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October 29, 2021

**Via Email & RESS**

Christine Long  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto ON M4P 1E4

Dear Ms. Long:

**Re: EB-2021-0136: Hydro One Networks Inc. – Richview to Trafalgar section 92 leave to reconductor Application**

Please find enclosed the closing submissions of the Association of Power Producers of Ontario (APPrO) in this proceeding.

Yours truly,

**McCarthy Tétrault LLP**

Per:



Reena Goyal  
Counsel

RG/jk

Enclosure

ec: Mr. David Butters, President & CEO - APPrO

## Written submissions of the Association of Power Producers of Ontario (APPrO)

### Overview

The proposed \$60.9 million RTR Project is supported almost entirely by the IESO's June 12, 2021 report entitled *Trafalgar TS x Richview TS 230 kV line upgrade: Need and Selection of the Preferred Plan* (the "**Needs Report**") and the hand-off letter dated December 10, 2020 ("**Hand-Off Letter**", together with the Needs Report, the "**Needs Assessment**"). In coming to its conclusion that the RTR Project is the preferred approach, the IESO relies on its purported "detailed alternative comparison analysis" of transmission alternatives based on only the two following criteria<sup>1</sup>:

- Can be in-service before the summer 2026
- Provide an increase in transfer capability of at least 2,250 MW in 2026 assuming all transmission elements in service

In APPrO's view, the Needs Assessment filed in this application does not satisfy the requirement under the OEB's *Standard Transmission Leave to Construct Issues List*<sup>2</sup> to demonstrate that the RTR Project is the preferred option to address the current supply need, as opposed to implementing a different solution. As such, APPrO seeks an order in this application requiring that an IESO needs assessment filed in support of any future leave to construct application before the OEB include, at a minimum, the following:

- Results of public stakeholdering the relevant supply need, completed sufficiently in advance so as to allow proponents enough time to develop and submit alternative solutions for consideration

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<sup>1</sup> Exhibit B-3-1, Attachment 3, Page 8 of 13 ("**Needs Report**"); Response to Environmental Defence 1(a).

<sup>2</sup> EB-2021-0136, Procedural Order No. 1, Schedule B, item 2.1.

- Comprehensive description of all assumptions and methodology used in the underlying resource adequacy study, including supply resource attribute requirements such as run-time duration, ramp rate, peaking capacity, and seasonal preference
- Resource cost and performance input data comparison as part of any alternative solutions analysis
- Electricity grid priority connection areas for alternative supply options and imports
- Potential compensation framework options for alternative supply resources offering reliability services

**Needs Assessment lacks any substantive assessment of supply alternatives**

The Needs Report ostensibly considers conservation, supply alternatives, and transmission alternatives. Specifically, the Needs Report states that supply east of the FETT interface could be provided by<sup>3</sup>:

1. Additional conservation programs targeted to areas east of FETT, beyond those already accounted for in IESO's demand forecasts
2. New domestic supply resources needed for the province in the areas east of FETT
3. Imports

The Needs Report dismisses option 1 (additional conservation programs) on the basis of a 2019 study that purportedly concluded there was a possibility of obtaining only ~200 MW of additional savings by 2026, and so would be insufficient to meet the current supply need east of FETT.

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<sup>3</sup> Needs Report, *supra*, page 7 of 13.

The Needs Report dismisses option 3 (imports) on the basis that although the “IESO is aware [that] ... imports from Quebec and New York could provide some of that supply ... the amount we’re aware of isn’t enough to meet the approximately 2,000 MW need and/or it is unclear whether or not it can be developed/acquired by 2026”.<sup>4</sup> When asked by way of written interrogatories to provide records of its consideration and evaluation of imports to support this conclusion, the IESO responded that it “will not provide the requested records ...”<sup>5</sup>.

