

March 20, 2009

BY COURIER (7 COPIES) AND EMAIL

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Ontario Energy Board
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Dear Ms. Walli:

**Re: Pollution Probe – Written Argument
EB-2008-0272 – Hydro One – 2009-10 Transmission Rates**

Please find enclosed Pollution Probe’s written argument for this matter.

Yours truly,



Basil Alexander

BA/ba

Encl.

cc: Applicant and Intervenors by email per Procedural Order No. 2, Appendix B

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF a review of an Application filed by
Hydro One Networks Inc. under section 78 of the *Ontario Energy
Board Act, 1998*, seeking changes to the uniform provincial
transmission rates (the "Hydro One 2009-10 Transmission Rates
Application").

**WRITTEN ARGUMENT
on behalf of POLLUTION PROBE**

March 20, 2009

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Summary

Pollution Probe's submissions for this matter focus on two issues. In short, Pollution Probe respectfully submits that the Board should:

- require Hydro One to file within 6 months a detailed preliminary plan and budget to eliminate the Toronto short-circuit constraints as soon as possible; and
- approve AMPCO's rate design proposal.

Each of these issues will be discussed in turn.

Hydro One Should File Within 6 Months a Detailed Preliminary Plan and Budget to Eliminate the Toronto Short Circuit Constraints As Soon As Possible

Issue 4.1: Are the proposed 2009 and 2010 Sustaining and Development and Operations capital expenditures appropriate, including such factors as system reliability and asset condition?

Pollution Probe submits that the Board should require Hydro One to file within 6 months a detailed preliminary plan and budget to eliminate the Toronto short circuit constraints¹ as soon as possible. For clarity, Pollution Probe is not suggesting actual approval of the plan and budget at this time, but Pollution Probe submits that this important information is required within this timeframe to allow stakeholders and the Board to make informed future decisions about how to address key issues regarding Toronto's electricity supply. These issues particularly include allowing the expansion of distributed generation in Toronto (e.g. renewable no-emission sources and the more efficient use of natural gas through combined heat and power ("CHP")). These considerations are also key for a potential decision regarding whether a so called additional "Third Line" for electricity transmission to Toronto actually needs to be built (which is a scenario that most public parties are seeking to avoid). Pollution Probe is also concerned that Toronto may instead be suddenly told a year or two from now that the "Third Line", which nobody wants, has become the only available option.

Both the Minister of Energy and Toronto Hydro have stated that a new transmission line to Toronto is not the preferred solution to address the security and reliability issues regarding Toronto's electricity supply.² Hydro One also agrees that Toronto needs increased distributed generation and co-generation and renewable energy in order to

¹ i.e. the short-circuit constraints associated with the Leaside, Manby, and Hearn Transformer Stations.

² Exhibit K1.2, Tab 2, pg. 17 (Remarks of the Honourable Dwight Duncan, Minister of Energy, June 14, 2007); Exhibit K1.2, Tab 3, pg. 24 (Letter dated July 13, 2007 from Toronto Hydro to Councillor Paula Fletcher).

achieve an appropriate level of reliability,³ and that generation in the city (such as CHP) would help meet power needs and “might defer the need for [additional] transmission.”⁴ Hydro One also acknowledges that it has an obligation to facilitate connections for distributed generation and self generation in Toronto, and it expects that pressure to do this will increase under the proposed *Green Energy Act*.⁵

However, despite all of the reasons in favour of additional distributed generation within Toronto (including potentially avoiding the need for a “Third Line”), the amount of generation that can be currently installed in Toronto is hampered by the current short circuit ratings of Hydro One’s Toronto transformer stations. Thus, while the Board has already mandated Toronto Hydro to conduct a study to facilitate the incorporation of up to 300 MW of distributed generation within Toronto,⁶ only 90 MW of distributed generation can be currently installed in Toronto due to the short-circuit issues.⁷

While Hydro One has “a pretty good idea of what has to be done” to overcome these issues,⁸ many steps would need to be carried out to implement the solution.⁹ Many of these steps can be carried out in parallel to expedite the implementation,¹⁰ but 9 to 12 months would still be required just to obtain the circuit breakers that need to be installed.¹¹ On the other hand, Hydro One’s application in this proceeding already requests the funding necessary in order to plan for the work that would allow the incorporation of 300 MW of distributed generation in Toronto.¹² In Pollution Probe’s submission, what is required is an immediate and diligent start to the process.

