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BY COURIER

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

EB-2008-0003 – OEB Review of Cost Responsibility Policies for Connection to Electricity Transmission Systems – Hydro One Networks' Initial Comments and Submissions

In accordance with the Board's January 4, 2008, invitation to file comments, position papers, analyses or other written materials for the February 14 meeting, Hydro One hereby provides its initial comments and submissions on the key issues in this proceeding.

An electronic copy of our oral presentation material will follow tomorrow, as discussed with Mr. David Brown.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Transmission Connection Cost Responsibility Policy Review

Submission of Hydro One Networks Inc.

1.0 INTRODUCTION

The Ontario Energy Board (the "Board") has initiated a policy review on the matter of cost responsibility for transmission connections. This review is expected to generate wide and different views from industry stakeholders. Hydro One Networks Inc. ("Hydro One") commends the Board for initiating this review and would welcome regular reviews of policy and Codes to ensure that they reflect current market requirements.

It is Hydro One's view that the current cost responsibility rules have the effect of impeding needed transmission reinforcement in Ontario. The outcome of this policy review will directly affect a number of important projects and initiatives currently underway, including the Ontario Power Authority's ("OPA's") Integrated Power System Plan ("IPSP"), Connection and Cost Recovery Agreements ("CCRAs") between transmitters and customers, Leave to Construct applications (pursuant to section 92 of the *Ontario Energy Board Act, 1998),* Hydro One's Transmission Rate application, and the addition of renewable generation in Ontario. In addition, the policy review itself has introduced a degree of uncertainty for transmitters and customers who may be contemplating projects involving connection facilities. For all those reasons, a decision by the Board in this matter is urgently needed.

In view of the critical and urgent nature of this proceeding, Hydro One respectfully suggests that this policy review remain focused on the issue of cost responsibility and that it refrain from enlarging its scope to include other issues, such as rate redesign, or whether a competitive process should be used to procure transmission connections to renewable generation.

It is acknowledged that rate redesign could be used as a means of implementing new rules for cost responsibility. However, rate redesign is a far-reaching initiative that would have an impact on all customers, not only on those who are contemplating new connections to the transmission system. Such an initiative would require more extensive consultation and would complicate and prolong this proceeding so that it would not be completed in time to inform the IPSP.

Similarly, the use of this proceeding to examine new approaches for procuring transmission would require extensive consultation. While other jurisdictions, most recently the UK, have examined tendering processes for deciding "who builds" certain (typically) boundary transmission facilities, this decision requires careful consideration of the current market and whether such change would improve the overall transmission system. Given the urgent need for transmission infrastructure, there is clearly a supporting role for the private sector in the design and construction of transmission facilities without adding the complexities of transmission asset ownership. Cost responsibility should remain the focus of this proceeding.

2.0 PRINCIPLES

Hydro One's position on this complex matter of cost responsibility for transmission connections was developed based on two fundamental principles.

2.1 *Cost responsibility must not impede needed transmission reinforcement*

Ontario faces considerable challenges in continuing to provide reliable, dependable electricity to consumers. Retiring coal-fired generation, renewing existing generation, transmission and distribution infrastructure, providing new sources of generation, and promoting conservation are some examples of the issues. The Ontario Government has set out its energy policy to address these issues, with an emphasis on enabling renewable

generation connected to both the transmission and distribution systems. Hydro One believes that cost responsibility direction should facilitate the Government's energy policy.

Hydro One recognizes that the scope of this consultation includes cost responsibility for generation connections to the transmission system and that the Board has already initiated a subsequent, separate proceeding to address cost responsibility for connections to the distribution system. The current rapid expansion of generation in Ontario will require numerous connections at both the transmission and distribution levels, with the aggregate of the distribution-connected generation having a material impact on transmission facilities. Hydro One has already encountered circumstances where cost responsibility for transmission system enhancements required as a result of distribution-connected generation became an artificial barrier to the connection of such generation. In view of the urgency and interrelatedness of the issues, and to ensure consistency in policy between transmission and distribution, Hydro One believes that the best approach would be for this proceeding to deal with the issue of cost responsibility for transmission connection facilities that are triggered by distribution-connected generation.

