September 20, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Proposed Amendments to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning Board File No. EB-2016-0003

Dear Ms. Walli:

On August 23, 3018, the Ontario Energy Board gave notice under section 70.2 of the *Ontario Energy Board Act, 1998* of proposed amendments to the Transmission System Code (TSC) and the Distribution System Code (DSC).

Attached please find AMPCO's comments on the proposed amendments.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely,

(Original Signed By)

Colin Anderson
President
Association of Major Power Consumers in Ontario

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NOTICE OF REVISED PROPOSAL TO AMEND A CODE

Revised Proposed Amendments to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning

EB-2016-0003

AMPCO Comments

Introduction

Aside from the general comments immediately following, AMPCO's input is focussed on Section B of the notice, per the Board's request. While the interests of our members generally relate to the treatment of large customers, we have also commented on other areas, if we believe our input may be constructive in achieving the best result for all parties.

Where we have not commented, no inference should be made relating to AMPCO's support. It may be because we support the OEB position, or that we generally take no position on the issue, or that we do not feel sufficiently informed on the issue to provide written comments.

General

The OEB has developed its proposed changes around the principal of "*beneficiary pays",* with the goal of further refinement in terms of the proportionate allocation of cost and benefit. As large users of electricity, AMPCO members are accepting of and accustomed to this principle, with the corollary being that they should not have to subsidise other customers, or indeed each other.

The devil, however, is always in the details. We remain concerned that the real world effect of the proposed changes will be to incrementally raise costs for new and growing customers (of all sizes) outside of the larger urban centres, where growth is smoothed out and capacity increases are accommodated by steady growth in the transmission system, without the transmitter having to seek large capital contributions. In effect, these changes may unintentionally move Ontario away from the principle of having uniform transmission rates across the province.

We also note that having today's customers pay for "lumpy", long lived assets over a relatively short period, with short term rebate provisions, will result in inter-generational equity problems that will defeat the *beneficiary pays* objective, however laudable it is.

From a more supportive perspective, we note that the basis for determining both project benefit and need is *incremental load* requirement. The clarity on this principle is greatly appreciated, since a situation where a load must pay more without any change in its own consumption appears inherently unfair. So long as this remains the sole criterion for defining beneficiaries, there should be little risk that non-benefiting customers will be unfairly assigned cost for other reasons.

Specific (Section B Proposed Revisions to the September Proposed Amendments).

Page 4: Broaden to include Generator Customers

AMPCO fully agrees with this initiative, although the concept of defining a beneficiary as a customer requiring an increment in load will have to be modified for generators. Perhaps the increase in required non-coincident peak connection capacity should be used to apportion cost and benefit.

Page 5: Appropriate Process to Determine Apportionment

We concur that a case by case approach should be used, at least until the Board, applicants and customer groups have obtained sufficient experience to validate and mature the process.

Page 5: Scope of Benefits

AMPCO agrees that inclusion of benefits not directly affecting customers should be treated with caution and requires justification by the application - or even perhaps, the affected customers. We would also suggest, however, that the Board develop some standard values it will accept in terms of unit quantification of benefits. For example, the value of a unit of reliability improvement (however defined) does not seem to have a standardized value or even range of values. This can leave the integrity of the benefit calculation process exposed to manipulation.

Page 6: Appropriate Pool – Network vs. Connection

AMPCO concurs with the Board position that broader system benefits must be allocated to the network pool.

Page 7: Treatment of Embedded Distributors and Large Load Customers

AMPCO agrees that the cost responsibility rules in the Distribution System Code (DSC) should not incent inappropriate outcomes.

Page 8: Demand Materiality Threshold

AMPCO concurs that 5MW is the most appropriate materiality threshold. It conforms to the large user rate class threshold and moreover, as 5MW is a significant level of demand, it should reduce the opportunities for associated or unanticipated incentives for gaming on the threshold.

Page 9: Capital Contribution Evaluation Methodology

Clearly, a single economic evaluation methodology is desirable. Also, having the transmitter execute the evaluation both avoids any potential conflict of interest for the distributor and places the task where there is the expertise to make the calculations correctly and appropriately.