Pollution Probe thus respectfully submits that the Board should direct Hydro One to:

1. complete in 6 months a detailed preliminary plan and budget to eliminate Toronto’s short circuit constraints; and
2. formulate this plan and budget with the idea that Toronto’s short circuit constraints be eliminated as soon as possible.

There are several reasons for this position. First, Pollution Probe submits that it would not be in the public interest to allow Hydro One to delay the implementation of these required station upgrades given the need to allow additional distributed generation in Toronto as soon as possible. As the application in this proceeding covers a two-year period, Hydro One could wait until the end of 2010 before completing the necessary planning stages, thereby adding a year to the schedule needed to complete these upgrades. This additional lag time is of concern because, even once approved, the

³ Transcript, Vol. 1, Feb. 23, 2009, pg. 70, lines 5-11.

⁴ Transcript, Vol. 1, Feb. 23, 2009, pg. 72, lines 14-23.

⁵ Transcript, Vol. 1, Feb. 23, 2009, pg. 74, lines 18-25.

⁶ Exhibit K1.2, Tab 4, pg. 28 (EB-2007-0680 Decision of the Board dated May 15, 2008).

⁷ Exhibit I, Tab 5, Schedule 1 (also available at Exhibit K1.2, Tab 5, pg. 29); Transcript, Vol. 1, Feb. 23, 2009, pg. 77, lines 20-27.

⁸ Transcript, Vol. 1, Feb. 23, 2009, pg. 78, lines 4-11.

⁹ See e.g. Transcript, Vol. 1, Feb. 23, 2009, pg. 80, line 22 to pg. 81, line 22.

¹⁰ Transcript, Vol. 1, Feb. 23, 2009, pg. 81, line 28 to pg. 82, line 3 and page 82, line 25 to page 83, line 7.

¹¹ Transcript, Vol. 1, Feb. 23, 2009, pg. 81, lines 9-11.

¹² Exhibit I, Tab 5, Schedules 2 and 4 (also available at Exhibit K1.2, Tab 5, pg. 30 and 32)

upgrades themselves will require a significant amount of time, particularly since it will take at least 9 to 12 months to obtain the needed circuit breakers. It is thus important to minimize lag time now and to move ahead without delay. As noted by Hydro One, “you can always start any particular activity in a couple of weeks if you redirect resources to it.”¹³ The following exchange between Mr. Klippenstein and Mr. Graham is also informative:

MR. KLIPPENSTEIN: ... [T]he point is it sounds to me like there is more or less an assumption that it's going to happen there.

So why not start on the plan now or when your engineers have some time, because you know it's going to happen? You are going to have to figure out a way to do that replacement and manage the power outages, right? It's going to happen.

MR. GRAHAM: I think is it quite possible you're correct. We don't know, but it is quite possible you are correct. ... [emphasis added]¹⁴

Pollution Probe thus submits that this planning and budgeting should be done sooner rather than later, since there are good grounds to believe it will be done anyway.

Second, by requiring the station upgrades to occur without delay, Pollution Probe submits that the Board and Hydro One would be encouraging increased renewable generation and CHP in Toronto on a more immediate basis. This approach is consistent with the energy policy of the Government of Ontario, particularly as shown by the recently proposed *Green Energy Act*. In addition, by removing the constraints for distributed generation without delay, the chances are increased that distributed generation could help alleviate Toronto's issues with electricity supply without the need for a “Third Line”.

Third, the 6-month timeframe is important in order to allow for informed future decisions to be made soon by stakeholders and the Board regarding how to address Toronto's issues with electricity supply. For example, the OPA has estimated the capital cost of the potential but probably undesirable “Third Line” to be \$600 million,¹⁵ but the cost of the transformer station upgrades is instead about \$100 million per station.¹⁶ Since the upgrades would potentially alleviate the need for a new unwanted line, it is important to have the detailed and thorough analysis completed and available as part of the process to determine how to address Toronto's long-term issues with electricity supply.

