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October 30, 2024

VIA E-MAIL

Nancy Marconi
Registrar
Ontario Energy Board
Toronto, ON

Dear Ms. Marconi:

**Re: Generic Hearing on Uniform Transmission Rates - Phase 2 (EB-2022-0325)
VECC's Reply Submissions – Issues 4, 5 and 6**

Please find attached VECC's reply submission on the above referenced matter, pursuant to Procedural Order No 4. Please contact me if any clarification is required (bharper.consultant@bell.net)

Yours truly,

William Harper
Consultant for VECC/PIAC

cc. J. Lawford, PIAC

GENERIC HEARING ON UNIFORM TRANSMISSION RATES (EB-2022-0325)
VECC'S REPLY – PHASE 2: ISSUES 4, 5 AND 6

1. INTRODUCTION

On October 27, 2023 the Ontario Energy Board (OEB) issued a Notice of Hearing (Notice) wherein it initiated a public hearing on its own motion¹ to consider various issues related to Ontario's Uniform Transmission Rates (UTRs). The Notice identified the following six issues for the proceeding:

1. The timing of UTR decisions,
2. Number of decimal places for UTRs,
3. Prorating transmission charges for new connections to account for when the connection took place in the month,
4. Charges caused by planned transmission outages,
5. Basis for billing renewable, non-renewable, and energy storage facilities for transmission, and
6. Gross load billing thresholds for renewable and non-renewable generation

With respect to Issues 4, 5 and 6, subsequent Procedural Orders issued by the OEB provided for i) a background report to be prepared by Hydro One Networks, ii) clarifying questions regarding the report to be filed and responded to, iii) intervenor evidence and interrogatories on said evidence, iv) the filing of submissions and v) the filing of rely submissions.

Set out below are VECC's reply submissions regarding Issues 4, 5, and 6.

2. VECC's SUBMISSIONS

In this reply VECC does not propose to address all of the points raised by other parties on which it has a different view. Rather VECC has chosen to respond to what it views as being the key points the OEB needs to consider in its determinations regarding Issues 4, 5 and 6. As result, the fact that VECC has not addressed a particular point raised by other parties should not be taken as agreement. Subject to the following comments, VECC views have not changed from those set out in its October 16, 2024 submission

2.1. ISSUE #4: CHARGES CAUSED BY PLANNED TRANSMISSION OUTAGES

2.1.1. User Pay Principle - Billing for Network Charges

OEB staff submits that "the OEB should consider aggregating delivery points for the purpose of the network service charge"². Staff's primary rationale for this submission is that aggregating delivery points for purposes of applying the network service charge is consistent with the user pay principle:

"OEB staff submits that the facilities of the network pool serve their function in the context of the entire transmission system. This means that the usage of these facilities is not related to the particular delivery points or their geographic location. In other words, Ontario's UTRs are structured in such a way that the

¹ Under sections 19, 21, and 78 of the Ontario Energy Board Act, 1998

² Page 7

network facilities would be used in the same manner to convey energy among 10 delivery points as they would for 100 delivery points. From this, OEB staff submits that, on the principle of cost causality, for a customer with multiple delivery points, the OEB should reconsider the delivery point basis for the network service charge, and consider aggregating the delivery points.”³

In reply, VECC notes that this is an over simplification of how the network transmission facilities in Ontario operates. Indeed, as evidenced by the IESO’s current Market Renewal Program, points of congestion do exist on the network system and “location” of delivery points does matter. VECC submits the current approach recognizes the reality of Ontario’s transmission network by giving some weight to each delivery point’s non-coincident peak in the determining the billing determinant for the network service charge. In addition, rate making involves more than just considerations regarding cost causality. As noted in the OEB’s RP-1999-0044 Decision⁴ it must also consider issues regarding perceived fairness and concerns regarding free riders, which the current approach does.

