

Hydro One Networks Inc.

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October 25, 2010

Ms Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, Ontario M4P 1E4

Dear Ms Walli:

EB-2010-0228 – Hydro One Networks Request for Fees Related to Distribution Generation Projects – Hydro One Networks Argument

Enclosed are Hydro One Networks Inc.'s Submissions (Argument) regarding the above-noted proceeding.

Yours very truly,

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

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cc:Intervenors (Electronic Only)

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Networks Inc.
for an Order or Orders approving Miscellaneous Charges

SUBMISSIONS OF THE APPLICANT, HYDRO ONE NETWORKS INC.

Introduction

This Application addresses the requirement by Hydro One Networks Inc. (“Hydro One” or “the Applicant,”) to recover costs associated with two services provided to generators seeking to connect to Hydro One’s distribution system (or, in some cases, to a transmission system), as follows:

- A. A number of generators wish to establish joint use arrangements with Hydro One to affix electric circuit attachments that they own, to Hydro One’s distribution poles, so that these circuits can ultimately connect to the transmission or distribution system. At this time, as there is no approved joint use charge specifically for generators, Hydro One has contracted to apply charges on a sliding scale, based on the negotiated (and subsequently approved) Local Distribution Company (“LDC”) joint use rate. The current rate, however, does not adequately capture the costs associated with the presence of a generator’s equipment on Hydro One’s distribution poles. Hydro One therefore proposes to charge new rates to both transmission- and distribution-connected generators who utilize Hydro One’s distribution poles pursuant to a joint use agreement. These new rates are intended to recover the ongoing costs associated with joint use occupancy and to hold Hydro One ratepayers whole, while providing generators with the information they require to make economic decisions.

Hydro One requests a decision from the Ontario Energy Board (“the Board”) as to whether these charges require Board approval. Should the Board decide that its approval is required, Hydro One submits that the evidence and information in this Application justify charging the rates as required and requests the Board’s approval, with an effective date of January 1, 2010.

- B. Hydro One requests approval for a revised Connection Impact Assessment (“CIA”) fee schedule, effective immediately. Hydro One assesses the detailed technical impact of the renewable generation connection to its distribution system through a CIA, which includes a report outlining project feasibility, technical specifications needed and the project’s impacts on the distribution grid and on its customers. Hydro One requires proponents to pay the cost of their project CIAs, at the time of their

application to connect their generation facilities to the Applicant's distribution system. This fee schedule would hold ratepayers harmless for the work expended on assessments of generator connections to its distribution system, while recovering the costs of such assessments from the parties who benefit from them.

Part A: The Applicant's Request for Approval of Miscellaneous Joint Use Charges for Generator Customers to Affix Their Generator Electrical Circuit Attachments to Hydro One's Distribution Poles

Hydro One's Submissions in Support of its Requests in Part A

During the course of the proceeding, questions arose on such issues as the methodology used, the degree to which there is a market for such joint use arrangements, and the implications of a market arrangement for the Board's regulatory authority. These are addressed below.

(a) The Context for Unregulated Joint Use Arrangements and their Relationship to Expansions

Joint use arrangements often involve investments in distribution system infrastructure to facilitate the connection of renewable energy generation. In this respect, joint use is similar to investment in Renewable Energy Expansions. However, the differences between these two types of infrastructure development emerged during this proceeding. Board Staff were concerned that, if joint use were an unregulated service, negotiations with generators might hamper the timely expansion or reinforcement of the system to accommodate renewable energy connections. Hydro One, in its interrogatory response and during the technical conference (Exhibit 1, Tab 1, Schedule 3; Vol. 1, page 54, lines 4-6, and 27-28 and page 55, lines 1-10; Exhibit KT5), stated its understanding of the difference between system expansions (and reinforcements) versus joint use arrangements, in which the generator simply uses "a Hydro One structure to gather their electrons from multiple locations to their connection point." From this perspective, a joint use arrangement would not affect the decision-making on expansions.

(b) Market Economics and Capital Contribution

In its pre-filed evidence and interrogatory responses, and during the Technical Conference, the Applicant submitted that generators do have an alternative to entering into a joint use agreement with Hydro One: the generators can build their own dedicated pole line. Hydro One provided further information during the Technical Conference to support its statement that the cost of building a new, standalone line could be a viable, economic alternative to the joint use rate arrangement.

