EDA

The Voice Of Ontario's Electricity Distributors

February 11, 2008

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

Via Board's web portal and by courier

Dear Board Secretary:

Re: Board File No. : EB-2008-0003 – Review of Cost Responsibility Policies for Connection to Electricity Transmission Systems – Consultation Process

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario.

The EDA is pleased that the Board has initiated a review of the policies for connecting load customers and generators to the transmission system. The key issue for load customers with respect to the costing policies is the present requirement for load customers to provide capital contributions following an economic evaluation for a proposed line connection facility.

The load customer issues were raised this past summer during the Transmission Connection Procedures Review and the subsequent Hydro One appeal of the decision where there was a dispute over the interpretation of Section 6.3.6 of the Transmission System Code. In the fall the OEB clarified that Section 6.3 of the Transmission System Code as a whole clearly indicates that capital contributions are required from customers who benefit from enhancements to line connections. The OEB said costs should only be pooled when enhancements are part of a planning process and when plans were developed substantially independent of customer requests. In addition, the OEB indicated that it would determine on a case-by-case basis whether a plan meets the criteria for pooling.

Concerns were expressed about assigning cost responsibility on the basis of "who spoke to whom". It was noted that a case-by-case review to determine when to pool costs would create uncertainty and delays. Issues were also raised regarding the impact on proposed transmission facilities, when load customers could not provide their required capital contributions. Concerns were also expressed regarding the regulatory treatment of capital contributions made by

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distributors. Clearly these issues were creating significant barriers to the timely construction of facilities needed to meet regional load growth. Distributors were particularly concerned about the financial implications caused by the large capital contribution amounts on some distributors for transmission system enhancements.

On January 23, 2008 the EDA's Regulatory Council met to discuss the issues regarding the capital contribution requirements for new transmission line connections. Members discussed their problems with obtaining the capital to contribute to the transmitter for line connection assets. Members also noted that uncertainty over whether the capital contributions could be included in the distributor's rate base made it even more difficult. Nevertheless, even if contributions could be rate based, the contributions in some cases were so large that it would not be possible for the distributor to obtain the capital. Forcing distributors to pay the contributions would create financial hardships on some distributors, and in some cases significant rate impacts. This implication had apparently not been considered during the original development of the Transmission System Code.

Municipally-owned distributors have constrained access to additional equity. Equity can only be increased through retained earnings, because municipal shareholders are prevented by legislation from providing cash infusions to their distributors. Once distributors reach their deemed debt:equity ratio, taking on additional debt makes borrowing more expensive and more difficult. When budgeting for large capital expenditures, distributors are required to make 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.

When large capital contributions are required for transmission line connections, distributors are not assured that they will receive a return on the investment, and even if they could rate base the contribution, they would have difficulty obtaining loans due to the impact on their debt:equity ratio. The retained earnings may not be adequate to pay part of the capital contributions and maintain a reasonable debt:equity ratio. This results in distributors not having the ability to provide the capital contributions required for their transmission line connections.

Clearly, when the Transmission System Code was written, the potential issue of distributors having difficulty accessing capital was not considered. As a result, EDA members now 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.

From the perspective of EDA members, the benefits from pooling line connections outweigh the concerns some may express about pooling line connection costs. The 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 distribution customers to pay for the facilities to address load growth caused by some distribution customers. Nevertheless, the EDA members believe pooling would solve many issues and would be workable. The existing costing policies appear unworkable and problematic.

Members agree with Hydro One that it is difficult to 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. Cost responsibility should not be based on the mechanics of the process and “who spoke to whom” and there is no clear distinction between projects based on customer requests and those in the overall system plan. The existing policies create uncertainty and impede timely decisions. Members believe the existing costing policy requiring capital contributions from load customers is impractical and unworkable.

Pooling costs would resolve many issues. There would be no need to distinguish between plans to meet load growth and plans for system reliability and integrity. Transmitters would be able to more easily carry out integrated planning for reliability and load growth. There would be no need to determine cost responsibility, and “who spoke to whom”, and customers would be more willing to share information about load growth which would assist in overall system planning.

With respect to the capital contribution issue, pooling would eliminate the need for capital contributions from load customers, and reliability would no longer be put at risk from a distributor’s inability to provide capital contributions. Most importantly, pooling would reduce uncertainty thus facilitating transmission planning.

Yours truly,

“original signed”

Richard Zebrowski
Vice President, Policy and Corporate Affairs

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