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BY COURIER

November 30, 2007

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: Request for Exemption from certain Sections of the Distribution System Code

Hydro One Networks Inc. (“Hydro One”) is applying to the Board for a 12-month exemption from timelines related to providing assessments and other information to generation applicants, as described in sections 6.2.9, 6.2.9.2, 6.2.9.3, 6.2.12 and 6.2.13 of the Distribution System Code (“The Code”, see Attachment “A”). Hydro One submits that these time-based requirements are not practically achievable by Hydro One at this time, for the reasons set out below.

Hydro One seeks this exemption only after having gained a full year’s experience with generation connection applications since the launch of the Renewable Energy Standard Offer Program (RESOP) on November 1, 2006. This experience follows on the heels of several months of increased generation applications, in response to the Government’s announced support for new generation. As of the end of October 2007, Hydro One had received a total of 777 applications for Connection Impact Assessments (CIAs), including requests to redo CIAs¹, and almost as many requests for initial Feasibility Assessments (IFAs). Over the past year, Hydro One has invested considerable resources to serve generation proponents, work towards compliance with the Code requirements, and communicate and cooperate with industry stakeholders (other LDCs and the EDA, OEB, Ministry of Energy, OPA, and IESO) to manage the growing demands of embedded generation connections.

¹ These requests to redo CIAs, or “reworks”, result from proponent-initiated changes to the original requests for a CIA.

Hydro One's early concerns with the impact of embedded Generation Connections on LDCs

Even before the launch of the Renewable Energy Standard Offer Program (RESOP) on November 1, 2006, Hydro One had received a wave of increased applications for generator connections. Hydro One was actively involved in the OPA's development of the RESOP and in the OEB's development of related Code amendments, and offered its suggestions on the technical considerations, resourcing challenges and turnaround times to support this new initiative.

In November 2005, Hydro One provided comments under EB-2005-0463, a proceeding pursuant to subsection 70.2 of the *Ontario Energy Board Act, 1998* to amend the Distribution System Code. At that time, Hydro One identified that large-scale integration of embedded generation is a new concept that will test technical limits and capabilities:

“While Hydro One welcomes the government's initiatives for new renewable generation, we also have a responsibility as a LDC to provide reliable service to our customers, to protect employee and public safety, and to uphold the integrity of the system. [...] As large scale integration of intermittent generation into distribution systems is a relatively new concept and not fully explored, these requirements will need to be continuously revised and refined with studies and field experience.”

On October 13, 2006, Hydro One commented under EB-2006-0226 on proposed amendments to the Distribution System Code and the Retail Settlement Code.

“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 6.2.25a, 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;**”

“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.”

Regarding time-based metrics that were being contemplated in the Code, Hydro One also anticipated significant challenges and suggested including some flexibility by amending section 6.2.9.2 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.”

In Hydro One’s view, its non-compliance with the Code could have been anticipated and Hydro One now seeks an exemption to address this situation.

Communications with the Compliance Office

Hydro One has met with the Chief Compliance Officer (CCO) on a number of occasions throughout 2007, starting as early as February 5, 2007, to discuss compliance issues related to assessment of proposed generation connections to the distribution system. In addition, Hydro One’s inability to come into compliance with the Code has been openly disclosed, and the actions that Hydro One has taken in this regard are documented in a series of communications with the Compliance Office as provided in Attachment “B”.

Reasons for Seeking an Exemption

Following is a summary of the circumstances, actions and events that led Hydro One to request this exemption.

- 1) **Hydro One’s Compliance Actions:** Hydro One has put a very high priority on Generation Connections and has made significant efforts to address its non-compliance with the Code in this area. As early as June, 2007, Hydro One’s efforts to hire and train additional staff to increase the output of CIA reports were yielding positive results. The number of CIA requests pending completion had dropped to 135, from 164 in February 2007. At that time (June, 2007), Hydro One stated that it would continue to reduce the backlog as long as the volume of new applications and requests for “reworks” continued at the rates experienced in the previous four months. Set out below is further information on the activity level of CIA applications since June and on the impact of that activity on Hydro One’s efforts to reduce the backlog.

Due to limitations in the distribution and transmission systems, not all CIA applications are eligible for processing by Hydro One. Projects that would result in a greater than 60% “reverse flow” through a transformer station (TS) or that would increase feeder loading above 400 Amperes are not eligible for processing. Working in consultation with OEB staff, Hydro One has provided information on its website showing the status for each TS in Hydro One’s system, including a “red line” to show which projects fall outside technical limits. Hydro One has also streamlined the IFA and has increased the communication of program information to generator proponents through its web site, by holding workshops with generation proponents, and by direct communications.