As Mr. Boldt clarified, in addition to the ongoing, annual joint use rates, generators or LDCs are also charged a capital contribution for the incremental height (Vol. 1, page 47, lines 1-2). During the Technical Conference, Mr. Boldt presented the uninstalled pole

costs for various pole heights from 50 to 100 feet (Vol. 1, page 36, lines 13 – 24): as pole height increases, so too do the costs, though not linearly. Using the uninstalled pole costs as an illustration, it is conceivable that there are height/power space combinations in which the generator’s preferred economic alternative would be to build a new standalone line, rather than enter into a joint use agreement and associated capital cost recovery arrangement for the incremental height.

As Mr. Boldt noted, transmission-connected generators have an opportunity to identify joint use requirements as part of the Independent Electricity System Operator’s Form 1706 (Vol. 1, page 76, lines 19-28; page 77, lines 1-2). For reference, Form 1706 is a “System Impact Assessment Application - Renewable Energy Generation Facility Application to Request a Connection Assessment for Hydro One.” This application is submitted shortly after a generator has been awarded a contract. The associated study will identify connection requirements and the location of the connection.

At the same, early stage of project development, Hydro One will present the generator with the capital contribution required for joint use (Vol. 1, page 75, lines 4-6). As Mr. Boldt affirmed, for the transmission-connected projects, many of the same, experienced developers approach the Applicant to request joint use (Vol. 1, page 78, lines 22-25). Based on this experience, the Applicant believes that generators are aware of the requirement to have a collector line run to their connection point and the potential costs associated with a standalone line (Vol. 1, page 75, lines 16-19). After evaluating the alternatives, the Applicant’s position is that generators will choose the preferred option based on what the market can bear (Vol. 1, page 75, lines 7-8).

For these reasons, the Applicant submits that joint use is a competitive service, in which the generators have two viable economic alternatives.

(c) Hydro One’s Overall Approach to Joint Use Arrangements

In addition to exploring joint use arrangements which make the most cost-effective use of existing structures, Board Staff and interveners raised questions respecting Hydro One’s decisions and practices in greenfield situations and also, when new, higher poles must replace older ones, to accommodate specific generator circumstances.

Hydro One submits that in greenfield situations (i.e., where there are no existing load customers), new lines would not be built to accommodate generators, except where the need for distribution service in the near term is foreseen. The Applicant’s approach in such situations is that generators must build their own lines (Vol.1, page 40, lines 17-28 and page 41, lines 1-2). The decision to replace existing poles with taller poles for joint use purposes would be taken only once a contract has been executed with the generators, as this is when the pole requirements are settled (Vol. 1, page 57, lines 18-28, page 58, lines 1-7). In short, each new situation is assessed independently (Vol. 1, page 51, lines 2-6), so there is no unnecessary investment. Even though a “first come, first served” approach is used, the process is quite efficient, with some time for consultation with affected parties allowed by the lag between the receipt of the Form 1706 mentioned

above and the connection date when their attachments must be ready for use (Vol.1, page 62, lines 13-21; page 76, lines 24-28 and page 77, lines 1-16).

The Association of Power Producers of Ontario (“APPrO”) voiced concerns regarding potential negotiating delays and the recourse that generators may have, if they disagree with the proposed rates. Hydro One now understands that similar concerns may have motivated the Board Staff’s question on the implications for timely expansions and reinforcements, addressed in section (a) above. In response, as discussed below in section (e), Hydro One submits that these rates are standard charges, administered equitably to all generation applicants through template agreements. To this, APPrO acknowledged that these arrangements may mitigate its concern around negotiating delays (Vol.1, page 72, lines 20-24). The Applicant further responded that in the case of such disagreements, the generator may escalate the issue to more senior levels within Hydro One, or approach the Board (Vol.1, page 74, lines 19-22). Hydro One maintains that these situations are likely to be rare and that its work on timely expansions or reinforcements would not be affected.

(d) The Joint Use Methodology and Calculation of the Base Case Rate

As explained in detail during the Technical Conference, the Applicant’s approach to establishing fair and reasonable rates for joint use attachments on its distribution poles in this Application builds upon an existing methodology, approved by the Board in RP-2003-0249 (“the telecom methodology” or “the telecom approach”).

