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BY COURIER

September 20, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

EB-2016-0003 - Notice of Revised Proposal to Amend a Code – Revised Proposed Amendments to the Transmission System Code and the Distribution System Code – Hydro One Networks Inc. Submission

Hydro One is pleased to provide its comments on the revised proposed amendments to the Transmission System Code and Distribution System Code, in response to the Ontario Energy Board's August 23, 2018 Notice on this matter.

As the latest revisions substantially address Hydro One's concerns on the cost allocation matter, these comments are now focused on a few remaining Distribution System Code matters – further thoughts on the LDC Feeder Transfer proposal and a few process and definition clarifications which we believe are needed for successful implementation of the proposed changes. The Company also offers a couple of considerations for the future.

Once again, Hydro One would like to thank the Board for holding this consultation. The company believes that the revised proposed amendments will result in a more equitable sharing of "upstream" costs (as well as the benefits) of increased electricity capacity in the Province. With this critical outcome in mind, should the Board decide that it needs further stakeholder input, Hydro One would be pleased to continue its participation.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

EB-2016-0003
PROPOSED AMENDMENTS
TO THE TRANSMISSION SYSTEM CODE AND DISTRIBUTION SYSTEM CODE: REGIONAL PLANNING & COST ALLOCATION

INTRODUCTION

Hydro One ("the Company") appreciates, and fully supports, the Board's revisions to a number of its proposals from the original September 21, 2017 Notice on this matter. The proposed revisions have very substantially addressed a number of our concerns regarding the transmission investment cost allocation methodology and a variety of other Transmission System Code ("TSC") and Distribution System Code ("DSC") process and definitional issues.

These comments, accordingly, are focused on a few remaining items respecting the revised proposed DSC changes. Hydro One notes a few clarifications respecting DSC S. 3.2.4A and S. 3.5, which, from our perspective, are needed for the effective implementation of those proposed amendments. Also, the implications of one item (DSC S. 3.1.18) have become better understood since the Company's submission of November 6, 2017, and after further scrutiny of this issue, we offer additional comments on it. Finally, Hydro One offers a few thoughts for the future.

As before, items in this submission are discussed in order of their presentation in the Board's Notice. For clarity, Hydro One refers to Appendix D of the Board's Notice (that is, the consolidated version of proposed changes) for its comments on the wording of any rules.

COMMENTS

ISSUE 2.0 APPROACHES TO 'APPORTION' UPSTREAM TRANSMISSION CONNECTION INVESTMENTS COSTS (DSC S. 3.2.4A)

Hydro One agrees with the proposed wording in DSC S. 3.2.4A. The revised materiality threshold for application of this process to large customers, and the proposed methodology as described, should address the concerns raised in Hydro One's submission of November 6, 2017, particularly with respect to equitable treatment in the cost apportionment process.

Beyond the decisions enabling the cost allocation methodology, however, one issue remains. That issue relates to the question of transmission-connected distributors':

- collection of security deposits from distribution customers and embedded distributors who make capital contributions to transmission investments, and
- obligation to address potential shortfalls and credit balances attributable to those (and any subsequent) contributors, following their connection.

Hydro One had raised the issue of security deposits, as transmission-connected distributors will be held accountable for potentially unrecoverable transmission costs incurred by their customers or embedded distributors whose revenues may not materialize as forecast. Secondly, the lack of a process to pass through transmission rebates would be unfair to those parties whose capital contributions to the transmitter result in a credit balance later on (due either to their revenues being higher than forecast or to subsequent connections of other customers whose revenues help reduce the capital contributions).

Hydro One agrees that the proposed DSC amendments, which effectively use the TSC rules to govern the apportionment of transmission costs between initial contributors, is the correct approach to pass the initial contributions "upward" to the transmitter. Consequently, in the absence of specific direction on the treatment of security deposits and rebates relating to these upstream transmission costs, Hydro One's understanding is that the transmitter, in addition to calculating each beneficiary's capital contribution, will also perform the necessary true-up calculations described in the TSC's S. 6.5, using the methodology and inputs described in the TSC's Appendix 5.

ISSUE 3.0 REGIONAL DISTRIBUTION SOLUTION – LDC FEEDER TRANSFER (DSC S. 3.1.18)

In its previous submission, Hydro One endorsed the Board's intent to help address transmission capacity constraints through inter-distributor connections. However, we also stated the vital importance of an efficient approvals process. The increasing focus of intervenors and Board staff on efficiency and productivity improvements during distributors' rate application proceedings, mandates that such improvements be found and preserved.