In the case of load connections, Hydro One submits that it is necessary to ensure that adequate and timely reinforcement to the transmission system occurs so that the needs of consumers are met in a fair and efficient manner. Cost responsibility is a vehicle for driving appropriate business behaviours – in this case, investments in transmission connections. Cost responsibility must be assigned in a manner that will promote adequate and timely transmission reinforcement.

2.2 *Cost responsibility policy should promote regulatory certainty, administrative efficiency, and effective transmission planning*

All industry participants seek to reduce the current regulatory uncertainty in the area of cost responsibility for transmission connection facilities. A lack of certainty in the rules governing the matter of "who pays?" not only results in confusion and increased risks among transmitters and customers, but also imposes delays in the development of critical

transmission infrastructure. The cost responsibility provisions in the TSC must be clear and unambiguous. They should be rule-based and not require interpretation on a case-by-case basis. Transmitters should have not only the obligation, but also the means, to plan and implement needed transmission infrastructure across the Province without the delay inherent in attempting to assess cost responsibility under uncertain rules. Additionally, once clarity is achieved in the cost responsibility rules, an efficient process is needed to administer those rules to facilitate the assignment of cost responsibility in actual cases.

In two recent proceedings (EB-2006-0189 and EB-2007-0797), Hydro One raised concerns about cost responsibility rules that did not provide sufficient clarity and certainty. Unlike these other proceedings, which were limited to interpreting existing provisions in the TSC, the present proceeding provides the opportunity to review existing cost responsibility policy and is the proper place to make the necessary changes that will achieve maximum clarity, certainty, and proper business behaviours.

The transmission planning process generally requires a long lead times, often longer than the time required for a regulatory proceeding for a specific project. To enable an effective and efficient planning process, there is a need for clear rules for cost responsibility. The identification and assessment of the transmission alternatives during the planning process is heavily dependent on the cost responsibility rules. These rules have a significant impact on the reliability of supply to local areas, as well as the timing of transmission investments, since it is an economic reality that certain transmission facilities will not be built where cost responsibility is assigned to a party that is unable to access the required capital.

3.0 KEY MESSAGES

Transmitters should be able to rely on a regulatory construct and environment that will help transmitters plan, design, build and deliver a reliable and high quality service that meets customer needs at fair and reasonable rates. Key elements of a supportive environment include enhanced regulatory certainty with respect to cost responsibility and a fair and reasonable mechanism for risk-sharing between the transmitter and its customers.

3.1 A system-wide assessment of the "economics" of certain facilities is needed

As transmission is essential infrastructure and a public good, some pooling of the costs associated with transmission facilities is proper and appropriate. It is Hydro One's submission that the "economics" of proposed cost pooling for "enabler facilities" (a concept which includes not only enabler lines but also enabler stations) should be subject to Board approval, by means of approval of the IPSP. Furthermore, the "economics" of certain other needed transmission facilities that are not in the IPSP should also be subject to assessment and subsequent Board approval.

The term "economics" has been placed in quotes because such assessments may extend beyond tangible costs and benefits to include considerations such as "the public good". Hydro One submits that while its core strength is in the planning, engineering, construction and operation of transmission infrastructure, it is not in a position to assess the societal value of transmission infrastructure with respect to integrating generation connections to its transmission or distribution system.

It is Hydro One's view that regulatory certainty would be enhanced by conferring on a single entity the authority and responsibility for conducting overall system-wide assessments of the "economics" through integrated resource planning for generation and transmission, for which the need is based on considerations in addition to the reliability of supply to local areas. Hydro One submits that this "economics" assessment, where required, would best be carried out by the OPA. It is the OPA which is responsible for generation and demand reduction procurements, and it is thus in a position to assess the overall costs and benefits of various supply (generation and transmission) and demand reduction options to achieve the Supply Mix directive.

In these assessments, there is the question of the treatment of generators relative to load customers. Because the current Government policy on "enabling transmission" applies to

generation only, Hydro One is of the view that generators should not be treated the same as load customers, and assessments of the "economics" of connection facilities should be conducted only for generators.

