



**APPrO**

ASSOCIATION OF  
POWER PRODUCERS  
OF ONTARIO

## **Submission by APPrO in response to OEB staff paper on Transmission Project Development Planning (EB-2010-0059)**

June 4, 2010

The Association of Power Producers of Ontario (“APPrO”) appreciates this opportunity to comment on the Ontario Energy Board (Board) staff’s Transmission Project Development Planning (“TPDP”) paper. The Board has frequently expressed the desire that like-minded organizations should cooperate on the preparation and submission of views. Consequently this submission was prepared through consultation with, and using input and assistance from, other generator and energy associations with similar interests (CanWEA, OWA, and OSEA). Where common views and concerns existed, it was generally agreed that they would be expressed in the APPrO submission and supported by the other participants.

APPrO agrees with Board staff that the transmitter designation process already approved for enabler facilities can be readily extended to network expansions identified by the Ontario Power Authority (“OPA”) in its Economic Connection Test (“ECT”). APPrO also agrees that enabler facilities and network expansions should be considered as part of a transmitter’s project development plans.

The following comments are submitted by APPrO to assist the Board in finalizing the proposed TPDP and designation processes. The main objectives of the generator organizations in this proceeding have been to ensure the expedient development of optimally-sized transmission facilities, to facilitate efficient and cost-effective generation connections, and to ensure there is sufficient competition for the provision of these needed transmission facilities.

General comments and observations are provided below to highlight these views, followed by implementation recommendations that are expected to facilitate competition, lower transmission costs and minimize development delay. In addition to responding to the issues identified by Board staff, certain enhancements to staff’s proposal are recommended to help ensure that the ECT transmission projects are developed expeditiously.

## General Observations

The designation process will encourage competition from existing and new transmitters provided there are no significant barriers to participating in the process. At a minimum, Board staff's plan will ensure transmission development by at least one transmitter (either through OEB direction or designation) and recovery of the associated costs through transmission rates or other means, but only for approved transmitters. The proposed designation process is open and transparent and the use of a standard approach should be helpful in fostering competitive applications. However the amount of detail and the complexity of the application requirements may deter competition. The degree of competition and the associated benefits will depend on the efficiency, fairness and certainty of the regulatory processes.

APPrO has found there to be wide agreement that in reviewing alternative recommendations in this area, the following principles warrant priority consideration:

1. Maximizing the certainty of transmission development and the associated timelines;
2. Ensuring that developments are sized adequately to meet the full range of potential customers who can reasonably be expected to benefit from them;
3. Cost minimization through the use of both prudency reviews and reasonable forms of competition.

The designation process favours larger experienced transmitters that can benefit from economies of scale, propose development plans for multiple projects and access lower costs of capital. All of these factors are expected to reduce transmission costs and facilitate timely generation connection. The proposed filing requirements are significant and include attention to financing capability; development planning, construction and operating budgets; and comprehensive development plans for each project. This level of detail is required if the Board intends to designate transmitters to design, build, own and operate the resulting transmission facilities and to determine the appropriateness of the proposed spending and cost recovery. The alternative of allowing competition at each functional phase of a transmission facility (develop, build, finance and operate) was not considered optimal as it would add substantial review costs, increase regulatory uncertainty and significantly delay the development of critical transmission facilities.

Unlike the comparator processes in Texas and the United Kingdom where the focus is on specific projects, the proposed designation process in Ontario provides participants with an opportunity to submit multi-project development plans that will meet one, some or all of the OPA's ECT transmission requirements. This approach and the factors mentioned above have the potential to add complexity and delay. They will need to be managed carefully to ensure the success of the proposed designation process - as any increase in the associated costs or the cost recovery risk will discourage competitive applications. In addition to prequalifying the applicants, the designation process may be managed more

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efficiently by identifying and proceeding with high priority projects first through an expedited process.

