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Our File # 339583-000199

By email

June 12, 2015

Michael Engelberg
Assistant General Counsel
Hydro One Networks Inc.
483 Bay Street
15th floor – North Tower
Toronto, ON M5G 2P5

Dear Mr. Engelberg

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

A. INTRODUCTION

This is further to your exchange with counsel for Ontario Energy Board (the “Board”) at the June 5, 2015 Technical Conference related to the written questions we submitted on May 29, 2015, to Hydro One and the Independent Electricity System Operator (“IESO”) on behalf of Canadian Manufacturers & Exporters (“CME”).

This letter and the May 29, 2015 letter were prepared by Peter Thompson of this firm on behalf of Emma Blanchard and myself because we are the lawyers who will be responsible for managing this matter from this point forward.

At Transcript pages 199 and 200, you suggested that we review the Transcript to see if any of our written questions were not answered. It was stated that Hydro One would answer any appropriate questions which remain unanswered.

We have now reviewed the Transcript and the supporting materials presented by the witnesses at the outset of the Technical Conference. We are of the view that many of the written questions we posed on May 29, 2015, remain unanswered. Accordingly, we are writing to request that Hydro One and the IESO respond to the unanswered portions of those questions.

B. THIS PROCEEDING IS GENERIC IN NATURE

Hydro One's opening statement and answers provided during the course of the Technical Conference are based on a premise that the issues which the Board has framed in Phase 2 of this proceeding are not generic in nature. This premise is incompatible with the Board's Cost Allocation Policy letter dated January 28, 2015, and the Notice of New Cost Allocation Issue and Procedural Order No. 3 in this proceeding as amended on January 30, 2015 (the "Notice").

At the transmission level, the transmission cost allocation issue described in this document is not merely whether the Hydro One and the IESO proposal is "aligned" or "consistent" with the proposed amendments to the Transmission System Code ("TSC") related to the "beneficiary pays" principle as suggested in statements made during the course of the Technical Conference at Transcript pages 5, 15 and 18. Rather, at the transmission level, the transmission cost allocation issue is framed generically as follows:

1. The appropriate allocation of costs associated with transmission connection assets between system benefit (i.e. recovered from all ratepayers) and customer benefit (i.e. capital contribution required by the distributors).

Similarly, the Board did not frame the cost allocation issue at the distribution level as an issue limited in scope to Hydro One Distribution ("Dx") only. The question to be addressed in this proceeding is not whether the proposed allocation to its distribution customers Hydro One Dx's share of the \$77.4M of transmission investment is appropriate. Rather, the issue is framed generically as follows:

2. The appropriate allocation of costs at the distribution level between the directly connected and embedded distributors and their customers.

That this issue is generic in nature is generic in nature and is intended to affect all distributors is corroborated by the fact that most, if not all, of the distributors in Ontario were added as additional parties in the list of those to be served with the Notice.

Accordingly, the Notice makes it clear that this proceeding is generic in nature and not otherwise as Hydro One suggested during the course of the Technical Conference. As a consequence, Hydro One is obliged to provide complete responses to all of the generic and other aspects of the written questions contained in our letter of May 29, 2015, which is attached for reference purposes.

For reasons which follow, we require complete responses to all aspects of those questions.

C. "INTERIM" SECTR PROJECT COST ALLOCATION APPROVALS

Understandably, Hydro One wishes to obtain regulatory approvals for its SECTR Project promptly so that the work thereon can commence. However, having regard to the generic nature of the issues which the Board has framed for Phase 2 of this proceeding, it is inappropriate for Hydro One to be asserting, as it does, that intervenors should be taking the lead on proposing a generic framework for the benefits-based allocation of transmission costs at the transmission and distribution levels.

The electricity transmission utility and the IESO are the entities which identify and analyze transmission investments, including the benefits which they will produce. It is these entities and not intervenors who should present for the consideration of all stakeholders a generic framework for a benefits-based allocation of transmission costs at the transmission and distribution levels.

The best way for Hydro One to achieve its objective of obtaining prompt transmission cost allocation approvals for the SECTR Project is to ask the Board to grant approvals with respect to SECTR transmission cost allocations at the transmission and distribution levels which are “interim” only pending the completion of Phase 2 of this proceeding.

Once we have received complete responses to our unanswered questions, we will be pleased to collaborate with Hydro One, the IESO and other stakeholders to support the prompt issuance of appropriate interim SECTR transmission cost allocation approvals which will be subject to adjustments, if necessary, once Phase 2 of this proceeding has been completed.

At the end of this letter, we provide some process suggestions which we believe will help Hydro One achieve a prompt resolution of this interim cost allocation relief issue.

