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BY COURIER

July 23, 2007

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

EB-2006-0189 – Hydro One Networks' Reply Submission on Section 6.3.6 of the Transmission System Code and Associated Cost Responsibility Issues

I am attaching nine (9) copies of Hydro One Networks' Reply Submission which is being filed today as directed by Procedural Order No. 3, dated June 7, 2007. Copies are being sent to all persons listed in Appendix D of Procedural Order No. 3. An electronic copy of the Reply Submission will also be added to the Hydro One Networks external website for public and intervenor access.

Hydro One notes that there was a recommendation in one intervenor submission to expand the discussion on this matter still further to be more inclusive. While Hydro One supports full consultation, there is a need to move forward, at least on an interim basis, to provide regulatory certainty to transmitters and customers, particularly with respect to other ongoing proceedings that may be contingent on this decision – e.g. Section 92 on Woodstock Area Transmission Reinforcement Project in EB-2007-0027, Section 92 on Western Brampton Transmission Reinforcement Project in EB-2007-0013, and Hydro One's Transmission Rate Filing in EB-2006-0501.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

cc All Persons in Appendix D of Procedural Order No. 3

Hydro One Customer Connection Procedures (EB-2006-0189)

Procedural Order No. 3

Hydro One Reply Submission

1. Introduction

Hydro One is appreciative of the Board's decision to invite a full discussion on the issue of capital contributions with respect to new or modified connection facilities, and for the opportunity to further clarify Hydro One's position. Hydro One's foremost objectives in this matter are to:

- seek regulatory clarity;
- uphold the 'user pay' principle of fair cost allocation; and
- ensure that the Code and Hydro One's connection procedures facilitate adequate, economic, and timely reinforcement of the transmission system to meet load growth and maintain system reliability and integrity.

2. Hydro One's Position

Hydro One's position is that a customer is not required to make a capital contribution for *any line connection facility that serves more than a single customer*.¹

The rationale for Hydro One's position is based on section 6.3.6 of the Code. Section 6.3.6 provides that a transmitter shall not require a customer to make a capital contribution for a connection facility that was otherwise planned by the transmitter. To avoid ambiguity, Hydro One is of view that a clear and practical rule is needed to interpret the meaning of 'otherwise planned.'

Hydro One interprets this to mean that a customer is not required to make a capital contribution for any connection facility that was already included in its Local Area Supply ("LAS") planning. An LAS facility is defined as: *Any line connection facility that serves more than a single customer*.² Such planning for LAS facilities may include joint studies, assessments, and other planning work to meet load growth, provide reliable supply to customers, and ensure operating and maintenance flexibility of the transmission system.

The term "Plan" is used in Hydro One's connection procedures to refer to plans that pertain to LAS facilities. Further to the clarification that was filed on February 23, 2007, Hydro One proposes, for additional clarity, to replace any reference to the term "Plan," wherever it appears in its connection procedures, with the expression "plans pertaining to LAS facilities."

Hydro One believes that the concept of an LAS facility which does not require a capital contribution from a connecting customer enhances transmission system planning, in that it:

- provides for wider-ranging transmission solutions;

¹ See section 4 (Board Staff Position) on the definition of an LAS facility.

² *Ibid*

- facilitates expansions involving multiple customers with different timing and supply needs; and
- mitigates risks of overloading of the transmission system due to deferred expansions resulting from inadequate customer financing.

Therefore, Hydro One proposes that LAS facilities should not require capital contributions from connecting customers.

3. Supportive Intervenors

The following three submissions support Hydro One's position:

In its submission, Woodstock Hydro endorses Hydro One's interpretation of section 6.3.6 of the Code as correct, noting that it will ultimately serve the provincial interest in maintaining an adequate transmission system.

AMPCO supports Hydro One's position that the costs for line connection facilities supplying more than one customer should be "socialized" – i.e. recovered from the line connection pool, and not from individual customers through capital contributions. AMPCO cites several reasons why it believes this to be the most practical and effective approach, including procedural simplicity, reduced subjectivity, and consistent treatment of customers.

Four LDCs from the Waterloo area also express support for Hydro One's position, noting in their joint submission that the Preston project (involving an LAS facility) should be the responsibility of the transmitter, and therefore not require capital contributions from individual customers.

A fourth submission also supports Hydro One's position, but goes further:

The OPA proposes that all line connection facilities be considered LAS facilities, including the case of a line connection facility serving a single customer only. In the OPA's view, a transmitter's long term planning should account for normal load growth, so that only in exceptional circumstances, such as the connection of a major new customer, would an LDC be required to pay a capital contribution with respect to a line connection facility.

Although Hydro One is of the view that the benefit of a line connection facility that serves a single customer is readily attributable to that customer (unlike the case with multiple customers), Hydro One sees some merit in the OPA's proposal and acknowledges that there may be circumstances under which wider system benefits may result from a line connection facility serving even a single customer.

4. Board Staff's Position

Board staff disagrees with Hydro One's position and presents several arguments in support of its view that customers should make a capital contribution for a new or modified connection facility, regardless of the number of customers triggering the need.

LAS Facility

As a matter of clarification, Hydro One proposes to adopt a clearer and more concise definition of the term, “LAS facility,” as offered by Board staff in its submission on July 9, 2007, as follows: *Any line connection facility that serves more than a single customer.*

Transmission Plans

Plans to Include All Expansions

Board staff is of the view that all expansions in a particular area should be included in the transmitter’s plans that are provided to a connecting customer, to provide a complete picture of transmission system expansions in the area.

