Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

June 30, 2009

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2009-0077 – Hydro One Networks Comments on the Board's Proposed Changes to Amend the Distribution System Code

In accordance with the Board's Notice of Proposal to Amend a Code issued June 5, 2009, I attach Hydro One Networks' comments on the Board's proposed amendments.

Three paper copies are being provided by courier to the Board and I have also attached proof of successful submission of these comments through the Board's Regulatory Electronic Submission System as directed in the Notice.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach. (1)

EB-2009-0077

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15 (Sched. B);

AND IN THE MATTER OF a proceeding pursuant to
subsection 70.2 of the *Ontario Energy Board Act, 1998*
to amend the Distribution System Code

SUBMISSION OF HYDRO ONE NETWORKS INC. REGARDING THE BOARD'S PROPOSED CHANGES TO AMEND THE DISTRIBUTION SYSTEM CODE

JUNE 30, 2009

Contact Information

Anne-Marie Reilly
483 Bay Street, 8th Floor, South Tower
Toronto, Ontario M5G 2P5
Email address: anne-marie.reilly@HydroOne.com

Hydro One Networks Inc. ("Hydro One") generally supports the significant changes that the Board is making to cost responsibility for generator connections in these proposed amendments to the Distribution System Code ("DSC"). Hydro One is pleased to offer these comments on the proposed amendments and also on the Board's discussion of the Distribution System Planning Process and the development of a Provincial funding mechanism.

Comments on the Proposed Amendments

Hydro One's comments below on the implications of these new sections to the Code are based on our experience over the past three years in dealing with over 1600 connection applications from generators. There is a need for utmost clarity in the definitions of *connection assets*, *expansions* and *renewable enabling improvements*, especially since these categories are associated with different cost responsibilities. The more clearly these categories are defined in the Code, the more certainty generating project proponents and distributors will have in planning their work, thus expediting development and connection of renewable projects, and the fewer disputes are likely to surface between generators and distributors in applying the rules established by the Code. It is very important for both distributors and generators to have the same understanding of the definitions and also the same interpretation of the rules for *who pays* for the facilities, *who builds* them (contestability), *who owns* the facilities after they are built, and *how the facilities are treated if their use changes over time* (eg. rebates if more generators connect to these assets).

Hydro One also encourages the Board to provide an exhaustive list of assets and facilities that would fall into the newly-proposed categories. Hydro One assumes, for example, that distribution line facilities would not qualify as "renewable enabling improvements", but could only be "connection assets" or expansions."

Attachment B to the proposed amendments is a helpful reference guide, and Hydro One suggests that it be enhanced to include, in addition to cost responsibility, columns dealing with the ownership and contestability for these assets.

Definition of Connection Assets

Based on the proposed definition of connection assets, there is need for more explicit clarification in Section 1.2, item (a) that the portion of the distribution system being built to connect a generator between the main distribution system and the ownership demarcation point with that customer, *will become part of the distribution system after it is energized – i.e. that ownership will be assumed by the distributor*. It is Hydro One's view that the portion built as "connection assets" on road allowance, although paid for by the generator, will become part of the distributor's system. Ownership of the connection assets by the distributor will allow for flexibility in connecting generator or load customers over time. The portion that is built beyond the generator's ownership demarcation point -- on private property -- will be "generator-owned assets."

For greater clarity, this means that any new dedicated lines (i.e., lines serving only one generator at the time of construction) would be considered as connection assets where they are located on road allowance, as they connect from the main distribution system to the ownership demarcation

point of the generator. The generator would then connect from its ownership demarcation point to its own site on private property with a customer-owned line.

Hydro One expects that construction of new connection assets would be contestable work, and the Code should state so.

The Code should be clear on the *standards* to which connection assets would be designed and built. Based on the above interpretation, connection assets (i.e., those on road allowance to be owned by the distributor) *must be designed and built to meet the distributor's standards* and, if constructed by the generator under alternative bid, the generator would transfer ownership to the distributor for ongoing operation and maintenance. This is consistent with Section 3 of the Code for load customers. The "generator-owned assets" beyond the demarcation point can be designed and built to the customer's standards as they will be owned and operated by the customer.

Definition of Expansion Assets

There is need for greater clarity on what specific assets will be considered as expansions. For example does the definition of an expansion ("an addition to the main distribution system in response to a request for additional customer connections") include new lines that are required to serve more than a single customer at the time of connection? If this interpretation is correct, distributors should treat new lines required to connect several generators as expansion facilities. A criterion is needed to establish that there are multiple generators to be connected, and the MW capacity to be considered in calculating the cap. Hydro One proposes using "number of CIA applications" as the indicator of the number of generators to be connected, to identify those assets where more than one generator will connect to the same feeder. That is, if a new line is required to serve more than one generator, because several generators have submitted CIA applications, this line would be considered as an expansion asset. Furthermore, if included in the distributor's investment plan, this line would be fully funded by the distributor. If not, the line would be funded by the distributor up to the expansion cost cap.

With respect to the "renewable energy expansion cap" of $90,000/MW, there will be cases where more than one distributor is involved, and the Notice and proposed amendments seem to suggest that the $90,000/MW for each proponent cannot be shared among two or more distributors or with the transmitter. Hydro One does not fully agree. The amendments should explicitly state that the distributor in whose service territory the proponent is sited would be the first 'user' of the $90,000/MW, but any excess should be available to the upstream, host LDC to fund upstream expansions at that host LDC. This will ensure that there is no bias to suboptimally locate generators just according to distributor boundaries. Hydro One does, however, agree that the cap should not be applied to transmission system upgrades.

