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BY COURIER

August 3, 2012

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

Dear Ms. Walli:

EB-2011-0118 - Hydro One Networks Inc. Request for Extension to the Exemptions from Sections 6.2.6 & 6.2.7 of the Distribution System Code

Please find attached an application by Hydro One Networks Inc. (“Hydro One”) for an extension to the six-month exemptions from the obligations in sections 6.2.6 and 6.2.7 of the Distribution System Code (the “Code”), which exemptions the Ontario Energy Board (the “Board”) granted in its Decision and Order of October 11, 2011, in EB-2011-0118. Hydro One also requests an order or order(s) for an immediate interim stay of the obligations specified in sections 6.2.6 and 6.2.7 of the Code, as of the date of this Application, and until such time as the Board renders a decision on the requested extension.

Hydro One requests that this proceeding be conducted by way of a written hearing.

Sincerely,

ORIGINAL SIGNED BY ODED HUBERT FOR SUSAN FRANK

Oded Hubert for
Susan Frank

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by Hydro One Networks Inc.
for an Order or Orders including an extension to the exemption from
sections 6.2.6 & 6.2.7 of the Distribution System Code

SUMMARY OF APPLICATION

1. The Applicant is Hydro One Networks Inc. (“Hydro One”), a subsidiary of Hydro One Inc. Hydro One is an Ontario corporation carrying on the business, among other things, of owning and operating electricity distribution facilities in Ontario.
2. Hydro One requests an extension to two exemptions from the obligations specified in sections 6.2.6 and 6.2.7 of the Distribution System Code (the “Code”). The subject exemptions were granted by the Ontario Energy Board (the “Board”) on October 11, 2011, in proceeding EB-2011-0118.
3. Hydro One requests that the Board establish the term (“duration”) of the extension to begin on April 11, 2012, and to end six months after the date on which the Board issues its final Notice of Code Amendments or otherwise concludes its consultation on micro-embedded generation issues (EB-2012-0246).
4. Hydro One requests that, except for the duration of the extension, all other terms and conditions that were granted by the Board in the original exemptions in EB-2011-0118 apply during the period of the extension.
5. Hydro One requests that this proceeding be conducted by way of a written hearing.
6. Hydro One requests that the Board grant to Hydro One an immediate, interim stay of the obligations specified in sections 6.2.6 and 6.2.7 of the Code, as of the date of this Application, until such time as the Board renders a final decision on the requested extension.

The details of this Application are set out below.

OVERVIEW

On October 11, 2011, in EB-2011-0118, the Board granted Hydro One two six-month exemptions (“the original exemptions”) from complying with the obligations specified in sections 6.2.6 and 6.2.7 of the Code. The exemptions, which relate to timelines for *application processing* and *physical connections of micro-embedded generator connections*, expired on April 11, 2012. In accordance with the Board’s Order, Hydro One has continued to file monthly compliance reports with the Board detailing the status of its compliance.

The monthly compliance reports show that Hydro One has been able to achieve compliance with the terms of the exemptions, but is not able to achieve compliance with the obligations specified in sections 6.2.6 and 6.2.7 of the Code.

EXTENSION REQUEST

Hydro One is requesting an extension of the two exemptions that were granted on October 11, 2011. The requested term of the extension is from April 11, 2012 (the date on which the original exemptions expired), until a date which is six months after such time as the Board issues a final Notice of Code Amendments or otherwise concludes its consultation on micro-embedded generation issues (EB-2012-0246). The six-month period is requested to allow Hydro One time to make any necessary changes to its systems and processes to accommodate the Board’s ultimate decision in EB-2012-0246.

COMPLIANCE STATUS

Hydro One has filed eight compliance reports with the Board, covering October 11, 2011, to June 30, 2012. A summary of Hydro One’s compliance status is provided in the tables below.