## **Comments and Recommendations**

### **1. Should transmitters be able to recover pre-designation development expenses?**

In order to expedite transmitter designation and project development, Board staff is proposing that the OEB accept the ECT outcome without substantive examination. Using the ECT requirements will provide a relatively transparent and objective basis on which to identify enabler and network expansion facilities that warrant development. This approach is expected to speed up the project development process and provide regulatory certainty on cost recovery, but it may act as a barrier to competition if the process is viewed as too detailed and costly. APPrO recommends that the Board use an expeditious prequalification review to limit the number of qualified applicants bidding for each project or group of projects. Such a procedure should be designed to simplify and shorten the overall designation process and limit the number of license applications. In addition, to ensure an adequate level of competition, APPrO recommends that the Board consider providing qualified applicants with a form of assurance that they will be able to recover a portion of their pre-designation (“advance”) development costs. Only those who meet the prequalification test would be eligible for recovery of their advance development costs. Advance development costs would be recoverable, only if they were prudently incurred and it was subsequently confirmed that the application information assisted the Board in making its designation decision. This proposed enhancement is used in other jurisdictions to ensure sufficient competition from the most qualified applicants.

### **2. Should priority projects be identified for expedited development?**

If there are projects identified (by the government, the OEB and/or the OPA) as having a higher priority or urgency, the Board should consider initiating a separate designation proceeding to deal with these projects first, with the need for the project being determined at that time. APPrO’s main concern in making this recommendation is to avoid the potential for delay, duplication and unnecessary uncertainty.

Managing the designation process on this basis will allow more critical projects to be expedited, reduce the complexity of certain parts of the approval process, and smooth the development and connection work schedule to minimize resource constraints. Proceeding as proposed with all projects lumped into one process

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would delay generation connection on all projects when it may be possible to proceed more expeditiously with the priority projects. In addition, scheduling all of the designated projects for concurrent development would make it difficult for transmitters to gain the efficiencies of working simultaneously on projects at different stages of maturity.

As a related matter, concerns have been raised about the fact that there are a number of places in the approval process at which need for a transmission investment could potentially be reviewed and established (Ministerial designation, Leave to Construct (“LTC”), or subsidiary processes). One concern is that significant scarce resources will be assigned to designation and development work prior to project need being confirmed. Rather than limiting when need should be determined, APPrO recommends maintaining a number of options and placing priority on the existing principle that project need should be reviewed and determined only once, as early and efficiently as possible.

### **3. Are the filing requirements too detailed?**

If the filing requirements and the designation process are viewed as being too detailed, complex and costly, the amount of competition will be limited or nonexistent, particularly if the risk of not recovering the application costs is high. However, if the designated transmitters can have reasonable assurance of proceeding expeditiously with the LTC application with the objective of building, financing and operating the transmission facilities (if approved by the Board), then the proposed level of detail is appropriate.

### **4. Does the proposed process allow for adequate consideration of the potential interaction between developments in adjacent areas?**

The concern here is that economies of scale and benefits of proximity should not be overlooked, while respecting the need for manageable approval processes. The details of how transmitters would be selected in the designation process were not provided. APPrO assumes that the applications will be submitted like tenders, i.e., at the same time with binding cost estimates and work schedules, and that the Board will assess the applications on a project by project basis with appropriate consideration of the benefits of combining or coordinating the work with adjacent and nearby projects and other transmission work in the area. Presumably, these benefits would be reflected in the budgeted costs but there may also be qualitative benefits like environmental impact, community and Aboriginal engagement that are not readily quantifiable and should also be considered.

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**5. Will generators have adequate means to ensure that the location and capacity of the new facilities is appropriate?**

APPrO assumes that the OPA will have taken FIT requirements into consideration when developing its ECT, but notes that the ECT will not be as comprehensive as an IPSP review would have been. The main concern is to ensure that the transmission development plans reflect the optimal location and sizing of facilities to accommodate all projected generation. As long as the transmission development process allows designated transmitters to include load and generation connection capacity in their transmission designs and to consider the full range of generation and load likely to be affected during the transmission route selection, this should not be a problem. However, if designated transmitters are limited by budget constraints or are not able to resolve competing location or land issues, the Board may want to consider adding a dispute resolution process to deal with these and similar concerns in a timely manner.

