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2300 Yonge Street
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July 5, 2019
Our File: EB20190120

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2019-0120 – SECTRDA Cost Allocation – SEC Submissions

We are counsel to the School Energy Coalition ("SEC"). These are SEC's submissions on the application filed by Hydro One Networks Inc. ("Hydro One") seeking approval of the allocation of capital costs for the construction of the Supply to Essex County Transmission Reinforcement ("SECTR") Project that are contained within the previously approved SECTR Deferral Account ("SECTRDA").

Background. The SECTRDA was approved by the Board in the SECTRA Leave to Construct Application (EB-2013-0421) after the Board determined it would consider the issue of cost allocation in a separate phase due to the unique policy issues that it raised. The Board never completed the second phase of the application as it determined that those policy issues were better addressed in a consultation that would update the Transmission System Code ("TSC") and Distribution System Code ("DSC") to ensure better alignment between them, and to facilitate regional planning.

The Board completed that consultation (EB-2016-0003) and made numerous amendments to the TSC and DSC, including sections 63.18 and 6.3.18A of the TSC, which require the Board to approve allocation of costs of upstream transmission upgrades between triggering transmission customers and the network pool. Hydro One seeks that approval in this application.

SEC has reviewed Hydro One's revised proposed cost allocation in light of the changes to the TSC its updated proposal as compared to what was sought in the EB-2013-0421, and has only limited concerns detailed below.

***Proportionate Costs As Proxy For Propionate Benefits**.* Pursuant to section 6.3.18 of the TSC, when a customer triggers the need for modified or new transmission owed connection facilities, and the IESO undertakes an assessment that the new or modified facilities will also address broader network needs, the transmitter is required to determine the proportional benefits and attribute the costs between the triggering transmission customers and the network pool. This new proportionate benefits approach, which was discussed in the EB-2016-0003 consultation, attempts to ensure that the triggering transmission customer is not responsible for all costs, if there are broader benefits to the network. [1]

The problem as identified in the EB-2016-0003 consultation is that it is very difficult to quantify the proportionate benefits. What Hydro One has proposed to do is use the proportionate of costs of each alternative separate solution and apply it to the costs of the SECTR Project, as a proxy for proportionate benefits.[2] As SEC noted in submissions in the consultation, proportionate costs are not the same thing as proportionate benefits.[3] With that being said, SEC recognizes that strictly calculating the various benefits and allocating them to the network pool and triggering transmission customer would require significant judgement and be based on a number of assumptions. For example, which benefits are to be calculated and how does one calculate the economic benefits of the improvement reliability? Without input from the IESO and the triggering transmission customer (or those downstream), it would be too difficult. For this reason, SEC accepts the use of the proportionate costs approach as a proxy for proportionate benefits in this application.

With that being said, the Board should consider in future proceedings, the requirement that specific evidence be filed by the IESO, the transmitter and the triggering customer, if they are a distributor[4], on what benefits they believe the new or modified facility creates, that are not simply by reference to the propionate of costs of separate alternative solutions. The Board had the opportunity to amend the TSC to require the proposed approach to calculating proportionate benefits by defining it as proportionate costs. But, it did not.

Allocation of Costs. Hydro One proposed to allocate the costs based on the updated interim costs ($54.3M) included in its application. In response to LPMA interrogatory No.3, Hydro One has provided a forecast of final costs of the project of $57.5 (which is really a more updated interim cost forecast). While the difference between the approved costs allocated and the actual final costs will be trued-up, there will be no similar true-up for the purposes of determining percentage of costs to be allocated between the network pool and the triggering transmission customer. SEC submits Hydro One should use the most up to date information available, including the updated project costs of $57.5M for the purposes of determining the allocation between the network and the triggering transmission customer. The change will result in allocation of 72.6% to the trigger load customer (Hydro One Distribution) up from 76.1% of the final project costs.[5]

Downstream Customers. In the phase 2 portion of the SECTR Project leave to construct proceeding, one of the major issues was the impact of the proportionate benefits approach on customers downstream of the triggering customer. In this case, there was significant concern that while Hydro One Distribution was the triggering transmission customer, it would then require significant capital contributions of the amounts allocated to it from embedded distributors (Entegrus, Essex Powerlines, E.L.K. Energy) who may also benefit from the SECTR Project. In SEC Interrogatory No.2, SEC requested information on these potential capital contributions downstream

[1] Transmission System Code, p.6.3.18
[2] Hydro One, Request for Approval of Attribution of Costs, p.2
[3] EB-2016-0003, SEC Comments, November 6 2017, p.3-4
[4] Exhibit I, Tab 2, Schedule 3 (LPMA Interrogatory #3), p.2
[5] Exhibit I, Tab 2, Schedule 3 (LPMA Interrogatory #3), p.2

of Hydro One Distribution. Hydro One refused, stating that they are out of scope in this proceeding and that there is no parallel requirement in the DSC for prior Board review and approval.[6]

Hydro One may be correct that there is no explicit requirement for prior Board approval under the DSC as there is under the TSC, but that it does not mean that it is not relevant. SEC submits there is good reason the Board in a leave to construct proceeding to consider, if not require, upfront approval of the downstream contributions that may be required from embedded distributions or large customers. First, the impact of those downstream contributions may be relevant to the issue of apportionment of benefits to the triggering customer. But second, it limits the chance of regulatory duplication and inconsistent Board decision-making. This is especially important where there are multiple downstream customers of the trigger customer that may be required to pay a capital contribution, as in this case where there are three distributors who Hydro One Distribution may require payment from.

Without this issue being considered in considered in a single proceeding, the Board's only oversight from a rate-making perspective of capital contributions that may be required downstream of the trigger customer, will be in the individual rate cases of each of the distributors (the triggering and downstream distributors) when they seek to include the contribution in their respective rate bases. This is clearly inefficient, and in the case of the SECTR Project, could lead to four different Board panels rendering four different views on the appropriate allocation amongst the distributors. Since the issue is zero-sum (i.e. someone has to pay the approved costs that have been allocated to the triggering distributor) it is not clear how exactly the Board would deal with a situation where there are conflicting decisions between panels.

In SEC's view, it makes sense to deal with the issue in the same proceeding it approves the allocation of costs between the network and triggering transmission customer(s).

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein P.C.

Original signed

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and Interested Parties (by email)

[6] Exhibit I, Tab 3, Schedule 2 (SEC Interrogatory #3); SEC notes similar questions were asked by Entegrus (Exhibit I, Tab 4, Schedule 1(b)(c) – Entegrus Interrogatory #1) and Essex Powerlines (Exhibit I, Tab 5, Schedule 2 – Essex Powerlines Interrogatory No.2).