The IESO has similarly outright refused to provide any records relating to its consideration or evaluation of existing and possible new capacity supply resources east of the FETT interface. Instead, stakeholders are left with nothing to rely on other than the IESO’s simple proposition that “the amount we’re aware of isn’t enough”. This is so even though the Needs Report admits that “it may be possible to run the capacity auction and resource procurements with a requirement to locate approximately 2,000 MW east of the FETT interface by 2026 [and] the IESO is aware of some interest in developing new supply east of the interface ...”.<sup>6</sup> Instead, the Needs Assessment concludes that the only feasible option is a transmission alternative.

In response to APPrO’s interrogatories concerning the IESO’s purported evaluation of supply alternatives, the IESO responds in part as follows (bolding added):

**“The IESO relied upon its knowledge of the market and did not undertake specific outreach to supply resource developers and existing operators on this matter.”<sup>7</sup>**

.....

**“The IESO did not consider potential procurement and revenue mechanisms in making its determination of need. As detailed in response to part a), above, the IESO is not aware of**

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<sup>4</sup> *Needs Report, supra*, page 8 of 13.

<sup>5</sup> Response to APPrO 2(i) and 2(j).

<sup>6</sup> *Needs Report, supra*, pages 7 and 8 of 13.

<sup>7</sup> Response to APPrO 2(a).

planned projects that are in a sufficiently advanced stage of development that could, individually or collectively, meet the approximately 2,000 MW need east of FETT by 2026. **This assessment would not have been affected by considering different potential procurement and revenue mechanisms.<sup>8</sup>**

Nowhere does the Needs Assessment describe what exactly constitutes the IESO's "knowledge of the market" nor how this was applied in the IESO's purported consideration of supply alternatives other than to simply state that the IESO was not aware of any such developments underway. In any event, the IESO is not an expert in all areas of the electricity sector. With respect to supply resources, for instance, the IESO contracts the development, construction, operation and maintenance of supply resources to market participants since those market participants are the experts of the supply resources they build. It is therefore important that the OEB not give evidentiary weight to the Needs Assessment in respect of matters that fall outside the IESO's actual expertise.

### **Needs Assessment simply "isn't enough"**

APPPrO members submit that it is the IESO Needs Assessment that "isn't enough" to meet the evidentiary threshold required to satisfy item 2.1 in the Issues List. It isn't enough for stakeholders to simply have to rely on the IESO's assurances based on its self-proclaimed "knowledge of the market" that there is not even one other single potential supply resource alternative to its recommended solution. This is particularly so where there is a complete absence of any meaningful stakeholdering or form of competitive procurement of a significant ~2,000 MW supply need east of FETT.

Indeed, the Needs Evidence runs entirely counter to the IESO's own purported commitment to work *with* sector stakeholders to develop approaches to address exactly these

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<sup>8</sup> Response to APPPrO 2(d).

types of reliability needs in a timely, cost-effective and flexible manner as part of its larger Resource Adequacy Framework.<sup>9</sup> According to the IESO, “[a]t its core, the Resource Adequacy Framework is a fundamental commitment to pursue competitive solutions wherever practicable ...”.<sup>10</sup> Unsettling, therefore, is the IESO’s simple refusal to produce any internal documents relating to its evaluation and decision-making process surrounding supply alternatives to the RTR Project, as follows:

“The IESO will not provide the requested records as they are not relevant or proportional to the issues before the OEB.”<sup>11</sup>

Moreover, in and around the same time as the application in this proceeding was filed, the IESO published its first Annual Acquisition Report (“**AAR**”). The AAR “translates planning and operational information into a series of acquisition requirements. It will signal anticipated targets and acquisition mechanisms to secure services to supply the province’s needs over a variety of time frames”.<sup>12</sup> In the AAR, the IESO outlines a series of procurement mechanisms for the province to meet resource adequacy needs as well as regional needs. While the IESO states in its response to APPrO’s interrogatories that the IESO does not expect 2,000 MW of supply by 2026, the AAR reaches the opposite conclusion. Indeed, Tables 1 and 2 in the AAR demonstrate that the IESO expects at least 2,800 MW of new supply by 2027, and the potential for 2,800 MW by 2026 with early commercial operation (see Table 1 below for reference)<sup>13</sup>.

