

ONTARIOPOWER GENERATION

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January 26, 2007

VIA COURIER AND FACSIMILE

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Networks Inc. and Great Lakes Power Limited Review of
Connection Procedures Pursuant to the Ontario Energy Board's
Transmission System Code
Board File No. EB-2006-0189, EB-2006-0200**

Submission of Ontario Power Generation Inc.

Please find enclosed nine hard copies and an electronic copy of Ontario Power Generation Inc.'s submission in connection with the above referenced proceeding. This proceeding deals with the proposed transmission connection procedures of Hydro One Networks Inc. and Great Lakes Power Ltd.

If there are any questions, please do not hesitate to contact me at (416) 592-4463 or Tony Petrella at 416-592-3036.

Yours truly,



Andrew Barrett

Encl.

January 26, 2007

EB-2006-0189

EB-2006-0200

IN THE MATTER OF section 6.1.5 of the Ontario Energy Board's Transmission System Code;

AND IN THE MATTER OF an application by Hydro One Networks Inc. for the review and approval of connection procedures;

AND IN THE MATTER OF an application by Great Lakes Power Limited for the review and approval of connection procedures.

**Submission of
Ontario Power Generation Inc. ("OPG")**

January 26, 2007

Submission of Ontario Power Generation Inc. ("OPG")

OPG supports the Board's decision to review Hydro One Network Inc.'s (Hydro One) proposed transmission connection procedures. The issues in this proceeding are of importance to OPG since it is considering a number of generation projects which may need to be connected to the transmission system in a timely fashion. In addition, since OPG relies on the transmission system to deliver its production to customers, the reconnection procedure is of interest to OPG.

In general, OPG submits that the proposed transmission connection procedures reasonably balance the interests of the transmitter, in relation to the management, operation and reliability of the transmission system, and the interests of the connected customers. However, in three areas OPG has concerns. Its submission focuses on these three areas;

- 1) the security deposit procedure,
- 2) the reconnection procedure, and
- 3) the template for the Generation Facility Connection and Cost Recovery Agreement.

1) Security Deposit Procedure

OPG is concerned that Hydro One's proposed security deposit procedure establishes onerous and unnecessary prudential requirements without the support of appropriate study or analysis (Table 1, Page 22). Imposing onerous security deposits on generation and load project proponents can be viewed as an additional barrier to project development, causing the overall cost to consumers to increase, and unnecessarily reducing liquidity in the market.

Hydro One acknowledged in its response to OPG's Interrogatory #4 that no formal studies were done to establish security deposit requirements.

"Table 1 was derived using the IESO's prudential requirements framework adapted for Hydro One's requirements, based on internal assessments by Hydro One staff. No formal studies were used."

OPG submits that Hydro One should be required to conduct formal studies from which it is expected that Hydro One would arrive at a more realistic security deposit requirement. In OPG's submission this more realistic security deposit requirement would consider the level of risk, best practices in the industry, and potential impacts on the market. In the interim, OPG recommends that the following table be used.

Security Deposit Requirement During Construction for Generator and Load Customers

Credit Rating (DBRS or equivalent)	Security Deposit Requirement	Rationale for Security Amount
A- and above, and LDC's with an acceptable credit rating	None	Highest credit rating. For LDCs long term stability supported by municipal tax base.
BBB- to BBB+ (investment grade)	25% of MNE	Good credit rating.
BB- to BB+ (below investment grade)	50% of MNE	Fair credit rating just below investment grade, possibly caused by temporary or cyclical factors.
B+ or below, or unrated	100% of MNE	Low or no credit rating.
Future Unrated Customers (including LDC's) (Section 6.3.9 of the Code)	100% of incremental costs required to install additional capacity	Up to 5 year lead time for connection requires security deposit if customer does not connect.

Maximum Net Exposure (MNE) is equal to Hydro One's estimated Connection and Network Costs, less Capital Contribution. Security deposit requirements may be reduced if cost recovery is reasonably assured through confirmation by the OPA, IESO, or OEB, or if customer credit-worthiness is established through means other than a bond rating, such as Altman-Z or Kaplan-Urwitz credit scores or other means.

