



APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

APPrO comments on the Proposed Amendments to the Transmission System Code (EB-2008-0003)

December 1, 2008

The Association of Power Producers of Ontario (APPrO) appreciates this opportunity to comment on the proposed amendments to the Transmission System Code (TSC) and the background materials issued with the Notice of Proposal to Amend on October 29, 2008. As participants in the Consultation Process EB-2008-0003 and active contributors in all aspects of Ontario's generation market, APPrO members are keenly interested in the electricity system expansion and the development of renewable generation.

While APPrO continues to believe that enabler facilities are unique and should be treated as network assets under the pooled option for the reasons stated in its previous submission, APPrO understands the need for the Ontario Energy Board (Board) to balance the interests of all parties and to achieve resolution on this question without further delay. The proposed amendments and the use of the hybrid option provide a reasonable practical solution and a workable sharing of the costs and benefits of developing sufficient timely transmission infrastructure to meet the government's policy objectives on renewable resources.

The following comments are submitted to assist the Board in finalizing the proposed TSC changes required to implement the hybrid option and to highlight implementation details that should be considered to facilitate and expedite optimal development of renewable generation and the associated enabler facilities. Comments on implementation details are provided to highlight the need for additional consultation and to ensure that these actions can be completed without further amendments to the TSC.

1. APPrO's concerns continue to be timing and certainty

APPrO's main interest in the Consultation Process continues to be the importance of minimizing the overall timeline for the development of enabler facilities and reducing the uncertainty related to the costs of transmission development. To a great extent, the latter concern on cost responsibility has been addressed by the Board's decisions to proceed with the hybrid option and amend the TSC. The primary requirement remaining is to work out the implementation details of how the specific enabler costs will be determined and how the connection contributions will be paid.

Process adjustments and new procedures may also be required to designate a development transmitter, determine the optimal line size, recover the development costs, approve the construction and recover the construction costs through contributions and transmission rates.

In order to proceed expeditiously with the implementation, APPrO recommends that Board staff continue to consult with the industry to present a coordinated streamlined process to the Board for approval. The process should address the unique aspects of enabler line development and eliminate any ambiguity about what will qualify as an enabler line cost. More detailed comments on these recommended actions are provided below.

2. Process changes are needed to deal with the unique aspects of enabler facilities

One key issue that must be resolved is what is the most efficient and timely process for the Board to use in selecting a transmitter to develop and construct enabler facilities. Process changes may also be required to verify need and timing, determine the optimal size and recover the development and construction costs associated with the enabler facilities.

APPrO's view is that a coordinated effort is required from all of the regulatory agencies and the parties involved in building and using enabler facilities and that a specified timeframe must be identified and agreed to in order to meet the intent of the Minister's directives. In this regard, the activities schedule presented in the Discussion Paper needs to be shortened considerably.

In addition to recommending process changes to the Board, APPrO proposes that the parties in the consultation work with Board staff to develop a proposed timeline with key milestones and deadlines for consideration and approval by the Board.

3. How the appropriate size for an enabler facility is determined

Another question that needs to be answered is what principles and procedures should be applied when determining the appropriate size for an enabler line and to what degree should those principles match the principles used for determining the appropriate size of a network asset. APPrO strongly believes that in order to maximize the benefits associated with the development of renewable resource clusters, the enabler facilities serving the clusters should be built large enough (or should be capable of being efficiently expanded) to transmit the optimal capacity of the cluster over the full lifetime of the transmission asset. Typically this would mean building facilities capable of supporting 2 or more circuits, while installing only one circuit at the first stage. The optimal design size should be identified by the OPA based on the province's supply mix requirements and generator commitment to particular clusters over the expected useful life of the line. At some point in

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org

the enabler development process, the line capacity will need to be reviewed and approved by the OEB.

With regard to the amendments in section 6.5.1A, APPrO is concerned that the phrase “minimum design requirements needed to meet the minimum capacity needs of the associated renewable resource cluster” will limit renewable development. To address this concern, APPrO recommends that the Board clarify that the minimum capacity needs of the resource cluster represent an estimate of the optimum development that is reasonably likely to be economic and/or mandated over the life of the enabler line.

