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toronto hydro
electric system

November 2, 2010

via RESS and courier

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

Dear Ms. Walli:

RE: EB-2010-0002, Hydro One Networks Transmission Rates
Argument of Toronto Hydro-Electric System Limited

Toronto Hydro-Electric System Limited (THESL) is an intervenor in the above-noted proceeding and has received the Board's letter of October 25, in which it granted an extension for intervenor submissions but noted that intervenors should refrain from reply to intervenor argument filed earlier.

THESL wishes to observe the Board's direction in this matter and confines its submissions here to a particular aspect of the submissions of Board Staff, and not the positions which any other intervenors may take with respect to this single question. This question pertains to cost responsibility for short circuit capability upgrade projects D12 (Leaside) and D13 (Manby), and Staff's views are set out at pages 14-16 of it submissions.

In those submissions, Staff states at page 14:

> Hydro One agrees that the D12 (Leaside) and D13 (Manby) projects are classified as assets in the line connection pool. As such, the TSC would dictate a user pay approach for the upgrade advancement. Board staff submit that under the TSC, these advancement costs should not be collected from transmission ratepayers, but contributed by Toronto Hydro Electric System Limited ("Toronto Hydro"), the customer who benefits from the advancement. Toronto Hydro and its customers will benefit from the increased reliability of the distribution system afforded by the connection of local generation.

THESL does not accept, for the purposes of determination of cost responsibility in this context, that either it or its load customers benefit directly or exclusively from the advancement. Generators which happen to be located in Toronto benefit from the advancement. Neither THESL in its capacity as the local distributor nor THESL's load customers are the proponents of the generation which would benefit. Staff itself states at page 15 that "Without the addition of the proposed generation facilities, the equipment at Manby TS and Leaside TS is compliant with the TSC". Therefore, this situation is distinct from one in which the advancement costs would be caused by the upgrading of transmission system equipment which would primarily and directly benefit load customers in a given area.

In addition, while THESL acknowledges the benefits of distributed and renewable generation generally, THESL does not accept that the reliability benefits, if any, for THESL customers are the only benefits that arise from distributed generation within Toronto, or that those purported reliability benefits are proportional to the advancement costs. For there to be any reliability benefit, distributed generation would have to be available to and dispatchable by THESL, and it is by no means clear that that would be the case. However, distributed generation in Toronto, whether merchant generation or generation behind a customer's meter, will act to reduce the need for remote generation and displace load on the transmission and distribution systems. Therefore the benefits flowing from the advancement investments, and/or the distributed generation those investments enable, will not be confined to Toronto.

Staff goes on to state at page 14:

> However, neither the TSC nor the Distribution System Code ("DSC") appears to provide guidance on how Toronto Hydro could recoup the amount of the capital contribution from the connecting generators. The normal approach for a distributor to include capital contributions paid to a transmitter in its distribution rate base would result in the cost being borne solely by Toronto Hydro ratepayers.

While Staff further notes that distributor investments to connect eligible renewable generation may be recoverable from provincial ratepayers, THESL observes that much of the distributed generation in Toronto is expected not to be eligible renewable generation, and it is unclear even if it were whether capital contributions to Hydro One would qualify as distributor investments to connect renewable generation.

What Staff effectively points out is a gap in the existing policy framework. Staff itself states at page 15 that "it appears to Board staff that the operation of the TSC in this situation may be unfair to Toronto Hydro and its ratepayers". THESL agrees, and submits on these grounds that the Board should not in this case require the capital contribution that would appear to follow from one interpretation of the existing TSC. Rather, the Board should be guided by the intent of the Direct Benefits framework, which, stated broadly, is that costs undertaken by a particular local distributor which produce benefits for the entire province should be recovered from provincial ratepayers. A similar principle should, and in many other instances does apply for transmitters. In this way Toronto ratepayers would shoulder their appropriate share of costs undertaken in Toronto, and elsewhere, to connect distributed generation.

THESL supports the Hydro One cost recovery proposals for Projects D12 and D13 because, in the absence of an explicit, formal framework, they achieve the appropriate socialization of costs which produce benefits for the province as a whole.

If the Board concludes there is no alternative at this juncture but to require adherence to Staff's interpretation of the existing TSC, then THESL submits that the Board should stipulate a mechanism whereby THESL can recover the revenue requirement consequences in rates commencing in the year that the capital contribution is required.

Yours truly,

[Original signed by]

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cc: Intervenors of Record for EB-2010-0002, by email only