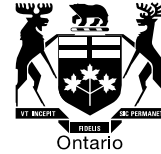


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NOTICE OF PROPOSAL TO ISSUE A CODE

PROPOSED REVISED TRANSMISSION SYSTEM CODE

BOARD FILE NO.: RP-2004-0220

To: All Parties to Proceeding RP-2002-0120
All Other Interested Parties

Background

On July 14, 2000, the Ontario Energy Board (the "Board") issued the Transmission System Code (the "July 2000 Code"). The July 2000 Code sets out the obligations of licensed electricity transmitters in relation to the design, construction, management and operation of their transmission systems. It also governs the technical and commercial relationship between licensed electricity transmitters and their directly connected customers, largely through the standard-form Connection Agreement that is appended to the July 2000 Code. All licensed transmitters in Ontario must comply with the provisions of the July 2000 Code as a condition of their licence.

Concerns raised by market participants about the interpretation and application of certain provisions of the July 2000 Code led the Board to initiate a proceeding to conduct a broad-based review of the July 2000 Code on June 12, 2002. The Board divided the proceeding into two phases. The first phase, which dealt with certain key policy issues, was completed on June 8, 2004 after extensive stakeholder consultations, when the Board issued its decision on the key policy issues (the "Phase One Decision") and set out a principled framework for detailed Code revisions. This proceeding, proceeding RP-2004-0220, is the second phase of the RP-2002-0120 proceeding.

The Board is now proposing a number of changes to the July 2000 Code. The Board's ***Proposed Transmission System Code*** (the "Revised Code"), as revised, is attached to this notice. The principal purpose of the proposed changes to the July 2000 Code is to implement the Phase One Decision. The Board has also taken this opportunity to make significant improvements to the July 2000 Code by clarifying and in some cases modifying the rights and obligations of transmitters and customers alike.

The Board has determined that, since this proceeding is a follow-up to the phase one proceeding, the cost awards for this proceeding should be the same as they were for the phase one proceeding. Therefore, the Board designates Hydro One Networks Inc. for the purpose of cost awards, to be administered in accordance with the Board's guidelines on costs.

Scope of the Proposed Revisions

As noted above, the Revised Code reflects the findings of the Board in the Phase One Decision as well as the Board's conclusions on issues that had been deferred to this implementation phase. Certain of these provisions of the Revised Code were not expressly contemplated or addressed in the Phase One Decision, but were considered by the Board as warranting inclusion in order to implement the Phase One Decision in a comprehensive and coherent manner.

In addition, the Revised Code incorporates changes that reflect the decision of the Board in proceeding RP-1999-0057/EB-2002-0501. That proceeding related to a joint application by Hydro One Networks Inc., Ontario Power Generation Inc. and Bruce Power L.P. and resulted in amendments to Hydro One's transmission licence that permitted certain deviations from the standard form of Connection Agreement that is currently part of the July 2000 Code. In its decision, the Board indicated that it would review certain of the permitted deviations for possible inclusion in the Revised Code. Inclusion of these provisions in the Revised Code will trigger the need for consequential amendments to Hydro One's transmission licence.

The Revised Code also embodies significant revisions to the July 2000 Code, and in particular to the form of Connection Agreement appended to the July 2000 Code, to improve consistency and clarity. Among other things, separate load and generator versions of the Connection Agreement have been created in recognition of the fact that the terms and conditions that govern a transmitter's relationship with a load customer are different from those that govern a transmitter's relationship with a generator customer.

As a general rule, the Revised Code does not reflect any changes to the technical provisions of the July 2000 Code. The Board does, however, recognize that changes to those technical provisions are likely warranted. Accordingly, after completion of this proceeding, the Board intends to invite stakeholders to establish a working group to consider the need for, and where appropriate to recommend, changes to those technical provisions. The technical provisions in question are largely contained in the following sections of the Revised Code:

- sections 8, 9 and 10; and
- Schedules A, E, F and G of both versions of Appendix 1.