At the point where an expansion line ends, there may be the need for additional line construction on road allowance serving only one generator, and this line would be considered *a connection asset* as per the above definition.

Clarification is also needed that modifications to the existing distribution system (ie other than new line construction), as explained in the Notice (eg voltage upgrades, reconductoring, changing single phase to three phase line and overbuilding lines), would be considered as

expansions, regardless of whether they are required for the connection of one generator or more than one generator.

The definition of "expansion" that is proposed in Attachment A in the proposed amendment to Section 1.2, item (c) ("…an addition to the main distribution system in response to a request for additional customer connections,") is not consistent with the fact that some expansions will be proactively included in a distributor's investment plan or rate application – and thus may be *proactively* planned rather than "in response" to a request.

Definition of Renewable Enabling Improvements

In this category in particular, distributors and generators require clarity on what assets constitute renewable enabling improvements. While it is obvious that the Board intends to include protection and control, SCADA, and telecommunication equipment in this category, distributors have many opportunities to invest in enabling improvements, such as bi-directional reclosers. Greater clarity is needed about the range of facilities that qualify in this category, and Hydro One is willing to assist the Board in developing such a list.

The cost of transfer trip and similar protective assets is to be included in renewable enabling improvements. Hydro One believes that such equipment located on the generator's site, as part of an end-to-end system, should be part of the Renewable Enabling Improvements. Hydro One also assumes that any equipment that *supports* the communication facilities that are funded as renewable enabling improvements would also be considered renewable enabling improvements (e.g. if a relay that sends transfer trip doesn't have discrete outputs and thus requires a LAN, then that the LAN would be included as "renewable enabling improvements".)

Hydro One believes that the types of equipment replacement that would qualify as "renewable enabling improvements" are the same whether the improvement is included in a distributor's plan and approved by the Board in advance, or whether they are triggered by a generator's connection request.

Rebates

Hydro One suggests that clarification is needed on the administration of rebates under the revised Code. For connection assets, because there were no other known customers at the time of connection, the generator would have paid for the assets. If other generators do connect to the assets within five years, Hydro One believes that the first generator would receive a rebate. If so, on what basis?

Hydro assumes that the existing Code rules for expansion rebates would continue to apply for generators. For expansions, if a generator paid for part of an expansion above the expansion cost cap and then another proponent wants to connect to those expansion facilities, Hydro One assumes that the first generator (who paid for costs above the cap) would receive a rebate from the second generator. We believe that based on existing sections of the Code, if the customer's initial payment is viewed as a capital contribution, then a rebate would apply. Would the distributor's additional funding from the $90k / MW cap be available for the rebate?

Clarification is also needed where more than one distributor is involved, as rebates would become more complex.

There should also be clarification on how the rebate amounts should be calculated for generators as they are different from load customers. Hydro One would assume that the rebates would be based on distance of line and also be proportional to the amount of generation. This approach would be similar to the proposed treatment of enablers in the Transmission System Code.

Optimal Planning of New Facilities

Hydro One submits that distributors must maintain the right to plan the most efficient distribution system including consideration for future O&M costs so as to minimize ratepayer costs while still developing a reliable distribution system. For example, the distributor's optimum siting of a new feeder for several generators may minimize the costs of the new shared facility to ratepayers, but at the same time could introduce higher costs for one or more generator. Hydro One urges the Board to confirm that planning of expansions and other new distribution facilities is the sole responsibility of the distributor.

Upstream Costs

Hydro One disagrees with the Board's position that upstream costs for host distributor upgrades should be passed on to generators and not included in the expansion cost cap. As noted above, the cap should be available to fund distribution system expansions regardless of service area boundaries.

For transmission, the Transmission System Code should govern what costs are passed on to customers. Hydro One notes that assessments performed by the IESO and Hydro One to date suggest that the cost of transmission upgrades can be significant. For example, breakers and transformers at transmission stations are, of course, transmission assets, but their upgrade or replacement may allow more distribution-connected generation to connect.

O&M Costs

Hydro One notes that the amendments are silent on whether O&M costs are to be recovered in contributions from generators for connection assets and expansions. Clarity is required, and Hydro One suggests, for simplicity, that there should be no separate assignment of generation-related O&M costs to the generator.

Comments on the Distribution System Planning Process

Hydro One supports the Board's position that generators will not have to pay for expansions or renewable enabling improvements that are approved as part of a distributor's investment plans. We also agree with the Board's statement that expansions identified in a plan would "not be intended to address the particular needs of a specific connecting generator."

Comments on a Provincial Funding Mechanism

Page 2 of the Board's Notice refers to a mechanism whereby Board-approved costs incurred by a distributor for connecting generation may be recoverable from all customers throughout the Province.

Given Hydro One's service territory and the likelihood that we will receive the vast majority of renewable generation applications, this will be very important for our ratepayers. Many of the expansions and renewable enabling improvements in our service territory will be to serve multiple generators and not to serve load customers.

Hydro One supports that the Provincial funding mechanism should apply to renewable enabling improvements and expansion investments. To the extent that there is some benefit to rate payers due to system improvements, a portion of the funding for these investments could be put into distributors' rate base. Hydro One submits that the OEB should have a role in administering the funding with respect to a prudency review.