PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC

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VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Staff Discussion Paper on Transmission Connection Cost Responsibility
Board File Number: EB-2008-0003

Comments of the Vulnerable Energy Consumers Coalition (VECC)

As Counsel to the Vulnerable Energy Consumer's Coalition (VECC), I am writing per the Board's letter of July 8th to provide VECC's comments on the Staff Discussion Paper regarding the connection of generation facilities to transmission systems. The comments are organized into two sections. Section 1.0 provides general comments on the Staff Paper while Section 2.0 responds to the specific questions set out in the last section of the Staff Paper.

General Comments of Staff Discussion Paper

The introduction (Section I) suggests that under existing policies problems could arise in areas where there are multiple proponents seeking to exploit local generation opportunities. These problems arise because it is the generators that are responsible for designing, developing and constructing the connection facilities. This means that the cost of the connection could be very high with respect to the scale of any one proponent and multiple proponents may not be able to organize and coordinate themselves to achieve the "right-sized"

connection to the grid. Also, there would be a need for the proponents to co-ordinate the actions required to steer the project through a potentially long and complex regulatory process.

There are really two issues here. The first is how to co-ordinate the interests and expectations of the generator proponents so as to ensure an appropriately sized connection facility is constructed at the lowest cost. The second is how to assign cost responsibility to the different generation proponents. In the case of load customers, when more than one customer triggers the need for new or modified transmitter-owned connection facilities, it is the Transmitter who "co-ordinates" the process and the Transmission System Code (TSC) sets out how cost responsibility is apportioned to the load customers (section 6.3.15). In VECC's view, even if changes are made to the Code to permit the Board to designate a transmitter to be responsible for coordinating the process and constructing the facility, there is no reason why the same general principles regarding cost responsibility for connection facilities should not be applied to generation customers as are currently applied to load customers. Load customers are responsible for transmission connection costs that will not be covered through the future rates. Since generators do not pay transmission connection rates, they should be responsible for all of the costs of the transmission connection facilities they require.

Further to the point raised in the preceding paragraphs, Section II appears to suggest that the main problem is the fact that the OPA does not have the authority to procure transmission facilities. Indeed, if that were case then presumably the OPA could "co-ordinate" the overall acquisition of the required transmission connection facilities and there would be no need to alter the roles and responsibilities of the province's transmitters, as defined by the TSC.

Section II (page 6) references the fact that the Board can require licensed transmitters to implement transmission requirements identified in an approved IPSP. It is VECC's understanding that the current IPSP was not developed with the view that it provided sufficient support to justify the "need" for any particular transmission facility, in the context of a "Leave to Construct" approval. In a similar vein, the IPSP was not developed with the view that it would justify "directing" a transmitter to expand it transmission system. It is VECC's view that for the Board to require a transmitter to implement transmission requirements identified in the IPSP, the OPA should be identifying the potential need for such actions in the IPSP itself so that the requirements can be tested within the appropriate context.

Section III sets out two objectives (economic efficiency and regulatory predictability & administrative efficiency) which it then uses to evaluate the different options for connection cost responsibility. In VECC's view the proposed meaning assigned to the economic efficiency objective is too narrow.

As the IPSP has identified and as was acknowledged by the OPA at the July 22nd Q&A session, there are more renewable resources in Ontario than what are required to meet the Government's MW targets for renewable energy. Therefore economic efficiency must involve more than simply "achieving the connection of renewable generation resources to the grid in a cost effective and timely manner". It must also mean **ensuring that the most economic (i.e. least cost) renewable resources in the province are developed**. Furthermore, it should ensure that **to the extent the development of renewable resources in excess of the Government's targets are considered such renewable projects are "economically efficient" when compared to other supply alternatives the Province may have, such as increased DSM or other forms of generation**.

The discussion of the Status Quo Option suggests that coordination of the development (and construction) of the transmission connection facilities is primarily a problem when there are multiple proponents of new generation. VECC agrees. If there is one proponent, then the existing regulatory framework is acceptable.