The Board’s EB-2011-0118 Decision and Order identified three categories of connections:

- Group A¹: Indirect connections not requiring a site visit;
- Group B: Indirect connections requiring a site visit; and
- Group C² Direct connections

¹ Indirect connection refers to a project where a new connection is not required. This type of connection is also referred to as “parallel” connection, since the connection utilizes the existing connection point.

² Direct connection refers to a project where a new connection is required. This type of connection is also referred to as “standalone” connection.

Table 1: Application Processing - Code Requirements

Type of Connection	Code Requirement	Performance
Group A	100% within 15 days	Average: 99.9% Oct-Nov: 99.5% Mar: 100% Dec: 100% Apr: 100% Jan: 100% May: 100% Feb: 100% Jun: 100%
Group B	100% within 15 days	Average: 73.5% Oct-Nov: 32.1% Mar: 89.4% Dec: 35.9% Apr: 89.0% Jan: 71.0% May: 95.4% Feb: 79.0% Jun: 96.2%
Group C	100% within 60 days	Average: 93.5% Oct-Nov: 84.7% Mar: 100% Dec: 90.4% Apr: 98.6% Jan: 83.5% May: 100% Feb: 90.7% Jun: 100%

Table 2: Application Processing- Terms of Original Exemption

Type of Connection	Exemption Requirement	Performance
Group B	90% within 30 days	Average: 90.5% Oct-Nov: 73.7% Mar: 96.9% Dec: 75.8% Apr: 100% Jan: 88.1% May: 99.1% Feb: 91.4% Jun: 98.7%

Table 3: Physical Connections- Terms of the Original Exemption

Type of Connection	Exemption Requirement	Performance
All connections	90% connected within 5 days subject to conditions of original exemption	Average: 93.9% Oct-Nov: 91.8% Mar: 97.4% Dec: 90.0% Apr: 97.7% Jan: 87.1% May: 98.8% Feb: 89.5% Jun: 99.1%

Hydro One's compliance levels have improved significantly since March 2012:

- With respect to *processing applications*, Hydro One has achieved compliance with the Code in two of the three connection categories (Groups A and C) every month, with only one exception -- for Group C in April 2012.
- With respect to *processing applications* for Group B, Hydro One has not been able to achieve compliance with the Code requirements but was able to meet or exceed the terms of the original exemptions.
- Hydro One has also been able to meet or exceed the terms of the original exemptions with respect to *physical connections*.

As shown in Figure 1 below, application volumes received by Hydro One for the connection of micro-embedded generation have been very low in recent months. It is Hydro One's view that, despite the process and system changes that it made, and despite its other efforts to achieve compliance with the Code, the above-noted marked improvement in compliance would not have been possible had the application volumes not dropped after October 30, 2011, and subsided to such a low level.

Hydro One monitors not only its compliance with Code requirements, but also feedback regarding its customer service. From January 2012 to the present, Hydro One has directly received only two escalated complaints related to *application processing* and *physical connection* timelines. The majority of micro-embedded generation customer complaints has been, and continues to be, focused on the inability to connect and not on the processing or connection timelines.

REQUEST FOR EXTENSION

Hydro One continues to maintain, as it did in EB-2011-0118, that the timelines and 100% targets in sections 6.2.6 and 6.2.7 of the Code are not practically achievable, as even during low-volume periods, compliance has not been achieved. Hydro One also stated in that proceeding that the Company's ability to comply with the targets in the Code are further hampered by an unpredictable and sometimes volatile applications stream, especially given the ongoing development and relative immaturity of the OPA's programs.

At this time, Hydro One requires an extension to the exemptions to deal with the pending influx of applications resulting from the relaunch of the microFIT Program, and while Hydro One awaits the outcome of the Board's consultation on micro-embedded generation issues (EB-2012-0246).