Similarly, it should be noted that proposed new transmission developments should be sized to accommodate the full range of generation projects likely to come forward, from outside as well as within the FIT program.

**6. What amount of competition is appropriate and should the process assume that competition would normally occur only at the development stage?**

When assessing the appropriate level of competition, the benefits of increased competition need to be weighed against the cost of a more complex approval process. In certain situations, it may be cost effective to direct a single transmitter to develop the required transmission plans rather than inducing competition. However, APPrO submits that where competition can be conducted efficiently, cost effectively and in a timely manner, it should be encouraged. Allowing competition at each phase of a transmission development would significantly complicate and delay the transmission development process. It would also add a learning curve cost if a new transmitter was selected at each stage. APPrO agrees with Board staff that in most cases the designated transmitter will be the most appropriate and cost effective LTC applicant and has concluded that encouraging competition at subsequent stages on a regular basis would likely be inefficient and would delay transmission development. Consequently, APPrO supports using the designation process as the main locus for competition, provided the benefits of construction experience, lower cost financing and operating synergies are considered when approving a designated transmitter. If the designation process is limited to or gives priority to design and development qualifications, the Board will need to consider

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additional competitive processes to determine which transmitter should build, own and operate the transmission facilities.

## **7. How will competing applications be assessed if some are multi-project and some are not?**

The proposed approval process allows applicants to submit an application for designation on a single project or to apply for designation of a number of different projects, but the report does not indicate how these two types of applications would be assessed relative to each other. APPrO recommends that the Board review all applications on a project by project basis and encourage multiple-project applicants to quantify any synergies between their individual project applications. All applicants should be required to file a stand-alone application for each project with multiple-project applicants being directed to indicate how their individual project costs would change if they were designated for fewer projects. If multiple-project applicants are allowed to apply on a bundled basis (one application for all projects), it will be very difficult for the Board to compare competing bids unless all of the project bundles were the same (extremely unlikely). In addition it could lead to a situation where transmitters would be prohibited from competing for a single project or projects where they might be the most efficient provider.

## **Comments on Issues Identified by Board Staff**

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

- a. Some form of preapproval is required to eliminate the qualification discussion in the designation review, but the qualification requirements should not be so onerous as to discourage competitive proposals. As discussed above, APPrO recommends that the Board incorporate an expeditious prequalification in the designation process to select a limited number of qualified applicants for each ECT project.

### **2. How long would it take to prepare transmission project development plans (i.e., how much time should be given for filing transmission project development plans after notice of the designation process has been given)?**

- a. Given the detailed filing requirements proposed by Board staff and the need for applicants to respond to all projects in a single proceeding, three months

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should be the minimum time allotted for plan preparation. This minimum appears reasonable when compared to the time that applicants in the Texas and UK are allowed when competing for a single project. If there are projects that the OPA has identified as being time sensitive, consideration should be given to allowing a separate proceeding to deal with those projects or to deal with the major high priority projects on an expedited case by case basis.

- b. Similarly where there is only one applicant for an individual project, the filing requirements could be reduced to focus on the appropriateness of the plan and the development costs in order to reduce the preparation time. To proceed on this basis, the sole applicant would be expected to demonstrate the appropriateness of the construction, financing and operating arrangements at the LTC application.
- c. Additional planning time may be required if the ECT report needs to be clarified, for example to explain the difference between facilities requiring development work and those assigned to the incumbent transmitters. Preparation time will also be impacted by the magnitude of the development work. Consequently, requests for longer preparation time may need to be considered once the ECT report is filed. Transparency will be important in any case where a non-standard timeline is used.

