only by addressing the discount which the operation in their own municipality received but also what

was received in the other areas that were being aggregated through some kind of arrangement.

~ Essentially, if the day ever comes when Ontario Hydro's interests should become adverse to those of the municipal utilities that customer is gone in terms of the municipal utility.

~ Q. And the discussion -- the answer Mr. Fox

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gave starting at line 27:
~ It's our intention to work with municipal
~ utilities to make this rate viable and make
~ it available to the extent they are
~ comfortable with it to their customers.

~ Do you believe that there is a way to reconcile that evidence with your evidence? Is it going to be possible to find a way to address the

concerns that you've established through this mechanism that Mr. Fox is describing?

~ A. Well, I guess it depends on how cooperative they're willing to be and how long a time frame that lasts. Certainly the structure

provides for --

allows the utility the right to say no in terms of releasing the customer, but in reality, it would be an extremely hard thing extremely hard thing to go to a customer and say, no, we don't want you to receive this benefit on your bill and it would not be a good strategy in terms of making the customer favourably disposed to us

in the future. So we would, in effect, have to be content with whatever arrangement Ontario Hydro found in their best interest to offer us.

~ Is that helpful?

~ Q. To be very unfair, you'll go kicking and screaming and deal with the consequences later

is what I take from your evidence, but that probably is too black and white.

~ A. Well, I don't think that there's

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anything built into this arrangement that assists the utility in setting itself up separately from Ontario Hydro as a competing entity with its customers and that's my concern.

~ THE PRESIDING MEMBER: Thank you. Those are the Board's questions.

~ Mr. MacOdrum?

~ MR. MacODRUM: I just have one area, Madam Chair.

RE-DIRECT EXAMINATION BY MR. MacODRUM:

~ Q. Ms. Zarnett, in your discussion with Mr. Poch, you agreed that there was an operational benefit from peak clipping.

~ A. Yes.

~ Q. And would you agree with me that part of that operational benefit is to ensure reliability of the

system in the event of outages in components of the distribution system?

~ A. On the basis of the limited understanding I have of those functions, yes.

~ Q. And would it be very hard to reflect

that benefit of the value of peak clipping to
contingencies in the distribution portion of
our rates?

~ A. Well, it would be some work and some
judgment calls in terms of identifying some number and
certainly the number involved would be much less
than the

benefit we're able to give customers now.
~ MR. MacODRUM: Those are all my questions,

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Madam Chair.
~ THE PRESIDING MEMBER: Thank you, Mr.
MacOdrum. The witness is excused with our thanks.
---Witness withdraws.

~ Just before we wrap up, Ms. McKinnon, I take
tomorrow's schedule to be the GEC witnesses in the morning
and the Hydro Mississauga witness in the afternoon.
~ Can you advise if that's correct and also if
the Hydro Mississauga witness has been given a specific
time?

~ MS. MCKINNON: The two panels are correct,
Madam Chair, but unfortunately I do
not know if the Hydro

Mississauga witness has been given a specific time.
~ THE PRESIDING MEMBER: Mr. Poch, can you
help us on this? How long is the expectation for your
panel?

~ MR. POCH: I haven't checked the latest
estimates of cross. I can tell you that in-
chief, we'll

certainly only be 10 or 15 minutes at the most. I have a
hunch Mr. Campbell might have a better sense
of the time

on cross.
~ MR. CAMPBELL: My own sense would be that
there's at least a reasonable probability that there's a
chance to get them both done in the morning if that's at
the nub of your question. And I don't know what
arrangements, if any, have been made with Mississauga
Hydro to have them available.

~ THE PRESIDING MEMBER: We ran into a problem

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with this at a certain time this morning. I wanted to

make sure we weren't going to be running into this same issue tomorrow. So perhaps somebody should contact Mississauga Hydro, find out what time it is that they're scheduled to come, whether they're available to come earlier and if that information could be put on the hotline, that would probably be of assistance.

MS. MCKINNON: Certainly, Madam Chair, we will do that.

THE PRESIDING MEMBER: And similarly with the panels on Friday, the Board's concerned that those are both fairly big panels, if I can use that expression, in terms of the cross-examination that they may elicit. And given the out-of-town witnesses on both of those panels,

we're going to want to make sure that we don't run overtime. So any information that can be provided on the hotline about Friday would also be of assistance I think.

MS. MCKINNON: We'll do it, thank you.

THE PRESIDING MEMBER: Thank you.

Are there any other matters before we adjourn? (No response)

The Board is still deliberating on the motions. We'll probably be issuing our decision on that tomorrow. We are adjourned until 9:00 a.m. tomorrow morning.

---Whereupon the hearing was adjourned at 12:17 p.m., to be reconvened at 9:00 a.m. on Thursday, June 27th, 1996.

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