Relaunch of the MicroFIT Program

As of July 12, 2012, the Ontario Power Authority ("OPA") relaunched the microFIT program. The microFIT program will be open for a time-limited period with a capped 50 MW of micro-embedded generation to be allotted through microFIT contracts. Early indications are that applications to the OPA will exceed the 50 MW cap for 2012. As such, Hydro One is expecting the OPA to begin releasing, sometime in August, approximately 5,000 or more microFIT applications. The precise timing and volumes of applications that will in turn arrive at Hydro One over the coming weeks is unknown and unpredictable. However, Hydro One expects that the release of these applications will exceed the ability of Hydro One to be compliant with the requirements in s. 6.2.6 and 6.2.7 – for both processing

the applications and connecting the generation later in the year. After this wave of applications, the microFIT program will be closed to new applications until next year.

The newly-designed microFIT program poses many challenges for Hydro One. Firstly, as the majority of applications will be received once a year, Hydro One will have to adjust its work scheduling and resourcing to be able to deal with this annual influx. In subsequent years, and with knowledge of when the application “window” will be open, Hydro One may be able to make sufficient adjustments to better cope with the volume of applications. However, for 2012, the window dates were announced after the work schedule for the year had been set and work programs were well underway. A significant change to the schedule at this point in the year, particularly during the peak residential and commercial construction season, will have a major impact on Hydro One’s ability to complete its other work programs, potentially leading to non-compliance in other areas.

Additionally, flexibility exists in the microFIT program, such that applicants who have previously applied to the OPA are able to change many key details of their application, such as the premise address, after their applications have already been reviewed and approved. While this allowance accommodates microFIT project proponents, it means that Hydro One has to reassess their applications from the beginning, even though the applications are being tracked and processed under an existing FIT reference number. With microFIT applicants having the ability to make changes during the process, and with already existing tight deadlines, Hydro One’s compliance will be further challenged by these additional tasks.

Board Consultation

On May 15, 2012, the Board initiated a consultation on micro-embedded generation issues (EB-2012-0246), to review its policies in this area. The list of issues covered by the review explicitly includes the timelines stipulated in sections 6.2.6 and 6.2.7 of the Code.

While the Board’s consultation has been announced, it has not yet begun. Hydro One therefore expects that even if the consultation process results in Code changes, these will not be in effect before the volume of microFIT applications increases. Hence, Hydro One cannot wait for the consultation process to be completed, and requires the requested extension to be in place earlier.

It is Hydro One’s hope that the consultation process will result in Code amendments that set out more achievable timelines, eliminate the 100% compliance targets, and align more closely with the Code’s treatment of new load connections.

Hydro One will likely need about six months to adjust its processes and systems to accommodate new Code requirements that may result. Therefore, Hydro One requests that the exemptions remain in place for six months after the Board issues Code amendments or otherwise concludes its consultation. At such time, Hydro One may no longer require the exemptions from sections 6.2.6 and 6.2.7 or, if it does, it can approach the Board with a new request.

