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August 11, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0003 – Written Comments of the LPMA on the Staff Discussion Paper: Generation Connections

These are the written comments of the London Property Management Association ("LPMA") on the Staff Discussion Paper: Generation Connections dated July 8, 2008.

Enabler Line Definition

The Staff Discussion Paper has narrowed in scope from the connection policies of all generation to that associated with enabler lines. However, the definition of "enabler" lines does not appear to be clearly defined and understood. While Staff indicate that these lines are "dedicated radial transmission lines to connect clusters to the grid", there is little, if any, discussion related to the definition of a cluster in terms of size or to the length of the radial transmission line needed to connect the cluster with the grid. Indeed, as noted by Staff (Footnote 3 on page 3) significant generation connection activities, including that for renewables has taken place under the existing Board policies. Staff note that in several cases, developers were able to get approval and construct connection facilities. These connections have been shorter, in general, and less remote than the enabler lines proposed in the IPSP. However, it is submitted that a clear and concise definition of what an enabler line is should be made. It should include a minimum length of a radial transmission line required to connect a cluster to the grid.

The Discussion Paper should also address the situation in which such an enabler line results in other connections to it. In other words, it may not be a dedicated line to serve

the cluster of generators. These lines may draw attention from load customers, including distribution utilities, that might benefit from a connection to the new line to serve growth, provide reliable supply or provide peak demand without significant upgrades or additions to the existing transmission/distribution system.

Cost Responsibility

LPMA submits that the Board's current cost responsibility policy should be maintained as the default policy for generation connections. In other words, the cost responsibility for customer (generator) driven connection facilities should remain with the customer, whether it is a single customer of a group of customers that is driving the need for the facilities.

Only in the specific circumstances where "enabler" lines are clearly defined should the Board consider applying a different policy.

As a further general submission, it has been noted that the focus of the Staff Discussion Paper has been on the initial cost responsibility (i.e. the initial capital cost). LPMA believes that it is important that the Board also consider the implications of the ongoing OM&A costs associated with the enabler lines in the four options considered in the Paper.

The remainder of this submission is divided into the four options considered, along with a fifth potential option. Please note that these submissions are provided solely in the context of an "enabler" line.

While LPMA provides submissions with respect to who is responsible for developing and constructing enabler facilities, it is most concerned with the issue of who has cost responsibility.

Option 1 - Status Quo

The generator(s) would have lead responsibility under the status quo option and would provide and pay for the enabler facilities.

LPMA submits that this is the preferred option when and if it is feasible. This would most likely involve clusters that have only one proponent or a small number of proponents that can work together effectively.

The problem with this approach is, as described in the Staff Report, the potential for each proponent to start development work on more than one connection, raising the potential for multiple leave to construct applications, none of which may be able to serve the cluster as a whole.

If this circumstance were to arise, LPMA submits that the Board could combine all the leave to construct applications into a joint hearing and determine which of the applications, if any, should proceed. Multiple transmission lines to a cluster should not be discounted, as they may provide diversity in security of supply. While multiple transmission lines with lower capacities is likely to cost more than one single line with a higher capacity, it should be noted that none of these costs are recovered through transmission rates. While the generators should be encouraged to work together, they should be allowed to develop their own line if they so chose.

The benefits of this approach are reduced regulatory proceedings and no recovery of costs from transmission ratepayers. These costs include not only the initial capital costs, but also replacement costs for the line in future years, as well as the ongoing operating, maintenance and administration costs associated with the line.

LPMA submits that this should be the default option for enabler lines. Only under special circumstances should the Board deviate from this cost responsibility policy.

Option 2 – Pooling

A licensed transmitter would have lead responsibility under the Pooling option. Under this option the enabler facilities are provided by the licensed transmitter that would own and operate the facilities.

The major drawbacks with this option are that it could lead to the development of oversized lines and lead to disaggregating of proponents. Because generators would only be responsible for their individual connection costs, but not for the enabler line itself, they could significantly reduce the amount of capital that they would need to raise to finance the project. Another significant drawback of this option is that there would be a greater need for regulatory proceedings.

A further negative consequence is that transmission ratepayers would be saddled with the costs associated with this option. These costs include not only the initial capital costs, but also the ongoing operating, maintenance and administration costs, and the future replacement costs of the line. LPMA believes that this fact makes this option untenable, especially as compared to the Status Quo. Both Options 3 and 4 are preferable to the Pooling option. LPMA submits that the Board should eliminate this option from further consideration.