In this context, distributor-to-distributor connections have been part of normal business for some time. Hydro One Distribution currently delivers power to other distributors from about 349 connections, and is supplied power at 41 connections. Virtually all such connections provide additional capacity to an area and the final solution follows an assessment of several options for addressing capacity issues. The Board's evolving framework of regional planning and related distribution system plan filings provide a more formal structure within which the optimal solution from a regional perspective is identified, justified and implemented. The remaining void has been the allocation of costs for required transmission and distribution work. This void, however, will now be addressed by the Board's proposed amendments to the TSC's and DSC's cost responsibility rules. This is a positive move, which will help complete the process.

In short, the process for distributor-to-distributor connections has been refined to a point where it works well. Distributors already put considerable effort into such work and the associated filings for approval. Hydro One is concerned, therefore, that yet another approval process, intended to achieve the same ends, may in fact create a disincentive to such distributor collaboration and result in inappropriate outcomes.

At this time, therefore, Hydro One submits that the proposed DSC S. 3.1.18 requirement for approval should be limited to *exceptional* situations where, despite the clarity in the revised proposed amendments, uncertainty regarding cost responsibility between distributors may still linger. This might arise where transmission investments are advanced in the forecast period, or where the connecting distributor will benefit from an earlier investment made by the facilitating distributor.

In addition to reducing pressure on distribution rates, this slight adjustment would also enhance distributors' responsiveness to the concerns of connecting customers respecting the timing and cost certainty of their projects.

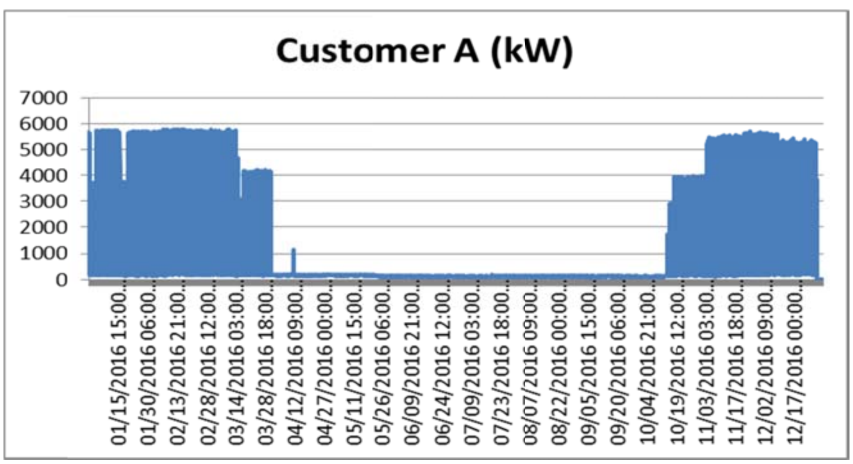
ISSUE 5.0 ADDRESSING INCONSISTENCIES AND GAPS BETWEEN THE TSC AND DSC

1.0 Bypass Compensation (DSC S. 3.5)

Hydro One agrees with the Board's proposed rules which support the use of bypass compensation charges applicable to distributors' systems, but wishes to address two points of clarification:

a) Hydro One notes that under TSC S. 6.7, transmission-connected distributors may be levied *transmission* bypass charges. Although the calculation itself is essentially the same, the transmission bypass charge is based on the NBV of the transmitter's, rather than the distributor's assets, removal costs, etc. For clarification purposes, therefore, Hydro One assumes that a transmission-connected distributor may also pass through a transmission bypass compensation charge to a customer (that is, either a large load customer or an embedded distributor, which has been deemed a customer for cost responsibility purposes).

b) The revised amendments in DSC S. 3.5.3 maintain a three-month period to determine a customer's bypassed capacity. Hydro One notes that it has an increasing number of large (≥5 MW) distribution customers whose operations (and corresponding electricity demand) vary dramatically between seasons, as depicted in the load profile of one such customer below:



This customer's peak demand normally ranges from about 300 kW for 6½ months of the year to nearly 6 MW for 5½ months. To mitigate the effects of such seasonal fluctuations, Hydro One understands that the time of bypass will need to be determined in a manner that accurately reflects the year-over-year effect of the bypass, excluding as much as possible any seasonal impacts. The Company will define "existing load" in DSC S. 3.5.3 as the customer's highest rolling three-month average non-coincident peak load on its distribution asset under normal operating conditions in the most recent three years.

c) Hydro One also draws the Board's attention to an apparent small typographical error in the proposed DSC S. 3.5.1 in Appendix D of the Board's Notice – a reference to a 3MW (rather than the recently revised ≥5MW) threshold for defining large customers.

