EB-2008-0003

Response to OEB Staff Discussion Paper: Generation Connections

Prepared for Northwatch by IndEco Strategic Consulting Inc.

August 8, 2008

I. BACKGROUND

Founded in 1988, Northwatch is a regional coalition of individuals and organizations – local and district-based environmental groups, cottagers associations, naturalist clubs, church-based Aboriginal support groups, women's organizations and local peace groups – resident across northeastern Ontario. These groups are all concerned with environmental and social equity regarding the land mass north of the French River comprised of the districts of Nipissing, Sudbury, Algoma, Manitoulin, Cochrane and Timiskaming, and the Hudson's Bay lowlands.

The common thread throughout Northwatch membership is the commitment to the region of northeastern Ontario and the health, well-being and sustainability of the human and natural communities throughout the region. This common thread directs Northwatch commitment and actions to promote regionally-based integrated electricity supply and demand planning that involves the balancing of impacts of northern development, with an emphasis on minimizing negative impacts. Within this framework, Northwatch has prepared the following response to the *Staff Discussion Paper: Generation Connections.*

II. RESPONSES TO BOARD STAFF QUESTIONS

This submission answers the questions posed by Board Staff as listed on page 32 of the Discussion Paper that are relevant to Northwatch's area of interest and expertise.

Consistent with the Board scoping of this proceeding, these comments focus on generation connection issues. However, Northwatch is of the view that most of the principles and approaches to determining feasibility and for rate-making should be similar for both load and generation connections. It should be noted that some connections/extensions will service both electricity supply and demand. In Northwatch's view, better overall results would emerge from the consultation if policies and practices for the treatment of transmission system extensions, whether for connecting generation or load or both, are discussed together.

1 Is it appropriate to change the current policies for the provision of generation connections as it applies to enabler lines?

Yes, it is appropriate to change the current policies for the provision of generation connections as it applies to enabler lines. Northwatch supports the Pooling option put forward by Board staff. This involves the transmitter taking lead responsibility with the costs being pooled. Enabler facilities are provided by a licensed transmitter, facilities are included in the transmission rate base, and the costs are recovered from transmission ratepayers.

We note the importance of amending the Board's practice in the treatment of "need" in the approval of enabler lines. As pointed out in the Staff Discussion Paper (p. 6), when Leave to Construct is required for a generation connection, the practice of the Board has been such that a demonstration of need for the connection facility is not required in the same way as for a transmitter because the generator is taking the financial risk. However, if the Board adopts the Pooling option, the demonstration of need in Leave to Construct applications for transmitters for enabler lines will be required. As part of this demonstration, the Board should require transmitters to present the regional planning context for the lines and a Discounted Cash Flow analysis (DCF) (similar to that used for gas pipeline Leave to Construct applications) to determine the economic feasibility of the line including a DCF that includes the direct and indirect economic benefits to the local and regional economies. Should the Board agree to a fuller treatment of need for enabler lines, it is suggested that the Board hold a subsequent proceeding to determine the guidelines for the Board practice in this area (e.g. how to calculate the DCF, the definition and content of the regional planning context etc).

2 If so, do you agree with the definition of enabler lines as proposed, and, in particular that (a) enabler facilities are those that serve multiple generation facilities with different owners; and (b) the revised policies apply only to those enabler facilities that are part of an approved IPSP?

No, we do not agree that enabler facilities are only those that serve multiple generation facilities with different owners. An enabler line can serve one facility, be it a generation facility or a pure load. A transmission system grows by constructing enabler lines for

many different reasons (e.g. connect new supply to meet supply mix requirements, respond to customer growth). One should not rule out the possibility than an extension to the grid might enable connection of generation and load, and that depending on time of use, the flow of energy on the extension could reverse. All enabler lines are extensions to the existing transmission system; enabler lines that connect new generation to the grid make that electricity available to all load customers/ratepayers and therefore, their treatment within the ratemaking process should not differ by the number of generation facilities that are served by the enabler or the ownership of those facilities. These enabler lines - whether to enable generator or load connections to the grid - are analogous to pipeline extensions in the hydrocarbon transportation business, such as gathering lines and mainline extensions downstream to serve load (take-offs or spur lines). For example, in the case of gathering pipeline extensions, some of these extensions are shared among producer groups and some remain in service for a single producer.

Northwatch agrees that the revised policies apply primarily to those enabler facilities that are part of an approved IPSP. Were there, however, to be an exceptional approval of an extension sought outside of an IPSP (e.g. for a short line or for a line for which need is obvious and immediate or could not have been forecast), the revised policies with respect to cost treatment for ratemaking and other policies would nonetheless be expected to continue to apply. Further, the Board should review any revised policies that may be the result of this proceeding before the approval of the 2nd IPSP to make modifications, as required, based on experience in implementation and stakeholder feedback.

3 Do you agree with the proposed process in the Pooling, Hybrid and Shared options that once the IPSP is approved, the Board should undertake a process to designate a transmitter responsible for the development phase of the enabler facilities?

Yes, we agree that the Board should undertake a process to designate a transmitter responsible for the development phase of the enabler facilities once the IPSP is approved. Either in the transmitter license or as a standard condition of approval in the Leave to Construct approval order, the Board should require the transmitter - as part of the development phase - to identify how the transmitter will maximize local short term and long term employment of northerners in the design, construction and management of the

transmission facilities; how the transmitter will directly promote local community development in the communities through which the transmission passes; how the transmitter will ensure that adverse effects on the environment, and land use will be minimized; and how lost opportunities for other land uses or designations will be avoided. The Board could also impose similar conditions on the generator's license. These conditions are consistent with the Board requirement to consider the interests of consumers with respect to prices and the reliability and quality of electricity service (subsection 96(2) of the OEB Act). Using local supplies and materials and making a contribution to local community development are likely to be more efficient than importing supplies and will stimulate the local/regional economy.

4 Is the timing for the Request for Expressions of Interest and Request for Proposals relative to the stage of the development work on the enabler facilities appropriate?

Northwatch has no comment on this question.

5 Should the costs of the enabler line be recovered from transmission ratepayers or from generators?

As per the response to question 1, the enabler line costs should be recovered from transmission ratepayers pursuant to the Pooling option. Since the benefits of the addition of the new generation for the three clusters benefit all Ontarians by helping to meet the provincial supply mix requirements as well as reduce Ontario's dependence on non-renewable polluting fuels, the costs of the addition of the enabler transmission should be borne by all transmission ratepayers. This option will also make it easier for smaller local northern generators to connect their new supply to the grid.

6 Should the costs of the unsubscribed portion of the enabler facility's capacity be recovered from transmission ratepayers (as in the Pooling and Hybrid options)?

Consistent with Northwatch's support for the Pooling option, the unsubscribed portion of the enabler facility's capacity should be recovered from transmission ratepayers, since for example the unsubscribed capacity very likely has been "prebuilt" as part of a plan to serve forecast future generation or load in a least-cost manner over time.

There are ratemaking approaches which have been used to mitigate the immediate rate impact of prebuilt capacity, or of any capacity which would not on its own meet feasibility tests at the outset of a project. For example, recovery of capital through ratemaking can be delayed until usage of the extension increases. If "contributions" are required (and depending on policies to encourage connections they may not be required), lump sum contributions can be avoided by the design of surcharges which are more flexible and often temporary. Such a surcharge can avoid a high barrier to entry which payment of an upfront lump sum might impose.

Document #: 183902