**3. Are the proposed decision criteria appropriate? Should the decision criteria be weighted and, if so, which are most important?**

- If the purpose of the designation process is to select a transmitter to develop the required transmission plans and nothing more, the decision criteria should focus on the activities required to ensure timely cost-effective development plans. These requirements are reflected in the three aspects of a transmission project development plan identified by Board staff as:
  - the financial and technical capacity of the transmitter to undertake development of the specific projects at issue, including its demonstrated ability to carry out the work based on experience with similar projects;
  - the transmitter's plan for carrying out the work and associated consultations; and
  - the economic efficiency of the transmitter's plan.
- However, if the designated transmitter is also expected to be the LTC applicant and the owner-operator of any approved facilities, the selection criteria need to be much broader. As proposed by Board staff, the selection criteria need to extend into the construction, ownership and operation of a transmission facility

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on the presumption that normally the transmitter designated to complete the development work will also finance, build and operate the Board approved facilities. As discussed in the previous section, APPrO agrees that this is the most efficient and cost effective way to proceed.

- If the approval process is based on the assumption that normally there will be no subsequent competition to build, own and operate the approved facilities after the designation process, the broader selection criteria are required with an equal balance of all of the necessary areas of expertise to develop, build, finance and operate.

#### **4. Are staff's proposals regarding the implications of plan approval reasonable?**

- The proposed planning implications are reasonable in that they cover the requirements of new and incumbent transmitters. Both types of designation applicants will be required to prepare development plans sufficient to support an LTC application. Maximizing the certainty of the development completion and the project timing should be emphasized as important considerations in the designation process. In addition, as discussed in the previous section, consideration should be given to adding an expeditious prequalification procedure and allowing broader recovery of costs.
- With respect to the need for the transmission development, APPrO agrees with Board staff that need should only be reviewed and determined once. Need for a priority project could be established by the Minister or through other approved processes, but normally project need would be determined by the Board as part of a transmitter's LTC application which would rely on the transmission planning work provided by the OPA. The acceptance of the ECT as sufficient justification to proceed with the development work should provide a high degree of certainty that the transmission project will still be included in the subsequent ECT and treated as needed at the LTC stage.
- Given the possibility of development plans preceding significantly before rate recovery the Board should remain open to alternate recovery mechanisms which can benefit transmitter developers and ratepayers, like early payment of CWIP (Construction Work In Progress) as development milestones are met. Cost savings may also be possible if the majority of the sizing and configuration requirements can be determined by the OPA and the reliability considerations are set by the host transmitter in conjunction with the IESO.
- If the Board plans to group multiple facilities into one development application, APPrO recommends that the Board seek to balance two competing needs:

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- The need to ensure that expansions are grouped in clusters small enough to produce comparable competing applications and a manageable regulatory process;
- The need to provide rational development and regulatory processes by combining developments that are inter-related, where there are genuine physical efficiencies or synergies achieved by grouping related developments.

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

- Since duplicate development plans will increase costs, complexity and the need for added resources, they should be avoided and only used in exceptional situations. Stakeholders will be confused and/or annoyed by multiple requests for input and approvals. The only likely situation where it might be reasonable to approve and fund two transmitters to prepare competing development plans would be where there are two proposed transmission routes which are significantly different in location.

**6. Are the proposed filing requirements appropriate 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?**

- Standard filing requirements will provide an efficient means of assessing multiple applications for the same development projects, but an alternate set of requirements should be considered for single applicant reviews. Where there is a single voluntary or direct applicant the main focus should be on the efficient and timely completion of the development plan with the presumption of technical and financial competency being determined as a pre-authorization condition.
- Similarly if the Board decides that designation approval is not considered preapproval for construction, ownership and operation of the proposed facilities, the filing requirements should focus more closely on, or give more weight to, the development planning process.

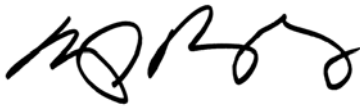
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## Concluding Remarks

APPrO supports the transmitter designation process proposed in Board staff's TPDP paper and has suggested a few enhancements for the Board's consideration to improve the ability of the process to meet the shared objectives of the government, the Board and the generators in Ontario. With these few refinements, the designation process can be expected to ensure the timely and cost-effective development of major transmission facilities to meet the growing generation and load requirements in Ontario.

All of which is respectfully submitted.

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