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Our File # 339583-000199

April 2, 2015

By electronic filing

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

Dear Ms. Walli

Re:	Hydro One Networks Inc. ("Hydro One") New Cost Allocation Issue
Board File #:	EB-2013-0421

Please find enclosed the Interrogatories of Canadian Manufacturers & Exporters ("CME") in this proceeding.

Yours very truly

Borden Ladner Gervais LLP

A handwritten signature in blue ink, appearing to read 'Peter C.P. Thompson', is written over the printed name.

Peter C.P. Thompson, Q.C.

enclosure

c. Erin Henderson (Hydro One)
Michael Engelberg (Hydro One)
All Interested Parties EB-2013-0421
Paul Clipsham and Ian Shaw (CME)

OTT01: 6883917: v1

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

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an order or orders pursuant to section 92 of the *Ontario Energy Board Act, 1998* (as amended) granting leave to construct transmission line facilities in the Windsor-Essex Region, Ontario.

**INTERROGATORIES OF
CANADIAN MANUFACTURERS & EXPORTERS (“CME”)
TO HYDRO ONE NETWORKS INC. (“HYDRO ONE”)**

The “Beneficiary Pays” Principle

Reference: Exhibit A, Tab 1, Schedule 1, page 3
Exhibit B, Tab 4, Schedule 5
Exhibit B, Tab 4, Schedule 4
Procedural Order No. 3, Issues 1 and 2

1. The evidence refers to the Ontario Energy Board’s (“OEB” or the “Board”) “Beneficiary Pays” principle to support Hydro One’s proposal to attribute a portion of the costs of the transmission system expansion in this proceeding to “system benefits”, for recovery from all transmission ratepayers, and the remainder to “customer benefits”, to be recovered from connecting customers.

We seek to obtain a better understanding of Hydro One’s perception of the “Beneficiary Pays” principle and its implications for manufacturers and other electricity consumers.

Our understanding is that, in its regulation of the incremental expansion costs incurred by natural gas transmitters, the Board applies a rolled-in tolling methodology so that incremental transmission costs are rolled-in with existing transmission costs before they are allocated between transmission and distribution customers for recovery in transmission and distribution rates.

In this connection, please provide the following additional information:

- (a) Would the application of the rolled-in tolling methodology change the outcome of the allocation of the incremental costs of the transmission expansion in this case which Hydro One is asking the Board to approve?
- (b) If so, then please provide a schedule which will show the cost allocation outcomes at the transmission and distribution levels of allocating the incremental costs associated with the project in this proceeding under the auspices of rolled-in transmission tolling methodology.
- (c) In Hydro One’s view, what is the transmission tolling concept upon which the current cost responsibility provisions of the Transmission System Code (“TSC”) is based? Are the transmission cost responsibility provisions of the TSC based on an “incremental” tolling concept or a “rolled-in” tolling concept?

- (d) Does adherence to an "incremental" transmission cost responsibility concept either facilitate or impede the objective of achieving more electricity distributor consolidation in Ontario? Please explain the rationale for your response to this question.
 - (e) Does Hydro One regard the Board's adoption of the "Beneficiary Pays" principle to be a move away from an incremental cost responsibility model and a move towards a rolled-in cost responsibility model?
 - (f) In Hydro One's view, does the rolled-in cost responsibility model fall inside or outside the ambit of the Board's "Beneficiary Pays" principle? Please provide the rationale for your response to this question.
 - (g) Please advise whether any other regulated electricity transmitters or distributors in Canada apply the "Beneficiary Pays" principle. If so, then please provide copies of any regulatory decisions or tribunal policies which provide further details on how the principle is to be applied.
2. In determining the proportion of the transmission costs associated with the project to be attributed to "system benefits", Hydro One has adopted the Ontario Power Authority's ("OPA") assessment that 22.5% of these costs should be allocated to transmission ratepayers; and the remaining 77.5% should be allocated to particular customer beneficiaries.

The OPA's derivation of these percentages is premised on the notion that cost estimates for hypothetical stand-alone projects to deal with system needs and customer-specific needs, separately, constitute the appropriate information source for determining the portions of costs to be allocated between system benefits and customer beneficiaries.