The discussion also suggests that if there is a single proponent that carries out the development work on the enabler lines then the proponent may be in a position to establish "market power" in the connections market. In VECC's view there are a number of safeguards in place to protect against such an event:

i. The OPA will have assessed the generation potential within particular areas and included the results in an IPSP. This will provide a perspective on the size enabler facilities required.
ii. The OPA's IPSP will have been reviewed by the OEB and interested parties will have had an opportunity to comment on the OPA's assessment.
iii. Following approval of the IPSP, it is anticipated that the OPA will launch a Request for Expressions of Interest ("REI"). This would allow parties interested in developing generation opportunities in the area to identify themselves.
iv. Following completion of the development work and costing of the anticipated transmission connection facilities, the OPA will conduct a Request for Proposal process and subsequently award contracts to in relation to the generation resources in the cluster. At this point, it will be known whether there is more than one proponent and, if so the extent to which that one proponent plans to exploit the potential generation identified for the area.

Clearly, if there is a single proponent (or even multiple proponents) seeking to only develop a small portion of the available generation resources then the cost of the connection will substantially impact on the economics of the projects, relative to what was included in the IPSP, and the OPA may need to reassess the overall economics of the renewable energy resources in the respective area.

If the enabler facility is to proceed, then the OEB, as part of its "leave to construct" approval process will be required to assess and approve the required capacity of the enabler facilities. The OEB will also need to be in a position to ensure that access is provided to other generators under reasonable terms.

Under the Pooling Option, the discussion of economic efficiency does not deal with the issue that where the transmission connection costs are "pooled" for certain enabler lines the "bid prices" for renewable resources will not be comparable across the province as those involving single proponents will include transmission connection costs while those from areas with multiple proponents will not. This will mean that even though the costs are "pooled" the OPA would need to know the relevant connection costs for such area in order to ensure that its contracting processes maintained a level playing field between generation proponents and ensure that the most economic resources were developed. Indeed, in VECC's view, the Board would need to receive assurances from the OPA that this was the case; otherwise, its economic efficiency objective would not be met. Furthermore, the OPA should be expected to address this issue during any subsequent IPSP review.

With respect to the last two options, the real issue appears to be who should accept responsibility for the unutilized enabler capacity (rate payers or the local generators). In principle there are two reasons why there may be unutilized enabler capacity. The first is that it is unlikely that the enabler lines (and other enabling facilities) can be sized to precisely match the capacity of the "committed generation" at the time of development. In VECC's view, this circumstance is no different from that of connection facility designed to service new loads, where the capital contribution is determined based on the cost of the facilities needed to serve those loads (even if there is excess capacity). In such cases, the contracting generators should clearly be (jointly) responsible for the costs. The second reason is that the enabler facilities may have been purposely oversized in anticipation of additional generation connections in the future. In this instance there some rationale for not imposing the entire cost of the facilities on the current generation connections. This will be discussed further in response to the Board's questions.

None of the options consider how the cost responsibility would be realigned if loads were to connect to the enabler lines. There are couple of issues that such a possibility (and in VECC's view inevitability) creates. The first is that with the connection of loads, an assessment of system utilization will be needed to determine whether part or all of the enabler facilities should be reclassified as "connection" or "network" facilities from load serving perspective. The results of such an assessment will depend on the specifics of the circumstances including the configuration of the existing enabling facilities and the connection point(s) for any loads. This would seem to suggest the need to track the cost of enabler facilities separately, regardless of the initial approach taken to cost responsibility.

VECC's Response to the Board's Questions

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

In VECC's view the response is yes, but only in those limited circumstances where there is an identified need to initiate development work on enabler lines that will serve more than one generation proponent. Indeed, the Board may wish to provide an option whereby if one proponent is going to use the majority (say 80% or more) of the capacity of the enabler facilities then that proponent should be provided the opportunity to be the transmission connection provider, contingent upon other generators being guaranteed access at reasonable cost.

Question #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 Staff Paper defines enabler lines as "dedicated radial transmission lines that connect clusters (i.e. geographically specific areas which appear to have good potential for development of wind and other renewable resources) to the grid". While there are other parties more capable of providing the Board with input on the technical merits of the definition, VECC perceives a couple of shortcomings with the proposed definition:

- The definition does not seem to contemplate the possibility of facilities other than lines being involved.
- The definition does not make any clear delineation as to demarcation between the transmission connection facilities the generator would continue to be responsible for and those that would be considered "enabler".

With respect to part (a) of the question, please see VECC's response to Question #1.

