Comments on Board Staff Discussion Paper

Determination of Direct Benefits

EB-2009-0349

Hydro One Networks Inc
February 26, 2009

Remember Our Goal:
Timely, efficient connection of Renewables

- Methodology must be consistent with
  timely expansion or reinforcement of Ontario's electricity grid to accommodate connection of renewable energy generation.
- Scarce resources must be focused on connecting renewable energy generators.

Materiality of benefit must justify the effort to quantify it

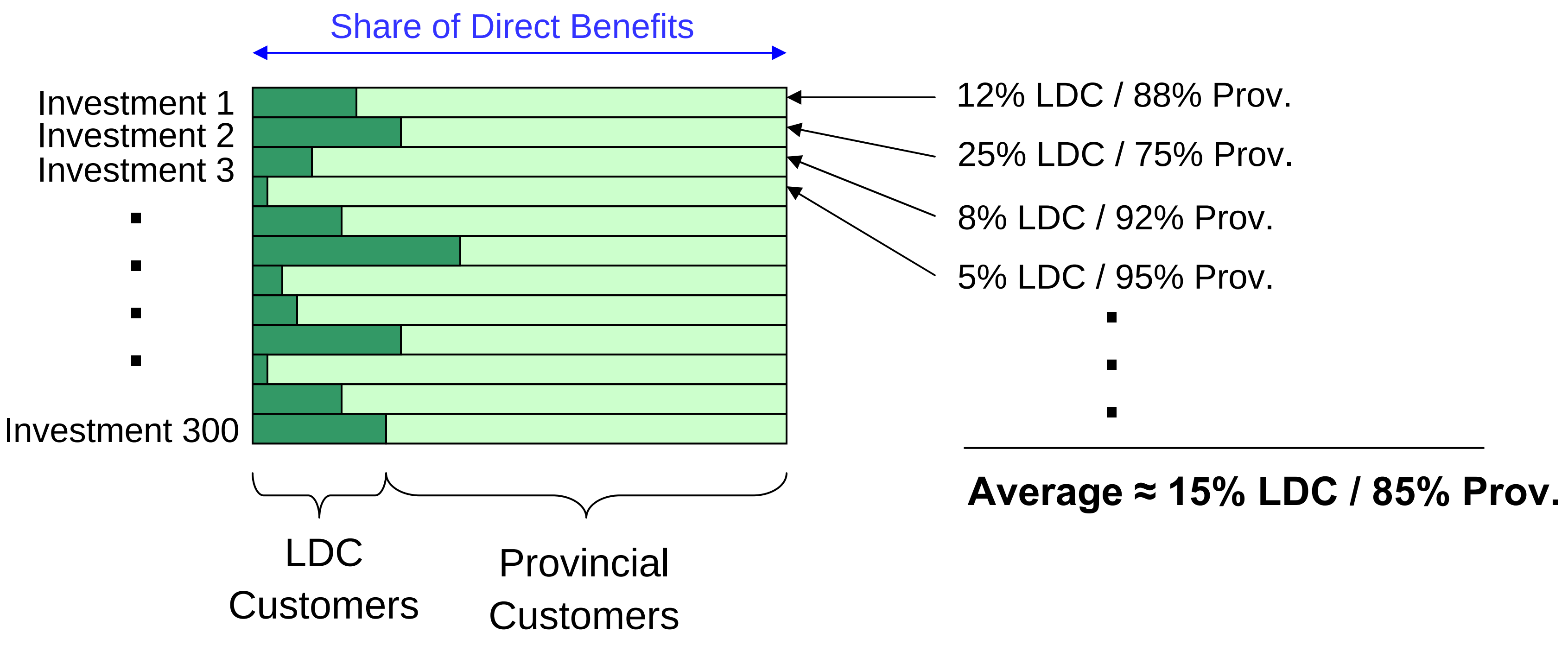
- Value from increased accuracy & precision must outweigh costs.
- Excessive requirements for rigorous assessments will lead to higher costs, with questionable payback.
- Focus on the more obvious & material benefits, quantified in a reasonable manner.
- Apply to all LDCs a common, reasonable yardstick for rigour & precision.
- In future, assessment requirements can vary, based on the type of eligible investments.

Steer Clear of Project-specific Allocation

- It may not improve precision,

  but it will increase complexity and cost.
- Separate calculation for each project is labour-intensive and time-consuming.
- Density and load growth information unavailable at feeder / station level.
- Potentially significant additional complexity due to IFRS and variance accounting.

Complexity of Investment Specific Allocations



The “ex-post” approach is problematic

- Inconsistent with existing regulation in Ontario, which is forward-looking rate-making.
- An ex-post process requires significant and labour intensive effort due to the complexity of calculation.
- All expectations must be articulated up front – otherwise the required information may not exist.

