

**TRANSCRIPT – Ferio Pugliese at Justice Policy Committee on hydro – May 24, 2017**

Speaker: Ferio Pugliese (Executive Vice President, Customer and Corporate Affairs)

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Pugliese:

- OK, I'd like to thank the chair and the committee members for inviting Hydro One to speak on this important bill and what it means for our customers here in Ontario
- I've personally been with Hydro One for close to a year and since I've started, I've been out in our communities, listening to our customers about the fears and frustrations they have about the rising cost of electricity
- I've also had the opportunity to listen to over 2.5 million calls we get annually in our call centre
- We've heard from customers who are struggling to afford their monthly electricity bills, many of which were falling behind on their payments
- The message we heard loud and clear was an urgent call for fairness, for relief
- And Hydro One answered the call by recognizing there were means within our direct control to address this
- So we immediately began with some of our winter relief programs, an initiative to get the lights and in some cases the heat back on for hundreds of customers during the coldest months of the year
- We've been working with these customers to get them back on track for the long-term
- And we went above and beyond existing regulations to give our customers more time to work with us
- We also canceled the policy of requesting security deposits—an industry first
- And my residential customers in reducing one, in reducing to one year the time that we hold business deposits
- Following that decision we returned deposits of 10 million dollars to businesses that were sitting in working capital
- And another 2 million dollars out of working capital that was returned to residential customers
- We also looked at the costs within the control, and we've been able to save tens of millions of dollars through increasing productivity, finding efficiencies across our business, and better negotiating with our suppliers to reduce costs—operating costs
- We recognize that this wasn't enough
- While continuing to focus on improving our business and our service levels and providing relief for our customers in the greatest need, important first steps of rising costs of electricity and the burden it places on our customers still needed to be addressed

- In February, we gathered leaders from across the company to spend a day in the call centre, taking hundreds of calls from customers
- And what we heard comes as no surprise to members of this committee
- We spoke with rural and northern families on electric heat, whose winter bills were over 500 a month
- We talked to single parents and retirees, making decisions between food and heat
- And on fixed incomes
- And there was a real sense that something needed to be done, and it needed to be done rather urgently, urgently
- What our customers needed was relief and fairness
- We began meeting with the Minister and government officials to deliver feedback directly from these sessions, coupled with evidence-based ideas for change, built on data that we have received directly from our customers and our customer information systems
- From Hydro One's perspective, 3 things need to happen immediately: relief on overall cost of power; fair delivery charges for rural, small urban and First Nations communities; and additional assistance for those who need it most
- Changes to the global adjustment and the Fair Hydro Plan will bring significant relief to our residential and small business customers
- That customer on electric heat I mentioned earlier could see savings closer to 75 dollars just on that line item alone
- As you know, most residential and business customers live and work in rural, northern communities, of which represents 60 percent of our customer base
- Where the cost of delivering power to the home is on average higher than that for in a city
- For instance, while we have 1.3 million customers, we also have 1.4 million poles—we have more poles than people
- That's roughly 1 pole per person that we serve
- And urban distributors, conversely, typically serve several customers per pole and per infrastructure investment
- So fairness is needed for these customers, bringing their delivery charges in line with the provincial average is the right thing to do
- The same customer on electric heat could see a further 80 dollars removed from their monthly bill
- Last I'll mention the affordability fund that is being developed will provide distributors with greater flexibility—

*Chair Vernile: 30 seconds to go.*

Pugliese:

- --in delivering effective home upgrades to their customers who would otherwise be not able to afford them
- Message from our customers has been loud and clear that they need to see their bills come down

- A lot of our customers have done their part—they're adjusting their usage, they've installed efficient lighting and they're winterizing their homes
- I will close with this: we want to thank the government and the Minister Thi-, and Minister Thibeault for consulting with us on this important matter
- We want to thank the members of the committee for giving us the opportunity today to advocate on behalf of our customers

*Chair Vernile: thank you very much, Mr. Pugliese. Our first questions for you are from our NDP caucus—Mr. Tabuns.*

*Tabuns: Mr. Pugliese, thank you very much. Gentlemen, thank you for being here this afternoon. You were pretty straightforward in your commentary. People are struggling, there's an urgent call for relief. You know that at the end of 4 years, the relief ends and the bills will go up almost 7 percent a year for the following 6 years. And when it comes to rest, the bills will be 12 percent higher than they otherwise would have been. How do you think your customers will feel about that?*

Pugliese:

- Well, I'm certainly not going to speculate on future rate cases and, and what's going on
- What I can say to you as a, as a company—we're continuing to focus on cost reductions in our operation to continue to make things more efficient and to get costs down
- Our focus here is on fairness for our customers
- And continuing the drive for affordability in electricity

*Tabuns: interestingly, I'm not talking about a rate case. I'm talking about the financing for this 4 years of lower prices. Financing the period of calm comes to an end in 4 years and then prices will go up sharply. Given that your customers are upset now, how do you think they will respond when the prices start going up sharply again?*

Pugliese:

- Well, look, I'm not going to speculate on how the financing is going to work over that period of time
- I think that's something that should be taken up with the various ministries that have been working on this fiscally
- I think this plan—the adjustments that had been made—are needed at this point in time, given what I've seen first-hand in every single community that I've gone into and every customer that I've spoken to with respect to the need to afford electricity today, that adjustments had to take place
- And, and, and that's been our prime focus

*Tabuns: so you're not worried that the prices will be going up—*

Pugliese:

- I'm not

*Tabuns: --sharply. Our Financial Accountability Officer today, using Cabinet documents, ministry documents, showed how it will play out. And that's the scenario. If you have upset customers now, in 4 years they're going to be a lot more upset because they're going to be seeing prices shooting through the roof. But I'll go beyond that—the other thing that the FAO pointed out was that because of the way this whole deal is structured, something that's contrary to public-sector accounting rules, by the way, we're going to be paying 4 billion dollars more in interest costs to reduce bills than we otherwise would have paid. Which will mean higher bills. Does Hydro One support borrowing an extra 4 billion dollars or paying an extra 4 billion dollars, which will drive up hydro rates further for these 4 years of relief?*

Pugliese:

- Well, I, I—we're not sure that that's 100 percent, I guess, correct in terms of it driving hydro bills up over that period of time
- I think that the changes that have been made are systemic changes that have had to be put in place to introduce relief that could actually be seen and benefiting our customers over this longer period of time
- And I think that between now and the time frame that this plan is in place, there's a lot of work that can be done between all the LDCs and the province, including—

*Chair Vernile: thank you very much, Mr. Pugliese. Our next set of questions for you are from MPP Delaney.*

*Delaney: Well, thank you very much, Chair. Perhaps you could expand a little bit more on the rural or remote rate protection program and explain from your perspective what it means to you and how it's helpful to your customers?*

Pugliese:

- Yeah, that one, in particular, is most—was, was most concerning to us, and, and one that we saw probably the most beneficial
- If there was a, an LDC in the province that has customers that would benefit the most from the delivery-charge benefit, it's going to be ours
- The simple reason is that 720-plus-thousand of our customers sit in medium-to-low density areas
- Which means that they're sitting in places with low population but a high degree of infrastructure
- And they're usually subject to high rates and delivery charges for a few reasons
- One is just simply because of the location, there's less opportunities to spread the costs out against the number of people there
- But secondly, typically living in old-stock homes, dependent on electric heat and poor insulation in, in, in the dwellings that they're living in without access to natural gas
- So there's a multitude of factors that actually add to that
- So they're getting hit with consumption rates along with high delivery charges

- So one of the things that we were strong advocates for was trying to bring rural rates—delivery charges—in line with urban rates
- To bring some level of fairness to that, that charge for those people living up in rural areas
- So that's 60-plus percent of our customer base that would be impacted by that

*Delaney: so roughly 3 out of 5 of your customers can expect—from an affordability perspective—that the impact of this particular bill will be beneficial?*

Pugliese:

- Correct

*Delaney: OK. Talking about communicating with your customers about some of the things, and as they change, that affect their bill and possibly lower their cost. You know, for example, things such as the Ontario Electricity Support Program, the 8 percent rebate, the proposals made in this bill. How do you communicate with your customers about such things, as that would materially affect their lives?*

Pugliese:

- Yeah, there's a variety of ways we do that
- We do it through social agencies, in particular—that's one of the main sources
- But we also go direct to customers with our direct mail communications
- We're also shifting to digital channels for those customers that are on digital channels with e-billing and use through our portals where we're getting information to them directly on these programs, how they work, and how they actually qualify
- I will say that social agencies have actually been very instrumental in helping us operationalize those programs
- And now with the introduction of the affordability fund, the affordability fund actually allows us another, another avenue to provide support and above—

*Chair Vernile: thank you, Mr. Pugliese. Our next set of questions for you are from MPP Smith.*

*Smith: thank you, Chair. Following up on the affordability fund—was that an idea of the government or was that an idea of Hydro One?*

Pugliese:

- Predominantly an idea of Hydro One

*Smith: so is Hydro One or the Ministry in charge of what's going to be paid out in the affordability fund?*

Pugliese:

- It's, they're, it is set up via a trust and the trust consists of 3 local distribution companies—ourselves; Hydro, Thunder Bay Hydro; and Electra; along with 2 social agencies
- The funds are put up in a trust
- There's government representation on that board of trustees and it is also audited by a third party
- So Hydro One does not have direct control over where those funds are allocated
- It is established and adjudicated by the actual board of trustees
- What we plan to do with that is invite LDCs from across the province along with – social agencies and there's two social agencies that are on that trust fund as well, it's Carleton United Way and it's also ACTO – which is the local, local, social agency
- The LDCs will bring in cases of affordability forward and the Trust will decide and adjudicate how funds should be allocated

*Smith: At what point did Hydro One become a private company?*

Pugliese:

- In November 2015

*Smith: So how was it then that the Ministry directed hydro one to appear at that event on March 2<sup>nd</sup>, how did the Ministry advise hydro one to participate in the event on March 2<sup>nd</sup> where the fair hydro plan was unveiled to the public?*

Pugliese:

- That was simply because we had presented some fact based solutions and recommendations of how we felt
- The bulk of the customers in Ontario could be impacted which we represent
- Was really rationale for that

*Smith: But but in the questions that Mr. Tabuns was asking, it didn't seem like you were concerned about the fact that we now have documents showing exactly what the cost of electricity is going to be and that's a huge concern. I represent a lot of hydro one customers, it strikes me that it doesn't seem to be concerning to you, as hydro one executives*

Pugliese:

- You know I think any costs that gets allocated to the electrical system in Ontario is a concern to us
- I will say this is that relief in the form of bringing hydro rates down was in our opinion at crisis proportions in the province
- And I believe that this plan does address that and allows and offers time-

*Smith: But it's going to be to be at crisis proportions again, it's going to be at crisis proportions again, do you not think that the \$25B to \$93B that the FAO said that this*

*could cost could be better used to invest in creating a better transmission system in Ontario, or ensuring that we have the equipment that we need to help keep costs down?*

*Chair Vernile: I'm very sorry to do this, that's our time*

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