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

March 26, 2010

BY COURIER

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

Dear Ms. Walli:

EB-2009-0077 - Hydro One Networks' Comments on Rebate Mechanism for Renewable Generation Projects Which Have Benefited from the Expansion Cost Cap

Attached are three (3) paper copies of Hydro One Networks' comments on the Board's proposed amendments to the Distribution System Code, issued on March 11, 2010. These regard the use of a rebate mechanism for renewable energy generation projects whose expansion investments in a distribution system have benefited from the renewable energy expansion cost cap.

I have also attached proof of successful submission of these comments through the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

HYDRO ONE COMMENTS: REVISED PROPOSED AMENDMENTS TO THE DISTRIBUTION SYSTEM CODE: REBATE MECHANISM

Overall, Hydro One Networks Inc. ("Hydro One") agrees with the Board's rebate mechanism as proposed in its March 11th, 2010 Notice of Revised Proposal, as the Company believes that this proposed change will more fairly the allocate the costs of such expansions. Hydro One requests a couple of clarifications around the Board's wording in areas that "blend" the proposed new sections with those currently found in the Code.

- Sections 3.2.27B and 3.2.27D begin with the phrase "Notwithstanding Section 3.2.27." Hydro One interprets this to mean that section 3.2.27 is overruled by the newly proposed sections. Section 3.2.27(a), however, directs that the amount of the rebate be determined as follows:

  > "a) for a period of up to the customer connection horizon as defined in Appendix B [that is, five years, calculated from the energization date of the facilities], the initial contributor shall be entitled to a rebate without interest, based on apportioned benefit for the remaining period;"

  Hydro One, therefore, believes that the same wording of 3.2.27(a) must be re-inserted into the new sections to ensure that the rebate process for each expansion investment does not extend in perpetuity and that the remaining investment value for each rebate will be calculated appropriately.

- Hydro One would like to confirm its understanding of the proposed rules for the allocation of a rebate where the distributor has contributed to the expansion cost. Two examples are provided below, each with a simple table showing the calculation and an explanation of how it was done.

  A. Allocation of a Rebate Between Two Generators Eligible for the Expansion Cost Cap

  Table 1 below, illustrates Hydro One's interpretation of sections 3.2.27B(a), 3.2.27B(b) and 3.2.27C. In this case, both the initial generator and the unforecasted generator are eligible for the expansion cost cap. For simplicity, each is assumed to have name-plate rated capacity of 5 MW. The total expansion investment is $1.2M. It is assumed that the two generators connect to the same expansion asset in chronological sequence.

Table 1.
Illustration of Sections 3.2.27B a) & b) and 3.2.27C
Expansion Investment $1.2 Million

	Distributor	1st RG (5 MW)	2nd RG (5 MW)	Total $
Contributions at Time of Initial Generator's Connection	450,000	750,000	0	1,200,000
Contributions at Time of Unforecasted Generator's Connection	450,000	-450,000 -150,000	150,000	0
Net Contributions	900,000	150,000	150,000	1,200,000

The initial generator's name-plate rated capacity is 5 MW. Therefore, the distributor contributes $90,000 per MW for a total of $450,000 (37.5% of the expansion investment). The initial generator contributes the remaining amount of $750,000 (62.5%).

According to Section 3.2.27C, when the unforecasted generator applies for connection at a later date, the unforecasted generator and the initial generator are treated as if both applied for connection simultaneously. In this case, as the unforecasted generator is eligible for the renewable expansion cost cap, with a name-plate rated capacity of 5 MW, the LDC will make a second contribution of $450,000, bringing the total distributor contribution to $900,000. The remaining value of the investment ($300,000) would then be split between the two generators. As both generators require the same capacity, this would dictate a 50/50 split, resulting in a $150,000 contribution from each, had they been made at the same time. The initial generator has already contributed $750,000, however, creating an over-payment of $600,000. To address this, the unforecasted generator would pay the distributor $150,000 and then the distributor would refund the initial generator a total of $600,000 (reflecting its own share of $450,000 and the unforecasted generator's share of $150,000) which would reduce the initial generator's net contribution to the appropriate amount of $150,000.

B. Allocation of a Rebate When the Second Generator is Ineligible for the Cost Cap

Table 2 below, illustrates Hydro One's interpretation of sections 3.2.27Da) and 3.2.27E. In this case, only the initial generator is eligible for the renewable expansion cost cap. Again, for simplicity, each generator has a name-plate rated capacity of 5 MW and the total expansion investment is $1.2M.

Table 2.
Illustration of Section 3.2.27D(a) and 3.2.27E
Expansion Investment $1.2 Million

	Distributor	**1st RG (5 MW)**	**2nd DG (5 MW)**	**Total $**
Contributions at Time of Initial Generator's Connection	450,000	750,000	0	1,200,000
Contributions at Time of Unforecasted Generator's Connection	-225,000	-375,000	600,000	0
Net Contributions	225,000	375,000	600,000	1,200,000

The initial generator's name-plate rated capacity is 5 MW. Therefore, the distributor contributes $90,000 per MW for a total of $450,000 (37.5% of the expansion investment). The initial generator contributes the remaining amount of $750,000 (62.5%).

According to sections 3.2.27D(a) and 3.2.27, when the unforecasted generator applies for connection at a later date, the unforecasted generator (also with name-plate rated capacity of 5 MW) would be responsible for sharing the expansion investment of $1.2 million equally with the initial generator. This would result in a contribution of $600,000 from the unforecasted generator. If this amount is then split *pro rata* based on the contributions of the initial generator and the distributor (as directed in section 3.2.27E), this results in 62.5%, or $375,000, refunded to the initial generator and 37.5%, or $225,000, refunded to the distributor.

Overall, Hydro One believes that such examples for all the possible rebate scenarios posed by the new rules would be helpful, perhaps in a new appendix to the Code.

Treatment of Non-Expansion Investments

It is Hydro One's understanding that the rules governing the rebate mechanism apply only to expansion investments and not to enhancement or upstream investments, for which generators bear cost responsibility. Hydro One requests clarification on this point.