D. CME’S UNANSWERED QUESTIONS

In this section, we attempt to explain how complete responses to CME’s unanswered questions are essential to a fair hearing of the two (2) generic cost allocation issues listed in the Notice. Moreover, the further clarifying information we have requested is required to enable everyone to focus on the matters which need to be addressed in developing a framework for the appropriate benefits-based cost allocation of transmission costs at the transmission and distribution levels.

CME Question 1

The purpose of this question was to obtain from Hydro One and the IESO a step-by-step description of the process which should be followed in developing and applying a benefits-based allocation of transmission costs at the transmission and distribution levels. The first three (3) slide presentations and supporting testimony from the witnesses at the Technical Conference indicated that this process includes the following steps:

- (1) Select the most cost-effective transmission system solution;
- (2) Identify all transmission customers who will benefit from the transmission system solution, including those who cause costs to be incurred and others;
- (3) Value these benefits for all beneficiaries using avoided costs or other evaluation mechanisms;
- (4) Allocate transmission cost responsibility to all beneficiaries based on a proportional measure of the benefits;

- (5) Following step (4), determine transmission customer specific capital contributions to be made to Hydro One Transmission (“Tx”);
- (6) After step (5), determine the uniform transmission rate responsibility;
- (7) Based on the transmission cost responsibility of distributors under items (5) and (6), determine the capital contribution consequences for particular distribution customers; and
- (8) Following step (7), determine the distribution rate consequences of the transmission cost responsibility of particular distributors.

We recognize that there may be inaccuracies in the manner in which we have attempted to describe this process. That said, a step-by-step description from Hydro One and the IESO of the process to be followed of this nature is essential to a determination of the appropriate framework of a benefits-based allocation of transmission costs at the transmission and distribution levels. Accordingly, please provide a complete response to CME Question 1. All parties need to know the process Hydro One and the IESO propose to follow.

CME Questions 2 and 3

The purpose of these questions was to have Hydro One and the IESO describe the principles on which a benefits-based framework for transmission costs at the transmission and distribution levels should be based.

In the preamble to our Technical Conference questions, we referred to portions of the Federal Energy Regulatory Commission (“FERC”) Order 1000 dated July 21, 2011, defining the “beneficiary pays” principle as “... a cost allocation principle that includes as beneficiaries those that cause costs to be incurred or that benefit from a new transmission facility.” We also referred to National Energy Board (“NEB”) decisions supporting the concept that it is the demands of both existing and new customers which can cause incremental transmission costs to be incurred.

If these principles and others, such as “no free ridership”, are incorporated into the benefits-based allocation framework, then they will inform the identification of all those who benefit from a transmission investment, as well as a consideration of mechanisms for allocating cost responsibility between those beneficiaries.

Responses to CME Questions 2 and 3 are essential to developing the principles which should guide the development and application of an appropriate benefits-based transmission cost allocation framework at both the transmission and distribution levels. Please respond to these questions.

CME Questions 4, 5 and 6

These questions requested a description from Hydro One of the criteria which are to be applied to identify all of the beneficiaries of the \$77.4M transmission investment in this case, as well as a description of the mechanisms applied to value those benefits.

While it is clear that “avoided costs” are used as a basis for evaluating some of the benefits of the \$77.4M transmission investment in this case, it remains unclear as to whether that is the only basis for evaluating benefits associated with transmission investments generally. It is equally unclear as to why some who derive benefits from the proposed transmission investments are nevertheless excluded from having any transmission cost responsibility because Hydro One and the IESO have refrained from evaluating the benefits.

It is the identification of all beneficiaries and the evaluation of their respective benefits which leads to the determination of the requisite capital contributions to be made by specific transmission customers and the remaining cost responsibility of all transmission system customers. Please provide written responses to CME Questions 4, 5 and 6.

CME Questions 7 and 8

These questions seek to have Hydro One describe how the transmission costs allocated to particular distributors are, in turn, to be allocated to customers of each of the affected distributors.

These questions seek to obtain a description of the method for allocating transmission investments at the distribution level which Hydro One is asking the Board to approve, as well as a schedule which displays the numeric consequences of that outcome in this particular case. Hydro One’s 5 page slide presentation entitled “Summary of Proposed Cost Allocation Approach” illustrates the allocation of the capital contributions to be made by Hydro One Dx, Essex Powerlines Inc., E.L.K. Energy Inc., and Entegrus Powerlines Inc. are proposed to be allocated at the distribution level between new customers of each distributor and its other ratepayers.

Regardless of the fact that Hydro One is only seeking Board approval for its own cost responsibility, as a distributor, for the transmission investment which forms the subject matter of this case, the pragmatic reality is that whatever the Board decides for Hydro One will likely be applied to other distributors. In these circumstances, a complete response to these questions is required for all parties to gain an understanding of the implications of the methodology Hydro One is proposing to allocate transmission costs at the distribution level. Please respond to each of these questions.