OEB Staff’s submission⁵ also suggests that “there is now an intermediary option of aggregating certain facilities if there is reason to not aggregate on a customer basis”. In its evidence⁶ and submission⁷ the LDC Transmission Group makes a similar suggestion. As noted in VECC’s October 16th submissions⁸, VECC does not support such as approach as “it will result in different charge determinants being applied to transmission customers for the same service which can/will be viewed as unfair and discriminatory”.

2.1.2. User Pay Principle – Double Billing Charges

In its submissions Board Staff states⁹:

“OEB staff does not support revising the definition of the transmission charge determinants nor the creation of a deferral account to reduce the charges associated with transmission outages.”

Board Staff’s primary reason for this position is based on the application of the “user pay” principle as evidenced by the following comments in its submission:

- “First, OEB staff submits that the user-pay principle remains the cornerstone of addressing this issue. The user-pay principle is founded on cost causality. Cost causality is based on the link between the charges levied upon a customer and how that customer uses the electricity system or its facilities.”¹⁰
- “OEB staff acknowledges that some parties would be inclined to argue that the double peak billing event is unfair on the basis that the transmission customer is receiving the same level of energy while being charged, by virtue of the double

³ Hydro One Networks Submission, page 6

⁴ Paragraphs 3.4.26 and 23.4.27

⁵ Page 4

⁶ Pages 18-19

⁷ Pdf page 2

⁸ Page 7

⁹ Page 2

¹⁰ Page 4

peaks, for more than the energy they consume. In this case, OEB staff submits that the transmission customer realizes the benefit of the redundant delivery points and that, to the extent the transmission customer is charged for transformation and line connection charge, it should be charged according to the increased usage of those transmission facilities.”¹¹

- “when a transmission customer performs a load transfer between its delivery points, it is in fact using and benefiting from the facilities to a different degree than before the load transfer. As a result, the increased usage, albeit short-term, should incur a commensurate charge”¹².

Hydro One Networks’ makes similar submissions regarding the application of the “user pay” principle:

- “As the transmission system was built with the capacity to permit load transfers between delivery points to occur, it could be argued that it is therefore reasonable and consistent with the user pay principle, that transmission charges for customers that experience load transfers between multiple delivery points include the cost of having those assets in place”¹³.
- “It could be argued that additional transmission charges, if any, that may be incurred as a result of load transfers between delivery points due to unplanned outages appropriately reflect the benefit that transmission customers receive from having the ability to transfer their load between delivery points. A transmitter would have built the transmission system with the capacity to permit those load transfers between delivery points to occur, and transmission charges should include the cost of having those assets in place”¹⁴.

VECC considers the “user pay” principle to be consistent with the principle of “cost causality” and therefore a relevant consideration when design transmission service rates. However, in the case of transmission connection facilities (i.e. lines and stations) the Transmission System Code requires that¹⁵:

“Where a load customer elects to be served by transmitter-owned connection facilities, a transmitter shall require a capital contribution from the load customer to cover the cost of a connection facility required to meet the load customer’s needs. A capital contribution may only be required to the extent that the cost of the connection facility is not recoverable in connection rate revenues.”

Similar provisions¹⁶ also exist in the Transmission System Code for those circumstances “where a transmitter has to modify a transmitter-owned connection facility to meet a load customer’s needs”.

As a result, the customer has already “paid” for the use of their connection facilities. VECC assumes that the economic evaluation used to calculate the capital contribution does not include any allowance for the additional revenues the transmitter will receive for to “double billing” as a result of load transfers due to either planned or unplanned

¹¹ Page 8

¹² Page 5

¹³ Hydro One Network Submission, page 2

¹⁴ Page 4

¹⁵ Section 6.3.1

¹⁶ Section 6.3.2

outages. As a result, double billing in the event of load transfer will effectively result in over charging the transmission customer for the use of the connection facilities during such events.

