Working Group – Regional Planning & Cost Allocation (EB-2016-0003)

Consolidated Written Comments on OEB Staff "Current Thinking" Presentation (for Discussion at April 25, 2017 WG Meeting #3)

Bill Harper (VECC)

SLIDE #4

- Reliance on "beneficiary pays principle" - useful to expand on exactly who considered "beneficiaries"
    - All customers who "use" asset or all customers who "triggered need" for asset (i.e., "trigger pay" principle) or some other definition?

SLIDE #7

- Clearly define what - "customer's proportional use of connection asset".
    - Based on "beneficiary" total use or just incremental use "triggering" need?
    - If incremental use, how determined - based on what?
      [Note: TSC currently reflects "beneficiary pay" principle via relative incremental non-coincident peak (NCP) demand where multiple load customers involved]

SLIDE #9

- **Is problem**
    - LDC cannot afford full CC required upfront and then recover $$ from its customers over time – **LDC affordability issue.**
    - Or customers of utility can't afford higher rates from recovering $$ over time (i.e. life of assets) let alone if passed through to them over a shorter time frame – **customer affordability issue.**
- As matter of principle, first 2 options run counter to customer should only be charged for facilities that are "used and useful".

SLIDE #10

- Not clear Rate Adder option consistent with ICM/ACM as suggested.
    - Both "rate adders" but ICM & ACM based on revenue requirement (i.e., assets in-service) and do not pre-collect prior to facilities being in-service.
    - OEB ACM Report
        - **ACM** - p.13- *"Funding shall **not commence** for any projects that are **not forecasted to be in service** during the subject **IR year**".*
        - **ICM** – p.19 – *"ICM treatment would allow for **recovery of costs beginning** when the investment is made and **goes into service**, rather than awaiting the next cost of service application to rebase rates"*
- Not clear what meant - "Target recovery of "portion" (ensure new customers contribute)" - how done.

SLIDE #11

- Primary difference - Rate Adder and Development Charge - is who pays (all customers or just new customers).
    - Problem with only new is identifying who is "new" and there is a difference between new load and new customers
        - existing can add new load (expanding industrial customer).

SLIDE #12

- No consideration given to allowing LDCs to pay entire CC in installment payments (with interest).
    - More interest paid – but consistent with "matching principle" of paying for facilities as used.
    - When LDCs pay CCs up front, their customers do not pay upfront - rather they pay over time based on revenue requirement calculations.

SLIDE #15

- Distinction between investments that "benefit" Network System and investments that address Network System needs?
    - Distinction - Network System may "benefit" – but benefit on its own would not be invested in as a "cost" that exceeds "benefit"
    - Example - reliability now greater than typically planned for.

SLIDES #16 & #17

- Not clear what is proposed.
    - Is it apply DFL methodology to Connection Investments
    - If so, how would it work in practice?
- #16 - 2 different approaches. Both would need to consider not only relative costs but when costs incurred and what is appropriate discount rate.

SLIDE #19

- Issue can also be characterized as one of treating all customers of LDC the same (i.e. retail/end-use customers and embedded LDCs) – so retail customers are not cross-subsidizing LDCs embedded in the same utility.

SLIDE #20

- Contrary to what slide states - Dx-connected customers <u>are</u> required to make a CC for upstream tx connection upgrades
    - Issue appears to be "beneficiary pays" principle not applied (by LDC) to dx-connected customers (i.e., recovery from all LDC customers).
- If large dx connected customers assessed CCs directly – question – whether dx rates should be set so they are excluded from recovery of any remaining CCs LDC is required to make (and seek to recover from its customers).
    - This question needs to be addressed and mechanics / feasibility needs to be thought through before adopted
    - What happens if "affordability issue" in collecting CC from these customers?

SLIDE #22

- Need TSC clarification - when replacement not like for like due to customer request, customer pays 100% of total cost or 100% of incremental cost. If total, agrees - an issue.

SLIDE #24

- Under example, LDC A = embedded LDC of LDC B.
    - If compensation paid for connection, should it be reflected in LV charges LDC B subsequently applies to LDC A?
    - Mechanics should be thought through before proposal adopted.

Randy Aiken (Energy Probe)

Slide 4

- "Beneficiary pays" principle is key
  - How "beneficiary" defined / determined?
  - Are existing customers who do not need new facilities but may benefit (higher reliability, lower outages, etc.) considered beneficiaries?
- What if existing customers satisfied with current level of reliability? I.e. benefits not wanted if higher costs

Slide 7

- Not clear how customer's proportional use of connection asset would be calculated Could it be calculated in number of ways?