The main change resulting from OPG recommended approach is that if a Generator or Load Customer has a credit rating of A- or better (instead of AAA- or better) there would be no security deposit requirement. This is appropriate in OPG's submission because entities rated A- or better are viewed by the credit community as better than investment grade. A better than investment grade rating means that the probability of default within a typical construction period of 12 to 18 months is negligible given the types of companies that attain the A- rating, and the frequent review of those companies by the credit agencies. If the Board feels that Hydro One requires additional protection, Hydro One could mitigate a substantial amount of its credit risk through appropriate contractual provisions. For instance, the use of "downgrade" triggers would allow Hydro One to make a security call during the term of a connection project if the generator

and load customer suffers a rating downgrade below an acceptable level. OPG submits that using its recommended security deposit requirement approach would enhance the environment for generation development and lessen the burden on load customers. OPG believes that these types of policies are in the best long term interests of the electricity industry and electricity customers.

2) Reconnection Procedure

With regard to the proposed reconnection procedure, OPG is concerned with Step 8 on page 46 of Hydro One's proposal. Step 8 states that:

"Step 8 - Once Hydro One is satisfied that reconnection of the customer's facilities will not cause any adverse effects on the transmission system, the customer will be advised in writing when reconnection can take place. Hydro One shall have the right to participate in all or any part of inspection, testing and commissioning activities that may be required by Hydro One, at the customer's cost."

OPG recommends adding a clause to Step 8 that clearly states that Hydro One will not unduly delay the reconnection. The addition of the clause should make it clear that Hydro One is expected to use its "best efforts" to complete the work in a timely fashion so as not to unnecessarily cause delays.

3) Connection and Cost Recovery Agreement Template

With regard to the template for the Generation Facility Connection and Cost Recovery Agreement (CCRA), Hydro One has, in OPG's submission, made a reasonable effort to provide a CCRA template that is clear, balanced, and that addresses the connection requirements and costs. However, OPG submits that the agreement could be enhanced by the adoption of the following modifications:

- Page 2, Section III, first sentence: - Insert the word "commercially" in front of the word "reasonable". This addition will make the sentence consistent with Section III (e) and provide clarity to the document.
- Page 3, Section III, last sentence: - Delete the last full sentence that reads;
"The Generator Customer acknowledges and agrees that the Ready for Service Date may be materially affected by difficulties with obtaining or the inability to

obtain all necessary land rights and/or environmental approvals, permits or certificates.”

and replace with

“Both parties will use commercially reasonable efforts to complete their portions of the connection work in accordance with the project schedule.”

While OPG recognizes that delays in approval processes may delay an in-service date, OPG’s concern relates to Hydro One not using its best efforts to obtain approvals and completing its work in a timely manner. The replacement of the sentence commits both parties to work diligently to complete their work in all aspects of the project, including approvals, and as such should provide a generator proponent a greater level of comfort by using more balanced provisions.

- Page 16, Section 1., Generator Customer Allocated Network Work definition: - Replace the words “Compliance Bulletin 200606” with the words “Transmission System Code”. OPG submits that it is inappropriate to reference a bulletin from the Chief Compliance Officer (CCO) of the OEB. Our rationale for the change relies on the fact that no statutory power of decision making has been delegated to the CCO and that the views expressed in the bulletin by the CCO are not binding on the Board. In addition, the CCO Bulletin 200606 has not been stakeholdered or tested before the Board to determine if it is consistent with the Transmission System Code. As a result, we conclude that it is more appropriate to reference the Transmission System Code since it is an approved document.
- Page 22, Section 24, last paragraph: - After the words “Transmission System Code”, insert, “and the Generator Customer may disclose Hydro One’s Confidential Information to the Ontario Power Authority and its advisors and representatives provided that the same agree in writing to use Hydro One’s Confidential Information for the requirement of the work.” The rationale for this addition centres on the fact that the majority of new generator connections will involve the Ontario Power Authority as a result of government directives and the results of the Integrated Power System Plan of the OPA. Inserting the new clause should expedite the signing of the CCRA.

All of Which is Respectfully Submitted,



ONTARIOPOWER GENERATION

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Email copy sent. Hard copies to be delivered Monday morning.

Regards

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