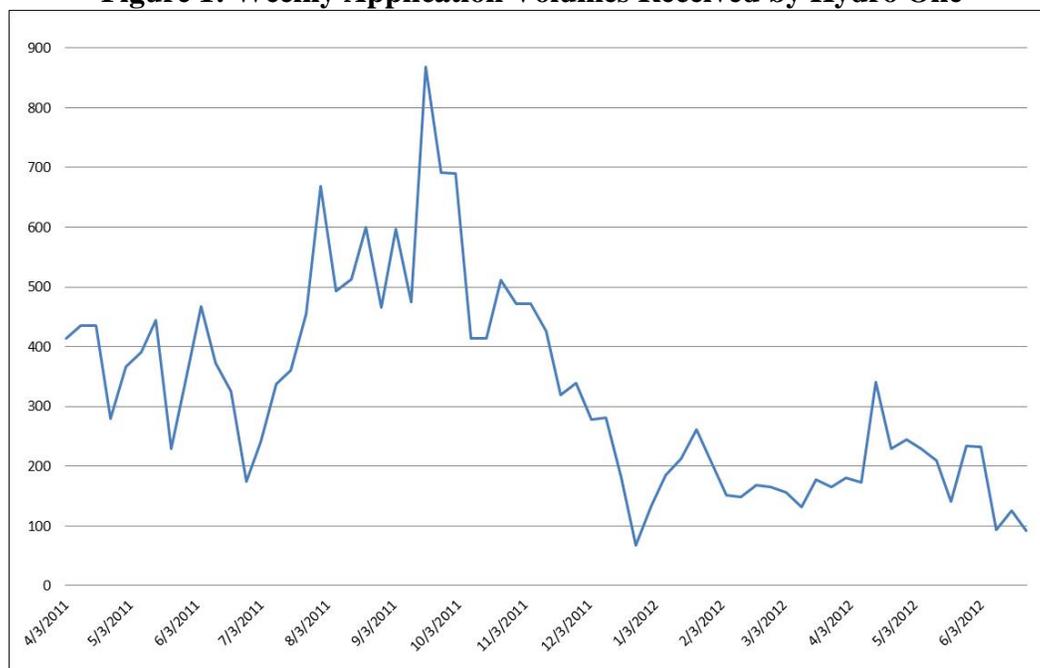
Non-Volume-Related Considerations

As shown in the timeline in Appendix A, for all but the first twenty days (from October 11, 2011 to October 31, 2011), the period of the original exemptions was overshadowed by the FIT Program

Review. The OPA ceased processing FIT applications shortly after the exemption period began and backdated any changes to September 1, 2011, prior to the exemption period. Therefore, Hydro One did not see high volumes of applications for the majority of the exemption period, as shown in the graph in Figure 1 below. During this period of low application volumes, Hydro One was still not able to achieve compliance with the timelines in sections 6.2.6 and 6.2.7 of the Code, which must be achieved 100% of the time.

Based on this experience, Hydro One concludes that not all the issues surrounding its non-compliance are related to the volume of applications. There is, in fact, a conflict between the Code’s stringent requirements for *processing applications and physically connecting* micro-embedded generation, and Hydro One’s need to manage all its work programs (including other Code requirements and power restoration) in an efficient and economic manner.

Figure 1: Weekly Application Volumes Received by Hydro One



Ongoing Evolution of the MicroFIT program

The Code requirements and timelines were developed in response to the Ministerial Directive to the OPA, which resulted in the launch of Renewable Energy Supply procurements in 2004 and 2005 and eventually the Renewable Energy Standard Offer Program (RESOP) program in 2006. At that time, the program, the volume of applications and the Code were aligned. Since then, circumstances have changed. The OPA ended the RESOP and developed a FIT program with a specific microFIT stream. Since the launch of the microFIT program, the large volume of applications within Hydro One’s service territory and their volatile and sporadic nature have made it unmanageable for Hydro One to meet Code timelines. The design of the program is such that a distributor cannot rely on a steady stream of applications to develop efficient processes or resourcing levels that meet the current timelines. The program has not been stable to date, and the FIT 2.0 rules further exacerbate this problem.

Also, the goal of 100% compliance is seen as unachievable because the requirement to comply does not provide *any* allowance for high volume of applications/connections, storms and other power restoration events, or even human error. To achieve 100% compliance, it is Hydro One's view that it would need to place micro-embedded generation connections as the highest priority work, ahead of power restoration, load connections and maintenance, which would drive some inappropriate business behaviours and further increase the inequitable treatment of generators compared to load customers.

These issues were identified and examined as part of Hydro One's previous exemption application, EB-2011-0118, and the supporting evidence is on the record of that proceeding. Hydro One anticipates that these issues will also be dealt with during the Board's consultation on micro-embedded generation issues.

REQUEST FOR AN INTERIM STAY AND A WRITTEN PROCEEDING

Given that large volumes of applications are expected to begin soon after August 10, 2012, and given that any Code changes are not expected before then, Hydro One respectfully asks that the Board grant it an immediate interim stay of the requirements of sections 6.2.6 and 6.2.7, or expedite the proceeding on the requested extension.