Slide 9

- Not clear - real problem
  - LDC Affordability - Is it LDC may not be able to raise capital needed?
  - Customer Affordability - Significant rate increases due to CC in rate base?
  - Both?
  - Solutions likely differ depending on what problem is
- Does magnitude of problem(s) depend on level of excess capacity created? (e.g., if little excess capacity, wouldn't contributions from beneficiaries and additional annual revenue generated from those customers negate significant rate increases?)

Slide 10

- **Rate adder -** Not clear how option satisfies BP principle since existing customers, who may not be beneficiaries, paying
- Would interest accrue on funds generated? At what rate?
- Would pool of funds be used to reduce rate base until used as CC?
- Would funds be used to offset payments made by an LDC, resulting in a lower rate base for LDC going forward than in absence of funds?
- Not sure what 'target recovery of "portion"' means *[Note: Not entire amount, balance paid on or after in-service so "new" customers also contribute]*

Slide 11

- **Development charge (DC)** - more closely aligned to BP principle <u>if</u> assumed expenditures driven by new customers and/or new incremental load of existing customers
- What is difference between DC and aid to construction payment? *[Note: No difference]*
- Why have to be single lump sum charge?
  - Could they be annual / monthly payments over # of years?

Slide 12

- Says staff prefers rate adder because it avoids additional costs
- But ignore time value of money from ratepayers paying in advance of in service – why?

Slide 15

- Not clear how "broader network system benefits" would be defined or whether these "benefits" would be pursued in absence of connection investment

Slide 16

- Example for proposed supplementary TSC amendment, based on figures in Appendix A, with additional assumptions would be useful

Slide 20

- If large customer pays CC up front, how protected from paying remaining capital financed via higher rates?
    - Would direct allocation solve problem?

Mark Rubenstein (SEC)

Rate Adder Option **(slide 10)**

- Very different from how rates currently set.
  - Break from Board's (almost) consistent view - customers not charged before assets go into-service, i.e. used and useful. - thus not just and reasonable.
  - Create intergeneration equity concerns.
- Mention consistent with ICM/ACM and LDC funding for smart meters.
  - Similar to Smart Meter funding adder, but smart meters mandated obligation for LDCs
  - ICM/ACM - not aware of approvals where Board allowed pre-recovery.

'Development' Charge Option **(slide 11)**

- Key assumption - **new** customers are ones who benefit from upgrades - **not existing**
  - If both new and existing customers benefit, legal question about Board's ability to charge them more than existing customers.
  - Would be unjustly discriminatory rate-making - no cause causality.
- Since building up funds before assets go in-service, same issue as rate adder
- Practical perspective - skeptical it would even work.
  - Small LDCs have very small customer growth.
  - Charge to those new customers would be so cost prohibitive - road blocks in way of customer growth for small LDCs not in existing customers' best interests.
- Not clear why approach makes sense for this purpose - but not other Dx CapEx
  - CCs required under DSC do not include many other "upstream" dx system costs.

Annual Instalments Option **(slide 12)**

- Most appropriate approach.

Next Steps

- Concern - many aspects go significantly beyond code amendments.
- Many areas (e.g., cost affordability issues) are rate issues - require OEB applications / orders
- Concern - not sufficient consideration of practically implement issues - many core TSC proposals. Example,:
  - If new upstream tx assets not require LTC approval, when cost allocation reviewed?
  - If beneficiary LDC in middle of rate plan (IRM or Custom IR) would these new costs trigger adjustment?
  - If no LTC, and multiple LDCs are beneficiaries of asset, will prudence of solution be decided in multiple individual proceedings (each LDC rate application when seek to put CC into rate base)?
  - How will allocation of benefits be approved?
  - Amendments will have material impacts on LDCs and their customers
    - Board needs to seriously consider how to practically implement them.

- So far, not appear to be an area of focus for WG.
    - All four cost affordability options
        - Little to do with code amendments, yet seems no follow-up process so stakeholders can comment on those proposals and how they should be implemented.

IESO

- Theme - broadening scope from RIP to IRRP and all alternatives – not only wires

- Beneficiary Pays – All beneficiaries of an investment will contribute their share of costs in proportion to benefits. Cost allocation based on customer's proportional benefit in a plan (e.g., use of connection in RIP).

