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BY RESS & COURIER

May 31, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON, M4P 1E4

Dear Ms. Walli:

Re: Independent Electricity System Operator Submissions Regarding
Staff Discussion Paper on Transmission Project Development Planning

The Independent Electricity System Operator (the "IESO") appreciates the opportunity to provide written submissions in response to the Ontario Energy Board's (the "Board") invitation for stakeholder comments on the Board staff discussion paper, "Transmission Project Development Planning."

The paper offers a proposed framework to facilitate the timely and cost effective development of major transmission facilities that may be required to connect renewable generation in Ontario The main thrust of the proposal is to extend the general framework, which was established to deal with enabler facilities, to also include major new network expansions identified by the Ontario Power Authority (OPA).. A key objective of the proposal is to promote and facilitate competition in the business for development and operation of new network transmission facilities (i.e., similar to that of enable facilities). It is envisioned that this will be accomplished within the current construct for transmission investment (i.e., ratepayer pool funded).

The IESO's observations and submissions are limited to the following points:

I. All viable transmission investment models or vehicles should be encouraged.

While the proposed framework aims to promote and facilitate contestability in the business for development and operation of new network transmission facilities, it would seem to the IESO that little or no consideration is being given to other potentially viable transmission investment models, including merchant models where this may be viable. Given the level of new or modified transmission investments that are expected going forward, all viable transmission investment models should be encouraged and the transmission planning and development framework should be flexible or adaptable to accommodate all such investment vehicles. If we neglect to encourage and capitalize on all viable investment vehicles, Ontario could potentially miss out on a significant amount of opportunities for mitigating transmission rates escalation, encouraging shared risk and timely development of new transmission facilities.

As a general matter, the IESO endorses the Board's efforts to develop and promote new approaches to facilitate investments in transmission facilities. The IESO believes that the proposed transmission development framework should be further enhanced to encourage and accommodate all viable transmission investment models. Where necessary, the IESO is prepared to support appropriate development or enhancements to the Ontario Market Rules to accommodate new forms of transmission investors and operators to ensure their operation is in accordance with Ontario market rules and Board policy.

II. The need for timely review and approval of <u>all</u> new or modified transmission reinforcements and expansions must be taken into account.

It would appear that transmission facilities that are required to connect FIT resources are given greater priority than other facilities, including facilities required to: connect non-renewable generation resources, address new or expanded load requirements, or to maintain or enhance reliability performance. Consequently, this may lead to significant diffusion of the transmission planning and regulatory review and approval processes, potentially resulting in ineffective prioritization and timely development of needed new or modified transmission facilities. The proposed framework should be structured to enable all new or modified transmission reinforcements and expansions to be methodically reviewed and approved in an effective and efficient manner based on, among other things, their overarching need, priority and timing of their deployment.

III. Priority should be given to projects that are required to address emerging or critical reliability situations.

The staff paper notes that the proposed new framework will promote the timely expansion of the transmission system to facilitate connection of renewable generation while protecting the interests of ratepayers. Conversely, it is acknowledged that the

new framework will lengthen the timeframe for concluding the required regulatory reviews and approval; at a minimum, by nine months. Consequently, this is likely to increase the risk and cost in relations to the timely development of new or modified transmission reinforcement or expansions required to address critical reliability situations. There is a need to recognize the consequential added risk and challenges to sustaining reliability of the integrated power system that this might introduce. In view of this, it may warrant the need to establish an exceptional allowance or streamlined procedures to enable timely review and approval of new or modified transmission reinforcements or expansions that are required to address critical reliability situations where necessary.

The IESO believes that new network transmission projects that are required to address emerging or critical reliability situations should not be subject to the proposed designation process, and should be given priority where the Board's review and approval is required. Where an adverse condition is identified by the IESO/OPA that requires attention to maintain the reliability of the IESO-controlled grid, there should be an allowance for directing the incumbent transmitter(s) in the affected areas to prepare a detailed proposal for enhancing the transmission facilities to address the reliability concern in a timely and effective manner. Furthermore, where the Board's review and approval is required, this should be given priority and undertaken without delay.

IV. New transmission licensing provisions or a form of transmitter license may be required to permit new entrants to be licensed as transmitters, as a condition of participation in a designation process.

There doesn't appear to be a need for prospective transmitters to be licensed in order to qualify and participate in the designation process, given that their qualification and capability will be reviewed as part the designation evaluation process. Furthermore, if the Board finds it appropriate to impose specific terms and condition on the designee, this could done in as part of a Board decision and order approving the designee.

If the Board however finds it necessary to require that prospective designees be licensed, this will warrant changes to the current transmission licensing provisions. The current legislative construct does not provide for any specific licensing obligation requiring prospective new transmitters to be licensed in order to develop a transmission proposal or be a candidate in this regard. The terms, conditions and obligations imposed on a licensed transmitter are in respect of specific transmission facilities that the licensee is authorized by the Board to own and operate. Given that a new or prospective transmitter wouldn't have already received Board approval to actually own and operate specific or likely any transmission facilities to that matter; this may limit the extent to which the Board can impose foregoing obligations on the transmitter. In order to impose terms and conditions and potential obligations on a prospective transmitter that isn't authorized by the Board to own and operate specific transmission facilities, this will likely require legislative changes to the current transmission licensing provisions, or perhaps a new form on transmitter license which is more general in nature (e.g., the license is not restricted to or in respect of specifically referenced or

listed transmission facilities that the licensee is authorized to own and operate). For example, in respect of the latter case, Section 70 of the Ontario Energy Act, 1998 empowers the Board to prescribe specific conditions under which a prospective transmitter may own and operate transmission facilities, as well as such other conditions that the Board finds appropriate.

V. Additional consideration should be given to the potential implications on transmission rates escalation from allocating large expenditures to the transmission pools, prior to the proposed facilities being commissioned into service.

The Board staff is proposing that a designated transmitter be permitted to apply to the Board for immediate funding assistance, as necessary, and if approved by the Board, provisions be made to recover the amount through allocation of revenue from the Uniform Transmission Rate pool, even if the transmitter has no rate payers of its own. Similarly, staff is recommending that the designated transmitter be permitted to recover its costs and all reasonable incurred expenditures from the Uniform Transmission Rate pool in the event the project is terminated or cancelled for reasons beyond the control of the designated transmitter (i.e., by government directive, order of the Board or courts etc.). Should this be adopted and become the official Board policy, this is likely to lead to significant escalation in transmission rates without any associated generation connections or offsetting loads being served. Under the current Uniform Transmission Rates and Revenue disbursement scheme, transmission revenues are apportioned and allocated on the basis of the relative cost of serving the transmitters' respective portion of the total provincial loads. While the Board has the authority to approve the methodology or provide incentives with respect to the recovery of costs incurred or to be incurred by a transmitter in relations to the development and construction of new or modified transmission reinforcements and expansion, the Board should continue to exercise this authority sparingly, and only on a case by case basis.

The IESO appreciates the opportunity to provide written comments on this important matter and is looking forward to working with the Board and other stakeholders in refining the proposal.

All of which is respectfully submitted,

/s/ Maia Chase
Maia Chase
Senior Analyst
Government and Regulatory Affairs
Independent Electricity System Operator