

Hydro One Networks Inc.
8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com

Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

RECEIVED

OCT 13 2006



RECEIVED

OCT 16 2006

BY COURIER

ONTARIO ENERGY

October 13, 2006

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2601, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

EB-2006-0226

| OEB BOARD SECRETARY | |
|---------------------|-------------|
| File No: | Sub File: 5 |
| Panel | KQ, PN, PV |
| Licensing | BJ, JB |
| Other | ER, RH |
| 00/04 | SHCS |

Dear Ms. Walli:

EB-2006-0226 – Proposed Amendments to the Distribution System Code and the Retail Settlement Code – Hydro One Comments

Hydro One is pleased to provide the attached comments on the proposed Code amendments which are intended to enhance the success of the Standard Offer Program (SOP). Hydro One recognizes the benefits of distributed generation and the social and environmental benefits of renewable energy and is actively responding to the need to assist in the connection and the development of these generators.

In addition to providing specific comments on the proposed amendments, Hydro One asks the Board to consider two important policy matters that will have a large impact on the success of the SOP. The first matter has to do with cost allocation for system upgrades that will be required to support the program. The second matter deals with early proponents who have already initiated feasibility studies and connection impact assessments (CIA) to be eligible for the SOP and have thereby created a transitional queue.

Cost Allocation for the SOP Program

LDCs will require a clear indication from the Board of the policy for the allocation of costs associated with distribution system upgrades required to incorporate new generators. While in many instances there is capacity on the distribution system to accommodate some new generators without substantial upgrades, there are technical limits at both the transmission level and at each distribution feeder level to absorb these generators. Currently, a generation project is required to pay for upgrades to the distribution system required to accommodate its connection. This upgrade cost can be very substantial and thus could affect the viability of generation projects and the success of the SOP. The limits on the

existing Hydro One distribution system's capacity to connect new generation (i.e. before substantial upgrades are required), together with the requirement that projects pay for all upgrades that they trigger, has already resulted in a rush for queue positions as projects seek to secure the limited distribution capacity which is available at a low connection cost.

Hydro One generally supports the principle that connecting proponents pay for the costs to connect to the distribution system. We believe that this provides the necessary price signal to help site generation in an optimal manner. However, the Board should consider the current approach to cost allocation in light of the nature of smaller, distributed generation projects that will participate in the SOP and the effect of queue position on project costs. For the SOP program, costs could be recovered from customers in general as opposed to being recovered from the proponents. This is the practice in EU countries with similar programs where the proponent only pays for the radial connection costs to the point of connection. The preferred method to accomplish this would be through the OPA's CDM funding initiative rather than through the rates of the particular LDC that the generator is connecting to, as new distributed renewable generation benefits the people of the province generally, not only the ratepayers of that LDC. The CDM funding scope already does include renewable energy as per the June 13, 2006 Supply Mix directive from the Minister, which specifies that the 6300 MW target for CDM now specifically includes the government's role in codes/standards, geothermal heating/cooling, solar heating, fuel switching and small scale customer based generation, as well as conservation, efficiency and DR.

Dealing with Transitional Queues

LDCs that have performed CIAs for generators who intend to participate in the SOP will need direction on how to manage the transition to the formal queue. Hydro One is already maintaining a queue for early generation project proponents and the manner in which this existing queuing system transitions into a new system will be important in determining which projects have access to low-cost connections, and hence which would participate in the Standard Offer Program. Hydro One has over fifty projects in the transitional queue and has received CIA applications for well over 100 additional projects. If all these projects were granted queue positions under the Board's proposed queuing scheme, they will create a "logjam" for new applicants. Hydro One's proposed Code amendments in the attached submission would help to deal with this situation. At a minimum, there is a need to establish milestones which must be achieved by these early proponents to maintain their queue position in order to ensure that the queue does not become a block on more substantive projects.

Hydro One encourages the Board to provide guidance to LDCs on these important issues which, if dealt with, could enhance the success of the standard offer program.

Please find attached an original and eight copies of Hydro One's submission.

Sincerely,



Susan Frank

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15 (Sched. B);

AND IN THE MATTER OF a proceeding pursuant to
subsection 70.2 of the *Ontario Energy Board Act, 1998*
to amend the Distribution System Code and the Retail Settlement Code

**SUBMISSION OF HYDRO ONE NETWORKS INC.
REGARDING THE BOARD'S PROPOSED CHANGES TO AMEND THE DISTRIBUTION
SYSTEM CODE AND THE RETAIL SETTLEMENT CODE**

OCTOBER 11, 2006

Contact Information

Glen MacDonald
483 Bay Street, 8th Floor, South Tower
TORONTO, Ontario M5G 2P5
Email address: glen.e.macdonald@HydroOne.com

Hydro One recognizes the benefits of distributed generation and the social and environmental benefits of renewable energy and is actively responding to the need to assist in the connection and the development of these generators. Hydro One continues to make every effort to meet the objectives of the Standard Offer Program (SOP), and in that context Hydro One submits the following comments intended to enhance the success of the SOP, to improve the process, and to ensure equity and transparency for all proponents.