- Rate Adder - How about building pool of funds beginning when connection facility (e.g., TS) is over capacity and accruing incremental revenue, which could be applied against CC?
    - When facility overloaded, customer receives lower level of reliability
    - This is a means of compensating.

- DC - How will this work for organic growth?

- Capacity Charge - Still remains a barrier on excessive capacity

- Not familiar with HONI DFL cost allocation approach. Helpful if OEB staff provided IESO background materials on this subject *[Note: Materials sent to IESO]*

- Staff - both network allocation methodologies complementary and both have merit
    - Does that mean both may be used as appropriate? What is then rationale of using one over other?
- DFL
    - What if the value is not measurable in terms of capacity (ie. Security or $); how would the proportioning apply?

- EOL – Amend DSC like TSC
    - Suggest consideration of revenue commitment by LDC or customers (similar to CCRA for new investments)

David Ferguson - E3 Coalition

1. p.14 -Can alternatives be applied to SECTR and Pickle Lake situations to show how allocation math would work, using best information available?

2. **Next steps**
   (a) Any further WG meetings?
   (b) Will cost allocation examples be provided with Proposed Code Amendments to show how allocation math will work?
   (c) Anticipated timeline - completion of these steps?

3. How will project specific cost allocation calculations be reviewed moving forward?
   - Will there continue to be a cost allocation phase for each LTC proceeding, including review of load forecasts, identified beneficiaries and customer rate impacts?

4. What is anticipated process / timeline to finalize cost allocations re: SECTR / Pickle Lake projects?

HYDRO ONE

PP. 4 – BACKGROUND – SUMMARY (1)

- Supplementary Proposed Amendments (SPA) actually proposes Pool should not be held responsible for portion of connection facility costs that address customer needs—not other way around.

PP. 5 & 6 – BACKGROUND – SUMMARY (2)

- SECTR - consistent with Beneficiary Pays (BP) principle underlying SPA—but not actual SPA.
- Refresher on Pickle Lake issue might be helpful. Our understanding - trying to get pool funding for tx line because PL specified by an OIC. If case, does it fall outside issues being looked at in this WG?

P. 7 – GUIDING PRINCIPLES

- Recommends - base on each beneficiary's proportional benefit, as opposed to proportional use—concept of "use" associated with capacity , not system benefits (e.g., reliability).
- Delete reference to "in a RIP" - these issues can also come up outside context of RIP.
- How granular should "beneficiary pays" principle apply?
    - Current rates for both Tx and Dx already accept a certain amount of pooling of cost
    - Also need to consider administrative and practicality issues in adopting "beneficiary pays" principle for upstream Tx costs (and also specifically related Dx investments) below level of host and embedded LDCs.

P. 9 – AFFORDABILITY (1)

- See LDC Affordability and Customer Affordability as two separate issues

PP. 10 – 13 CUSTOMER AFFORDABILITY/RATE MITIGATION

Rate Adder:

- Smart Meter funding is Rate adder, but ACM/ICM only into effect after in-service of assets
- Not clear what is meant by "target recovery of portion" *[Note: See clarifying note above]*
- Tying start of rate adder with identification of investment in DSP/IRP, but can't need for investments be identified outside of DSP/RIP?
- Adoption of adder should be optional
    - not all LDCs may have affordability issue with funding required CCs
- An example of how this might work would be useful.

Development-like charge:

- For geographically dispersed LDCs, it may create a fairness issue if customers in some areas (e.g. slow growing rural areas) become responsible for "funding" expansion of the system for high growth areas.
- Slide says "unlike **r**ate adder", development charge intended to offset LDC's CC to transmitter "
    - Isn't rate adder intended to achieve same purpose?
- Not clear how this would work in practice, an example would be helpful.

Annual Installments:

- Effectively transmitter will act as a "banker" to finance CC payment over a number of years. Don't see an issue with this approach.

Capacity charge:

- Don't see as an option dealing with affordability issue but rather an option for allocating costs to beneficiaries. Concerns raised in slide relate to concerns with cost allocation.

PP. 15 ALLOCATION OF TX CONNECTION COSTS TO *NETWORK* POOL

- As noted during SECTR proceeding, despite current (transitional) version of TSC, HONI continues to rely on previous TSC 6.3.6 provision (pooling of system-driven costs) pending completion of OEB's review of cost allocation rules.
- DFL approach problematic for project cost allocation for cost responsibility purposes. For example, system benefit often cannot be expressed in terms of simple capacity-sharing.