Hydro One notes that the issues before the Board in this application are the same as those that were examined during the previous oral hearing EB-2011-0118 and supported by Hydro One's subsequent reporting. These same issues will also be examined in the Board's consultation on micro-embedded generation connection issues. Hydro One therefore believes that an oral hearing in this application would be duplicative of those other examinations and would not provide the Board with any more detail or insight into this matter. Given the limited nature of this request and its time sensitivity, a written proceeding would be the most expedient manner to balance the needs of micro-embedded generation proponents with value in terms of regulatory efficiency, so Hydro One asks that the requested extension be reviewed in a written hearing.

CONCLUSION

Hydro One has placed, and continues to place, a very high priority on generation connections and has made significant efforts to address its non-compliance with the Code in this area.

While it continues to make efforts to comply with the current Code requirements, compliance will be challenged by the imminent restart of the microFIT program. Hydro One is hopeful that the Board's consultation process will ultimately lead to more achievable expectations regarding connection process timelines, and thus render future exemptions unnecessary. Until then, Hydro One requires the extension to be able to continue to process applications and contend with increased volumes without remaining in a state of non-compliance.

Together with the extension requested in this Application, the Company expects that the measures it has taken to date would allow Hydro One to continue to support the timely connection of renewable energy generation projects while maintaining the reliability and safety of its distribution and transmission systems, providing the other services that customers need in a timely fashion, and complying with its regulatory obligations.

APPENDIX A

TIMELINE OF EVENTS RELATED TO MICRO-EMBEDDED GENERATION

Date	Item
June to December 2003	The Board amends the DSC in response to the Minister of Energy's Directive to the Board about connection of new generation to distribution systems. (RP-2003-0113). The timeline requirements for a "micro-embedded load displacement facility" are introduced into the DSC.
2004 to 2006	Various procurements under the Renewable Energy Supply (RES) program. The OPA launched the Renewable Energy Standard Offer Program (RESOP).
May, 2008	The OPA announced its intention to review RESOP and that, pending stakeholder consultation on proposed program improvements and rule and contract changes, the processing of most new RESOP applications will be deferred. The RESOP program was changed to the Feed-in Tariff (FIT) Program. Also, the Green Energy and Green Economy Act received Royal Assent.
May 2008 to February 2009	The Board issued a Notice of Proposal to Amend the DSC in order to simplify the process for the connection of smaller sized generation facilities. The words, "load displacement" are replaced with "generation" otherwise the obligations in the Code remain unchanged. (EB-2008-0102). Hydro One filed comments on the proposal, including an expression of concern that with the changes to the OPA program (RESOP to FIT) and associated expected increase in applications Hydro One would have difficulty meeting the hard timelines (such as 15 days) to make or refuse an offer to connect, and 5 days to make the connection.
October 1, 2009	FIT Program Launched
November 25, 2010	Hydro One notifies the Board of its inability to achieve compliance with the timelines for processing applications (s 6.2.6) for micro-embedded generation facilities.
April 19, 2011	Hydro One files exemption application with the Board (EB-2011-0118).
August 11-12, 2011	The Board holds a two-day oral hearing for the exemption application.
October 11, 2011	The Board releases its Decision and Order, granting Hydro One two six-month exemptions with respect to timelines for micro-embedded generation applications and connections.
October 31, 2011	OPA announces FIT review underway retroactive to September, 2011 for microFIT applications. OPA ceases to process FIT/microFIT applications.
March 22, 2012	Ontario government announces the results of the scheduled two-year FIT Program Review. The objective of the review was to ensure the long-term sustainability of the program. The OPA is developing draft Program Rules and draft Contracts to implement the report recommendations, which could impact the volume of applications to Hydro One and their timing.
April 6, 2012	OPA releases Draft for Comment - FIT Program Rules Version 2.0. Comment period is open until April 27.
April 11, 2012	The six-month exemptions expire. The OPA's FIT Program is still on hold.
May 15, 2012	The Board announces the consultation on micro-embedded generation issues.
July 12, 2012	The OPA relaunches the microFIT program and opened the procurement window for 50 MW. Pre-existing applications have until August 10 th to resubmit.