In its Phase One Decision, the Board determined that it would, for transmission rate purposes, increase the threshold for renewable embedded generation from 1 MW per unit to 2 MW per unit. The Board proposes to implement this aspect of the Phase One Decision by means of an amendment to the applicable transmission rate order. Accordingly, this element of the Board's Phase One Decision is not reflected in the Revised Code.

Summary of the Proposed Revisions

A synopsis of the more significant revisions that are embodied in the Revised Code is attached to this notice to facilitate comparison of the July 2000 Code to the Revised Code. The synopsis is not intended to be exhaustive of all of the changes that are reflected in the Revised Code.

The revisions proposed by the Board have resulted in the renumbering of the Revised Code relative to the July 2000 Code, as well as in sections being re-organized (this is particularly the case with Appendix 1). The Board has prepared tables of concordance to assist parties in identifying the source of each section of the Revised Code relative to the July 2000 Code. These tables of concordance are attached to this notice.

Anticipated Costs and Benefits of the Proposed Revisions

To the extent that provisions of the Revised Code reflect the Phase One Decision, the rationale for and the costs and benefits associated with those provisions are discussed in the Phase One Decision.

In developing the Revised Code, the Board has also sought to achieve the following specific objectives:

- greater clarity and transparency in the relationship between transmitters and their customers;
- a uniform and consistent approach to customer processes;
- minimizing disincentives for new generation and energy conservation;
- greater accountability for transmitters and customers;
- a fairer allocation of costs; and
- improved transparency in relation to the exchange of information.

In clarifying and rationalizing the relationship between transmitters and their customers, the Revised Code includes new methods by which the financial and other obligations of the parties will be defined. In some instances, use of these

methods may increase the costs incurred by, or decrease the revenues available to, transmitters. For example, the provisions of the Revised Code relating to bypass may have this effect. In other circumstances, customers may face higher costs or extended obligations. The Board anticipates, however, that ratepayers will achieve an overall benefit from lower energy costs and more effective and efficient transmission systems. The Board also anticipates that parties will benefit from the clarifications that have been included in the Revised Code, which will allow parties to have a clearer understanding of their respective rights and obligations.

The Board believes that the Revised Code reflects an appropriate balancing of the interests of transmitters in relation to the management, operation and reliability of their transmission systems and the interests of customers in relation to the efficient use of electricity and of transmitter-owned resources.

In proposing the Revised Code, the Board is of the view that the anticipated benefits outweigh any costs that might be incurred or borne.

Coming into Force

The Board is proposing that the Revised Code come into force when posted on the Board's website following completion of the consultation process associated with the Revised Code.

Invitation to Comment

All interested parties are invited to make written representations on the Revised Code. This consultation is not intended to provide an opportunity for parties to revisit the policy decisions embodied in the Phase One Decision. To the extent that a section of the Revised Code implements an element of the Phase One Decision, the Board requests that comments on that section be restricted as to how the Phase One Decision has been implemented.

Any person who wishes to make a written representation with respect to the Revised Code must file ten paper copies of the representation, and an electronic copy in Adobe Acrobat (PDF), Word or WordPerfect, with the Board Secretary by **4:30 pm on February 18, 2005**. Electronic copies may be submitted on diskette or by e-mail to boardsec@oeb.gov.on.ca. Your submission must quote file number **RP-2004-0220** and include your name, address, e-mail address and fax number.

The Board requests that the representation specifically reference the relevant sections of the Revised Code.

The Revised Code, all of the attachments to this notice and all written representations received by the Board with respect to the Revised Code will be

available for public inspection on the Board's website at www.oeb.gov.on.ca and at the office of the Board during normal business hours.

If you have any questions regarding the Revised Code, please contact Gordon Ryckman by phone at (416) 440-8109 or toll free at 1-888-632-6273, or by e-mail at gordon.ryckman@oeb.gov.on.ca.

DATED at Toronto, December 17, 2004.

ONTARIO ENERGY BOARD

John Zych
Board Secretary

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Attachments:

Proposed Transmission System Code
Synopsis of Proposed Revisions to the Transmission System Code
Table of Concordance (Revised Code other than Appendix 1)
Table of Concordance (Appendix 1)