



RECEIVED

SEP 12 2007

ONTARIO ENERGY BOARD

Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3Y4
tel.: (416) 367-6000 fax: (416) 367-6749
www.blgcanada.com

September 11, 2007

Via Courier

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli: 

**Re: Notice of Proposal under Section 81 of the *Ontario Energy Board Act, 1998*
as submitted by Kruger Energy Inc.
Board File No. EB-2007-0691**

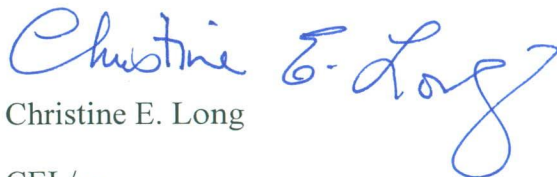
Please find attached three hard copies of the letter which our client Kruger Energy Inc. has today faxed and e-mailed to the Board and faxed to Allus Power Inc. with respect to the above-noted matter.

We ask that you please stamp a copy of the additional attached letter and return it to us in the attached envelope to confirm proof of filing.

We thank you for your attention to this matter.

Yours very truly,

Borden Ladner Gervais LLP


Christine E. Long

CEL/ac
Enclosures

CALGARY • MONTREAL • OTTAWA • TORONTO • VANCOUVER



Head Office

Jacques Gauthier
Senior Vice President and
Chief Operating Officer
Kruger Energy Inc.
3285 chemin Bedford
Montréal (Québec)
H3S 1G5

Tel.: 514-343-3224
Fax: 514-343-3124

September 11th, 2007

By Fax

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

**Re: Notice of Proposal under Section 81 of the *Ontario Energy Board Act, 1998* as submitted by Kruger Energy Inc.
Board File No. EB-2007-0691**

Dear Ms. Walli:

We write in response to the letter sent to the Ontario Energy Board (the "Board") by Allus Power ("Allus") which was received by KEI on September 6, 2007.

The Board has not commenced a formal review of the above-stated Notice of Proposal, but has allowed Allus to make a submission (the "Allus Submission") with respect to the Notice of Proposal and has invited KEI to respond to that submission.

The scope of the Board's review under section 81 of the *Ontario Energy Board Act, 1998* (the "OEB Act") is narrowly defined.

Section 82 of the OEB Act states as follows:

"The Board shall make an order approving a proposal described in section 81 if it determines that the impact of the proposal would not adversely affect the development and maintenance of a competitive market."

Therefore, the Board's review, mandated under legislation, is confined to whether the construction of the proposed 100 MVA substation (the "Substation") would adversely affect a competitive market.

In respect of the issue of competition, KEI wishes to direct the Board's attention to the following four points.

1. **Kruger Energy Port Alma Wind Farm Uses a Separate Substation**

First, it is important to note that the Kruger Energy Port Alma Wind Farm (the "Port Alma Project"), with a generation capacity of 101.2 MW (referenced in the Allus Submission), is being constructed as a result of Kruger Energy Port Alma Limited Partnership ("KEPA") being chosen as a successful proponent in the Ontario Government's Request for Proposals for 1000 MW of Renewable Energy issued in June 2005. Furthermore, the Port Alma Project will connect at a separate transformer substation, the KEPA transformer station, which will be located approximately 6 km west of the town of Merlin. The KEPA transformer station is separate from the Substation proposed in this Notice of Proposal. The construction of transmission assets to support the Port Alma Project was the subject of a Leave to Construct proceeding which was open to public participation. After completing its review, the Board granted Leave to Construct on May 29, 2007.

2. **Consultation with Chatham Kent Hydro**

With respect to this Notice of Proposal, KEI has had discussions with Chatham Kent Hydro regarding the proposed Substation. Officials at Chatham Kent Hydro identified a need for a new substation in order to address current grid constraints. On the basis of these discussions and in an attempt to accelerate construction of the necessary interconnection asset, KEI decided to seek approval for the Substation.

3. **Construction of the Substation is necessary for new generation**

It is important to consider that the purpose of building the Substation is to allow KEI and potentially others to bring new generation to the market. As such, allowing construction of the Substation to go ahead without delay will contribute to increased interconnection capacity in Chatham Kent. New interconnection capacity is crucial to the development and maintenance of a competitive market.

4. **Competition**

KEI stated at Section 1.5.1 of its Preliminary Filing Requirement (filed with the Board on July 17, 2007) that "...the Project consists of the construction and operation of a 100 MVA substation which will connect potential future generation project(s) of KEI or an affiliate of KEI to the IESO-controlled grid. *In the future, other generation facilities, unrelated to KEI may wish to connect to the Project.*" [our emphasis]

KEI or an affiliate of KEI expects to connect generation at the Substation. KEI again reiterates that it is not opposed to other generation facilities unrelated to KEI or its affiliates connecting to the Substation, subject to KEI meeting its potential generation connection requirements, and KEI and a generator who wishes to connect agreeing on costs related to the construction and operation of the Substation. KEI would expect to be made whole for costs it incurs in building the Substation and its reasonable operating costs should a generation project wish to connect at the Substation. Obviously at this preliminary point in the process, it is not possible for KEI to provide costs and connection procedures as Allus proposes in its submission.



KEI's purpose in building the transformer station is not grounded in an attempt to stifle competition, but rather to address an identified need for interconnection infrastructure to support renewable energy generation. KEI will allow other projects unrelated to KEI to access the Substation, provided those proponents are willing to contribute to the costs KEI incurs in construction, and the on-going reasonable costs of operation and provided KEI is able to connect its contemplated generation project(s). Finally, KEI's objective is to make a value based transfer of the Substation back to Chatham Kent Hydro if Chatham Kent Hydro is amenable.

We trust this submission along with the material previously filed in KEI's Preliminary Filing Requirements will adequately address any questions the Board may have with respect to how the Substation may impact competition, as the Board considers the test under section 81 of the OEB Act. Given the Board's narrowly defined scope of review and KEI's assurances in this regard, it is KEI's position that a formal review of the Substation is not required and the Board should proceed to make an order approving the proposal.

Yours very truly,

A handwritten signature in black ink, appearing to read 'J. Gauthier', written over a horizontal line.

Jacques Gauthier

Cc Mr. Guy Paquette, Director, Legal Affairs, Kruger Energy Inc.
Mr. Joe Fontana, President, Allus Power Inc.