



May 31, 2010

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

Dear Ms. Walli:

**Re: OEB Consultation: Transmission Project Development Planning
Submission of AMPCO Comments
Board File No. EB-2010-0059**

In accordance with the Board's letter dated April 19, 2010 regarding the above consultation, attached please find AMPCO's comments.

Please do not hesitate to contact me or AMPCO's consultant Mr. Wayne Clark (705-728-3284) if you have any questions or require any further information.

Sincerely yours,

(ORIGINAL SIGNED BY)

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**Comments
Staff Discussion Paper
Transmission Project Development Planning
OEB File: EB-2010-0059**

AMPCO's Perspective

Ontario is entering a period when several new and upgraded transmission facilities will be required to meet a changing landscape of supply and demand.

Combined, these new facilities represent a significant increase in Ontario's transmission rate base. With a carefully designed process, this can provide an opportunity for the Board to encourage broader participation in Ontario's transmission services market and mitigate the current monopoly structure.

The cost effectiveness of transmission services is best achieved by transparent competition in combination with effective regulation. A monopoly structure in any industry inherently makes regulation and cost effective service difficult. In Ontario, the overwhelmingly dominant position of Hydro One is an effective monopoly. In fact, Hydro One's market position is increasing, from an allocation factor of .95877 in 2006 to .96465 in 2008¹. That rates for other transmitters are set through Hydro One's rate application process is confirmation of the monopoly structure.

If the Board wishes to encourage broadened participation in the Ontario transmission market, it needs to consider approaches that level the competitive field. Mostly, this will require that the cost and risk to shareholders be equivalent for Ontario transmitters and proponents from outside the province.

To level participation costs for all participants will require mechanisms that assure some cost recovery for prudently incurred costs of filing and plan development by companies that are not yet licensed transmitters.

Specific Comments

Technical Standards

Technical standards for specific facilities are discussed in the staff paper, but have a significant bearing on the cost of new facilities.

¹ Rate Orders, EB-2006-0501 and EB-2008-0272



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Generally, Hydro One builds transmission lines to a set of common technical standards, mostly regardless of location or functional pool. This approach has some justification in the benefits of standardized materials, as well as engineering, construction and maintenance economies. It also means that new line assets built at 230kV can meet a network reliability standard, should system configuration change in the future.

The problem with a single standard is that it drives a “highest common denominator” approach, whereby all lines may get built to meet a “sum of worst cases” requirement for environmental standards (e.g., wind, ice, ambient temperature, etc.) that is not realistic in many instances. This approach can also result in new lines being built to a network reliability standard, even if there is no reasonable prospect that they will become part of the grid backbone moving power across the province. As an example, the proposed Nipigon-Pickle Lake line will be built in an area of the province that is unlikely to ever experience an ice storm. Building such a facility to meet environmental standards necessary in southern Ontario would not protect the interest of consumers for minimizing cost and would not improve reliability.

To address the issue of standards with an invitation for a development proposal the Board should identify the technical and environmental performance criteria the facility must meet. The basis of these standards would be existing CSA standards for transmission lines, augmented by whatever specific requirements the line must meet (e.g., wind and ice loading, losses, etc.).

Having performance criteria in place will make it easier for transmitters to present appropriate proposals and for the Board to evaluate competing proposals on a common footing. This recommendation would also increase the likelihood that plans developed by one company more likely would be transferrable to another company, should the original developer not be able or choose not to continue with the project.

The development of performance criteria need not be a difficult process for the Board; there are several firms capable of assisting the Board in this matter, as well as the expertise of the existing transmitters.

Section 3.1 Process to Designate a Transmitter

Notice and Direction to File

The staff proposal would require an incumbent transmitter to file a project development plan and invite other transmitters to voluntarily submit competing plans for the same development.

This section needs to elaborate the definition of incumbency and make provision for cost recovery by non-incumbents.

Without a service territory monopoly, transmitter incumbency is not easily defined. In the EB-2008-0003 process initiative, Hydro One sought to introduce the concept of incumbency, broadly based on geographic footprint. Such a definition would mean that Hydro One would normally be the incumbent transmitter. The word incumbent should be removed and replaced with “existing licensed” transmitter. With this change, other Ontario transmitters could be given equal footing with Hydro One in being directed to develop proposals.

This is important, since an order to develop a proposal carries with it the responsibility of the Board to make the transmitter whole for its (reasonably incurred) development cost. This provides a natural advantage in the selection process, since assurance of project development cost recovery reduces business risk for the developer.

To balance this advantage, the Board needs to make proposals for development from other transmitters also subject to cost recovery, whether or not the project goes forward. Only in this way can competition for development be considered fair to both existing transmitters and new entrants. Put another way, failing to provide cost recovery for a new entrant would constitute a barrier to entry.

Should new entrants be required to be licensed as transmitters as a condition of participation in a designation process?

No. The acquisition of a transmitter license is an expensive and time consuming process. For a new entrant, the need to receive a transmitter license before being reasonably confident of actually becoming an operating transmitter would constitute a barrier to participation. This requirement would significantly increase the cost of the first bid by a potential market entrant.

The Board does need assurance that a proponent is both serious and capable of becoming a successful transmitter in Ontario. In qualifying proponents for development work, the Board should accept proposals from transmitters that have transmitter licenses and operating assets in any Canadian jurisdiction. This may be expanded to other North American jurisdictions.

How long would it take to prepare transmission project development plans?

Our understanding is that the period in question is the time for the potential bidder to determine whether or not it wishes to be considered as a proponent and then to prepare the necessary material to establish its qualifications with the Board.