CME Question 9

This was a hypothetical question designed to ascertain how Hydro One’s proposed proportional benefits allocation methodology aligns or does not align with the objective of achieving a greater degree of consolidation in the distribution of electricity in Ontario. We do not require a response to this hypothetical question at this time.

CME Questions 10 and 11

In these questions, we asked Hydro One and the IESO to particularize the changes that will need to be made to the TSC and the Distribution System Code (“DSC”) if the Board approves the proportional benefits allocation methodology advocated by Hydro One and the IESO.

All participants in this proceeding should understand the TSC and DSC end-states which Hydro One and the IESO are striving to achieve. Please provide written responses to each of these questions.

In summary and for all of these reasons, please provide written responses to CME Questions 1 to 8 inclusive and 10 and 11.

E. PROCESS SUGGESTIONS

For reasons which we have outlined, please provide written responses to CME Questions 1 to 8 inclusive and 10 and 11 by Friday, June 19, 2015, which is one week prior to the evidence filing deadline of June 26, 2015, specified in Procedural Order No. 5 dated May 22, 2015.

Once stakeholders have responses to our written Technical Conference questions and the evidence which we understand that the E3 Coalition intends to file dealing with distribution rate impacts and perhaps other topics, they can then turn their minds to a consideration of reasonable terms for a SECTR Project interim order related to a benefits-based transmission cost allocation at the transmission and distribution levels pending the outcome of Phase 2 of this proceeding.

Between the end of June and the currently scheduled hearing days for this proceeding of July 16 and 17, 2015, it is conceivable that a consensus could emerge on appropriate "interim" cost allocation terms as part of a SECTR Project interim order.

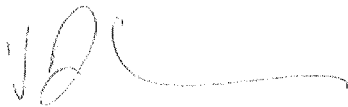
If such a consensus does not emerge, then any dispute with respect to the terms of a SECTR Project interim order with respect to benefits-based transmission cost allocation at both the transmission and distribution levels could be addressed by the Board on July 16 and 17.

Such an interim order could issue thereafter. New dates could then be scheduled for the hearing of the generic issues listed in the Notice.

We hope that this letter helps parties focus on matters which relate to the two (2) generic issues described in the Notice.

We await Hydro One's written responses to CME's unanswered questions.

Yours very truly



Vincent J. DeRose

enclosure

c. Erin Henderson (Hydro One)
Board Secretary, OEB
Interested Parties EB-2013-0421
Paul Clipsham and Ian Shaw (CME)

OTT01: 7044605: v1

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Our File # 339583-000199

By electronic filing

May 29, 2015


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

Enclosed please find Technical Conference Questions being submitted on behalf of Canadian Manufacturers & Exporters ("CME") with respect to the Technical Conference scheduled for Friday, June 5, 2015.

Yours very truly

for 
Vincent J. DeRose

enclosure

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

OTT01: 7023625: 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.

**TECHNICAL CONFERENCE QUESTIONS OF
CANADIAN MANUFACTURERS & EXPORTERS ("CME")
TO HYDRO ONE NETWORKS INC. ("HYDRO ONE") AND/OR
THE INDEPENDENT ELECTRICITY SYSTEM OPERATOR ("IESO")**

Preamble

The questions which follow seek elaboration and clarification of many of the responses Hydro One has provided to Interrogatories seeking a better description of the transmission and distribution cost allocation methodologies which it is asking the Board to approve in this proceeding. What we seek is a clear step-by-step description of each of the proposed transmission and distribution methodologies so that, if they are approved, then it will be readily apparent to all stakeholders how these methodologies are to be applied in future cases.

We do not propose to list all of the Interrogatories in which questions of this nature have been posed. As a result of information provided in response to such questions, the steps which we envisage are involved in applying the proposed methodology at the transmission level include a consideration of the following questions:

- (a) Is/Are there any capacity or other problem(s) with the transmission system?
- (b) What is/are the cause(s) of the problem(s) – is it customer demand or other causes?
- (c) What customer(s) are the cause of the problem(s) in whole or in part – is it a particular customer or sub-set of customers; or all of the customers in a region?
- (d) Who benefits if the problem(s) is/are fixed – is the beneficiary constituency broader than the constituency which is causing the problem(s)?
- (e) What are the costs of the alternative(s) to fix the problem(s)?
- (f) What is the value of the benefits to each of the components of the beneficiary constituency which benefits from having the problem(s) fixed; and how is the value of those benefits to be derived?
- (g) How are the costs of fixing the problem(s) to be apportioned among those who benefit from having the problem(s) fixed? In particular, how is the cost and benefit information to be used to derive the appropriate allocation factor in a particular case?

