

Customer Service Contract Reference: New Connect & Upgrades Expansion Policy

This document is provided for **informational purposes only** and is not intended to be relied upon for completeness or accuracy, or as advice (legal or otherwise). The document is intended to support the information provided within your **Customer Service Contract: Connection Firm Offer Expansion** in alignment with Hydro One's Conditions of Service Section 2.1 and the Ontario Energy Board Distribution Services Code Section 3.2. This document does not apply to Subdivision connections with a Multi-Service Connection Agreement.

Economic Evaluation

In accordance with Appendix B of the Distribution System Code ("DSC") issued by the Ontario Energy Board ("OEB") (available on their website: www.oeb.ca), Hydro One completes an economic evaluation for the Expansion using a Discounted Cash Flow ("DCF") analysis based on the considerations described below.

- **Revenue Forecasting** – Based on the rate class of your connection, Hydro One will forecast potential revenues based on the energy to be consumed by your future new connection or upgraded service. These forecasted revenues are based on OEB approved rates and forecasted usage of your facility. For General Service Demand and Sub Transmission rate classes, forecasted usage was provided by you on the New Customer Connection Information ("NCCI") Form. These revenues offset a portion of the cost of the Expansion required to connect your service.

Important for General Service Demand and Sub-Transmission Rate Classes: It is important to provide accurate loading within the New Customer Connection Information Form ("NCCI"). This forecasted loading must reflect the monthly peak usage. These peak loading values will be used within the Economic Evaluation.

Please refer Hydro One's website (www.hydroone.com/rates-and-billing/density-reviews-and-rate-classes) or the Ontario Energy Board website (www.oeb.ca) for more information on Rate Classes.

- **Capital Costs** – Capital costs are items such as labour, material and equipment costs related to the Expansion and Connection work.
- **Expense Forecasting** – Forecasted expenses are items which are not part of the initial construction of the Expansion, but future costs such as ongoing operating and maintenance expenditures and taxes associated with the Expansion.
- Hydro One owned distribution assets, excluding connection assets, that are either end of life or of an advanced age, are assessed during the design of the Expansion. If the Expansion work requires replacement of aged assets, a credit will be included on your contract as 'Credit for End of Life or Advanced Age Assets'.

This Discounted Cash Flow ("DCF") Economic Evaluation can be found in Appendix 3 of your Customer Service Contract. Further explanation of the above information can also be found within Section 8 of your contract as well.

Expansion Deposit



In order to protect ratepayers, Expansion Deposits are collected from General Service Demand and Sub-Transmission Rate Class customers. For Expansions where Hydro One is providing greater than \$100,000 of support based on future revenues determined in the Economic Evaluation, the customer must pay an Expansion Deposit for up to 100% of the present value of the forecasted revenues. This requirement is in alignment with Section 3.2.20 of the Distribution System Code ("DSC") issued by the Ontario Energy Board ("OEB") (available on their website: www.oeb.ca) and Hydro One's Conditions of Service Section 2.1.2.1. (www.hydroone.com/about/conditions-of-service). This deposit is collected to ensure the average peak monthly loading provided on the New Customer Connection Information ("NCCI") Form and used in the Discounted Cash Flow ("DCF") economic evaluation materializes within 5 years of energization of your connection.

Hydro One accepts payment of the Expansion Deposits via cash, surety bond or line of credit. Please note that surety bonds and lines of credit are only accepted from a Schedule I or II Bank as listed within the *Bank Act of Canada*. The minimum requirements detailed in Appendix 4 of your Customer Service Contract must be met for all surety bonds and lines of credit.

Each year on the anniversary of energization, a review of the average monthly peak demand that materialized at your Service Location is compared to the Total Demand (KW) for 100% Expansion Deposit Refund as found within the Discount Cash Flow ("DCF") in Appendix 3 of your Customer Service Contract. A refund of the Expansion Deposit is provided based on the percentage of Total Demand for 100% Expansion Deposit Refund that has been achieved or the present value of the Discounted Cash Flow ("DCF") analysis is \$0. This analysis is completed each year for 5 years, or until the maximum value of the Expansion Deposit has been refunded.

If Hydro One requires less than the maximum Expansion Deposit amount (refer to Appendix 3 of your Customer Service Contract – Expansion Deposit box), you must achieve the Total Demand to Begin Expansion Deposit Refund (kW) before the first refund can be issued.

When completing the analysis for Year 2 through 5 refunds, the current year average monthly peak load is compared to prior year(s) average monthly peak load. For this reason, if your average monthly peak load for the current year does not increase over previous year(s) usage you will not receive an Expansion Deposit refund for the current year.

If you selected 'Option B' on your Customer Service Contract, 10% of the Maximum Expansion Deposit as captured in Appendix 3 will be held back by Hydro One during the Warranty Period. The two-year warranty period starts the earlier of (i) the end of the five year connection horizon or (ii) once your average peak loading reaches the 'Additional Demand for 100% Expansion Deposit Refund (kW)' as captured in Appendix 3 of your contract. This means that if you achieve 100% peak loading at the Year 1 anniversary of energization, the warranty period begins at the Year 1 anniversary and expires at the Year 3 anniversary. If you do not achieve 100% peak loading prior to the Year 5 anniversary, the warranty period starts at the Year 5 anniversary and expires at the Year 7 anniversary. Once the Warranty Period has expired, any warranty work costs during that time will be reviewed. The final 10% of the Expansion Deposit, minus any warranty work costs, will be refunded. If no warranty work was completed during the Warranty Period, the full 10% holdback will be refunded. Warranty work means any work performed by Hydro One to repair or bring the Option B Work (i.e. easements, restoration work, etc.) or Option B assets (i.e. poles, conductor,

anchors, etc.) up to Hydro One's standards. Please refer to Appendix 2 - Option B Terms and Conditions within your Customer Service Contract for details on the Warranty Period and warranty work.