2.1.3. Materiality

Board Staff questions the materiality of the “double billing” issue:

- “Finally, there is the question of materiality. HONI notes that for the three rates for the transmission service charges to reflect a change with double peak billing events removed, the UTRs would need to include four decimal places for the change to materialize”¹⁷.
- “The OEB has already determined that the dollar impact of changing the UTRs to four decimal places resulted in a monetary difference in UTRs transmission revenue pools that is less than any transmitter’s revenue requirement materiality threshold”¹⁸.
- In discussing the deferral account option for addressing the impact of double billing Staff states that “to consider a deferral account, one must first demonstrate that the eligibility criteria for establishing a new deferral account”, which includes materiality¹⁹.

While the deferral account would be maintained by the transmitter (e.g. Hydro One Networks -Transmission), the purpose of the deferral account is to address the impacts of double billing on individual transmission customers. As a result, VECC submits that it is from the perspective of the impacted transmission customers that materiality must be assessed. Evidence provided by both Glencore Canada Corporation²⁰ and the LDC Transmission Group²¹ indicates that the impacts on individual customers can be material.

2.2. ISSUE #5: BASIS FOR BILLING RENEWABLE, NON-RENEWABLE AND ENERGY STORAGE FACILITIES FOR TRANSMISSION CHARGES

2.2.1. Basis for Gross Load Billing Threshold: Unit vs. Facility (Issue 5.1)

In its submission Board staff states that:

“OEB staff submits that the gross load billing threshold continue to be applied on a per unit basis: OEB staff submits that the basis described in Hydro One’s technical report is compelling”²².

VECC is unable to reconcile this statement with either Hydro One’ background report, Hydro One’s submission or subsequent statements made in Board staff’s submission:

- In its background report Hydro One identified²³ a large number of issues associated with continuing to apply the gross load billing threshold on a per unit basis. Indeed Hydro One identified considerable more cons/disadvantages associated with

¹⁷ Board Staff Submission, page 8

¹⁸ Page 9

¹⁹ Page 9

²⁰ Page 5

²¹ Exhibit M1, pages 8, 10, 12, 15, 16, and 17. Also Exhibit N-M1-Staff 1 c) and 3 d)

²² Board Staff Submission, page 12

²³ Issus 5 & 6, pages 15-16

continuing the current practice of apply the gross load billing thresholds on a “per unit” basis than it did with applying the thresholds on a per facility basis²⁴.

- In its submission, Hydro One Networks states:

“Furthermore, Hydro One believes that the current rules for billing embedded generation in the UTR Schedule may result in unintended outcomes and could be argued as unfair or unreasonable in terms of how different types of renewable generation are considered with respect to gross load billing. One way to address these concerns could be by revising the rules to clarify that gross load billing applies to the aggregate installed capacity of all embedded generator units installed by the customer at their connection point to the system. From a practical perspective, changing to this approach for gross load billing is more closely aligned to the cost impact to other transmission ratepayers which are directly impacted by embedded generation as this is more appropriately measured by the size of the generation facility installed and not by the size of the individual units of the facility”²⁵. (emphasis added)
- Elsewhere in its submission Board Staff states:
 - “OEB staff submits that, absent clearly physical determination of what the unit is, the logical demarcation is the set of equipment that would logically be metered, if a meter were to be installed”²⁶. VECC notes that for embedded generators selling to a local distributor the logical location for any meter is where the facility connects to the distributor’s system and, indeed, such a meter is already required for billing/settlement purposes. For customer embedded generation, the need for the metering of generation (apart from for a customer’s own use) is triggered by the requirement for gross load billing. While applying the gross load billing threshold on a “per facility basis” may result in more customers with embedded generation requiring meters (depending on the threshold used), it is likely to reduce the number of meters that an individual customer would be required to install as compared to if the threshold is applied on a “per unit” basis.
 - “OEB staff submits that the interpretation of how to assess refurbishments should be grounded in the principle that established gross load billing. OEB staff submits that this is based on the demand that leaves the system, that which might leave the asset stranded. Once one accepts that a refurbishment can result in a change in the number of units, then facility level evaluation is appropriate”²⁷. (emphasis added)