- (h) Once costs have been apportioned, then what are the capital contribution consequences of that apportionment?

For the purposes of the elaboration and clarification questions which follow, we have assumed that the foregoing is illustrative of the step-by-step process that Hydro One follows.

Our elaboration and clarification questions have also been framed in the context of the six (6) cost allocation principles adopted by the Federal Energy Regulatory Commission ("FERC") in its Order 1000 dated July 21, 2011. We provided parties with the internet link to that material by email dated May 21, 2015. In that material, at page 449, FERC describes the "beneficiary pays" principle as "... a cost allocation principle that includes as beneficiaries those that cause costs to be incurred or that benefit from a new transmission facility." (emphasis added)

Our elaboration and clarification questions also seek clarification of the extent to which, if at all, the proportional benefits allocation methodology, which Hydro One is asking the Board to approve, considers and/or applies the cost allocation concept which the National Energy Board ("NEB") applies to certain types of natural gas transmission expansion facilities. This "cost causation" concept is discussed in the NEB Decisions which we circulated with our letters of April 30 and May 12, 2015 (see, for example, excerpts from the NEB Decision in GH-5-89 enclosed in our April 30, 2015 letter at sections 2.2.3 and 2.3). The concept is that the need for expansion of an integrated system arises when the total demand for service exceeds the existing capacity. Existing users of the system can be considered to be equally responsible for causing a need for additional facilities since, if they were to reduce their levels of use, capacity would be freed-up and less expansion would be necessary.

QUESTIONS

Having regard to the foregoing preamble, would Hydro One and/or the Independent Electricity System Operator ("IESO") please provide responses to the following questions in advance of the Technical Conference scheduled for June 5, 2015.

1. Does the foregoing preamble contain a reasonable generic step-by-step description of the questions which are to be considered in applying the transmission cost allocation methodology which the Board is being asked to approve in this case? If not, then please provide a corrected version thereof.
2. By reference to each of the six (6) principles adopted by FERC in its Order 1000 dated July 21, 2011, discussed at pages 420 and following of that Order, please elaborate on whether the proposed methodology is or is not compatible with each of those principles. If the proposed methodology is not compatible with any of those principles, then please explain why those particular principles are not applicable to the electricity transmission system in Ontario.
3. In determining the "causes" of the transmission system problems in this particular case, to what extent, if any, is the NEB cost causation concept described above applied? Please elaborate on the extent to which this concept is not applicable in the transmission cost allocation methodology which the Board is being asked to approve in this proceeding.

4. Please provide a complete description of how the methodology which the Board is being asked to approve operates to identify all those who benefit from having the problems in this particular case fixed as Hydro One proposes.
5. Please provide a complete description of how the proposed methodology operates to quantify the benefits which each component of the beneficiary constituency will realize in this case by having the problems fixed as Hydro One proposes. How are the benefits quantified?
6. The responses to OEB Interrogatories 5 and 11, E3 Coalition Interrogatories 5 and 6, and others indicate that Hydro One has not taken into account all of the benefits which will be realized by installing the proposed facilities. Please assume that these benefits are to be taken into account. Under this assumption, how should these benefits be valued and are these benefits being realized by all customers in a region, or only by a particular sub-set of customers in that region? What is the proportional benefits allocation outcome of taking all of these benefits into account?
7. By reference to the step-by-step description of the methodology contained in the Preamble or to a corrected version thereof provided by Hydro One in response to question 1 above, please provide a step-by-step description of the cost allocation methodology Hydro One is asking the Board to approve for allocating and recovering costs at the distribution level. Is the methodology being proposed at the distribution level a proportional benefits allocation methodology?
8. Please provide a schedule which will illustrate the outcome, in this particular case, of applying the proposed proportional benefits allocation methodology at the distribution level to Hydro One Distribution. What proportion of the transmission costs allocated to Hydro One are in turn apportioned to all of its distribution customers as opposed to a particular sub-set of those customers?
9. What would be the estimated outcome of applying the proportional benefits allocation methodology at the distribution level in this case under the auspices of a hypothetical assumption that Hydro One is the sole distributor serving all of Ontario? What proportion of the total transmission costs allocated to Hydro One Distribution, in this scenario, would in turn be allocated to all of Hydro One's distribution customers as opposed to a particular sub-set of those customers?
10. Please particularize the changes that will need to be made to the Transmission System Code ("TSC") if the Board approves the transmission cost methodology which Hydro One is proposing in this case.
11. Please particularize the changes that will need to be made to the Distribution System Code ("DSC") if the Board approves the distribution cost allocation methodology which Hydro One is proposing in this case.