Pollution Probe is very concerned that this important information (about upgrade options) will instead be unavailable and incomplete, and Toronto and stakeholders will instead be suddenly told a year or two from now that an unwanted “Third Line” has become the only available option. Potential alternatives that avoid a “Third Line” need to be examined properly and thoroughly before the Board may be placed in the position of more-or-less having to approve the “Third Line” because other reasonable options to address Toronto's reliability and security of electricity supply were not properly examined and time no longer exists to allow for such an examination. An immediate and

¹³ Transcript, Vol. 1, Feb. 23, 2009, pg. 84, line 28 to pg. 85, line 2.

¹⁴ Transcript, Vol. 1, Feb. 23, 2009, pg. 89, lines 14-24.

¹⁵ Exhibit K1.2, Tab 4, pg. 27 (EB-2007-0680 Decision of the Board dated May 15, 2008).

¹⁶ Transcript, Vol. 1, Feb. 23, 2009, pg. 79, lines 3-5.

diligent start to the transformer station upgrade process is needed now instead, and the Board should not allow the introduction of unneeded lag time (especially since 9 to 12 months will be required just to obtain the necessary circuit breakers, even if final approval is ultimately granted).

Finally, given the need to address Toronto's reliability and security of electricity supply sooner rather than later, the plan and budget should be given some priority and completed within 6 months. Furthermore, the plan and budget itself should be structured so that steps are completed as expeditiously as possible (e.g. doing as many steps as possible in parallel rather than sequence). Pollution Probe respectfully submits that the ultimate underlying goal should be to eliminate Toronto's short circuit problems as soon as possible. This goal would allow for the expeditious expansion of distributed generation, including renewable no-emission generation and the more efficient use of natural gas through CHP, thereby avoiding the potential need for any unwanted "Third Line".

Pollution Probe thus submits that the Board should require Hydro One to file within 6 months a detailed preliminary plan and budget to eliminate the Toronto short-circuit constraints as soon as possible.

AMPCO's Rate Design Proposal Should Be Approved

Issue 7.1: Is the proposal to continue with the status quo charge determinants for Network and Connection service appropriate?

In this proceeding, AMPCO proposed a rate design change for Hydro One's transmission charge so that a customer's monthly transmission demand charges would be based on the average of that customer's coincident peak demand on the days of the 5 highest peaks in Ontario demand during the previous year.

Pollution Probe submits that AMPCO's proposal should be approved as it is in the public interest for the following reasons:

1. If the proposal is adopted, Hydro One's transmission charges will be more directly related to actual transmission costs since Hydro One's actual transmission costs are primarily a function of peak day demand;
2. The proposal would provide an incentive for customers to undertake demand response actions, which in turn will lead to lower electricity commodity costs overall for all of Ontario's electricity consumers;
3. By reducing peak day demand, the proposal will in turn facilitate the phase-out of Ontario's dirty coal plants;
4. In the long-term, these effects will reduce the need for new high-cost, Hydro One transmission capacity;
5. The proposal will provide greater revenue certainty to Hydro One and greater cost certainty to customers;

6. The proposal is consistent with, and supportive of, the energy policies of the Government of Ontario.

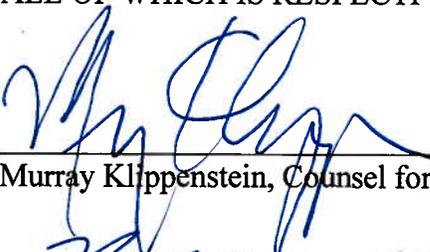
Pollution Probe thus submits that the Board should approve AMPCO's rate design proposal.

Costs

Pollution Probe respectfully requests that it be awarded 100% of its reasonably incurred costs of participating in this proceeding. Pollution Probe submits that its participation was responsible and assisted the Board in its consideration of the issues. In addition, Pollution Probe is a registered charity that has no pecuniary interest in the outcome of this proceeding, and its membership includes thousands of electricity consumers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

March 20, 2009



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