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<sup>9</sup> See <https://www.ieso.ca/en/Sector-Participants/Planning-and-Forecasting/Resource-Adequacy-Framework>.

<sup>10</sup> See the IESO’s 2021 Annual Acquisition Report at <https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/aar/Annual-Acquisition-Report-2021.ashx> (“**AAR**”) at page 15 (underlining added).

<sup>11</sup> Response to APPrO 2(h).

<sup>12</sup> See IESO public website at <https://ieso.ca/en/Sector-Participants/Planning-and-Forecasting/Annual-Acquisition-Report>.

<sup>13</sup> 2,800 MW includes 1,000 MW from the IESO’s Long-Term RFP and 1,800 MW from the IESO’s Capacity Auction. Also see AAR *supra*.

**Table 1 | Summary of Planned Actions (Relative to 2020 APO Scenario 1 Summer Needs)**

Actions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>2020 APO Scenario 1 Needs</b>	875	2,045	2,326	4,552	6,676	6,080	6,178	9,349	10,605	11,477
Non-Firm Imports	250	250	250	250	250	250	250	250	250	250
Bilateral Negotiations	-	1,615	1,615	2,119	2,119	2,119	2,119	-	-	-
Medium-Term RFP #1	-	-	-	-	750	750	750	-	-	-
Long-Term RFP	-	-	-	-	-*	1,000	1,000	1,000	1,000	1,000
Capacity Auction Range	1,000	500-1,200	500-1,400	500-1,600	500-1,800	500-1,800	500-1,800	TBD	TBD	TBD
Total Actions Taken in AAR	1250	2,365-3,065	2,365-3,265	2,869-3,969	2,869-4,919	2,869-5,919	2,869-5,919	1,250	1,250	1,250
Allowance for Potential Government Policy	31	31	31	31	269	238	238	238	238	238
Potential Need Not Addressed	0	0	0	552	1,488	0	0	7,861	9,117	9,989

\* Potential for Early Commercial Operation

Further, the IESO expects a supply need of over 6,800 MW starting in 2029. New supply must therefore be developed earnestly to meet Ontario’s provincial resource adequacy needs. Notably, the IESO’s Medium-Term RFP entails a registration step as early as Q1 2022 for the explicitly stated purpose of ensuring there is sufficient interest in participating in the Medium-Term RFP. Similarly, the IESO has proposed a Request for Qualifications stage in its Long-Term RFP engagement for the purpose of assessing qualifications and interest from prospective proponents. This public procurement plan does not align with the statements the IESO has made in its responses to APPRO’s interrogatories filed in this proceeding nor in its Needs Assessment. Supply option assessments must align with provincial resource adequacy needs and procurement expectations.

**IESO's Annual Planning Outlook was released after the Hand-off Letter was already issued**

In an attempt to demonstrate that APPrO members and other potential supply resources were given sufficient notice of and the opportunity to propose alternative solutions to the current supply need east of FETT, the IESO points to its December 2020 Annual Planning Outlook (“APO”). The IESO’s evidence is that despite the publication of the supply need in the APO, no potential solutions were brought forth:

“Despite the publicized need, the IESO was not, and is not, aware of planned projects that are in a sufficiently advance state of development that could, individually or collectively, meet the approximately 2,000 MW need east of FETT by 2026. There are no projects east of FETT with completed System Impact Assessments nor, to the IESO’s knowledge, are there projects east of FETT with ongoing public/Indigenous consultations. ...”<sup>14</sup>

Yet, the APO was released over 1 month after the IESO issued its Hand-Off Letter to HONI explicitly recommending that HONI proceed with the RTR Project. In other words, the IESO had already determined that the RTR Project was the preferred solution before stakeholders were given an opportunity to read and consider the APO. It is therefore disingenuous for the IESO to now suggest that the outcome of its Needs Assessment would have been different had it received project development proposals from potential suppliers after the release of the APO and before the Needs Report was issued in June 2021 - the IESO had already made up its mind when the APO was released.