In its submission DRC indicates²⁸ its support for maintaining the current approach of determining the application of the gross load billing threshold for embedded generator units on the basis of the capacity of the embedded generator unit, as opposed to the aggregate capacity of the facility. DRC’s rationale is based on the view²⁹ that this provides favourable treatment to renewable generation and should be maintained as an

²⁴ Issues 5 & 6, pages 15-17

²⁵ Hydro One Submission, page 10

²⁶ Board Staff Submission, page 13

²⁷ Pages 13-14

²⁸ Page 3

²⁹ DRC Submission, page 2

incentive for such generation. This is evidenced by the following comments in the submission:

- “DRC supports favourable treatment in areas relating to gross billing thresholds for renewable generation and energy storage. DRC views such measures across Ontario’s sector as essential components towards the province’s ability to decarbonize its energy sector in a way that promotes short and long-term reliability and affordability, in part, by adopting new, distributed technologies that will reduce burdens on traditional, centralized infrastructure”³⁰.
- “The value of the existing approach is in large part to incentivize and generally promote increased adoption of renewable generation and distributed resources that will ease existing burdens on centralized infrastructure, producing short and long-term affordability, access and reliability benefits across Ontario’s energy system”³¹.
- “In short, the existing approach represents a valuable incentive towards the adoption of renewable generation, which should be maintained in the absence of concrete and compelling reasons to depart from the status quo”³².

VECC notes that contrary to DRC’s assertion that there are no compelling reasons for departing from the status quo, Hydro One’s background report identified³³ a number of disadvantages associated with the status quo approach of applying the gross load billing threshold on a “per unit” basis.

In response to DRC’s submission regarding the need to support and incentivize renewable generation, VECC repeats a couple of the points raised in its own submission:

- “The OEB Act no longer includes any reference to the promotion of cleaner energy sources as being one of the OEB’s objectives”³⁴. Thus absent a specific directive from the Government (e.g. Regulation/Order in Council) the OEB has no role in incentivizing renewable generation unless there is an economic or reliability-based justification for such an incentive consistent with the OEB’s current statutory objectives³⁵ to protect consumers’ interests with respect to prices and the adequacy, reliability and quality of electricity service. are supported by an economic
- “Both the OEB’s recent FEI Report and also its Draft Benefit-Cost Analysis Framework have adopted the view that it is not the role of the OEB to favour/choose one technology solution over another”³⁶. Indeed the OEB’s Benefit-Cost Analysis Framework sets out an approach where alternative means of addressing a distributor’s needs are assessed strictly on the basis of cost and benefits without specific preference to the technology involved.

VECC acknowledges that, given the societal interest in decarbonization there is a corresponding societal interest in renewable generation. However, it is not the role of the OEB to set rates so as to incentivize broader societal interests (at the expense of consumers) unless it has specific direction to do so. On this specific point, VECC notes

³⁰ Page 3

³¹ Page 4

³² Page 5

³³ Issues 5 & 6, pages 15-16

³⁴ VECC Submission, page 12

³⁵ OEB Act Section 1(1).

³⁶ VECC Submission, page 12

that when considering how to assist low-income electricity consumers (another societal interest) the OEB rejected creation a rate class for of low income energy ratepayers on the basis that to do so could “result in a distortion of prices and ratepayer costs”³⁷.

2.2.2. Treatment of Solar (and Other Technologies Using Inverters)

On this issue, OEB staff sets out the bases for its recommendations as follows:

- ““inverter based embedded generation, such as solar facilities should be evaluated on a “per unit basis” that is applied logically based on the technology³⁸, and
- “OEB staff submits that logical demarcation point for what is considered a “unit” in a non-conventional facility would be the point at which a meter would likely be installed”³⁹.

OEB staff then concludes⁴⁰:

“HONI has stated that its practice is to look to the inverter capacity in evaluating the “unit capacity” for the purpose of evaluating gross load billing thresholds.

OEB staff submits that HONI’s current practice is a reasonable and that there is no evidence in this proceeding to indicate otherwise.”