With respect to part (b) of the question, in VECC's view if ratepayers are going to be expected to bear any cost responsibility for enabler lines then the fact the lines were part of an approved IPSP is necessary but not a sufficient condition. In such cases, the enabler lines should be subject to a specific need assessment similar to what is performed by the OEB with respect to Section 92 applications before actual construction of the facilities commences. Furthermore, VECC notes that even under the Shared Option there is a potential for ratepayer responsibility unless 100% of the capital contribution is received up front. If provision is made for the contribution to be paid over time and one or more of the associated generators become financially insolvent then the transmitters have three options: a) they can fund the shortfall out of shareholder returns; b) they can seek recovery from the remaining generators or c) they can seek recovery

from ratepayers. Unless the third option is explicitly precluded, ratepayers are potentially at risk.

Question #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 lines proceeds?

In principle, VECC agrees with the proposed approach. It is VECC's understanding that such a process would be initiated after the OPA had completed a Request for Expressions of Interest (REI) process and indicated that sufficient interest exists for the development phase of project to proceed. Indeed, in VECC's view the REI results would be critical input into the development phase as it would help to define the routing and sizing of the enabler facilities. In VECC's view those responding in the affirmative to the REI process should be expected to make a financial commitment in order to demonstrate their sincerity. Such a commitment would be refundable only if the OPA decided there was insufficient interest to justify proceeding to designate a transmitter responsible for the development phase or if the OEB determined that a transmitter should not be so designated. If the development work proceeded, these financial payments would be used to help offset the cost of the development work. In the event that either the Shared or Hybrid Option was chosen, these payments would also be considered as part of the generators overall capital contribution.

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

VECC generally agrees with the proposed staging. See the response to Question #3.

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

To the extent practical the costs of enabler lines should be recovered from generators. In VECC's view such an approach best meets the Board's economic efficiency objective, particularly when more broadly defined as per VECC's comments in Section 1.0.

In VECC's view the only circumstance that perhaps warrants exception is when, following a leave construct proceeding, the OEB approves the construction of enabler facilities larger than what are required to connect those generators who have responded to the OPA's request for proposal and signed the necessary contracts. Note, as discussed earlier, this circumstance is one where facilities

with lower capacity and cost could have constructed to meet the needs of the contracted generators, but an explicit decision has been made to make provision for additional capacity (at an additional cost). It does not include the circumstance where there is excess capacity on the enabler lines simply because the capacity of the lines could not technically be sized to precisely meet the MW of contracted generation.

In such circumstances the decision to oversize the enabler facilities will be result of a Leave to Construct Application for the enabler line and an explicit determination by the OEB. The Board's Decision to authorized additional capacity and costs (over and above that required simply to meet the connection requirements of the contracted generators) would result from a careful weighing of factors such as:

- Input from the OPA as to the potential for additional generators to connect,
- The cost of providing the additional capacity now as opposed to through upgrades at a later date,
- The impact on ratepayers of having to pay the additional capacity costs, including the risk that the costs may never be "picked up" by new generators (as proposed under the Hybrid Option).

However, it is also clear to VECC that it would be inappropriate to simply "roll" these costs in with the costs of the Network Facilities. Rather, in VECC's view a separate cost pool should be established which could be charged to all ratepayers, but which would also be offset by contributions from new generators (and potentially load customers) connecting to the enabler lines in the future.

In this regard, VECC would suggest that it may be appropriate to charge a nominal premium (e.g., 5-10%) to those generators who do not commit during the initial RFP process but rather wait until the facilities have been constructed. This premium could be used to help offset the cost incurred by the "first comers" (consistent with the refund envisioned under the Shared Option). The base contribution from any "late comers" would be first used to offset the cost of any incremental capacity that was provided for at the time of the initial construction. Such an approach would not only reduce the potential burden on rate payers and the generators who were "first comers" but it would also encourage prospective generators to respond to the initial RFP.

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

As indicated in the preceding responses, VECC's view is that the answer is "yes". However, only in the limited circumstances where a conscious decision has been made to incur additional costs to provide for facilities (and capacity) over and

above what would be needed to provide for the connection of contracted generators.

We appreciate the opportunity to provide our comments.

Yours truly,

Michael Buonaguro
Counsel for VECC