Meeting Summary – Meeting #1

Regional Infrastructure Planning – Asset Redefinition Working Group

Meeting Date: November 19, 2012 **Time:** 9:30 am – 4:30 pm

Location: 2300 Yonge Street, 27th Floor

Board Staff: Chris Cincar, Andres Mand, Nabih Mikhail

Board staff explained that the purpose of this Regional Infrastructure Planning Asset Redefinition Working Group ("ARWG") was to establish criteria for the purpose of redefining certain transmission line connection assets as network assets based on the function the asset performs and that any redefinition of line connection assets would be done on a go forward basis when the line connection was upgraded. In other words, there would not be a review of all line connection assets to determine if they should be redefined whether they were upgraded or not as the Board's intent was not to make retroactive changes in cost allocation.

Board staff clarified that the focus was on assets in the line connection pool and not assets in the transformation connection pool and that the scope of this ARWG was not to revisit the cost responsibility rule changes set out in the Board Report.

Board staff also explained that the criteria the Board ultimately adopts once it considers the input of the ARWG for asset redefinition purposes will be included in the Transmission System Code ("TSC") and, as result, will allow for broader stakeholder input through the code amendment process along with the cost responsibility changes identified in the RRFE Board Report.

Working Group Plan:

There was initially agreement that the working group process would involve two stages:

Stage One – The purpose of the initial meetings was to discuss and strive to come to agreement on the various criteria that should be used for redefinition purposes.

Stage Two – Identification of line connection assets that should be redefined based on those criteria.

General Discussion

Subsequently, the ARWG agreed that reviewing every line connection in the province to determine the function(s) it performs would be a very onerous task and would not be a useful exercise since many of those line connections will likely never be redefined and, in regard to those that do meet the criteria for redefinition purposes, the function(s) it performs when it is upgraded may be different from the function(s) it performs at this time.

Instead, the ARWG agreed that a more useful exercise would be for Hydro One to identify about 10 of the more obvious line connection assets where the function has changed over time and would likely be redefined if they were upgraded at this time for the next meeting. The ARWG felt that going through this exercise would help inform and facilitate the discussion of the appropriate criteria.

ACTION ITEM: HYDRO ONE TO IDENTIFY THE MOST OBVIOUS LINE CONNECTION ASSETS WHERE THE FUNCTION HAS CHANGED OVER TO FACILITATE DISCUSSION OF APPROPRIATE CRITERIA AT THE NEXT MEETING.

The ARWG also agreed that it would be beneficial if all of the members had a common and correct understanding of the 'current' criteria that is used for the purpose of defining transmission assets in order to allocate them to the various pools. Hydro One agreed to bring an explanation of the current criteria to the next ARWG meeting.

ACTION ITEM: HYDRO ONE TO BRING DOCUMENTATION SETTING OUT THE CURRENT CRITERIA USED FOR THE PURPOSE OF DEFINING TRANSMISSION ASSETS.

Potential Criteria for Asset Redefinition Purposes

The ARWG had some preliminary discussions regarding some potential criteria for asset redefinition purposes which would result in costs being recovered through Network rates rather than from the transmission customer (e.g., distributor). Those potential criteria discussed included the following:

(1) Where it is determined that incremental investment is required (i.e., beyond meeting the needs of the distributor) to meet the Independent Electricity System Operator's ("IESO") *Ontario*

Resource and Transmission Assessment Criteria ("ORTAC") for system reliability purposes, the incremental investment should be considered network and the associated costs should be recovered though the network rate.

(2) Line connection assets that also contribute to providing operational flexibility and transfer capability benefits. One example that was noted was a line connection asset that is also used for the purpose of imports/exports from/to the U.S.

(3) Certain line connection assets were originally built to serve only a specific distributor. However, additional investments have since been made to facilitate regional supply (e.g., flow of electricity between two or more distributors from one region to another region).

(4) Investments in line connection assets that were made to advance public policy goals such as the connection of renewable generation. For example, the need to increase short circuit capability which can trigger the need to reconfigure transmission lines.

(5) Where it was identified in a final regional infrastructure plan that there was an expectation over the longer term that the line connection would ultimately be extended to form a loop and therefore also perform a network function.

Other potential criteria were discussed, within the context of "affordability", that the ARWG ultimately concluded were likely either not within the scope of the ARWG and/or were not related to the 'function' the asset performs.

One was the 'length' of a line connection asset, as there is a direct correlation between the length of a line and the cost. As such, a very long line could represent a barrier to the execution of a regional infrastructure plan as the cost would be too significant for the distributor. However, the 'length' of a line is not related to the 'function' it performs.

Also discussed was the fact that line connection assets are very lumpy in nature. For example, adding a new 230kV line (which typically accommodates 400 MW) or upgrading a line from 115 kV to 230 kV would be very costly and the distributor(s) in the region may only require a small portion of the additional capacity (e.g., 25%) to meet their near term incremental needs. This led to one ARWG member suggesting the potential to take the same approach as the Board took in relation to the "enabler" transmission line connection assets for renewable generation. Under that approach, the line is built to accommodate a number of generators and the first generator only pays for the portion of the total capacity that it requires, with the remaining costs recovered through the network rate (i.e., recovered from all Ontario consumers) until subsequent generators connect and the "enabler" line becomes fully subscribed. Under a similar approach for transmission load customers, the distributor(s) in a region would only pay the costs associated with the portion of the upgrade to 230kV required to meet their near term needs (e.g., 25%) with the remainder (e.g., 75%) recovered from all Ontario consumers and that 75% would decline over time as the distributor(s) in the region required more of the available capacity. In other words, under this example, the 25% of capacity needed to meet the distributor(s) needs in a region would initially be defined as line connection and the remaining 75% would be defined as network. Board staff indicated that such an approach may be out of scope because it appeared to be revisiting the cost responsibility changes that had been identified in the Board Report.

Working Group Concerns:

Throughout the ARWG meeting, some ARWG members raised the concern related to "affordability" of line connection upgrades, within the context of distributors, similar to the concerns raised throughout the consultation process, with examples being a new 230kV line or a 115 kV line upgraded to 230 kV.

Board staff went through the relevant text with the ARWG related to asset redefinition in the Board Report where the Board set out its direction and expectations of the ARWG in order to assist the members of the ARWG in relation to having an understanding of the scope of their mandate.

Once all of the ARWG members had a better and common understanding of their mandate, the OPA and the utility members expressed concerns that the scope of the asset redefinition exercise would not fully address the barriers related to the execution of regional infrastructure plans.

Board staff noted that, if that was ultimately case, the Board may consider further changes to the cost responsibility regime in the future to address those barriers, but that the Board had identified in the Board Report that it felt the combination of cost responsibility changes and redefinition of line connection assets set out in the report would address the barriers.

Next Scheduled Meeting

November 26, 2012