3.2 Pre-defined criteria should guide cost responsibility for reliability assessments

In earlier proceedings on the issue of cost responsibility, there was discussion about transmission upgrades for reliability purposes versus load growth. While it is relatively simple to compare the reliability impacts of different plans, it is difficult to determine objectively whether a plan is required for load growth as opposed to system reliability and integrity. For example, if transmission reinforcement were delayed in a particular area, reliability would be adversely impacted as load grows in the area. As such, the need for the reinforcement can be viewed as being dictated by future reliability requirements.

Hydro One submits that the current proceeding should resolve the complexity noted above, and clear rules are needed to determine whether costs associated with transmission plans required to maintain reliability of supply to local areas should be pool-funded. The decision on whether a plan addresses reliability needs should be based on pre-defined criteria, such as the Independent Electricity System Operator's *Ontario Resources and Transmission Assessment Criteria*, which should be administered by the Board as part of the TSC. The rules should indicate whether "future reliability", based on such criteria, can be considered in determining whether a plan is for reliability purposes. The criteria and the associated rules could then be used by the OPA and transmitters to perform reliability assessments and to assign cost responsibility for local area supply.

3.3 Basic and premium service categories could be established

Hydro One submits that the concept of a "Basic Service" for transmission connections would help achieve a fair and reasonable mechanism for risk-sharing between transmitters and customers. Costs associated with connection facilities that constitute the Basic Service

level would be pooled. Where the connection facilities exceed the Basic Service level, the incremental costs would not be pooled but would be recovered from the connecting customer as "Premium Service".

4.0 GENERATION CONNECTIONS

With respect to generation connections, Hydro One submits that it will be necessary to ensure that development of the transmission infrastructure is consistent with both conservation and renewable generation. To that end, transmitters must plan and build enabler facilities into areas of renewable generation as rate-based initiatives, in accordance with the IPSP, and it will also be necessary to pool costs associated with enabler facilities required to connect new embedded generation.

A number of factors, including, but not limited to, the location of the load or the generation, must be considered in the determination of cost responsibility. The transmitter has the obligation to connect, regardless of distance, and to apply the applicable rules for cost responsibility. However, the transmitter is not in a position to assess whether the generation connection merits the connection costs to be pooled. This requires an assessment by the OPA that considers the economics, avoided costs, and the social good that would be associated with the connection proposal.

OPA Assessments

In conducting its "economics" assessment, the OPA may perform a "global threshold" study, which would predetermine the distance thresholds, likely for each generation type and perhaps by connection voltage, below which a connection would be funded by the pool and above which a capital contribution would be required. These thresholds would likely need regular reassessment and revision and should be accommodated accordingly in the TSC. Another possibility is that the OPA may perform a series of "local threshold" studies that would address the particular transmission needs to support generation connections in

given areas. Finally, the OPA could perform its assessments on a case-by-case basis, an approach that Hydro One does not recommend.

Renewables vs. Non-renewables

Hydro One is supportive of the Government's energy policy and the Energy Mix directive. The current rules do not allow transmitters to discriminate among generation customers. Hydro One recognizes that to be consistent with Government policy, it may be necessary to distinguish clearly between renewables and non-renewables (e.g. co-generation, gas, etc.) in the scope of the socialization initiative. It is Hydro One's suggestion that the OPA is the appropriate party to address this matter.

Cost Responsibility Recommendations

Hydro One submits that the Basic Service for generators should be based on an OPA "economics" assessment. Where a connection facility for a generator passes the OPA assessment and is identified as an "enabler facility" in a Board-approved IPSP, the costs associated with that facility would be funded through the connection pool, with no requirement for the transmitter to obtain a capital contribution from the generator. Where a connection facility for a generator is identified between IPSPs, rule-based criteria should be available to assess the "economics" of the proposal.

In all other cases (i.e. for Premium Service), cost responsibility would be assigned in accordance with clear, unambiguous capital contribution exemption provisions in an amended TSC, where such exemptions would not be dependent on an interpretation of the rules on a case-by-case basis. Hydro One notes that current cost responsibility rules require some clarification (e.g. network vs. connection facilities).

5.0 LOAD CONNECTIONS

With respect to load connection facilities, it is necessary to ensure that there be adequate transmission reinforcement to support load growth and changing load flow patterns, where required.