Moreover, previous IESO-administered procurements specifically restricted proponents from completing System Impact Assessments (“SIAs”) as an eligibility requirement. For example, the last significant supply procurement in Ontario was the Large Renewable

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<sup>14</sup> Response to APPrO 2(a).

Procurement (LRP I). The LRP I RFP document specifically precluded proponents who had undertaken a SIA, and provided that:

“The Large Renewable Project must ... not have applied for an Impact Assessment before an LRP I Contract is executed. For clarity, if an Impact Assessment was applied for in respect of a Large Renewable Project, the Impact Assessment must be rescinded and any associated Connection Cost Agreement must be terminated prior to submitting any Proposal under this LRP I RFP.”<sup>15</sup>

Further, in the absence of a specific procurement mechanism or focused supplier engagement, there is no signal from the IESO that there will be opportunities to make commercially viable investments. Recognizing the IESO’s own admission that both public policy direction and long-term revenue mechanisms will drive or be required to attract investment, it is not clear what the IESO believes to be the commercial rationale that would support both allocating resources towards developing potential projects and publicly revealing their development potential prior to understanding actual acquisition targets. Such information is commercially sensitive and can undermine developer competitiveness in future procurements.

Development of supply resources in Ontario also requires in-depth and appropriate engagement with local communities, First Nations, and other interested stakeholders. Public announcements and related stakeholder engagement must be managed carefully to ensure adequate time for consultation, feedback and adjusting project designs to meet local community needs. Linking the development of supply resources to power system needs and specific procurement mechanisms provides clarity and transparency to local communities that are impacted. Without a focused stakeholder engagement or transparent procurement mechanism by the IESO, supply development details raises unneeded uncertainty for local stakeholders.

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<sup>15</sup> See <https://www.ieso.ca/-/media/Files/IESO/Document-Library/energy-procurement/LRP/LRP-I-contract/LRP-I-RFP-20150731.ashx> at subsection 3.2.3(j).

**Needs Assessment falls short of facilitating a ss. 96(2)2. consideration**

APPrO supports prudent investment in transmission infrastructure to access future supply resources to meet system needs. The IESO is the de-facto buyer of capacity for the Ontario electricity market, either through competitive procurement, bilateral arrangements, or prudent analysis and support for regulated resource development. As the de-facto buyer, APPrO expects the IESO to complete fulsome analyses to assess the overall cost-effectiveness of a preferred solution that includes both direct costs (i.e., transmission infrastructure investments) and indirect supply costs (i.e., impact the transmission infrastructure will have on future supply costs).

The analysis completed by the IESO and filed in this proceeding includes claims that the RTR Project will increase competition in the market. Yet no price forecast was submitted to support this conclusion. In fact, in its responses to interrogatories, the IESO submitted that it was not possible to calculate locational prices or congestion costs.<sup>16</sup> Without forecasted congestion or locational prices it is impossible to determine how competition will be impacted, or what incentives will arise in the market. It is critical for ensuring the ongoing efficiency of the market that leave to construct applications relying on claims that the proposed project will benefit competition, adequately demonstrate how competition will be impacted. Effects on competition must be shown over the short-run and the long-run, the latter being most critical for ensuring the market is supporting ongoing needed investment while keeping costs competitive. With almost 7,000 MW of supply resources required by 2030, bulk transmission system infrastructure need assessments must recognize the impact on the future supply costs. Without this analysis it is impossible for the OEB to determine whether the preferred solution is in the

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<sup>16</sup> Response to APPrO 1(a).

interest of consumers with respect to prices, as is required under subsection 96(2)2. of the *Ontario Energy Board Act, 1998* (the “**Act**”).