In APPrO’s opinion this change to the amendment is required to prevent useful renewable resources from being locked in a cluster with no economic way of transmitting the potential supply once the first enabler line is built. APPrO notes that the revised amendment would not prohibit an enabler facility from being built larger to accommodate other connections inside or outside the cluster, but when that occurred the generators connecting within the cluster would only be asked to pay their share of the costs associated with the cluster capacity. APPrO recommends that the Board direct its staff to consult with OPA, Hydro One and other interested parties on the appropriate planning process to use when sizing enabler facilities in order to recommend an appropriate review process to the Board.

APPrO notes that the reference to total capacity in section 6.3.14A may need to be clarified to be consistent with the minimum design concept of total costs referred to in sections 6.5.1A, 6.3.8, 6.3.8A and 6.3.10.

4. What assets will qualify for treatment as enabler facilities

APPrO recommends that the definition of an enabler line in section 2.0.28A be changed to “one or more generation facilities” to avoid arbitrary fragmentation of cluster development and eliminate barriers to future consolidation. The distinguishing factor between an enabler line and a network connection is the connection to a renewable resource cluster identified by a ministerial directive or in an approved plan, not the number of generation companies.

There may be situations where proponents amalgamate, or where the Ontario Power Authority wants to assign the entire capacity of a cluster to one proponent for cost or efficiency reasons, and that would be precluded by the definition currently proposed in the TSC. Changing the definition to “one or more” would not lead to confusion and it would treat generators more fairly by not excluding single developers who are developing renewable generation in an identified resource cluster. A network connection serving one or multiple generators would not qualify as an enabler line unless the generation plants were developed as a designated renewable resource cluster.

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org

For similar reasons, APPrO recommends that the phases “where resources suitable for renewable generation are present and where the renewable generation facilities are not, or are not expected to be, owned or controlled by the same person” be removed from section 2.0.57A.

Enabler facilities should be located in a way that minimizes the total overall construction costs and environmental impacts and treats generators fairly. When determining the optimal location for the facilities, all costs should be taken into consideration, including the cost of the lateral connections to the generator collection stations. The guiding principle should be to minimize the total costs since generators will pay their proportionate share of the costs and ratepayers will pay for any unsubscribed capacity in their transmission rates and any lateral costs through the global adjustment. To treat generators fairly the enabler routing should be designed to minimize the distance to each generator’s plant within a cluster wherever possible, taking into consideration the other design constraints and costs.

5. How capital contribution amounts will be set for individual generators

APPrO supports the amendment proposed in section 6.3.14A to use nameplate capacity to determine the pro rata share of the enabler facility costs as an expedient and fair method of determining the capital contribution, and commends the Board for keeping the process simple since this will result in a more transparent comparison of the connection costs in the OPA contracting process. APPrO recommends that the Board direct its staff to assess whether the contribution methodology currently in the TSC needs to be changed for enabler facilities. If changes are required, Board staff should prepare a summary of the methodology that will be used to determine the total cost of the enabler line and the associated cost recovery process with input from the industry and circulate the proposals for comment from interested parties and final approval by the Board. Clarification of the total costs and connection processes will improve the certainty and predictability of the expected costs.

APPrO supports the proposal to use the fully allocated cost to determine the total cost of the cluster capacity but is concerned that the reference to minimum design requirements, as discussed above, could result in sub-optimal development of the resource clusters. APPrO understands that the fully allocated costs will include the present value of the operational and maintenance (O&M) costs associated with the enabler facility and that no additional ongoing payments would be required. As this is different than the approach taken for network connections, APPrO would appreciate the Board confirming that no additional O&M payments would be required for enabler facilities. Any uncertainty in the cost assessment process would be reflected in generator bids and power prices. APPrO’s members would prefer to know that the costs are included.

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org

APPrO recommends that the capital contribution payment should be due when the generator is connected to and using the enabler line to transmit power and accordingly section 6.3.14A should be revised to include line use as a prerequisite for payment.

6. Transmitters should develop/construct, own and operate enabler facilities

APPrO supports the Board's decision to amend the TSC to allow transmitters to build, own and operate enabler facilities. This was a critical step in working around the "who should build first problem" that has prevented timely cost-effective construction of optimally-sized enabler facilities in other jurisdictions. As the transmitters will be the owners and operators of the enabler facilities, APPrO supports Ontario Power Generation's submissions on line losses, i.e. that enabler line losses should be allocated to the IESO. This is another area where cost certainty will lower the overall costs that ratepayers will pay for the delivered power rather than requiring generators to include estimates of these costs in their OPA supply bids.