Regulatory Certainty

As noted in section 3.2 (Reliability Assessments) above, regulatory certainty needs to be enhanced in the existing TSC on the question of cost responsibility. For example, as noted in s. 3(c) of the Board's Decision and Order, dated November 26, 2007, in the EB-2007-0797 (Hydro One Motion to Review) proceeding, there is uncertainty with respect to the application of s. 6.3.6 of the TSC. Section 6.3.6 provides for an exemption to the general rule that the connecting customer has cost responsibility for new or modified connection facilities. The exemption is based on a distinction between enhancements for system reliability, and enhancements for one or a small group of customers. In the Decision, the Board acknowledged that there can be ambiguity in distinguishing between the two in practice.

LDCs vs. Industrial Customers

With respect to load connections, there is the question of the treatment of Local Distribution Companies ("LDCs") relative to industrial customers. Hydro One submits that there are a number of considerations in determining the appropriate treatment of the two customer types:

- Cost responsibility rules that discriminate among customers may be seen as unfair.
- On the other hand, a connection facility that supplies an LDC (which serves the general public) may be viewed as a public good, and all end users (in the general public) should be treated equally, regardless of any arbitrary definition of "customer" (e.g. two LDCs that merge to become a single customer).

- However, this could be seen as requiring industrial customers to subsidize LDCs. It could be argued that most end users in LDCs have little choice in where they locate, while industrial customers have a business decision to locate in one place or another. Additional complexity could result from treating LDCs differently from industrial customers.
- LDCs experience "organic growth", which is unlike the planned and deliberate growth that results from business decisions of industrial customers.
- The TSC should avoid policies that have the effect of leading industrial customers to make decisions that would otherwise be uneconomic (e.g. whether to connect to the transmission or distribution system) or would encourage industrial customers to choose connection solutions inconsistent with the goal of a robust and reliable transmission system.

OPA

As stated above, Hydro One believes that it would be inappropriate for the OPA to have a role in determining cost responsibility for load connections.

Cost Responsibility Options

The Basic Service for line and transformation connection facilities for load customers could be based on criteria such as distance or standard of supply, similar to the "basic connection" service contemplated in the Distribution System Code. The connection cost for the Basic Service would notionally be paid through rates and would therefore not attract a capital contribution. Thresholds would need to be established for the Basic Service (e.g. a maximum distance criterion, single circuit supply, etc.).

An alternative to the above definition for Basic Service may be Hydro One's earlier "Local Area Supply (LAS)" proposal, previously filed with the Board in the EB-2006-0189 (Connection Procedures) proceeding. In the LAS proposal, customers would not bear cost responsibility for LAS facilities (i.e. line connection facilities that serve multiple

customers). The LAS proposal was rejected by the Board in that proceeding, which was limited to interpreting the provisions of the existing TSC.

In all other cases, cost responsibility would be assigned in accordance with clear, unambiguous capital contribution exemption provisions in an amended TSC, where such exemptions are not dependent on a case-by-case interpretation of the rules. Under no circumstances should cost responsibility be contingent on who initiated discussions or on when or with whom those discussions were initiated.

6.0 CONCLUSION

Hydro One appreciates the opportunity to participate in the present consultation on the review of cost responsibility policy for transmission connections. Policies and rules should be reviewed regularly to ensure that they support Government energy policy and reflect current market requirements. Furthermore, Hydro One would welcome the formation of an industry stakeholder group ("Transmission System Advisory Panel") that would provide ongoing advice and recommendations to the Board on matters related to transmission policy.

Hydro One subscribes to the principle that cost responsibility rules must not artificially impede needed transmission reinforcement, and also that cost responsibility rules should promote regulatory certainty and administrative efficiency. Hydro One is of the view that there should be a central authority in the Province to assess the "economics" of cost pooling proposals involving transmission and generation, and believes this function would be best carried out by the OPA.

Hydro One proposes the concept of a Basic Service for transmission connection facilities, similar to the Basic Connection service in distribution systems. Cost responsibility would depend on a customer's connection requirements relative to the transmitter's Basic Service level. The Basic Service level for generation connections would be based on the OPA's

IPSP, whereas various options exist for establishing the Basic Service level for load connections.

A decision in this proceeding is urgently needed to establish clear and unambiguous cost responsibility rules to facilitate the construction of critical transmission infrastructure required to meet the electricity needs of consumers in Ontario. These rules should be codified in the TSC.