First VECC would note that, absent the need for metering to apply gross load billing, there would be: i) no metering requirements for retail customer embedded generation other than what the customer would require for its own purposes and ii) the only metering required for generators selling directly to a distributors would be at the connection point with the distributor’s system. As result, VECC does not consider “the point at which a meter would likely be installed” as supporting the use of inverter capacity for purposes of applying the gross load billing threshold.

Second, as noted in Hydro One’s submission⁴¹, the current practice of using inverter capacity to define a “unit” for purpose of applying the gross load billing threshold:

“has created a disparity between the amount of embedded solar generation that is exempt from gross load billing compared to other types of renewable generation.”

This suggests that, contrary to OEB staff claims, the current practice may be unreasonable. Indeed, in its submission Hydro One states⁴²:

“The advantage currently enjoyed by customers who install inverter-based embedded generation could be addressed by changing the gross load billing rules in the UTR Schedule to apply to the size of the customer’s embedded generation facility instead of on a per unit basis as discussed under Issue 5.1”

This suggests that even Hydro One Networks does not consider its current practice to be reasonable.

In its submission DRC states that⁴³:

³⁷ EB-2008-0150- Report of the Board - Low-Income Energy Assistance Program, page 6

³⁸ Board Staff Submission, page 12

³⁹ Page 14

⁴⁰ Page 14

⁴¹ Page 11

⁴² Page 11

⁴³ Page 6

- “DRC is strongly supportive of the policy goals that give rise to a framework under which solar generation receives certain forms of favourable treatment. In addition to the various administrative, monitoring, and efficiency interests that weigh against a more comprehensive application of gross load billing, incentives towards the increased adoption of solar help to support the energy transition-related goals of access, affordability, reliability, and decarbonization discussed throughout these submissions”.
- “As a result, DRC submits that the Board should be careful not to reduce or otherwise limit existing favourable treatment for solar generation in the absence of a strong factual and policy rationale for doing so, which has not been established in these proceedings.”

VECC notes that its reply provided above with respect to DRC’s submission on Issue #5 and incentivizing renewable generation equally applies to this issue. VECC submits that the OEB’s policies and procedures can be designed to support goals related to access, affordability and decarbonization. Indeed, the OEB’s recent work to develop a Cost-Benefit Analysis Framework in support of non-wires solutions is good example. However, its efforts to do so it must adhere to its statutory objectives which do not include favouring certain known technologies over others.

2.2.3. Treatment of Storage Facilities

DRC’s submissions on this issue are similar to those regarding the treatment of solar and other inverter-based technologies:

- “DRC believes that energy storage facilities that can be shown to support and contribute to renewable generation more broadly should receive favourable treatment under the UTR Schedule”⁴⁴.
- “Similar to many of the other issues in this proceeding, providing the proper incentives for energy storage is an important aspect of securing an energy future that is accessible, affordable, decarbonized, and reliable throughout all phases of the energy transition”⁴⁵.
- “DRC’s strongly supports an approach that seeks to maximize these benefits that energy storage offers. As a result, DRC supports establishing incentives for energy storage facilities that can be shown to displace demand from emitting sources of energy and contribute to renewable generation more broadly”⁴⁶.

With respect to Storage, DRC’s recommendations are⁴⁷:

- the Board adopt HONI’s proposed Option #1 and clarify that the gross billing rules in the UTR Schedule do not apply to storage facilities, subject to the additional requirement that such facilities must be shown to contribute to renewable generation more broadly.
- Should the Board reject DRC’s preferred approach, DRC would alternatively recommend HONI’s proposed Option #2 to clarify that energy storage installations are subject to the gross load billing rules, but DRC recommends that such facilities

⁴⁴ DRC Submission, page 6

⁴⁵ Page 6

⁴⁶ Page 7

⁴⁷ DRC Submission, page 8

should be subject to the higher renewable threshold of 2 MW in cases where the stored energy comes primarily from renewable sources.