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Any proponent that is not an Ontario transmitter will need first to assess the attractiveness of the project and then prepare supporting material to the Board substantiating its ability to execute the project and operate it going forward. A significant investment of legal, financial and technical work will be needed to prepare a serious notice of intent or interest.

In Ontario, the sharing of transmission planning and approval responsibilities among the OPA, IESO, and the Board has produced a complex jurisdiction in which to move transmission plans forward. Parties outside of Ontario will need time to understand the roles and responsibilities of these entities and work with them in order to prepare credible proposals.

We suggest that a four month minimum may be more appropriate for Ontario than the three month periods allowed in Texas and OFGEM.

Are the selection criteria appropriate?

Generally, the criteria proposed are appropriate for the types of projects envisaged.

The Board should remain cognizant of the natural advantage that Ontario transmitters will enjoy due to their experience in Ontario. Experience in other jurisdiction with issues similar to Ontario (e.g., securing property rights, working with First Nations and Métis) should be considered equal with Ontario experience.

AMPCO does not support alternative mechanisms for treatment of capital investments that require consumers to bear costs before assets are used and useful. Such treatments are particularly inappropriate where the intent is that the asset (e.g. an enabler line) will be paid for by subscribing generators, with consumers being the payer of last resort, should the asset not be fully subscribed. Alternative mechanisms for assets such as enabler lines would unfairly burden consumers to the benefit of generators.

Implication of Plan Approval

Are staff's proposals regarding the implication of plan approval reasonable?

As written, the staff proposal assumes the developer will be an incumbent Ontario transmitter, with approved rates. This writing does not seem to provide for a new entrant to recover cost.

This section should be rewritten so development costs can be recovered directly by the developer and indirectly from ratepayers by assignment to the appropriate transmission asset pool for recovery.

Designating Multiple Transmitters

Under what circumstances should two transmitters be designated to develop the same project and to recover the development costs from ratepayers?

It is unlikely that projects such as enabler lines would justify more than one development plan. Such projects are functionally well defined and technically straightforward.

At the same time, a need may arise for large projects with broad functional requirements and the possibility of significantly different technical approaches. Lines connecting the Ontario grid to large out-of-province resources would be one example. Such lines may be designed to operate at different voltages, employ direct current technology, or take significantly different routes. In cases such as this, it would seem prudent for the Board to encourage and consider competing plans.

However, rather than endorse a blanket policy whereby competing transmitters would be allowed to recoup development costs for projects which do not proceed, it might be more appropriate that the Board review such applications from transmitters and make a determination on a case-by-case basis as to the nature and extent of costs which would be allowed to be recovered. Consumers should not be expected, under any circumstances, to indemnify transmitters, or any other regulated service provider, for unlimited business development expenditures when the decision of the Board is to be limited as to whether the service should be provided by one transmitter or another. Such funding should be limited to those circumstances where the public interest clearly cannot be served without considering alternatives to and alternative means of providing the service, regardless which transmitter provides it. This approach would assure that the best alternative proceeds, whoever the proponent.

3.2 Hearing for Leave to Construct

It is logical that the successful plan developer would also become the party that will eventually construct the ECT expansion. At the same time, the Board will need to deal with the approvals given in EB-2008-0272 that provided Hydro One with “pre-engineering” funding for a number of projects, some of which appear to be ECT expansions.

These prior approvals should not be accepted as equivalent to the plan development approvals being discussed in this staff paper, such that they could be construed as an implicit assumption that Hydro One will be expected to be the party seeking leave to construct these projects. Otherwise, a significant opportunity for this process to attract new entrants will have been lost.

3.3 Hearing for Rate Recovery

Again, the writing of this section assumes that the successful plan developer will be a licensed Ontario transmitter with a rate base. This may not be the case, especially if the project does not proceed to construction and operation.

To ensure fairness of treatment for new entrants, the wording of this section needs to be expanded to provide cost recovery for developers that may not be licensed transmitters in Ontario.

The paper correctly suggests that development costs incurred by a non-designated transmitter should be regarded as imprudent and not recoverable through rates. This principle has been the basis for AMPCO's resistance to requests by Hydro One for Board of "pre-engineering" costs for enabler lines and other projects in which it could not necessarily claim to be the obvious (incumbent) transmitter. Such guarantees of cost recovery mitigate against the fairness of the developer selection process, since they permit one transmitter unfairly to recover much of the cost of developing proposals from ratepayers while other proponents must place their shareholder's capital at risk for the same work.

4 Proposed Filing Requirements

Are these the appropriate filing requirements to enable the Board to apply the decision criteria identified in section 3.1? If other decision criteria are being suggested, what additional filing requirements would be appropriate for the other criterion or criteria?

The filing requirements as written appear broadly appropriate.

It must be recognized however, that meeting these requirements entails significant cost, which will be greater for new participants, as they must provide additional information.

The Board should establish a mechanism to place outside participants on a more equal footing with existing Ontario transmitters. Unless this is done, the filing requirements will inhibit new companies from entering the Ontario transmission market.

The Board may wish to develop a pre-qualification process that requires more limited information. This would be information primarily about the organizational and financial suitability of a potential developer, which is easily prepared and submitted via a letter of intent with supporting material. Pre-qualification would not require the extensive and costly effort needed to get into development of a preliminary plan and overview.



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With a pre-qualification process, the timelines proposed in Section 3.1 may then be shortened.

For those developers that are pre-qualified, the Board could then assure cost recovery for the subsequent filing costs required to produce a complete proposal. Such a process would go some way towards mitigating the overwhelming advantage held by Ontario's incumbents.

Prepared for AMPCO by:

A handwritten signature in black ink, appearing to read "C. W. Clark".

C. W. (Wayne) Clark, P. Eng
San Zoe Consulting, Inc.