Page 12: End of Life Replacement

AMPCO agrees that wires replacement at end of life (EOL) should be justified as the optimal solution when other solutions may be present. We would note that these other solutions may include customer actions that would otherwise be defined as bypass. Accordingly, the OEB should emphasize that the planning process must include consultation with large customers.

Page 13: Replacement Before EOL

In principle, AMPCO concurs with the principle that advancement cost should be paid by the requesting customer. That said, the calculation of advancement cost should be net of any benefits from advancement. For example, a new line or station will have lower maintenance costs for several years than the facility it replaces and will likely also reduce losses. Also, where construction cost escalation is anticipated to be in excess of CPI, there should be a calculable benefit to project advancement.

Page 16: Annual Installment Option

The essence of the annual installment option seems to be to smooth out the impacts on ratepayers of expected capital contribution requirements in the future. From the perspective of reducing rate shock, this is laudable and appropriate. Providing the distributor with the opportunity to further extend the period beyond five years also seems sensible. This strategy may, however, result in unfair treatment of a customer that leaves before the project begins. Effectively, these customers could be in the situation of having unwillingly prepaid for an asset they will never use, while any replacement customer will only prepay for less than the full period. The OEB should consider whether customers should be entitled to a rebate of any installment payments made, should they leave before the project is in service. In principle, the distributor could be kept whole by charging the amount of the paid installments to the new customer, if one is present.

This consideration also suggests that new distributor customers seeking service during the installment period should pay up front for any installments they would have paid had they been receiving service for the whole of the pre-payment period. The calculation may be a bit complicated, depending on the charge determinant, but not too difficult.

Page 17: Advanced Funding Options

The issues noted here by the OEB are valid and caution is warranted. Perhaps more thought should be given to funding projects after they go into service as this would reduce the chance of non-beneficiaries paying and free riders not paying. In the current environment of relatively low cost of capital, this may be the best course.

Page 19: Utility Discretion – Cost Responsibility Provisions

AMPCO agrees that the Codes should not encourage or support cross subsidisation between customers of different classes or between customers in the same class. Within the limits of practicality, cross subsidisation is to be avoided.

The OEB has noted periodically in this document and the other attachments that the distribution system is becoming more like the transmission system. This is certainly true in a technical sense, but there remain significant differences, especially in customer demographics. The transmission system has a few hundred customers, most of whom are relatively sophisticated in their energy knowledge and for whom relatively accurate cost allocation and responsibility apportionment is feasible. The distribution system, on the other hand has millions of customers and practical considerations require tolerance of some inaccuracy in the determination of cost allocation.

AMPCO supports the position of those LDCs that suggest it has not been established that the proposed application of the beneficiary pays principle will produce a superior or fairer outcome than socialisation of costs. It may well be that the amount of free ridership that can occur and the inter-generational equity issues that arise from the characteristics of "lumpy" transmission projects will produce a result that is less fair than socialisation. We also refer to our opening remarks noting that this process is likely to be most impactive on customers in areas outside Ontario's larger urban centres.

Page23: Partial Bypass

Most discussion on bypass focusses on mitigation for the transmitter or distributor, with what seems a persistent undercurrent of thought that bypass must inherently be discouraged. Given that bypass can result in non-bypassing customers "left holding the bag", this is understandable. At the same time, the discussion usually omits that bypass is fundamentally an attempt to introduce cost competition into what is otherwise a monopoly environment where customers are cost takers.

Customers have no inherent reason to make investments outside their core business to bypass their supplier, unless the supplier has become too expensive relative to other options and relative to the costs experienced by their own competitors. AMPCO believes that, while transmitters and distributors need some recourse when a customer bypasses an asset that was installed in good faith for the benefit of the customer, the criteria for and extent of compensation should be kept such that the incentive is on the supplier to avoid creating a cost environment where bypass is viewed as attractive by customers, and through working with the customer in a situation where bypass is the chosen alternative.

The bypass discussion needs to take place in an environment that recognizes that the worst form of bypass occurs when the customer simply shuts down or reduces operations because energy costs have become untenable, or when an industrial project fails to launch because of the electricity cost environment. This latter point is particularly true in Ontario, where many of our industries are multi-national in nature, with plant production allocations subject to cost competition between plants in different jurisdictions, but within the same global company. Some of our largest employers, such as steel, auto manufacturing and mining, are in this situation.