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BY COURIER

August 11, 2008

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

**EB-2008-0003 – OEB Transmission Connection Cost Responsibility Review
Hydro One Networks' Comments on the OEB Staff Discussion Paper: Generation Connections**

As directed in the Ontario Energy Board letter of July 8, 2008, I am now providing three paper copies of Hydro One Networks' comments on the OEB Staff Discussion Paper. I am also attaching proof of successful submission to the Board's Regulatory Electronic Submission System (RESS).

Hydro One notes that our concern regarding the transmission impact of distribution-connected generation was not addressed in the discussion paper. Hydro One wants to emphasize the importance of this issue and plans to provide comments on this subject in a separate submission.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

Hydro One's Comments on Board Staff's Discussion Paper

Generation Connections: Transmission Connection Cost Responsibility Review

Introduction

On January 4, 2008, the Ontario Energy Board (the "Board") initiated a policy review of Transmission Cost Responsibility for Load and Generation Connections. Board Staff subsequently issued a discussion paper on July 8, 2008, focussing on Generation Connections, and advised that a separate paper on Load Connections would follow.

Hydro One welcomes the opportunity to comment on Staff's discussion paper on Generation Connections. Hydro One believes there is adequate detail on the options identified in the paper to allow intervenors to assess and comment to the Board on the relative merits of the different options, but insufficient detail to proceed to implementation. Hydro One recommends that once the Board converges on a preferred option, but before any proposed Code amendments are developed, there be additional consultation to further examine the implementation aspects of the Board's preferred option.

Key Issues

1. Who plans the enabler facilities and ensures that they are prudently sized for the future?

Hydro One believes this is the role of the OPA, given its mandate to procure new supply and to integrate those new supply facilities into the transmission system. The OPA should be looking ahead at reasonable needs for enabler facilities in the context of its plans to procure new supply, and it should identify those needs to the transmitter as the most appropriate supply developments for Ontario. The identified enabler facilities should be viewed as part of the network infrastructure needed to support Ontario's demand and supply needs, and their costs should be recovered from all customers. Narrowly viewing enabler lines as connection facilities ignores the role that they play in meeting Ontario's overall electricity plan and their role in the long-term development of the grid. It also ignores the fact that while enabler lines may initially be radial, the situation will not remain static and enabler lines may eventually become looped into the transmission network.

Integrated planning by the OPA is critically important to ensure that the enabler facilities are properly planned and sized for the long term benefit of Ontario. The alternative of planning and sizing enabler facilities based on the needs of "committed" generators only will result in sub-optimal transmission infrastructure. It is probable that under-building will result where generators have cost responsibility for enabler facilities, since generators lack the appropriate incentive to "right-size" enabler facilities to optimize transmission infrastructure beyond their immediate needs, and for the long-term benefit of the public interest.

Transmission assets are long-life assets and, in the public interest, they should be built to satisfy a broader view of their long-term expected usage. If an asset is built to service only committed generation, it is probable that another parallel transmission asset will ultimately be required in the

future. A central planning authority such as the OPA is well-positioned to make the necessary assessments to optimize enabler facilities in the public interest.

2. *Who pays?*

Hydro One is indifferent on the mechanism for cost responsibility, so long as the transmitter's development and construction costs are recoverable on a timely basis. However, it must be recognized that optimally-sized enabler lines may not immediately be "used and useful" to their full capacity, but their costs need to be recovered nonetheless.

Hydro One notes that the treatment of enabler lines as connection assets does not reflect the basic function of these lines, which more closely aligns with a network function rather than a connection function. Hydro One believes that enabler facilities should be planned, built and owned just like other network infrastructure, and their costs pooled in the same manner as those of other network assets.

3. *Who builds, owns, operates and maintains?*

Traditional Approach

Hydro One supports the current policy that the actual generator connections should be built by the connecting generators. However, Hydro One submits that enabler lines are more appropriately considered as network assets, which are best built by the transmitter to whose system the assets are integrated. This traditional approach to expanding the transmission network to meet future needs is one that is proven and has served Ontario well over the years, and which is supported by existing regulatory processes.

Proposed Approach

The discussion paper proposes some new untested processes to identify, evaluate and designate transmitters and to assign to them lead responsibilities for the development and implementation of enabler facilities. The current regulatory processes and market conditions (e.g. availability of skilled labour and tight markets for materials) already result in long lead times. Hydro One questions whether this is the right time for Ontario to introduce additional processes that will cause uncertainty and delay in the development and construction of much-needed enabler facilities. Hydro One believes that enabler transmission infrastructure should be built in Ontario as expeditiously as possible in order to meet the goals set out in the Government's Supply Mix Directive.

Issues with the Two-Stage Process for Transmitter Designation

The two-staged process proposed in the discussion paper for designating a transmitter introduces a number of process and project-related issues and complexities that will reduce administrative efficiency and regulatory predictability, increase the number of regulatory determinations in relation to a given project, and cause significant delays to project timelines. In particular, when one

transmitter performs the development work and another transmitter builds, a number of questions arise with implications on timelines and cost efficiency:

- To whose design, construction, operational and maintenance standards should the enabler facilities be developed or built? Should there be a set of industry transmission facility standards? Who would develop such standards?
- What is the mechanism to ensure fairness when transmitters compete for the construction work? If a transmitter disagrees with the design completed in the development phase, would that transmitter be permitted to redo and optimize the development work? Would extra time be allowed to complete the new development work? Would another round of evaluations be conducted to designate a transmitter based on the new development work? What becomes of the earlier development work?
- Where a project involves First Nations consultations, the development transmitter and the construction transmitter would each have to conduct their own consultations with the various First Nations assemblies and interest groups.
- Where a project involves an Environmental Assessment, to what extent will the construction transmitter have to redo approvals work that the development transmitter has already done?
- The transmitter designation process for development will likely draw the same intervenors and arguments as the transmitter designation process for construction.
- Transmitters today acquire the lands necessary to complete a project as early as possible. Should customers incur the risk of purchasing real estate for the construction of a facility that may not be needed if a different transmitter is selected to build? What will be the impact to project timelines if real estate is not available at the time of construction?
- Transmitters today order certain long lead time materials years in advance of construction. Who will order such long lead time materials when there is no certainty as to who will build?
- What is the process for designating a transmitter? Is this a competitive process that involves multiple parties incurring costs in duplicating pre-development work on the same project?
- What is the process for selecting a transmitter as the “designated transmitter”? What will be the basis of comparison between different transmitters? How will the various aspects of each transmitter’s profile and proposal for a project be assessed? For example:
 - Engineering and construction standards
 - Technical expertise and industry leadership
 - Experience and track record in Ontario
 - Project cost
 - Project schedule
 - Transmission licence
 - Financial viability of the corporation
 - Knowledge of Ontario (regulatory landscape, approvals processes, etc.)
- By definition, the introduction of more steps leads to more potential for delay. Protracted delays to a project due to any one or more of the above issues would not only increase costs but could result in further delays by exposing the project to external factors such as prevailing public sentiments or policy changes at various levels of regulatory and government oversight.
- Since the designated developer would typically be the constructor, this raises the question of the need to go through two approval process steps – i.e. transmitter designation and leave to construct.

Whereas the traditional approach to building transmission infrastructure offers synergies, including more efficient outage coordination within a transmitter's transmission system and the optimization of existing Rights-of-Way (in terms of real estate, safety and vegetation management), the proposed two-stage approach of first selecting who develops an enabling facility, and then selecting who builds, will result in unnecessary and significant delays to generators and will ultimately hinder the achievement of the Ontario Government's Supply Mix Directive.

Answers to OEB's Questions

1. Is it appropriate to change the current policies for the provision of generation connections as it applies to enabler lines?

Yes – if one views enabler lines as connection facilities. However, since enabler lines are more appropriately considered as network facilities, current policies for connections would not require change.

2. If so, do you agree with the definition of enabler lines as proposed and, in particular, that: (a) enabler facilities are those that serve multiple generation facilities with different owners; and (b) the revised policies apply only to those enabler facilities that are part of an approved IPSP?

a) The definition of “enabler facilities” falls under the purview of the OPA.

b) No, the scope of the revised policies should also apply to enabler facilities that are identified by the OPA between approved IPSPs. The context under which certain policies apply to enabler facilities should not be part of the definition itself.

3. Do you agree with the proposed process in the Pooling, Hybrid and Shared options that once the IPSP is approved, the Board should undertake a process to designate a transmitter as responsible for the development phase of the enabler facilities? If not, what process should the Board use to ensure that development work on the enabler facilities proceeds?

No, the proposed process to designate a transmitter for the development phase of the enabler facilities is unnecessary and introduces delays and additional costs. Enabler facilities should be viewed as network assets that would be constructed by the transmitter to whose system the enabler assets will be integrated. The basic problem is the concept of building to suit committed generation. Hydro One is not aware of any jurisdiction where such a limited approach is even being considered.

It is Hydro One's view that the most efficient process by which enabler development work can proceed is one where the development work is initiated by the transmitter as soon as the need is confirmed by the OPA. The OPA's confirmation should include sufficient specifics on the sizing and location of the need to allow the transmitter to proceed with the development work without delay.

4. *Is the timing for the Request for Expressions of Interest and Request for Proposals relative to the stage of the development work on the enabler facilities appropriate?*

No, development work on the enabler facilities should proceed as soon as the need is confirmed by the OPA. The REI process has the effect of introducing uncertainty so late in the timeline as to threaten to unravel the planning and development work previously completed in earlier stages. To the extent that the OPA requires the results of the REI process to specify the sizing and location of the need, such results should be obtained upfront, in advance of any IPSP approval. Once approved, the IPSP should include sufficient specifics on the sizing and location of the need for enabler facilities to allow the transmitter to proceed with development work without delay. With respect to the RFP process, the RFP timing needs to align to the availability of the enabler line. Typically, it takes twelve to eighteen months from the signed contract stage for a generator to be ready to connect.

5. *Should the costs of the enabler line be recovered from transmission ratepayers or from generators?*

The planning, development and construction of enabler facilities should mirror those of other network assets, and not those of connection assets. As such, the costs of enabler facilities would be best recovered from transmission ratepayers. Generators, however, should continue to pay for their own connections to the enabler facilities.

6. *Should the costs associated with the unsubscribed portion of the enabler facility's capacity be recovered from transmission ratepayers (as in the Pooling and Hybrid options) or should they be paid by generators (as in the Status Quo and Shared options)?*

The costs associated with the unsubscribed portions of the enabler facility's capacity are best recovered from transmission ratepayers.

Other Jurisdictions

Hydro One notes that conclusions on the relative merits of models in other jurisdictions (such as Texas and California) are premature at this stage. In the absence of any concrete examples of enabler facilities actually built under the models in these jurisdictions, there is no basis from which to draw any conclusions about the effectiveness/ineffectiveness or efficiency/inefficiency of such models.

Next Steps: Additional Consultation on Implementation

Hydro One recommends that there be additional consultation on implementation once the Board converges on a preferred option to ensure the processes are practical and can be efficiently implemented, and before any revised policies (e.g. Code revisions) are proposed.