2.0 Customer Request for Relocation of Distributor-Owned Asset (DSC S. 3.1.20)

In its previous submission, Hydro One expressed the concern that distribution "*connection* assets" is too broad a category to invoke a distributor's obligation for customer consultation, but also too limiting to determine cost responsibility for asset relocation (because "main distribution system" assets also face relocation). Hydro One therefore recognizes and appreciates the Board's understanding of these and other stakeholder concerns as discussed on p. 26 of the Board's Notice, and its proposal to address them. In this light, Hydro One raises a likely oversight respecting the proposed rule in DSC S. 3.1.20, which continues to refer to relocation of a "connection facility." To ensure clarity and consistency within the rule, Hydro One suggests the substitution of *"asset"* for "connection facility" in the wording as shown below:

> "3.1.20 Where a customer requests the relocation of a distributor-owned asset, the distributor shall recover from that customer the cost of relocating that ~~connection facility~~ *asset*, except to the extent recovery is limited under law."

FURTHER CONSIDERATIONS

ORGANIZATION OF THE PROPOSED RULES IN THE DSC

Hydro One agrees with the Board's stated intent to separate those rules which address upstream transmission costs (and the processing of transmission funds by distributors), from the rules focusing on distribution system connections and expansions in the DSC. Clarity between these sections will help ensure that processes and related accounting for each category will remain distinct. Finally, Hydro One acknowledges the complexity of the material presented and notes that Appendix E of the Board's Notice was a very useful table summarizing the code revisions at this time. Such summaries would be helpful in future policy consultations, as well.

IMPLEMENTATION OF PROPOSED CODE CHANGES

A staggered approach to the implementation of the revised TSC and DSC rules may be advisable. Hydro One appreciates the Board's clarity respecting the implementation of the proposed rules pertaining to the apportionment of transmission costs to distribution beneficiaries and the application of these to the Leamington project. As Hydro One has completed construction of the transmission portion of this project and is now working toward customer connections, it supports issuance of the relevant cost responsibility rules in both the TSC and

DSC relatively soon. This will ease all parties' uncertainties regarding their financial obligations and enable the completion of contracts, among other things.

With respect to a number of the remaining proposed DSC amendments, Hydro One's Distribution Business will require more time to revise its existing processes or develop new ones, particularly those related to the mandatory use of expansion deposits arising from DSC S. 3.2.20.

Hydro One realizes that distributors' Conditions of Service ("COS") must also reflect newly approved DSC rules. The Board has previously allowed distributors the time, once revised rules have been issued, to amend their COS accordingly. Hydro One wishes to clarify, for the Board's consideration, that once the Company makes its internal process changes and documents them in its COS, it then requires a further three-month period for customer review of the revised document. This is the duration of the billing cycle which enables Hydro One to alert all of its distribution customers to the COS changes, in accordance with DSC S. 2.4.8.

THE MATTER OF ENERGY STORAGE CUSTOMERS

Increasingly over the last year, energy storage companies have been approaching Hydro One with connection proposals, yet no framework that specifically addresses the treatment of energy storage facilities from a connection (cost allocation) or settlement perspective exists.[1] Hydro One recognizes that this policy consultation cannot address this matter, but believes that the Board should consider establishing a distinct customer class and clear regulatory framework for energy storage facilities that ensures that connection costs associated with these facilities properly reflect the benefits that these facilities provide to the system. At present, it is only clear that embedded energy storage facilities that provide ancillary services to the IESO-controlled grid are to be classified as generation facilities, notwithstanding the fact that their operation is considerably different from that of a generator.

CONCLUSIONS

Hydro One supports the Board's proposed changes with respect to the sharing of cost responsibility for transmission connection investments between the overall transmission system and connecting customers using the proportional benefit approach.

The Company, as the proponent behind the extension of the "beneficiary pays" approach to the apportionment of the Leamington transmission investment to distribution beneficiaries, is very appreciative of the Board's efforts on this consultation. Hydro One also appreciates the greater clarity around cost responsibility between distributors for distribution expansions, now explicitly stated in DSC S. 3.2.4. The Company believes that its critical concerns have been heard and that the proposed amendments will result in a more equitable sharing of "upstream" costs (as well as the benefits) of increased electricity capacity in both the transmission and distribution sectors of the Province.

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[1] Energy Storage Canada expressed similar concerns during this consultation.