An adequate needs analysis needs to clearly articulate differences between economic constraints (i.e., higher prices due to supply constraints provincially or regionally) and reliability (i.e., risks of load shedding). With 2,800 MW of capacity expected to be procured by the FETT interface need date, the economic and reliability value of siting those resources east of FETT should have been considered as part of the Needs Assessment. For example, the RTR Project entails roughly \$60 million in transmission upgrades which could be deferred by siting needed resources east of FETT, resulting in a direct cost savings for consumers. In addition, expected local marginal prices (“**LMP**”) east of FETT could lead to lower offer prices for capacity in upcoming procurements that would further reduce costs for consumers. Finally, LMP risk would be borne primarily by the supply resource. If higher prices fail to materialize in the future as expected based on current forecasted load growth and power flows, the supplier absorbs the impact of lower prices for its power, not ratepayers.

Without explicitly including these factors as part of the Needs Assessment, the IESO has failed to inform the OEB of the linkages between regional needs, bulk system needs and resource adequacy needs, and has failed to provide an appropriate analysis for the OEB to conduct the required consideration under ss. 96(2)2. of the Act.

### **Potential impacts to benefits from Market Renewal Program**

The IESO has been preparing for a significant overhaul of the Ontario electricity market through its Market Renewal Program (“**MRP**”). Among other changes, the MRP will shift the real-time energy market from a two-schedule market to a single schedule market. This means rather than a uniform market price, Ontario will implement LMPs. The MRP business case

states that adopting LMPs will send critical price signals to supply resources on locational value in the market and therefore provide cost savings to customers.<sup>17</sup>

After extensive consultation with stakeholders and detailed design activities, IESO market rule amendments to implement MRP are currently being considered by the Technical Panel for recommendation to the IESO Board of Directors. Yet, according to its response to APPrO's interrogatories, the IESO has not conducted any analysis on the current impact to LMPs from the system need or the potential LMP impact of the RTR Project. As previously stated, it is unclear how the OEB can consider the interest of consumers with respect to prices without an evidentiary record of future LMPs and the impact the RTR Project will have on those LMPs.

Furthermore, the FETT interface constraint is arising due to the increasing demand in the Greater Toronto Area. This demand is signaling the need for investment in transmission, generation, or other solutions. The IESO has stated that MRP is required because LMP is a necessary price signal for competitive investment. Yet, in its Needs Report, the IESO states that the transmission reinforcement will increase flows from the west to the east, in effect increasing competition for dispatch and effectively depressing the price signal that would have otherwise existed east of FETT. In other words, the Needs Assessment is effectively ignoring the benefits of LMPs that the IESO has touted through its MRP business case, and making recommendations in this proceeding without completing a comprehensive analysis on critical price signals for supply resources.

With the quantity of new supply resources required in the next decade, and the IESO's stated position that it expects market participants to recover a large share of the costs of

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<sup>17</sup> See IESO MRP Energy Stream Business Case at <https://www.ieso.ca/-/media/Files/IESO/Document-Library/market-renewal/MRP-Energy-Stream-Business-Case-2019.ashx>.

investment from the market, LMP price signals are expected to be an important consideration for siting and development. The IESO's failure to complete an LMP analysis and to consider how the RTR Project could influence the relevance and usefulness of the price signal, or impact market participant investment decisions, undermines the relevance of the market price to proponents capable of providing competitive alternative supply solutions and cost savings for consumers and undermines the value of LMP to the market as a whole. Further, and equally important, is the risk of stranded transmission assets if the new needed supply resources are ultimately developed east of FETT and the RTR Project is no longer needed.