7. Options for covering generator capital contributions through periodic payments

APPrO notes that the proposed amendments do not specify how generators are required to pay their capital contributions or prevent a transmitter from financing generator contributions either as a non-utility activity or as part of their revenue requirements. In the first instance, the generator could agree to pay a negotiated periodic payment over the life of the generation contract and any profit would be retained by the transmitter. Under the revenue requirement model, the payments could be set at a level to pay the contribution and the transmitter's approved rate of return over the term of the OPA contract. APPrO acknowledges that the TSC amendments do not explicitly contemplate arrangements of this kind but believes that they could be allowed subject to interpretation and acceptance by the Board.

To the extent that the financing costs are lower than the generator's cost of capital, the costs passed through to consumers would be lower. If transmitters are allowed to collect generator contributions over the term of the OPA supply contracts at the OEB approved rate of return, the cost of the delivered power can be minimized. Alternatively, the rate of return on the contribution could be set above the approved overall rate of return and the difference could be shared between the transmitter and the ratepayer. Allowing generators to pay these costs in periodic payments and lowering the associated financing costs, will encourage generators to develop resources to meet the province's renewable targets. Given the potential for lower costs and shared savings, APPrO recommends that the Board direct its staff to initiate further consultation to investigate this potential benefit.

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org

APPrO believes that ownership of the enabler facilities will continue to reside with the designated transmitters irrespective of the form of generator contribution (upfront capital or periodic lease payments) and would appreciate the Board confirming or clarifying this assumption.

8. Treatment of non-generator customers connecting to enabler facilities

APPrO would also appreciate clarification on whether additional customers connecting to an enabler line as described in section 6.3.8A will be required to pay the fully allocated costs of the incremental capacity they require, including their share of the initial development costs of the enabler. APPrO does not understand why the costs associated with the incremental capacity to serve customers outside the cluster would be net of the costs paid by the generators connecting within the cluster as stated in the proposed amendment.

In APPrO's view, everyone connecting to the enabler line should pay their fair share of the fully allocated costs associated with the line capacity that they require. APPrO recommends that the Board consider as part of its current review of transmitter connection procedures whether changes are required to accommodate enabler line connections and the connection of ancillary users to enabler facilities.

9. Potential need to direct a transmitter to build

The importance of amending the TSC in order to connect renewable resources is most apparent in the Board's commitment to amend transmitter licences to allow the Board to require a transmitter to implement the transmission requirements approved in an IPSP or directed by the Minister. APPrO supports this change but expects that it may be needed only as an exception if transmitters are generally prepared to compete for Board approval to develop and build enabler facilities.

10. Concluding Remarks

APPrO supports the Board's decision to implement a balanced solution with transmitters developing, owning and operating enabler facilities to facilitate the development of renewable resource clusters and agrees with the Board that the hybrid option will encourage transmitters to develop the necessary transmission capacity in a timely and cost effective manner while maintaining the principle of generator cost responsibility for connection facilities. Under this approach, ratepayers will benefit from the expedient cost-effective development of renewable resources as directed by the government, transmitters will not be unduly exposed to development and construction recovery risks, and generators

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org

will pay a reasonable share of the costs of connection facilities without being exposed to the first-in disadvantage or limiting the connections of other system users.

It is APPrO's firm belief that absent the Board and its staff taking the initiative to resolve the chicken-and-egg problem of who should build first, the development of optimal renewable resources in Ontario would have been delayed indefinitely. APPrO will continue to support the efforts of the Board on this development and is committed to assisting Board and working with its staff and other industry participants to ensure a smooth and timely implementation to meet Ontario's renewable resource targets.

All of which is respectfully submitted.

December 1, 2008

A handwritten signature in black ink, appearing to read 'David Butters', is written above a solid horizontal line.

David Butters
President, APPrO

cc Jake Brooks

25 Adelaide St. East, Suite 1602, Toronto, Ontario, M5C 3A1
or: PO Box 1084, Station F., Toronto, Ontario, M4Y 2T7 Canada
416-322-6549 fax 416-481-5785 appro@appro.org www.appro.org