- 2) **Monthly Progress Reports on Compliance Plan:** Starting in June, 2007, Hydro One has provided monthly reports to the CCO documenting its progress in moving toward compliance with the Code, as requested in his May 31, 2007 letter. A summary of the number of CIA requests each month since the June report, the number of projects eligible for a CIA, the number of CIAs completed and the number of CIAs awaiting completion is provided in the table below:

<u>Report</u>	<u># CIA Requests</u>	<u># Eligible</u>	<u># Completed</u>	<u># Awaiting Completion</u>
July	59	43	27	153
August	47	28	27	156
September	81	35	27	138*
October	80	34	36	136

* September decrease is due to reflecting the 400 Amp technical limit on the number of projects eligible for processing. This was initially identified through the CIA, but Hydro One now provides this information to proponents in advance of carrying out a CIA.

Through the end of June, 2007, Hydro One was averaging 23 CIAs per month. Although Hydro One has since increased the output of CIAs, the number of applications has also continued to rise. In the first half of 2007, the average number of CIA applications was 40 per month. In the period from July through October, 2007, the average number of CIA applications had increased to 66 per month. Due to this high level of applications over the last four months, the backlog of CIAs awaiting completion is not being reduced, despite the efforts of the Company to increase resources and CIA output.

- 3) **Hydro One Effort to Increase Output of CIAs:** The level of staffing dedicated to embedded generation connections has increased from 2.5 staff in early 2006 to 27 staff at this time to increase the Company's ability to complete CIA studies and respond to other proponent needs, including IFAs, cost estimates, technical enquiries and reworks. Hydro One has used a combination of permanent and contract staff. It is difficult, and likely imprudent, to make a business case for hiring all permanent staff in work programs that fluctuate on a monthly basis and may not require long-term staff levels to manage the work load. In October, Hydro One was able to significantly increase the number of CIAs completed to 36. This positive result is not only due to increased staffing but also to staff training and experience gained after several months on the job. However, it is not possible to hire new engineers and have them producing CIA studies within days or even weeks of their being hired, nor is the skill set required to perform CIAs readily available in the market or from academic institutions. Hydro One has recruited staff with varied skills and experience, but all require hands-on training with Hydro One's experienced engineers before they are able to complete CIAs on their own. This has made it difficult to respond to monthly fluctuations in the number of CIAs to be completed. It is certainly not possible to respond within any given month to an increase in the number of CIA requests and to meet the timelines specified in the Code. The complexity of individual CIAs has also increased, as the number of generators on any particular feeder or TS has increased and CIAs must consider the impact of other generators on the same feeder or TS.

- 4) **Ability to Come into Compliance:** In spite of the high corporate priority and increased resources Hydro One has committed to generation connections, the above-described volume of applications means that there were still 136 CIAs awaiting completion at the end of October, 2007. Based on the information provided above, Hydro One cannot present a plan to come into compliance with the relevant sections of the Code without knowing the number of applications that we will have to process in the future. Having a time-based formula in the Code for the preparation and delivery of CIA studies has put Hydro One in an untenable situation from a compliance perspective.

Much of the above information relates to turnaround times for CIA applications (sections 6.2.12 & 6.2.13 of the Code), which have, to date, received the most attention from a compliance perspective. However, Hydro One maintains that the same issues relate to other aspects of embedded generation connections, and the Company has already seen evidence of similar problems in others stages of the connection process, which are of course interdependent. For example, the limited number of staff who work on CIA assessments cannot gather the information for meetings with new customers until these new applications get to the “top of the processing pile”. For this reason, this exemption request also includes the Code sections with time-based requirements to meet with customers (sections 6.2.9, 6.2.9.2 & 6.2.9.3).

Similarly, Hydro One has been challenged to meet the timeline requirements to provide detailed cost estimates (section 6.2.16) in the past two months, as there has been a high volume of applications that were approaching their deadline of 12 months in the queue. Hydro One introduced a number of measures, to mitigate the impact on generation proponents of this wave of requests for detailed cost estimates. The Company is hopeful that after this peak in demand, it will be able to comply with this section of the Code in the foreseeable future. Hydro One is therefore not requesting an exemption from section 6.2.16 of the Code at this time.

As Hydro One noted in its letter of February 23, 2007, Hydro One’s view is that time-based metrics stipulated in the Code are appropriate only for mature and stable areas of the business, where the cost/performance tradeoff is well understood and the utility can realistically resource to meet variations in demand. For example, the Customer Service Quality Index (SQI) governing the percentage of new load connections completed within five days works well for this established and well-understood business activity, and Hydro One is able to manage to it despite the large volume (some 16,000-18,000 new connects per year). The area of embedded generation, in contrast, is a rapidly growing, volatile market, to which the government, regulator and distributors are still adapting. It is premature and unrealistic to establish a hard performance metric at this time. Hydro One therefore requests the Board to exempt Hydro One from the time-based metrics that are stipulated in the above sections.