With respect to DRC general submissions on this issue and its view that storage should receive “favourable treatment” under the UTR schedule, VECC again relies on its previous submissions (see sections 2.2.1 and 2.2.2) in response to DRC.

With respect to DRC’s specific recommendations, VECC has great difficulty from both a principled and practical view with the suggestion that: i) storage would be exempt from gross load billing “subject to the additional requirement that such facilities must be shown to contribute to renewable generation more broadly” or ii) should energy storage installations be subject to the gross load billing rules, then “such facilities should be subject to the higher renewable threshold of 2 MW in cases where the stored energy comes primarily from renewable sources”. Such an approach would not only favour certain technologies but do so only under certain circumstances. Furthermore, VECC foresees difficulties in defining the circumstances under which: i) storage facilities would be deemed as contributing to renewable energy more broadly or ii) the storage energy could be deemed as coming primarily from renewable sources.

OEB staff submits that, without considering whether energy storage facilities are inherently renewable or non-renewable, energy storage facilities are similarly in the societal interest as renewable embedded generation was at the time of RP-2002-0120⁴⁸. As a result, OEB staff concludes that it is reasonable for the UTR schedule to specify that the gross load billing threshold used for renewable embedded generation should apply to embedded energy storage⁴⁹.

As VECC has noted in its submissions⁵⁰ the OEB statutory objectives have changed since 2002 and no longer include specific reference to promoting the use of cleaner energy sources. The OEB staff submission also makes reference to the fact that the OEB has initiatives intended to support energy storage integration and the IESO has received several Ministerial Directives that relate to the procurement or facilitation of energy storage facilities. In VECC’s view neither of these points justify the OEB providing favourable rate treatment to storage facilities when there is no cost basis for doing so. As VECC has also noted in its submission⁵¹ storage facilities (and renewable generation) are treated no differently than other types of generation when it comes to transmission planning and therefore should be treated the same as other types of generation when it comes to gross load billing.

In its submission APPrO /ESC submits⁵² that “the OEB should consider an exemption given the need for new capacity and the operating characteristics of energy storage”. Their rationale is two-fold⁵³:

⁴⁸ Board Staff Submission, page 15

⁴⁹ Page 16

⁵⁰ VECC Submissions, page 12

⁵¹ Page 15

⁵² APPrO/ESC Submission, page 3

⁵³ Page 3

- Ontario is facing a significant need for new supply. Gross load billing acts as an economic and financial barrier to new energy storage investments, as it can increase overall delivery costs.
- Energy storage is designed to charge in off-peak hours when there is significant spare capacity in the delivery network. HONI assumes for planning purposes that all on-site generation is unavailable during peak demand hours. This is a highly conservative assumption and contradicts how a storage asset would be operated and may add unnecessary costs for all ratepayers.

In response to APPrO/ESC's submission, VECC acknowledges that gross load billing will impact the economics associated with installing the associated generation. However, in VECC's view, the real question is whether there are any transmission facility savings due to storage (or embedded generation). As noted in VECC's submissions⁵⁴ (and acknowledged by APPrO/ESC) the system is currently planned to account for the scenario that this embedded generation may not be available or not be at full capacity when the peak is reached. As such there are no savings from transmission facility savings from storage (or embedded generation).

With respect to APPrO/ESC's second point and the appropriateness of Hydro One Networks' transmission planning criteria, VECC submits that any reconsideration of the current criteria would need to take into account not only cost implications for ratepayers but also the impact on transmission system reliability. For now, transmission rates should reflect the basis on which the transmission system is currently planned and operated.

2.3. ISSUE #6: GROSS LOAD BILLING THRESHOLDS FOR RENEWABLE AND NON-RENEWABLE GENERATION

2.3.1. Treatment of Renewable Generation

In its submission, DRC states:

"DRC supports maintaining the more favourable qualifying limit exemption for renewable generation facilities, being 2 MW per unit as opposed to 1 MW for non-renewables. DRC believes the higher threshold applicable to renewable generation facilities provides an important incentive that contributes to the increasing adoption of renewable generation as well as DERs. This in turn helps to support the energy transition-related goals of access, affordability, reliability, and decarbonization discussed throughout these submissions."

