

August 11, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Transmission Connection Cost Responsibility Review (TCCRR); EB-2008-0003

The Electricity Distributors Association (EDA) is the voice of Ontario's local distribution companies (LDCs). The EDA represents the interests of over 80 publicly and privately owned LDCs in Ontario. The EDA has prepared this letter in response to the Board's letter of July 8, 2008, which requested comments on the Board Staff discussion paper entitled "Generation Connections Transmission Connection Cost Responsibility Review". The EDA welcomes the opportunity to provide comments on this important topic, particularly as it relates to the Integrated Power System Plan (IPSP) and the need to meet the Minister's Supply Mix Directive of June 13, 2006.

Analysis:

The EDA's analysis of the options views them in two groups – those options that assign full cost responsibility to generators (Status Quo and Shared) and those that include at least some pooling of costs (Pooling and Hybrid).

I. Status Quo and Shared Options

Both the Status Quo and the Shared options require the generator to bear the cost of the enabler lines.

The main arguments "in favour" of these alternatives for cost recovery is that they promote economic efficiency by putting the onus on the generator to minimize connection costs through their decisions on 1) generator site selection and 2) installed enabler capacity.

The opportunity for economic efficiency from generator site selection is likely limited because site selection for renewables is only partially discretionary. The Supply Mix Directive has predetermined that renewable projects must be developed to meet a specified provincial capacity target. Unlike natural gas or nuclear facilities, renewable facilities such as hydro and wind generation are constrained to locations where these resources are available. Further, a planning

authority such as the OPA could use an RFP process that considers “all-in” costs (i.e. which includes the cost of enabler facilities) to select the most cost effective renewable projects, due to their relative location. Therefore economic efficiency in site selection is not a persuasive argument for assigning the costs of enabler facilities to generators.

The issue of economic efficiency resulting from considerations of installed enabler capacity is problematic. If the generator is responsible for enabler costs, the generator will likely install the minimum enabler capacity necessary, to minimize their costs, so it will be efficient in the short run. However, insufficient enabler capacity will likely be installed for future development of renewable generation projects in the vicinity, thus making the decision to install minimal capacity economically inefficient in the long run. Therefore, economic efficiency of the installed capacity of enabler facilities, in consideration of the long run efficiencies, is not a persuasive argument for assigning the costs of enabler facilities to generators.

In the EDA’s view, strong arguments “against” assigning the costs for enabler facilities to generators are that 1) under the status quo option, the construction of a transmission line by an uncoordinated group of small generators is a major and very complex undertaking that is time consuming and risky when considering all the approvals, acquisitions of land and other necessary requirements, and 2) the cost of enabler facilities is significant for these generators and will require the OPA to establish a price premium for the contracted energy to be purchased from the renewable generators. The process of determining an appropriate price premium for “energy” charges could prove difficult to establish between the OPA and the generators. Presumably this would be done by RFP; however the price premium required by generators for the risk involved to them, would very likely be quite large. On the other hand, transmission charges are set in a well established, thorough and transparent process whereby major transmission infrastructure costs are recovered from all electricity consumers who benefit from the transmission system. Therefore the reduced cost of categorizing the enabler facility as a public good that benefits all consumers is a persuasive argument against making renewable generators responsible for enabler costs and in favour of embedding the cost of enabler lines in transmission charges as a pooled cost.

II. Pooling and Hybrid Options

Both the Pooling and the Hybrid options will shift cost responsibility from generators to transmission customers in total or in part, respectively. However, if renewable generators are responsible for the cost of enabler facilities, and the OPA must then pay a premium for the energy from these facilities as discussed above, then in the end, consumers will pay these costs regardless.

Conclusions:

Effectively, the choice of cost recovery boils down to the options of embedding the cost of the enabler lines in the “transmission charges” (pooling or hybrid options) versus embedding the costs of the enabler lines in “energy charges” (status quo or shared options).

The question is which method results in the optimum cost to consumers? The arguments on “economic efficiency”, above, tend to favour pooling of costs due to the long run efficiencies of

installing sufficient enabler capacity, thus optimizing costs to consumers in the long run. The argument regarding the “risk premium” for generators to construct the enabler facilities and charge for these in energy prices, suggests that consumers will pay more if generators are responsible for these costs and less if these costs are pooled in transmission charges.

Therefore, based on the above, it would appear that consumers would likely pay more if renewable generators are responsible for enabler facility costs and will likely pay less if enabler costs are pooled. Accordingly, the EDA recommends that the costs for these facilities be pooled. In effect, the enabler facilities would be designated as “network” assets and essentially the network would be deemed to be extended into the less populated regions of the province. The ultimate purpose of doing this would be to achieve the Supply Mix Directive, presumably for the greater long term good of the province.

In response to the specific questions posed in the Staff Discussion Paper:

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

Answer: Yes it is appropriate to change the current policies for the provision of generation connections but only in regard to “enabler” facilities. The existing policies were set for a different situation involving large scale generation plants that would be flexible as to site location and which could be run as competitive merchant plants. The situation involving location constrained renewable resources, identified as part of a Supply Mix Directive, requires a new and different treatment.

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?

Answer:

- (a) Yes the EDA agrees with the definition of enabler lines but proposes that the term “Enabler Facilities” should be used so that this definition is extended to include other relevant facilities such as transmission or transformer stations.
- (b) No. The EDA believes that the revised policies should also apply to those facilities that are identified and approved outside of an approved IPSP, e.g. through Board reviews of OPA proposals “between IPSPs”. Under the current practices, IPSPs are generated only every three years and for the current IPSP, only three specific enabler facilities are identified. What will happen in the event that enabler facilities should be required between IPSPs? It may be appropriate for the OPA or some other proponent to bring forward to the OEB a specific request for enabler facilities. In any case, some kind of process ought to be considered to obtain approval for such additional enabler facilities.

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?

Answer: Yes the EDA agrees that once an IPSP is approved (or an enabler facility is proposed and approved through some additional new process between approved IPSPs), the Board should designate the adjacent transmitter as responsible for enabler development unless there are special circumstances that require a more complicated process for evaluation of alternatives.

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?

Answer: Unfortunately the EDA is not in a position to advise on this question and defers to transmission and renewable generation proponents for advice.

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

Answer: Based on the analysis in the body of this paper and the conclusions above, the EDA recommends that the costs of the enabler lines and related facilities be recovered from transmission ratepayers. Further it is important that these costs be assigned to the transmission “network” pool as opposed to the transmission “connection” pool. This is because the cost of the enabler facilities is to support the delivery of renewable energy to “all” ratepayers in the province and not just to a subset of ratepayers served by “connection” facilities.

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)?

Answer: It is the EDA’s recommendation that all costs for the enabler facilities be recovered from transmission ratepayers as in the Pooling option.

The EDA welcomes this opportunity to comment on this important issue and is available for further comment or to answer any questions. The contact details for appropriate EDA representatives are indicated below.

Yours very truly,

“original signed”

Chris Buckler
Consultant to the EDA

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