In 2005, the Applicant utilized the telecom methodology to establish a negotiated, reciprocal joint use rate with the Electricity Distributors Association (“EDA”) (Exhibit I, Tab 1, Schedule 4, page 1). In its EDA calculation, the Applicant determined the available power space – the space on the pole available for electrical attachments. As part of this calculation, the Applicant multiplied the proportional allocation for telecom of 21.9 per cent by two to derive the non-power space. The Applicant’s rationale for this multiplication is that a pole can accommodate two, non-electricity attaching entities, i.e., a telecom attacher and a street light or traffic light (Vol. 1, page 11, lines 22-27).¹

The remaining 56.2 per cent of the pole was deemed the power space, to be split equally between the Applicant and a Local Distribution Company (“LDC”), resulting in an allocation factor of 28.1 per cent (Exhibit I, Tab 1, Schedule 5). Using the telecom methodology with updated inputs, and a 28.1 per cent allocation factor, the Applicant established a joint use rate of \$28.61 with the EDA (Vol. 1, page 11, lines 10-11; page 14, line 17).

The Applicant has used the EDA rate of \$28.61, which reflects the costs associated with

¹ Within the allocated space, the attaching entity may have more than one physical attachment, i.e. a telecom company may have up to three physical communications attachments in this space. For clarity, the Applicant believes that the Board’s telecom methodology, which utilizes 2.5 attachers to determine the telecom allocation factor of 21.9 per cent, is in reference to individual physical attachments; that is, one telecom entity will utilize 21.9 per cent of the space with 2.5 physical attachments.

10 feet of power space (Vol. 1, page 15, lines 13-16), as a starting point in its approach. This is based on the utilization of a 50-foot pole, in which there are two parties conveying electricity -- Hydro One and another LDC or a generator (Exhibit KT3).

Distribution wood poles are constructed to an engineered standard to satisfy Ontario Regulation 22/04 made under the *Electricity Act, 1998* (Vol. 1, page 16, lines 19-20). These standards dictate the pole requirements, including the height necessary to accommodate different circuit configurations. Based on the length of the spans, the number of circuits and the size, weight, tension and sag of the wires, the power space and clearance requirements are identified, which, in turn, establish the pole height required to support the attachments (Vol. 1, page 42, lines 11-25).

Generators now require more than the ten feet of space to accommodate their preferred configurations. As poles increase in height, their initial capital costs increase significantly (Vol. 1, page 36, lines 13-24). However, some economies of scale are achieved for ongoing operations, maintenance and administration ("OM&A") expenses, such as forestry and maintenance; i.e., the ongoing OM&A costs do not increase proportionally to the capital costs (Vol. 1, page 33, lines 5-11).

The intent of the joint use charges is to cover the required incremental OM&A costs associated with joint use pole ownership. Recognizing that there are some economies of scale achieved, the Applicant has extrapolated the joint use rates for poles taller than 50 feet (Vol. 1, page 35, lines 2-11) to account for the increase in required power space.

(e) Treatment of Rebasing and Inflation

The Applicant would like to clarify its proposed rate rebasing and the application of the inflation factor.

Rate setting and subsequent rate rebasing would occur at standardized, five-year increments. For example, if the initial base rates were set in 2010, the periodic base rate adjustment would occur five years later, in 2015. This schedule would be standard to all generators and would result in each generator paying the same rate in a given year – that is, in 2012 a generator that started in 2010 would pay the same annual rate as a generator that started in 2011. This is consistent with the Applicant's approach to treat everyone fairly (Vol. 1, page 15, lines 11-12), and provides for administrative efficiency through standardized, template agreements (Vol. 1, page 71, lines 3-6).

Hydro One had proposed the use of CPI to inflate the base rates. In response to Board Staff's inquiry, however, Hydro One stated that the use of the Board's approved inflation factor of GDP-IPI would make only a small difference to its calculations. Accordingly, the GDP-IPI inflation factor would be an acceptable alternative to CPI (Vol. 1, page 79, lines 26-28; page 80, lines 1-16).

To conclude, Hydro One submits that it has sufficiently rationalized the treatment of joint use rates as commercially negotiated fees, which may be adjusted as required and agreed

upon between Hydro One and the generators. Should the Board deem that such charges require its approval, however, Hydro One submits that its approach to set these rates is sound and transparent, and that the resulting base rate fairly and appropriately recovers its costs of providing this service.