PP. 16 ALLOCATION OF TX CONNECTION COSTS TO *NETWORK* POOL

Proportional benefit approach proposed in SECTR (which is based on ratios) and the cost apportionment approach proposed in the Supplementary Proposed Amendments (which is based on incremental cost) are mutually exclusive—i.e., must choose one or the other; cannot do both.

- Agree with recovery of incremental connection costs from all rate payers, but since dealing with connection assets, recovery from connection pool rather than Network pool would be administratively more efficient
- Should ensure that everyone has common understanding of what are *incremental* connection costs

PP. 17 ALLOCATION OF TX CONNECTION COSTS TO *NETWORK* POOL

- The DFL approach is appropriate for simple capacity-sharing but not for reliability needs.
- The DFL approach is problematic for project cost allocation for cost responsibility purposes—allocation should be cost-based, not capacity-based.

P. 18-20 UPSTREAM INVESTMENT APPORTIONMENT TO DISTRIBUTION-CONNECTED CUSTOMERS

- Slides 19-20 seem to focus strictly on allocation of the upstream Tx capital costs, but as is the case in SECTR, there could also be Dx costs directly related to implementing the Tx investment which also need to allocated to beneficiaries
- Any proposed changes TSC and DSC changes should address both upstream Tx and directly associated Dx investments

P. 19 – INCONSISTENT APPROACH TO LDCS

- Disagrees that DSC currently makes embedded LDCs exempt from providing capital contribution. Main body of TSC silent on issue, but Appendix G of DSC requires host LDCs determine appropriate cost sharing arrangements in response to embedded LDCs request for load.

- Pooling and cross-subsidization of costs among LDCs own customers is a normal outcome of generally accepted cost allocation and rate design practices, however, cross-subsidization between utilities (whereby customers in one utility pay for the investments specifically required to serve customers of another (embedded utility) must be avoided. HONI agrees with OEB staff proposal.

P. 20 -- INCONSISTENT APPROACH TO LARGE CUSTOMERS

- Extending cost responsibility to specific large dx-connected customers problematic: *[Note: Staff "current thinking" reflected what HONI proposed in SECTR application]*
  - Carrying out DCF analysis, completing CCRAs and true-ups for LDCs with many large customers would be administratively burdensome and complex.
  - Assigning cost responsibility to individual large customers will make it very difficult to get agreement on any future investments (e.g. if this cost allocation policy had been in place prior to SECTR it is very unlikely that LDCs would have been able to get signed agreements with all large customers to proceed with investment).

- Trying to achieve alignment between TSC and DSC on treatment of individual customers is not appropriate. Typically:
  - On Tx side, only small number of customers - large, sophisticated & allocated Tx cost likely represents small component of total investment.
  - On Dx side, many large customers that together trigger the investment, and share of upstream Tx/Dx costs may likely represent significant portion of their total investment.
    - Also difficult to get agreement among so many players to proceed with investment.

Not support allocation of upstream Tx and directly associated Dx costs to large customers

But in interest of furthering WG discussion offers following comments on other items on slide.

- Unclear how OEB defines "incremental" capacity as it applies to allocation of upstream costs for large customers?
- Where upstream benefits not related to capacity (e.g., reliability) how will "incremental capacity" be used to determine cost allocation?

- Use of > 500 kW to define large customer to which specific cost allocation would apply may not be appropriate for all LDCs.
  - Should be based on materiality of investment to LDC revenue requirement? Should default be no allocation to large customers with option for LDC to apply to OEB exemption to allow charging large customer(s), where impact material?
  - 500 kW too low. Even 1 MW too low. Not revenue requirement – different treatment based on LDC.
- Tying threshold to GA Class A threshold not appropriate - can change frequently in response to shifting government policy.

P. 22 REPLACEMENTS: END OF LIFE (1)

- As noted during SECTR, despite current (transitional) version of TSC, HONI continues to rely on previous 6.3.6 provision (pooling of system-driven costs) pending completion of OEB's review of cost allocation rules.
  - Customer only required to pay incremental costs that exceed like-for-like replacement.
  - Cost apportionment approach in Supplementary Proposed Amendments would instead allocate 100% of cost to customer.

P. 23 REPLACEMENTS: END OF LIFE (2)

- Hydro One's practice - downsize EOL replacements, as appropriate.

P. 24 LDC FEEDER TRANSFER

- Need to ensure that do not create situation that promotes future SAA amendments. All facilities required to connect LDC A within LDC B's service territory should be built and owned by LDC B (fully compensated for by LDC A). *[NOTE: Staff agrees. Not "load" transfers]*