Unforecasted Customer Connection Protection



Unforecasted Customer Connection Protection (“UCCP”) is a free service which Hydro One provides as outlined within the Distribution System Code (“DSC”) Section 3.2.27 issued by the Ontario Energy Board (“OEB”) (available on their website: www.oeb.ca). For every expansion built, where a customer has paid a capital contribution, Hydro One monitors the expansion for unforecasted customers connecting to or benefiting from your Expansion for a maximum period of 5 years from the date of energization. This 5-year period is referred to as the Customer Connection Horizon.

During the Customer Connection Horizon, if another customer benefits from your Expansion (i.e. connects a new or upgraded service), Hydro One will calculate the new customer’s fair share contribution towards the cost of your Expansion based on relative load/nameplate capacity and relative line length. Hydro One will collect payment from the new customer and provide a rebate (without interest) to you as an initial contributor, in accordance with Section 3.2.27 of the Distribution System Code.

When determining the dollar value protected by UCCP, only Line Expansion Capital + PV OM&A (Present Value Operating, Maintenance & Admin), as captured in Customer Service Contract Appendix 3: Discounted Cash Flow (DCF) within the ‘For Expansion Fair Share Administration’ box, is considered. The maximum rebate you are entitled to receive is limited to the Capital Contribution allocated towards Line Expansion Capital + PV OM&A.

If you selected ‘Option B’ on your Customer Service Contract, a detailed invoice must be submitted by you to Hydro One capturing the amounts spent only on the ‘Expansion Work Eligible for Alternative Bid’. Hydro One requires this information to be able to collect fair share from new customers who benefit from your Expansion within your Customer Connection Horizon, in order to provide a rebate to you. If you completed the alternative bid expansion work (including Hydro One inspection costs) at a lesser cost than Hydro One estimated the same work as found in Customer Service Contract Appendix 2: Section 1.3.2 Estimated

Transfer Price, the lower value is used to determine the Line Expansion Capital Costs. The new value is then re-run in the Discounted Cash Flow (“DCF”) to determine the final Line Expansion Capital + PV OM&A and Capital Contribution amounts. The new Capital Contribution value applied towards Expansion Work is the value protected by UCCP.

Once the Customer Connection Horizon expires at the 5-year anniversary of energization, the UCCP service is complete, and the Expansion will no longer be monitored.

Option B Refunds



Option B involves your qualified contractor performing the Connection and Expansion Work Eligible for Alternative Bid and Hydro One only performing the Connection and Expansion Work *Not* Eligible for Alternative Bid.

Appendix 2 of your Customer Service Contract details the total project cost and the estimated transfer price of the work to be completed by your qualified contractor. If you select Option B, you are required to perform the Option B Work in accordance with the Option B Terms and Conditions in Appendix 2. Prior to energizing the Expansion, Hydro One will inspect the Option B work to ensure it was completed to Hydro One’s requirements and standards. This process is referred to as Commissioning. The fee for commissioning can be found within Appendix 2, Part 3 as ‘Inspection and Approval of Option B Work’.

Once the work is complete, a detailed statement of work (example: contractor’s invoice) must be provided to Hydro One that details the total cost of the Option B work, including a breakdown of work requirements and costs for the ‘Expansion Work Eligible for Alternative Bid’ and ‘Connection Work Eligible for Alternative Bid’ referenced in Section 4 and Appendix 2 of your Customer Service Contract. This statement of work is referred to as the Customer Construction Cost Statement and is used to determine the actual Transfer Price. It is important that all costs related to the Option B work are provided to Hydro One so the total cost of the Alternative Bid Connection and Expansion Work are used when re-running the Discounted Cash Flow (“DCF”), and is protected by the Unforecasted Customer Connection Protection (“UCCP”) program when applicable.

Once Hydro One receives your Customer Construction Cost Statement, Hydro One will determine the Transfer Price, which is equal to the lesser of: (i) your cost to perform the work

eligible for alternative bid plus Hydro One's inspection costs, or (ii) the Estimated Transfer Price within Customer Service Contract Appendix 2, Part 3 – Capital Contribution and Amount Payable. Using the Transfer Price, a final DCF analysis will be run as outlined in Section 8 of the Customer Service Contract and in accordance with Section 3.2.19 of the Distribution System Code ("DSC") issued by the Ontario Energy Board ("OEB") (available on their website: www.oeb.ca).

Following the completion of the final DCF, Hydro One deducts the Transfer Price and the sum of the amounts that you paid on contract execution (being the Option B Amount Payable and where applicable, any Amount Payable for Other Customer Work) and the Staking Fees and Crossing Fees Paid identified in Part 3 of the Option B Cost Breakdown from the sum of:

- the Capital Contribution payable by you towards the Expansion calculated in the final DCF analysis
- the cost of the Connection Work above Basic Connection identified in Part 3 of the Option B Cost Breakdown;
- any additional trip charges;
- the amount payable for Other Customer work; and
- any amounts payable under ss. 2(c) of the Option B terms and Conditions, (collectively, the "Final Amounts Payable").

The calculation of the Final Amounts Payable determines if Hydro One will issue you a refund or an invoice. Additional information can be found within the Appendix 2: Option B Terms and Conditions of your Customer Service Contract.