Option 3 – Hybrid

As in Option 2, a licensed transmitter would have lead responsibility under the Hybrid option. Again, under this option the enabler facilities are provided by the licensed transmitter that would own and operate the facilities.

From the standpoint of a transmission ratepayer, the Hybrid option is preferable to the Pooling option. This is because the cost responsibility would remain primarily with the generators. In other words, this is more like the Status Quo option. However, unlike the Status Quo option, there is still an issue with ongoing operating, maintenance and administration costs, as well as replacement costs associated with the line that would appear to fall onto the shoulders of transmission ratepayers.

The weak point in this option, however, is that the cost of uncommitted or unutilized capacity would be included in the transmission rate base and ultimately recovered from transmission ratepayers. This option will require more regulatory proceedings and determinations than the Status Quo option and may still produce a bias toward over sizing

of the lines. This bias remains because the unutilized component would be added to the transmission rate base.

While this option is preferred to that of Pooling, LPMA submits that the Board should also reject this option as it once again, places an added burden on transmission ratepayers relative to that of the Status Quo option.

Option 4 - Shared

As in Options 2 and 3, a licensed transmitter would have lead responsibility under the Shared option. The enabler facilities are provided by the licensed transmitter that would own and operate the facilities.

This option has the benefit of assigning cost responsibility to the generators. This would likely result in an incentive to properly size the line. Another significant benefit of this option is that transmission ratepayers would not be saddled with any of the initial capital costs. However, this does not make this option comparable to the Status Quo option from a cost responsibility point of view. This is because the licensed transmitter would need to recover the ongoing operating, maintenance and administration costs associated with the enabler line from transmission ratepayers. Future replacement costs would also need to be recovered by the transmitter.

It is LPMA's submission that this is the preferred option provided by Board Staff in situations where the Status Quo does not work. Ii is preferable over both the Pooling and Hybrid options. There are several reasons for this. The complete generator cost responsibility in this option will reduce the incentive to oversize the transmission line that will exist in the Pooling option and may still exist in the Hybrid option.

In the Shared option all of the initial capital costs paid by the generators. As a result there will be no cost recovery required from transmission ratepayers as there would be under the Pooling option and to a lesser extent under the Hybrid option.

The shared option is similar to the Status Quo in that the transmission line costs are ultimately born by the generator(s). This similarity should be encouraged. Otherwise, some generators, which ultimately compete against one another, may be disadvantaged by their location in a cluster. For example, a generator that is the only generator in a cluster would need to finance both the generation and transmission assets under the Status Quo option. A second generator, located in a cluster with more than one generator, could have an advantage over the first generator because it would only need to finance its generation assets (Pooling option) or its generation assets and a portion of the transmission assets (Hybrid option). The Shared option is closer to the Status Quo option in that the generators must finance the entire cost of the transmission asset.

In summary, LPMA submits that the Shared option is preferable to the Pooling and Hybrid options for those circumstances where the Status Quo option does not work or apply

Option 5 – Enabler Assets

Each of the options proved in the Staff Discussion Paper where the enabler facilities are provided by a licensed transmitter (i.e. Pooling, Hybrid and Shared) do not address the issue of ongoing operating, maintenance and administration costs (OM&A) or future replacement costs for the assets. These costs are only an issue where a licensed transmitter is responsible for them and would need to recover these costs from transmission ratepayers. Under the Status Quo option, the transmission assets are owned by the generator(s) and so any ongoing costs would be their responsibility and would not be recovered from transmission ratepayers.

Under the Pooling option, these ongoing costs could be added to the costs associated with the transmission assets that would be recovered from transmission ratepayers. They same would apply to the Hybrid option. In both cases, the costs would be higher that those referenced in the Staff Discussion Paper which appears to be limited to the costs associated with the increase in rate base. For example, under the Hybrid option, the Staff Discussion Paper indicates that *"Any outstanding costs for the "unsubscribed" portions of the enabler facilities are recovered from transmission ratepayers"* (page 10). There is

no description of how or if any of the ongoing OM&A costs or replacement costs would be recovered on an annual basis from the generators and/or transmission ratepayers.