Exemption Request

In light of the above considerations, Hydro One hereby requests that the Board exempt Hydro One from the requirements in sections 6.2.9, 6.2.9.2, 6.2.9.3, 6.2.12 and 6.2.13 of the Code for a 12-month period. Hydro One will continue to make generation connections a top corporate priority and will increase resources as necessary to work toward the goal of being in compliance with the Code within the 12-month period requested. Hydro One would be pleased to provide any further information that would assist the Board in assessing the merits of this request. Please feel free to contact Jim Malenfant at (416) 345-5907 for further assistance in this regard.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attachment “A”
Sections of the Distribution System Code
Covered by Hydro One’s Request for an Exemption

- 6.2.9 Where a person who is considering applying for the connection of a generation facility to the distributor’s distribution system requests a preliminary meeting with the distributor and provides the required information, the distributor shall provide a time when it is available to meet with the person which is within 15 days of the person providing the required information. For the purposes of this section, the following is the required information:
- a. the name-plate rated capacity of each unit of the proposed generation facility and the total name-plate rated capacity of the generation facility at the connection point;
 - b. the fuel type of the proposed generation facility;
 - c. the type of technology to be used; and
 - d. the proposed locations of the proposed generation facility including addresses and account numbers with the distributor where available.
- 6.2.9.2 The distributor shall provide the information referred to in section 6.2.9.1 without charge and within the 15 days referred to in section 6.2.9.
- 6.2.9.3 Upon request, a distributor shall, subject to section 6.2.9.4, provide the information referred to in section 6.2.9.1(b) to a person that has requested a meeting under section 6.2.9 for one or more additional locations beyond the three required by section 6.2.9.1(b). The distributor shall use reasonable efforts to provide such information within the 15 days referred to in section 6.2.9, but shall in any event provide that information within a further 15 days. The distributor may recover from the person the reasonable costs incurred by the distributor in preparing the information for the additional locations.
- 6.2.12 The distributor shall provide an applicant proposing to connect a small embedded generation facility with its assessment of the impact of the proposed generation facility, a detailed cost estimate of the proposed connection and an offer to connect within:
- a. 60 days of the receipt of the application where no distribution system reinforcement or expansion is required; and
 - b. 90 days of the receipt of the application where a distribution system reinforcement or expansion is required.
- 6.2.13 The distributor shall provide its assessment of the impact of the proposed generation facility within:
- a. 60 days of the receipt of the application in the case of a proposal to connect a mid-sized embedded generation facility; and
 - b. 90 days of the receipt of the application in the case of a proposal to connect a large embedded generation facility.

Additional Section of the Distribution System Code
Referred to in Hydro One's Request – but not included in the Request for an Exemption

6.2.16 In the case of an application for the connection of a mid-sized or large embedded generation facility, once the impact assessment is provided to the applicant, the distributor and the applicant have entered into an agreement on the scope of the project and the applicant has paid the distributor for the cost of preparing a detailed cost estimate of the proposed connection, the distributor shall provide the applicant with a detailed cost estimate and an offer to connect by the later of 90 days after the receipt of payment from the applicant and 30 days after the receipt of comments from a transmitter or distributor that has been advised under section 6.2.17.

Attachment "B"

Chronology of Communications with the Compliance Office

- On February 13, the CCO wrote to Hydro One expressing concerns with Hydro One's ability to process applications for connection impact assessments in a timely manner.
- In responding on February 23, 2007, Hydro One acknowledged its non-compliance with certain requirements of the Code, and outlined the measures it was taking to address the situation.
- On March 13, 2007, the CCO wrote to advise Hydro One that, while the company has outlined actions that Hydro One has already taken or expects to take with respect to attempting to improve the timelines for completing generator connection reviews, its proposed plan lacks clarity with respect to how Hydro One will address the significant backlog of applications waiting to be processed from 2006.
- On March 15, 2007, Hydro One again responded, explaining that it is unable to put forward a plan that would bring Hydro One into compliance with that section of the Code, as the volume of new applications, those requiring revision, and the expectation of new OPA programs prevent the development of the necessary assumptions.
- On May 31, 2007, the CCO again wrote to Hydro One, outlining his expectation that Hydro One would achieve compliance by November 1, 2007, and asking Hydro one to provide monthly progress reports summarizing its progress on specific items.
- On October 25, 2007, the CCO wrote regarding Hydro One's non-compliance with the Code requirements for the processing and delivering of documents to applicants who request distribution connections for proposed generation facilities. In his letter, he shared his assessment, based on the monthly reports from the company, that Hydro One has not resolved the issues of non-compliance, and asked for Hydro One's final response by November 5, 2007.
- On November 5, 2007, Hydro One responded to the CCO to explain the significant and extraordinary efforts Hydro One had taken to address this non-compliance and to inform the CCO that Hydro One would be seeking an exemption from certain sections of the Code.