### **Looking ahead**

In APPrO's view, producing sufficient evidence of the IESO's evaluation of supply alternatives is not only relevant in the circumstances but explicitly required by the Issues List mandated by the OEB in this proceeding. APPrO requests that, in failing to produce any record of the IESO's internal analysis of supply alternatives, a reasonable adverse inference be drawn that no such evidence in fact exists. In other words, the IESO has simply failed to conduct a sufficient and appropriate assessment of supply alternatives to the RTR Project.

Leave to construct applications require demonstrable evidence of the need for infrastructure development or reinforcement, including that the preferred solution is the most viable, cost-effective and scalable option available. To ensure the OEB reaches a correct decision, detailed analysis of each option must be presented and verified. The Needs Assessment filed in this proceeding fails to do so with respect to supply alternatives – and at a time when the province is rapidly heading towards a supply shortfall based on the IESO's own resource adequacy analysis. The IESO may be correct that transmission is a more cost effective option than generation, but without a

credible process for assessing alternatives, it is impossible for the OEB – and other stakeholders - to determine.

As acknowledged by the IESO, Ontario needs can be met through investments in transmission, generation, non-wires alternatives, conservation and demand-side management and other mechanisms. However, APPrO is unaware of a single instance when significant investment has been made in Ontario in the absence of a prior revenue commitment to support the investment. Indeed, as highlighted by OEB staff, HONI's investment in the RTR Project is supported by a directive from the IESO and not by an assessment by HONI of system need and alternatives. If the Needs Assessment is to be accepted, the OEB will have to believe that no additional supply can be built by 2026 - even though the IESO has contemporaneously initiated mid- and long-term procurements that will include new resources for 2026.<sup>18</sup> The OEB will also have to accept that in Ontario, proponents are willing to develop significant resources on preliminary specification, even when the IESO itself has admitted that its procurement targets are subject to revision due to policy changes and LMP cannot be forecasted.<sup>19</sup>

To accept the Needs Assessment as sufficient evidence of a lack of competitive supply alternatives sends a troubling signal to the investment community. Namely, that the IESO's own principles, timelines and processes for encouraging competitive investment by means of competitive mechanisms may be short-circuited by directing specific investment by means of a hand-off letter to a single entity. Indeed, APPrO notes that HONI was the only recipient of the Hand-Off Letter and Needs Report; no other potential or actual supplier received a letter from the IESO directing them to explore expansion or development alternatives. Based on the IESO's response to interrogatories, it appears that the IESO directed one proponent to develop a

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<sup>18</sup> *Supra* note 13.

<sup>19</sup> AAR at pages 13 to 15, 19, 30, 32, Tables 1 and 2; and Response to APPrO 1(a).

solution, and that proponent was HONI. The fact that the IESO did not pursue or inquire about alternatives is not evidence for the conclusion that competitive alternatives do not exist.

## **Conclusion**

APPrO requests that the OEB hold the IESO accountable to its commitments in the context of all future transmission infrastructure leave to construct applications in which the IESO provides supporting evidence and/or recommendations. This proceeding is an opportunity for the OEB to set out in clear terms the minimum requirements it needs to conduct a proper ss. 96(2)2. assessment in furtherance of its oversight function with respect to future electricity infrastructure development and reinforcement. Specifically, APPrO seeks an order in this application requiring that any future IESO needs assessment filed in support of any leave to construct application include, at a minimum, the following:

- Results of public stakeholdering the relevant supply need, completed sufficiently in advance so as to allow project proponents enough time to develop and submit alternative solutions for consideration
- Comprehensive description of all assumptions and methodology used in the underlying resource adequacy study, including supply resource attribute requirements such as run-time duration, ramp rate, peaking capacity, and seasonal preference
- Resource cost and performance input data comparison as part of any supply alternatives analysis
- Electricity grid priority connection areas for alternative supply options and imports

- Potential compensation framework options for alternative supply resources offering reliability services

**ALL OF WHICH IS RESPECTFULLY SUBMITTED.**