In Table 9, Staff presents a summary table for the Shared option. It is indicated there that *"Unlike the Hybrid and Pooling options, no rate issues"*. LPMA does not believe this is accurate. There is no mention of how the licensed transmitter would recover the ongoing costs associated with the enabler line and from whom they would recover those costs. Similarly, there is no mention about the recovery of future replacement costs.

LPMA submits that there is an easy way to deal with these ongoing costs. The addition of a third type of transmission assets would enable the licensed transmitters to recover their costs (capital and/or ongoing) related to these new assets from the appropriate customers, that is the generators.

In addition to connection assets (line and transformation) and network assets, the Board could include enabler assets. Any costs associated with enabler lines, whether the costs associated with the facilities in total (Pooling option), the unsubscribed portion of the enabler facilities (Hybrid option) or no initial facilities costs (Shared option), along with the ongoing OM&A and replacement costs under all three of the options could be classified as enabler assets.

The costs associated with these enabler assets should then be recovered from the generators through a rates process, in the same way that costs associated with connection and network assets are recovered from transmission customers.

Given that there is likely to be significant cost differences associated with serving generators located in different clusters, it may be appropriate to have a different enabler cost pool for each cluster. This could result in different rates for generators in different clusters, but postage stamp ratemaking principles would still be applicable to those customers within each individual cluster.

This approach would ensure that transmission ratepayers do not pay any costs associated with any enabler facilities. It would hold all generators responsible, regardless of the specific cluster they find themselves in. The only difference would be whether the generator(s) pay for the facilities up front and for the ongoing costs themselves (Status Quo option), or they pay for the facilities on an ongoing bases through a regulated enabler rate (Pooling, Hybrid and Shared options)

Co-Ordination

In addition to the question of who should have lead responsibility and who ultimately pays, it is submitted that there is an additional issue of co-ordination between the party with lead responsibility and all the various parties that would be involved in such a project: the generator(s), the transmitter(s) to which the radial line would be connected or would be impacted by the connection of the radial line to the Ontario grid (for example, a radial line connected to the Great Lakes Power or Five Nations Energy transmission lines may have an impact on Hydro One), OPA, OEB and IESO.

However, on the surface, it appears that regardless of who is the party with the lead responsibility, the same parties will still need to be involved in the process. The only remaining issue would be the timing needed for the process to be efficient and cost effective so as to ensure there is no delay in getting the generation connected and that there are no unnecessary or duplicative costs in the process.

It may be useful for the Board to play a lead role to determine the level of interest in developing and constructing enabler facilities as soon as the clusters are identified by the OPA through an approved IPSP. This would allow potential developers to get a jump start on the routing and environmental aspects of the project that require long lead times.

Answers to Staff Questions

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

If it is determined that the current policies for the provision of generation connection as it applies to enabler lines inhibits the development of the clusters that these lines are to serve, then the policies need to be changed.

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?

The definition of enabler lines needs to be more precisely defined. The definition also needs to be reviewed in light of potential changes to the line use in the future. For example, what happens if a load connection connects to the enabler line in the future? It is agreed that any revised policies should be limited to applying only to those enabler facilities that art part of an approved IPSP.

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 as responsible for the development phase of the enabler facilities? If not, what process should the Board use to ensure that development work on the enabler facilities proceeds?

The Board should undertake a process to designate a transmitter as responsible for the development phase of the enabler facilities if no party comes forward with a proposal in a reasonable amount of time. If a coalition of the potential generators in a cluster bring forward a proposal, or some other party wants to bring forward a proposal, then the Board may not have to undertake the process.

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?

No comments.

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

The costs of the enabler line, along with on going costs, should be recovered from the generators that use the line. This approach is consistent with the Status Quo option, which would continue to apply to a one-generator cluster.

6. Should the costs associated with the unsubscribed portion of the enabler facility's capacity be recovered from the transmission ratepayers (as in the Pooling and Hybrid options) or should they be paid by generators (as in the Status Quo and Shared options)?

The unsubscribed portion of the enabler facility's capacity should be recovered from the generators. However, instead of the Shared option as described in the Discussion Paper, LPMA recommends consideration of the Enabler Assets option. This would recover the unsubscribed portion of the initial capital costs from generators, but through rates rather than as a one-time up front charge. In addition, this option allows the transmitter to recover ongoing OM&A costs and replacement facility costs from the generators that are utilizing the enabler line.

If you require any further information or clarification, please contact me.

Sincerely,

Randy Aiken
Aiken & Associates