A majority of the applications for the SOP will likely be made to Hydro One as a result of its service territory which contains prime wind, water and biomass sites (including the Bruce peninsula, Kingston, Southwest and Northern areas of Ontario). In anticipation of the SOP, Hydro One has already received over 400 requests for feasibility studies and connection impact assessments.

Behind-the-Meter Installations (section 1.9)

Hydro One proposes the following changes to section 1.9 after point b:

“c. the load customer will be required to enter into a connection agreement with the distributor to acknowledge that the load customer agrees that the LDC will have to disconnect the load customer in order to disconnect the generating facility and that the LDC has the authority to arrange for outages and to act on other operating and reliability concerns when required;

If the generator has a contract with the OPA to participate in the SOP;

d. the total generation connected behind a load customer connection point shall not exceed 10 MW; and

e. the load customer and generator will require separate meters for settlement purposes.”

Rationale: The new definition of "embedded generation facility" includes generators not directly connected to the Distribution System. This raises serious issues for LDCs as they must be able to operate their systems safely and reliably. LDCs will therefore have to have a connection agreement with the load customer as a means of dealing with the generator, since there is no direct physical connection to the generator. In addition, although the intention is to allow load displacement generators to participate in the Standard Offer Program, the new definition appears to allow multiple generators to connect behind a single meter, which is contrary to the original Standard Offer recommendations. Hydro One submits that the Board should clarify this point and in any case should include an amendment that limits the aggregated generation behind a load customer's meter to 10MW. For clarity, the amended Code should also state that "behind-the-meter" generation facilities that participate in the SOP will require separate meters for the load and the generator to be metered to two different tariffs.

Metering (section 5.2)

Hydro One proposes that Section 5.2.1 be amended to read:

“A distributor shall require that an embedded retail generator whose embedded generation facility has a gross name-plate capacity of 50 kW or more install a four-quadrant interval meter. A distributor shall require that a net metered generator and an embedded retail generator whose embedded generation facility has a gross name-plate capacity of less than 50 kW install such metering as may reasonably be required having regard to...”

Rationale: A four-quadrant interval meter will be required for installations of 50kW or more for settlement purposes. Hydro One recommends that the Board include this amendment in the Code. The currently proposed amendment puts the onus on the LDC to make this definition. Inclusion of this requirement in the Code will strongly enhance program implementation as that will simplify negotiations between the parties, ensure consistent application across all distributors, and facilitate closing of connection cost agreements.

Enhancement of CIA and Queuing Processes (section 6.2.4.1)

As a part of the proposed process for obtaining a Standard Offer contract, there are several commercial and business viability criteria set by the OPA that each applicant needs to meet. LDCs are involved in only one of these -- i.e. the connection impact assessment (CIA). The importance of the queue position on the costs of connection for new generators is resulting in a rush to "lock up" distribution system capacity where connection costs are low. This rush will not necessarily result in the more viable projects getting queue positions that will enable them to move forward.

To address this, Hydro One proposes the following amendments to section 6.2.4.1:

- a. each applicant for connection, including an application under section 6.2.25, will be placed in the queue on a first come, first-served basis upon completion of **a connection cost agreement** for the embedded generation facility. **Applicants who will be participating in the Standard Offer Program must obtain pre-approval for participation in the SOP from the Ontario Power Authority prior to requesting a connection impact assessment;**
- b. the distributor shall notify the applicant of its queue position;
- c. an applicant shall be removed from the queue if a **connection agreement** has not been signed in relation to the connection of the embedded generation facility within 12 months of the date on which the application was placed in the queue;
- d. **deleted**
- e. **becomes d.**

Rationale: The proposed amendments to the Distribution System Code (DSC) put the onus of managing the queue squarely on the LDC. This will pose major challenges for Hydro One as all interested parties can apply for a CIA, pay the relatively low fees and get in the queue, despite the fact they may fail on one or all the other four commercial/business criteria set by the OPA and may be subsequently rejected. The low cost of obtaining a CIA has already resulted in a rush for queue positions with over 400 applications for feasibility assessments and CIAs received by Hydro One to date in 2006.