Part B: The Applicant's Request for Approval of Miscellaneous Fees for the Performance of Connection Impact Assessments for Generator Connections

Hydro One's Requests Regarding Part B

Hydro One requests approval of the following new fees for the performance of CIAs for generator connections, effective immediately:

- (a) All Capacity Allocation Exempt ("CAE") Projects -- \$3,000
- (b) All Reassessed Projects – 50% of the otherwise applicable fee
- (c) All Net Metering Projects --\$3,000

Hydro One also requests confirmation that it may continue to apply the fees previously approved in EB-2009-0096 and which, the Board, on August 18, 2010, ordered the Applicant to implement on an interim basis:

- (d) Small and Mid-sized Projects² – \$10,335
- (e) Large Projects -- \$10, 405

Transitional Fees

In its June 30, 2010, Application, Hydro One had requested approval of lower fees of \$3,000, \$5,000 and \$6,000 for the performance of CIAs for small, mid-sized and large projects, respectively, for a temporary period until August 31, 2010. The purpose of this request was to help generators manage the transition to the new higher cost fee structure (Exhibit C, Tab 1, Schedule 1, page 3, lines 15-21). However, as ordered by the Board on August 18, 2010, Hydro One has implemented its approved fees of \$10,335 and \$10,405 and it no longer requires the transitional fees.

Hydro One's Submissions in Support of its Requests in Part B

Hydro One's Basis for the Continuation of its Approved CIA Fees

As noted in Exhibit I, Tab 1, Schedule 8, a detailed cost study for small, mid-sized and large CIAs was performed to support the Applicant's request for revised fees for these

² The types of projects listed above are defined by size according to the Distribution System Code. (Small projects, therefore, do not include CAE or Net Metering projects.) Net Metering projects are explained in Exhibit C, Tab 1, Schedule 1, page 2, lines 5-11.

three sizes of projects prior to Hydro One's last Distribution Rate filing. The results, presented as Exhibit KT1, were based on an analysis across a two-month section of time for all the CIAs that were underway at the time (Vol. 1, page 7, lines 5-7). The Applicant maintains that the fees for these three categories of CIAs continue to reflect the costs of performing the studies, and should not be deemed "interim" or "revised."

The Rationale and Basis for the New Fees for Capacity Allocation Exempt and Reassessed Projects, and for Net Metering Projects

At the time of its last Distribution Rate filing, the Ontario Power Authority's ("OPA") Feed-in Tariff ("FIT") program rules were still under development, and the Applicant was not in a position to forecast the study requirements for Capacity Allocation Exempt ("CAE") projects or reassessments.

At the time, the detailed treatment of CAE projects was not yet settled and accordingly, the Applicant could not determine the possibility for streamlining these assessments (Exhibit I, Tab 1, Schedule 8). As Ms. Sabouba justified during the Technical Conference, CIAs for CAE projects require much less work, primarily because the Distribution System Code allows Hydro One to treat the projects as though they are the first in line at any station, regardless of when they apply. As a result, there is much less analysis required for CAE projects, and connection requirements are less strenuous because of the lower thermal requirements, and lesser short circuit contributions. Overall, CIAs for CAEs require much less effort and, as a result, cost much less (Exhibit I, Tab 1, Schedule 8, part (d); Vol. 1, pages 84, lines 9-28; page 85, lines 1-20).

Regarding reassessments, the FIT program prioritizes projects which are more "shovel-ready." Hydro One submits that proponents who have rescinded their initial applications are motivated to make few, if any, changes to their projects, so as to enable more efficient processing to meet their in-service date (Exhibit I, Tab 1, Schedule 9). As noted by Ms. Sabouba, Hydro One believes that revised CIAs take approximately half the effort compared to doing a brand-new study (Vol. 1, page 8, lines 21-23). As a result, revisions to CIAs typically take half the time. Further, when a project application is rescinded and the proponent then reapplies for exactly the same project, it is effectively a revision to an existing CIA (Vol. 1, page 7, lines 22-28).

With respect to CIA fees for Net Metering projects, as noted in its interrogatory response, (Exhibit I, Tab 1, Schedule 8, part (d)), the Applicant submits that its assessments of these projects typically require about the same amount of work as that required for CAE projects. For this reason, Hydro One submits that use of the same fee is appropriate.

Hydro One submits that the CIA fees, both those originally approved in EB-2009-0096 and those newly proposed in this Application for permanent use, adequately reflect the time and effort required to perform the relevant CIAs and thus, are fair and reasonable.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg, Counsel for the Applicant