

# **AMPCO Submission on: Cost Responsibility Associated with Transmission Plans**

## **Ontario Energy Board File No. EB 2006-0189 & EB 2006-0200**

### **Introduction**

Pursuant to Procedural Order # 3 in this combined hearing, AMPCO is providing this submission.

As large industrial users of electricity in Ontario, all AMPCO members share in paying for any transmission assets which costs have been socialized. As well, many existing AMPCO members have paid capital contributions for the dedicated line assets that serve them.

Accordingly, AMPCO's general position is that assets associated with socialized costs should be broadly beneficial to all customers.

At the same time, large industries seeking to locate or expand in Ontario need a clear and readily understandable process for determining the cost of connection, as well as confidence in the fairness of the costs they will incur.

More broadly, AMPCO recognizes the need for processes and procedures that enable transmitters to meet changing customer demand in an efficient and predictable manner, to avoid both uneconomic expansion of the system but also to ensure capacity is available when it is needed.

### **Principles**

AMPCO supports the basic principle that assets required for the use and benefit of one customer should be paid for by that customer and not socialized to the broader group of customers. Application of this principle has specifically affected many AMPCO members in the past and will continue to do so. However, it is consistent with broader principles of economic efficiency and fairness.

AMPCO also accepts that many transmission line assets serve larger groups of customers, and that pooling of these costs into the rate base is appropriate.

The issue here is to set a practical boundary between the application of these principles, i.e., when should a capital contribution be required and when should the costs be socialized?

AMPCO also believes strongly that, whatever solution is determined, all customer types must be treated equally under the Transmission System Code.

### **Discussion**

#### **Dedicated Transmission Assets**

Where a new asset or an existing asset will only serve a single customer, the asset should be paid for via a capital contribution from the benefiting customer. This principle should be followed whether the customer is an LDC or industrial customer.

Section 6.3.6 should never be interpreted to cover changes to any dedicated line connection assets, regardless of customer size or complexity.

### **Non-Dedicated Transmission Assets**

Where an asset serves more than one customer, the situation is more complicated.

In principle, the cost of a change to a non-dedicated asset driven by a single customer requirement could be recovered from that customer. This practice has in fact been used in the past to fund some distribution enhancements. The problem that arises is that most demand driven upgrades to a system result in a greater capacity increase than is needed to satisfy the initiating requirement. This extra capacity may then serve to benefit existing or future customers that have not provided capital contributions. In some cases, there may be concurrent initiating requirements by more than one customer.

In the specific projects that triggered this discussion, the Woodstock area reinforcement is a good example.

There are essentially three options available to address the issue:

1. Require a non-recoverable capital contribution from the initiating party or parties. This option has the advantage of simplicity and the disadvantage of unfairness, when one customer pays for assets that later on may serve to benefit other customers.
2. Require a partially recoverable capital contribution from the initiating party or parties, with a proviso that some of the capital contribution could be recovered later from new customers that would become connected in the future or existing customers whose demand increased in the future. This procedure was traditionally used for distribution and transmission line extensions. It has proven very difficult for utilities to administer, since it can be several years between the time an asset is built with a capital contribution and the time the next load increment or customer appears.
3. Construct non-dedicated (i.e., more than one customer will use the asset) transmission connection assets without capital contributions (i.e., socialize the costs). This alternative bears the risk that, on occasion, some assets will be constructed to the benefit of a small number of customers, but at the expense of all customers.

Of these alternatives, AMPCO believes the last (No. 3) is the most practically effective approach, for these reasons:


1. It is clear and procedurally simple.
2. This alternative recognizes that much of the line connection assets in Ontario, such as the 115kV system in Northern Ontario are de facto regional networks or sub-networks, where enhancements to non-dedicated, non-network facilities can strengthen the system to the benefit of all customers in the area.
3. It avoids requiring a transmitter to make a subjective determination of how far upstream of a dedicated facility it should look when determining capital contributions for a new line connection.
4. It avoids inconsistent treatment of customers.
5. It avoids the delays in projects that would be inevitable if multiple capital contributions were required, especially where a customer may feel they are not the party triggering the need for capacity increase. Again, the Woodstock area reinforcement is a typical example of such a case.

There could be some concern that transmitters may take advantage of the absence of a capital contribution requirement to build their asset (rate) base excessively. However, most projects that would be significant in cost would likely to require a Section 92 leave to construct application, which would provide stakeholders such as AMPCO to intervene if they believe the project is not fully justified.

Another concern could be if a case were to arise where new assets are required to serve more than one load, but where a single load is driving the need and the others are contingent. As an example, a new line connection might be required to serve both a new mine and a processing mill. In these cases, the Board should retain the discretion to make a specific determination that the connection is in reality for a single dedicated purpose and that capital contributions are required of both customers.

In summary, AMPCO recognizes the difficulty faced by the Board and by transmitters in addressing this matter. It is acknowledged that there is not a perfect solution that will always prove fair to all parties. However, in such a situation, the best solution is usually one that is transparent and practical, and will tend to treat all customers fairly over the longer term. We believe our suggestion articulated above meets these requirements.

Prepared for AMPCO by:

A handwritten signature in cursive script, appearing to read "Wayne Clark".

Wayne Clark, P. Eng.  
SanZoe Consulting, Inc.  
705-728-3284  
Wayne.clark@xplornet.com.