Given the early stage of the SOP, the OEB should work with the OPA to bring about revisions to the queuing process and adjust the amendments to the DSC in order that the benefit of the SOP program for Ontario customers is maximized. Hydro One understands that the objective of the SOP is to add distributed renewable generators to the Province's supply mix and to achieve operation of new resources as quickly as possible. To assist in this objective, Hydro One proposes the following preferred option for determining when a CIA can be requested to gain a queue position.

From the point of view of enabling viable projects to proceed and new renewable generators to actually be built, it is desirable that the OPA test commercial/business criteria for their soundness and only those "pre-approved" projects would be eligible to request a CIA. Hydro One recommends that the queue position be established "at the back-end" when proponents execute a connection cost agreement

(CCA) with the LDC. At this point, proponents have provided evidence of substance by pre-qualifying for the SOP with the OPA and by making financial commitments to the LDC in the CCA.

This would ensure that a smaller set of better, more sound projects have CIAs done and obtain queue positions. This would improve the likelihood that those projects which obtain queue positions will proceed and would focus the limited resources of distributors on those projects more likely to proceed. In addition, this will reduce the number of times that CIAs need to be done for a particular project as projects dropping from the queue can result in a need to redo CIAs for others behind them in the queue on the same feeder. This requires significant time and resources.

Information Disclosure by Distributors (section 6.2.9.1)

Hydro One proposes that section 6.2.9.1 be amended to read:

“Upon **submission of a formal completed application for a Connection Impact Assessment**, a distributor shall provide to a person that has requested a meeting under section 6.2.9...”

Rationale: Hydro One recommends that the provision of information should only be required when applicants have submitted a formal and completed application for a CIA to the LDC. The provision of operating maps, stations, voltages, geography data and feeder loadings will be very onerous on Hydro One. Furthermore, the allowed maximum of 3 locations triples the assessments any single applicant can require at the consultation stage.

15 Day Timeline to Provide Information

Hydro One proposes that section 6.2.9.2 be amended to read:

“The distributor shall provide the information referred to in section 6.2.9.1 without charge and **shall use reasonable efforts to provide it** within the 15 days referred to in section 6.2.9.”

Rationale: Hydro One does not have the resources to always guarantee a 15 day response time to assemble and analyze the significant amount of information required to be provided to each customer and arrange to meet with each customer. It would be imprudent to resource the organization to always meet this timeline given the variable workload. Hydro One submits that wording such as that in proposed section 6.2.9.3, “the distributor shall use reasonable efforts to provide the information within 15 days” is more appropriate. In many cases embedded distributors will need to consult with host distributors to provide the information required. Hydro One has more than 3000 feeders and many are long, low density feeders where the fault levels are not precisely known at all locations. Reasonable time will be required to make appropriate estimates of fault levels and to analyze other system constraints.

Standard Form of Connection Agreement (Annex 1)

Hydro One proposes amendments to the standard agreement in the following areas:

Section 3.2 should be amended to read: “The Distributor hereby agrees to be bound by and at all times to comply with the Code, and the Customer acknowledges and agrees that the Distributor is bound at all times to comply with the Code **as it may be amended, replaced or otherwise modified from time to time** in addition to complying with the provisions of this Agreement.”

Section 3.3 should be amended by having the following sentence added at the end of the section:

“A provision of the Distributor’s Conditions of Service is not in conflict or inconsistent with a provision of this Agreement simply by reason of the fact that this Agreement does not expressly contemplate such provision or is silent on the matter.”

Section 3.4 should be amended by having the following sentence added at the end of the section:
“A provision of such other contracts is not in conflict or inconsistent with a provision of the Code or a provision of this Agreement simply by reason of the fact that the Code or this Agreement does not expressly contemplate such provision or is silent on the matter.”

Section H.4 of Schedule “H” should be amended to read as follows:

“The Customer may disclose confidential information of the Distributor to a lender or prospective lender provided that the Customer has an agreement in place with the lender or prospective lender sufficient to obligate them to treat the confidential information of the Distributor in accordance with Section 20 of this Agreement.”

Standard Form Connection Agreements (Appendix E)

Hydro One proposes that the following words be added to the end of proposed section 4.2:

“and you will require a separate meter for the generator for settlement purposes.”

Appendix E currently has a standard form of connection agreement for micro-embedded generation facilities. The Board is proposing to amend this agreement to allow the generator to be paid for the output of the generation facility if it has a contract with the OPA. It should also be stated that for such a conversion the proponent must agree to the revised metering requirements.