Hydro One agrees with Board staff and will develop and maintain plans to meet load growth and maintain the reliability and integrity of its transmission system.³ These plans are in the context of meeting electricity supply needs, and cover expansions to transformation connection facilities, line connection facilities and network facilities. In accordance with section 6.1.4 (i) of the Code, Hydro One will provide the most recent version of these plans to connecting customers to provide a complete picture of transmission system expansions in any particular area.

Types of Plans

Board staff distinguishes between two types of transmission plans. The first type relates to load growth while the second type pertains to reliability and integrity of the transmission system.

Hydro One does not distinguish between such plans, since there is often no clear distinction between them. Load growth is necessarily an important consideration in any plans for maintaining reliability and integrity of the transmission system. In its submission on July 9, 2007, the Coalition of Large Distributors (“CLD”) writes:

In relatively few cases is there a clear distinction between projects undertaken at a customer’s request and projects which are part of the transmitters overall system plan. This is particularly relevant for distributors whose role is to ensure that there is adequate supply to end-use customers. The absence of a clear distinction for the majority of projects is a strong reason for the transmitter maintaining responsibility for planning the system and financing those plans through transmission rates.

In its submission on July 9, 2007, Five Nations Energy Inc. (“FNEI”) does distinguish between customer driven (i.e. new connection or load growth) and transmitter-planned (i.e. system integrity and reliability related) facilities. However, FNEI does not define system integrity plans explicitly (e.g. voltage regulation, power quality, etc.) but rather associates a benefit to multiple customers as a system (integrity and reliability) issue, and a benefit to a single customer as an individual customer issue. In its final concluding paragraph under Cost Responsibility, FNEI writes:

³ See Hydro One’s reply submission (2nd paragraph on page 4) on February 23, 2007.

Presumably, the rationale behind section 6.3.6 of the TSC is that these new or upgraded connection facilities are not being constructed solely to benefit a single customer, but will provide benefits to a number of customers. As a result, the costs for such new or modified connection facilities should be borne by the Line Connection Pool as a whole and not a single customer.

In its submission on July 9, 2007, the Electricity Distributors Association (“EDA”) acknowledges the difficulty in distinguishing between benefits provided by LAS facilities in addressing customer load growth versus the overall transmission system.

Members indicated that LAS facilities provide an overall benefit to the transmission system, and in many cases it would be difficult to properly attribute causality when there are more than one transmission customer and the facilities are needed to address load growth.

In its submission on July 9, 2007, Great Lakes Power Limited (“GLPL”) does not distinguish between load growth and system reliability and integrity in its plans. GLPL writes...

A customer should not be responsible for the payment of capital contribution in respect of a new or modified customer connection (except advancement costs) that is otherwise part of the transmitter fulfilling its obligation to plan for load growth, reliability and integrity of the system generally. With respect to the nature of “plans” referred to in section 6.3.6, it is GLPL’s submission that this term be provided with a general interpretation and not restricted to plans associated with one aspect or construct within the transmission system.

Hydro One agrees with the above submissions that a transmitter’s plans to address load growth and system integrity and reliability are not mutually exclusive. To attempt to draw a clear distinction between these plans would be problematic. For example, the voltage in a region can become a problem once load growth exceeds a certain threshold.

Hydro One is therefore of the view that a transmitter should develop and maintain plans that do not distinguish between load growth and system reliability and integrity, but address both together, as required by section 6.3.6 of the Code.

User Pay Principle

Board staff argues that Hydro One’s interpretation of the Code could erode the “user pay” principle that underlies much of the Code.

Hydro One’s position upholds the ‘user pay’ cost allocation principle. Hydro One notes that an important aspect of the ‘user pay’ principle is that all parties pay their fair share.⁴ For fairness, a customer should only be responsible for costs associated with a new or modified connection facility to the extent that the facility benefits that customer to the exclusion of all other customers. Since it is not always possible to readily determine the extent to which a specific customer benefits from an LAS facility relative to the wider transmission system area, Hydro One is of the view that customers should not be required to make a capital contribution for LAS facilities. To do otherwise would shift the cost burden from the Line Connection Pool to individual customers.

⁴ “Synopsis of Changes to the Transmission System Code” (July 25, 2005), section 3.0 (Cost Responsibility)

Reducing Capital Contributions

Board staff referenced several provisions in the Code that help to reduce capital contributions. Hydro One does not share Board staff's view that appropriate mechanisms exist in the Code to adequately address the issue of high capital contribution amounts faced by customers for LAS facilities.

5. Conclusion

Hydro One's position is that a customer is not required to make a capital contribution for any line connection facility that serves more than a single customer (i.e. "LAS" facility) since such facilities are typically 'otherwise planned' by the transmitter.

Hydro One believes its position is consistent with section 6.3.6 of the Code, and notes that there is a near consensus among intervenors in support of Hydro One's interpretation. Hydro One and the majority of intervenors also believe that Hydro One's proposed treatment of capital contributions with respect to LAS facilities is fair in terms of cost responsibility, and provides a clear and practical way forward that will facilitate adequate, economic, and timely reinforcement of the transmission system in the province of Ontario.