



18 August 2006

Kirsten Walli
Board Secretary
Ontario Energy Board
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Sent by email: boardsec@oeb.gov.on.ca

Re: OEB Staff Proposal on minimum filing requirements for transmission and distribution rates and projects (EB-2006-0170)

Dear Madam:

I am writing with comments on the draft proposal on minimum filing requirements for electricity transmission and distribution rate applications and leave to construct projects.

Our review suggests the proposed rate filing requirements would provide for a relatively comprehensive review of applicable projects. We are pleased that the proposal incorporates elements of the cost allocation filing model developed over the past year with AMPCO's involvement. Generally, this aspect of the proposal promises a positive step towards requiring standardized filings and adequate information from project proponents.

Our review raises some concerns, however, with aspects of the proposal dealing with transmission project filing requirements. We are less concerned with projects of a connection or sustainment nature. Our view is that such projects should naturally require a relatively low evidentiary threshold and can be dealt with in a rate application process. However, with respect to projects previously considered in a rate application or in the context of an Integrated Power System Plan application by the Ontario Power Authority, we note the guidelines address filing requirements related to impacts, consultation issues and land rights, but do not seem adequate with respect to project costs, benefits, risks and impacts on the interests of consumers.

We recognize the distinction Board staff makes between rate regulated entities and non-regulated entities with respect to the Board's statutory duties. As the paper notes: "For rate regulated entities whose revenues are derived from ratepayers, there is an onus to justify before the Board all expenditures on transmission facilities." We also support efforts to avoid "duplication of regulatory review". Our concern is that the minimum filing requirements enumerated in Section 4.3 would not provide for validation or confirmation of project cost and technical parameters, nor establish baseline costs against which actual expenditures might be compared.

In balancing the risks of higher costs resulting from the duplication of regulatory review with the interests of consumers with respect to prices and the reliability and quality of electricity



service, we cannot imagine a case where project costs would not be significantly larger than the costs of a regulatory review of that project. With that perspective, we would wish to ensure that efforts to streamline regulatory oversight do not result in incomplete consideration of the projects over which the Board has regulatory authority.

In order for such a review to be duplicative, we submit that reviews would need to consider a project of identical scale and scope, at a single point in time and with an equivalent level of detail. It is not clear that a project proposed in an IPSP, a rate application or a leave to construct will necessarily meet these criteria.

For example, our understanding is that the OPA proposes to regularly produce plans that look ahead 3 years and as far as 20 years out. Presumably, some transmission projects will be scheduled several years out, for example, to be ready once a new generating plant is nearing completion or to accommodate forecast demand growth. Many planning assumptions, costs and other factors might be expected to change in the period between the proposal of a project and its construction. It is possible that an approved IPSP project may look quite different when the time comes to build it. Ontario's past experience with power system planning would tend to confirm this view.

We also expect the required level of detail and estimate accuracy might differ as between a plan produced by the OPA and a subsequent capital proposal by a transmission company. While we might be comfortable with an approach to power system planning based on "ball park" estimates, we are not comfortable that this level of review satisfies our expectations of a typical leave to construct or rate application process, the culmination of which is a judgment by the Board that costs have been prudently incurred and should be recovered from rate payers.

We would have a similar concern with respect to a regulatory approach that approved capital spending over multiple years. Our experience suggests that, over time, project specifications tend to change; cost estimates change with them. A project approved in year 1 might be quite different in year 3 or 4, in terms of scope, scale, specifications, and, of course, costs and customer impacts.

Our interest is ensuring that where the need for a project is established, there will be a review by the Board that provides the Board and all parties with a reasonable assurance that the costs of such a project are appropriate and are being properly managed, and that it is reasonable that those costs be recovered from rate payers.

Section 5 enumerates additional filing requirements for projects that have not been previously approved. While these additional requirements address costs and benefits, they do not seem to address risk, project cost estimation accuracy (and accountability) or more general business case concerns. Again, our experience suggests that project proponents are sometimes reluctant to expend much effort quantifying benefits and costs, especially where those relate to broader customer impacts such as electricity prices, and are generally reluctant to quantify less tangible benefits and costs such as impacts on reliability and quality of electricity service. Where a transmission project offers benefits in increased import capacity or reduced congestion, such benefits should be evaluated and quantified.



Without such an effort, it will be difficult for the Board to adjudicate and assign priority to multiple projects competing for limited capital funds and customers' ability to pay. Given our sense of the potential scale for capital investment in Ontario's transmission infrastructure, filing guidelines should provide a basis for approving the best projects first, based on a comprehensive and reasonably accurate review of the benefits and costs of all proposed projects.

In summary, we are prepared to support projects that demonstrate clear net benefits to customers and where we are reasonably assured that the proponent has the appropriate incentives to first produce an accurate estimate of costs and benefits and then to deliver the project on time and on budget. We see the Board's approach to developing generic filing guidelines as a significant positive step in establishing a regulatory framework that will ensure this takes place. However, given our inexperience and limited understanding of how the OPA will approach its planning responsibilities and what such a plan may look like, not only in the first iteration but in the future, we are concerned that the Board establish up front a set of guidelines that applies an equivalent standard on all applicants to produce information in the regulatory process at the appropriate time so that the Board and all parties can reasonably evaluate the implications of any project on the interests of consumers.

I trust these comments are useful to the Board. We would be happy to provide further information or to discuss our views more fully wherever that would be convenient.

Sincerely,

A handwritten signature in blue ink, appearing to read "Adam S. White", with a long horizontal flourish extending to the right.

Adam S. White
President