Experience will be gained over the coming years

- Need to gain industry experience to allow transition to a common set of guidelines in the future, if appropriate
- Insufficient industry experience today.
- Distributors wishing to access provincial consumer funding should file their own proposals for the allocation of direct benefits (part of Cost of Service Application and GEA plans).
- The Board should initiate specific studies to build the knowledge and experience.
- Only then can a common set of guidelines be set.

Reduced Network Transmission and WMSC Charges

- Arguably not a potential source of “direct” benefit
- Not proposed by Hydro One
- Limited reduction in Transmission charges due to generation characteristics
- Benefits not significant during initial implementation
- Micro-generators should be excluded

Improved System Capability
Guiding Principles in Paper

- Default: Eligible investments have zero benefit to LDC customers unless these can be monetized.
- Same level of detail should apply to all distributors.
- Not all asset replacements benefit LDC customers.

- Methodology should not hinder the timely and efficient connections of renewable energy generators.
- Materiality should be considered to balance the incremental costs associated with determining benefits.

<u>Improved System Capability</u>
Board Staff's Proposed Criteria

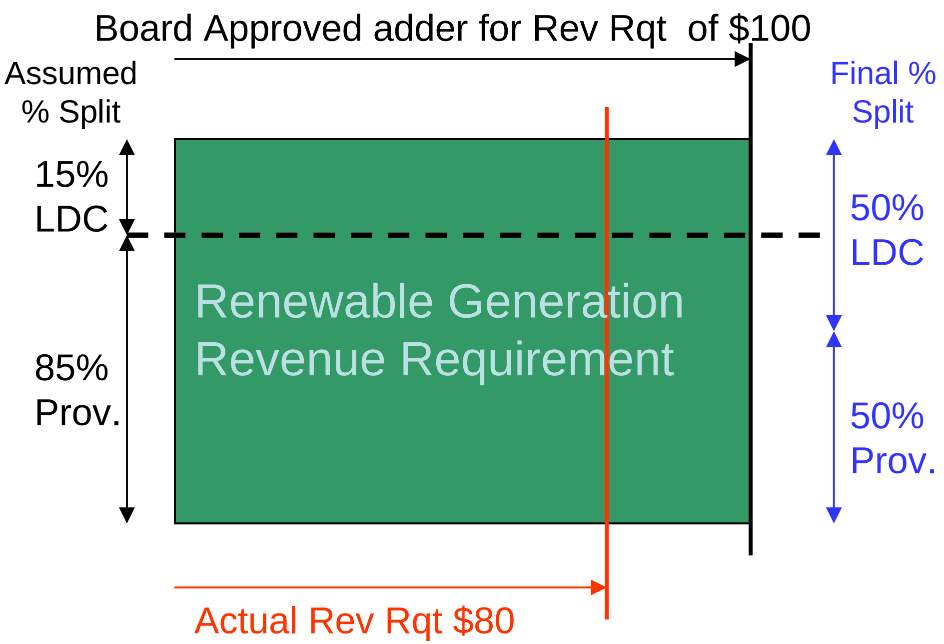
- ☐ Portion of Eligible Investments not used by Qualifying Generators
- ☑ Customer Load Growth
- ☑ Asset Condition
- ☐ Size of Renewable Energy Generator(s)
- ☑ Service Quality Improvements
- ☐ Line Losses

Summary of Hydro One’s GEP

- Asset Replacement (Expansions)
  - Age as proxy for wood pole condition (population sample)
  - Other assets not material
  - 15% of new investments benefit LDC customers
- Load Growth (Expansions)
  - Assumed load growth across system
  - Identify feeders that would require investment
  - 3% of new investment benefits LDC Customers
- “Service Quality” (REI)
  - Station automation / SCADA (9%)
  - Auto Reclosers (5%)
  - Many REI investments do not benefit LDC Customers (0%)

Implementation In the Face of Uncertainty

(adders, variance accounts, & riders)



	LDC	Prov.	Total
Recovery based on Board approved adder	$15	$85	$100
Revenue requirement based on final % split	$40	$40	$80
Disposition via rate rider at future COS	Collect $25	Refund $45	Net Refund $20

IFRS makes it worse!

- Requires componentization of property records (e.g. individual transformers, poles, etc.)
- Need to assign a portion of every asset in an investment to provincial rate base & revenue requirement
- A project-specific approach could require allocating individual asset components using different splits
- Even with robust IT systems, “project-specific” poses regulatory & GAAP accounting/ reporting challenges.
- IFRS will now reclassify overhead costs to OM&A, so these, too, may need to be allocated between the provincial and LDC revenue requirements
- Manual intervention if allocations change over time

Recommendations and Next Steps

- Precision and accuracy come at a cost
- Focus on the goal: Connecting renewables
- Avoid project specific approach
- Focus on material benefits
- Stick to ex ante/ planning approach
- “Park” WMSC & Transmission Charges
- Walk before we run &   Learn as we go