   

EDA
The Voice Of Ontario's Electricity Distributors

EDA Presentation

Thursday February 14, 2008

Cost Responsibility Policies for Connecting to Transmission Systems

(EB-2008-0003)

Costing Policies for Tx Line Connections;

- Transmission System Code (TSC) sets the policy for assigning costs for transmission connection facilities.
- Section 6.3 Cost Responsibility for New or Modified Connections
  - Customers are required to make capital contributions to the extent that costs of connection facility is not recoverable in connection rate revenues (6.3.1, 6.3.2)
  - Where more than one load customer triggers new or modified connection facilities, costs are allocated to each based on projected load forecasts and length of line (6.3.15)
  - Customers are not required to contribute for connection facilities planned by the transmitter to meet load growth and maintain reliability and integrity of the system (6.3.6)

Hearing on Connection Procedures

- OEB hearing on Hydro One connection procedures (EB- 2006-0189) took place in summer of 2007
- Key issue was interpretation of Section 6.3.6
- Board staff believed 6.3.6 was meant for transmission plans to address system requirements such as maintenance of voltage regulation, addressing power quality, replacing old facilities, and upgrading existing facilities

OEB decision Sept. 6th

- Costs are pooled when enhancement is part of planning process and when plan was developed substantially independent of customer request
- Whether plan meets criteria for pooling is considered on a case-by-case basis
- Regarding Distributor concerns on the cost and treatment of capital contributions for line connection facilities:
  - In an IRM format, opportunity to recognize contributions occurs when an LDC makes a forward test year based on cost of service application
  - When a LDC makes a contribution and needs to recover it sooner that the current schedule for rebasing, it should make an application to advance its rebasing

Concerns Expressed

- Hydro One does not distinguish between plans to meet load growth and plans for system reliability and integrity
- Transmission planning is an integrated exercise and plans to address reliability and load growth are intertwined
- OEB decision assigns cost responsibility on the mechanics of the process – based on "who spoke to whom"
- There is no clear distinction between projects based on customer requests and those in the overall system plan
- Case-by-case review creates uncertainty & impede timely decisions
- There is the issue of high capital contribution amounts faced by customers requiring system enhancements
- Local Area Supply facilities primarily benefit the pool which will be put at risk if customers cannot provide capital contributions

OEB Decision Nov. 26th

- OEB acknowledges that decision did not eliminate all uncertainty – cost responsibility is subject to OEB oversight in the context of leave to construct applications or rate application and depends on the nature of the facilities
- Absent more prescriptive rules in the Code, certainty is not obtained until after approval
- Questions of transmission policy raised by parties are better addressed in a policy process
- OEB is aware of the issues and remains open to initiate a policy process

OEB Policy Review

- January 4, 2008 OEB issues announcement to review Cost Responsibility Policies for Connecting to Transmission Systems (EB-2008-0003
- OEB notes parties recently expressed concerns on cost policies for LDCs, including those that may inhibit rather than facilitate the construction of facilities that are necessary to meet regional load growth and do not provide sufficient regulatory certainty

EDA Members Concerns

- Distributors express difficulty with obtaining the capital to contribute to the transmitter
- Uncertainty over whether the capital contributions could be included in the distributor's rate base
- In some cases, contributions can be so large that it would not be possible for the distributor to obtain the capital.
- Contributions can create financial hardships on some distributors, and significant rate impacts.
- These issues had not been adequately considered during the original development of the Transmission System Code.

Reasons for Limited Access to Capital

- Municipally-owned distributors have limited access to additional equity.
- Equity can only be increased through retained earnings
- Once distributors reach their deemed debt:equity ratio, taking on additional debt makes borrowing more difficult.
- Budgeting for large capital expenditures requires long term plans and retain earnings over years to ensure their debt:equity ratio will remain reasonable.
- To obtain loans they must demonstrate to lenders that the returns on the invested assets will be adequate to repay the loans.

Revised TSC needed

- Retained earnings may not be adequate to pay part of the capital contributions and maintain a reasonable debt:equity ratio.
- When the Transmission System Code was written, the potential issue of distributors have difficulty accessing capital was not addressed.
- EDA members support revising the Transmission System Code such that transmission line connection costs would be pooled and load customers would not be required to provide capital contributions.
- This position was endorsed by the EDA Board of Directors on February 5, 2008.

Implications of Pooling

- EDA members are aware that pooling line connection costs would eliminate the contestability of installing line connection facilities.
- Members are also aware that pooling line connection costs would cause all distributors to pay for load growth caused by some distributors.
- Nevertheless, the EDA members believe pooling would solve many issues and would be workable
- Benefits from pooling line connections outweigh the concerns.

Pooling Solves Issues

- No longer need to distinguish between plans to meet load growth and plans for system reliability and integrity.
- Transmitter can more easily carry out integrated planning for reliability and load growth.
- No need to determine cost responsibility, and “who spoke to whom”, and customers will share information to use in overall system plan.
- Reduces uncertainty and facilitates timely decisions.
- Reliability will not be put at risk from distributor’s inability to provide capital contributions
- Eliminates need for capital contributions from load customers which is impractical and unworkable.