VECC notes that DRC's rationale regarding the treatment of renewable generation (in regards to gross load billing thresholds) mirrors its rationale regarding the basis for applying the gross load billing thresholds (unit vs. facility) and the treatment of solar (and other technologies using inverters). As a result, VECC's previous submissions (see sections 2.2.1 and 2.2.2) are directly applicable in this case as well.

APPrO/ESC submits that:

⁵⁴ Page 15

“both renewable and non-renewable thresholds should be at least 2 MW. Gross load billing for on-site generation should be the exception, not the rule”⁵⁵.

VECC notes that the original purpose⁵⁶ of thresholds in the application of gross load billing was to reduce the administrative effort and cost associated with metering and settlement where appropriate such that exemption for gross load billing would be the exception, not the rule. In VECCs’ view the APPrO/ESC submission effectively seeks to reverse this. VECC notes that in its Decision regarding the Issues List⁵⁷ for this proceeding, the OEB rejected the inclusion of APPrO’s suggested issues related to whether gross load billing remains the appropriate approach for billing renewable, non-renewable, and energy storage facilities for transmission charges. VECC submits that the OEB should reject APPrO/ESC’s suggestion that “gross load billing for on-site generation should be the exception, not the rule” for the same reasons.

In support of recommendation that both renewable and non-renewable thresholds should be at least 2 MW APPrO/ESC states⁵⁸:

“Ontario is forecasting a significant increase in demand. The Minister of Energy and Electrification has issued multiple directives to the IESO to procure both new energy and capacity – providing clear policy direction to support new capacity. More recently, the Minister of Energy and Electrification has highlighted the importance of Distributed Energy Resources (DER) in meeting the province’s clean energy targets. Increasing the gross load billing threshold in response to this policy environment is the easiest policy that can be implemented immediately”.

In VECC’s view, in the absence of any specific directive from Government, transmission rates should reflect the costs of providing transmission service and not be used as means of “subsidizing” the acquisition of new generation sources. Gross load billing is consistent with the fact the transmission system is currently planned to account for the scenario that embedded generation (and storage output) may not be available or not be at full capacity when the peak is reached⁵⁹. As a result, the setting of gross load billing thresholds should reflect considerations regarding the costs and benefits associated with implementing and administering such thresholds.

2.3.2. Exemptions

In its submission Environmental Defense states⁶⁰:

“Transmission customers who reduce their load supplied from the transmission system by installing embedded generation are charged for the sunk costs of the transmission system that was built to supply their original load. However, in the context of quickly increasing electricity demand, the concern of underutilized capacity is greatly lessened. In other words, the chances of actual sunk costs are much less because the capacity will likely be used through the overall expansion

⁵⁵ APPrO/ESC Submission, page 3

⁵⁶ RP-1999-0044, Decision with Reasons, para. 3.2.44

⁵⁷ Procedural Order No. 3, page 3

⁵⁸ Page 3

⁵⁹ Hydro One Networks Response to VECC Clarification Questions 9 b) and 16 b)

⁶⁰ Environmental Defense Submission, page 1

of electricity demand. For this reason, Hydro One acknowledged that gross load billing is potentially inappropriate in transmission constrained locations.”

VECC has two issues with Environmental Defense’s submission. The first is that, given Hydro One Networks’ planning criteria the installation of embedded generation to supply a customer’s original load will not free up transmission capacity and make it available for new load. The second is that when Hydro One “acknowledged that gross load billing is potentially inappropriate in transmission constrained locations” it did so on the basis that the transmission customer foregoing the capacity originally built on the transmission system to supply their load and which would now be displaced by embedded generation⁶¹.

⁶¹ Hydro One Networks Response to ED Clarification Question 1 b)