In connection with this evidence, please provide the following information:

- (a) Please list all options either the OPA or Hydro One considered for determining the proportions of the incremental costs of this project to be attributed to system benefits and to customer beneficiaries respectively.
- (b) Did either the OPA or Hydro One consider determining these percentages from information related to actual or forecast events rather than hypothetical scenarios? If so, what sources of such information were considered?
- (c) What would be the allocation to system benefits if the total annual incremental demands of those customers to be served by the new facilities were expressed as a percentage of total annual demands of all customers who receive a benefit from the new facilities?
- (d) What would be the allocation to system benefits if the total peak demands of those customers to be served by the new facilities were expressed as a percentage of total peak demands of all customers who receive a benefit from the new facilities?

Impacts of Transmission Cost Responsibility Proposals on Electricity Consumers**Reference: Exhibit B4, Schedule 3, page 6**

3. The evidence indicates that, with 22% of the project costs allocated to system benefits, the impact of Hydro One's increased transmission rates on a typical residential electricity consumer is 0.01%. In connection with this evidence, please provide the following:
- (a) The impact on electricity consumers if 50% of the project costs are attributed to system benefits;
 - (b) The impact on electricity consumers if 100% of the incremental costs associated with the project are allocated to system benefits.

Impacts of Distribution Cost Responsibility Proposals on Electricity Consumers**Reference: Exhibit A, Tab3, Schedule 1, page 2**

4. Hydro One asks the Board to approve its proposed cost allocation method at the distribution level and states that such an approval is required in order for it to proceed with the project. In connection with this evidence, please provide the following further information:
- (a) How many manufacturers are located in the Windsor-Essex and Kingsville-Leamington areas whose rates will be affected by Hydro One's proposed treatment of the incremental costs associated with this transmission system expansion project?
 - (b) Please explain how the Board can approve the proposed cost allocation approach "at the distribution level" without knowing the estimated impacts of the proposal on the electricity consumers served by the affected distributors.

Reference: Exhibit B, Tab 4, Schedule 3

5. Please provide Schedules which will show the extent to which the capital contribution amount Hydro One Distribution must pay to Hydro One Transmission will be reduced in a scenario where 50% of the transmission system expansion costs are allocated to system benefits and 50% to customers beneficiaries.

Reference: Exhibit B, Tab 4, Schedule 5, page 3

6. The evidence indicates that the specific distributors who will benefit from the transmission system expansion project are:
- Hydro One Distribution
 - Essex Powerlines Corporation
 - E.L.K. Energy Inc.
 - Entegrus Powerlines Inc.

Each of these distributors will be required to make a capital contribution as will new large customers of each of those distributors.

There is no evidence of the estimated impacts of the costs associated with the transmission expansion project on electricity consumers served by each of these distributors.

In connection with this evidence, please provide the following information:

- (a) What is the amount of the capital contribution to be made by Hydro One Distribution which must be absorbed by Hydro One Distribution customers?
- (b) What amount of that capital contribution will be recovered from new large customers?
- (c) What is the impact of Hydro One's proposals on its distribution customers other than the new large customers who will be required to make a capital contribution?
- (d) What is the impact on each of the new large customers to be served by Hydro One Distribution who will be required to make a capital contribution?
- (e) For each of Essex Powerlines Corporation, E.L.K. Energy Inc., and Entegrus Powerlines Inc., please provide the same electricity consumer impact information requested of Hydro One in sub-paragraphs (a) to (d) above. If Hydro One does not yet have that information, then please obtain it from each of those distributors so that the Board can consider the distribution cost responsibility impacts on their customers when evaluating Hydro One's distribution cost responsibility proposals.

Reference: Exhibit B, Tab 4, Schedule 5, page 5

7. How is the distributor cost responsibility of Embedded Generators being treated under Hydro One's proposal? In your response, please advise how Hydro One currently derives, or plans to derive, its rates and charges to Embedded Generators for stand-by distribution service. This information will be of relevance to a determination of whether the benefits of the project to this type of customer have been appropriately considered.