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Vice President and Chief Regulatory Officer
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BY COURIER

September 29, 2006

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

EB-2006-0207 – Ontario Energy Board Review of the Integrated Power System Plan and related Procurement Processes – Hydro One Networks Written Comments on the OEB Staff Discussion Paper

In accordance with the procedure outlined in the Ontario Energy Board's letter dated September 8, 2006, Hydro One Networks Inc. hereby submits five paper copies of its written comments on the OEB staff discussion paper. An electronic copy (text searchable Acrobat format) will be sent to boardsec@oeb.gov.on.ca.

Sincerely,

Susan Frank

Attach. (1)

Re: Hydro One Networks Inc. Comments on a Review of Ontario Power Authority's Integrated Power System Plan and Procurement Process - EB -2006-0207

Hydro One Networks Inc. (Hydro One) is pleased to participate in the consultation process regarding the Ontario Energy Board's (Board) approach to the review of Ontario Power Authority's (OPA) Integrated Power System Plan (IPSP) and procurement processes. In particular Hydro One is pleased to provide comments on the Board's Staff discussion paper on the subject matter. This paper sets out the proposed principles to guide the Board's review process as well as it includes proposed filing guidelines to be followed by the OPA in relation to the IPSP.

Hydro One provides commentary in the form of General Comments and Specific Comments. In the case of the latter the focus is on transmission aspects as these impact on the following topics covered in the Staff discussion paper, namely:

- ❖ Demand Forecasts;
- ❖ Resource Planning - Conservation & Demand Management, and
- ❖ Resource Planning - Generation
- ❖ Resource Planning – Transmission
- ❖ Resource Planning – Evaluation and Environmental Considerations

1. General Comments

In general Hydro One is supportive of the principles for guiding the review and implementation of the IPSP which the Staff discussion document describes. Sections A-E of Part II of the document appear to be consistent with, and follow, the requirements laid down by the legislation and regulations.

Having said that Hydro One makes the observation that the level of detail and amount of information that is being requested of OPA as part of its IPSP submission is very substantial and this will present challenges not only to sourcing of the data but also its timely delivery from the various sources that the OPA will have to rely on. Ultimately this will impact on the timelines the OPA has to manage to perform all of the supporting analyses in the preparation and issuance of the IPSP.

Hydro One has some general concerns with the issues raised in Sections E and F of Part II as indicated below:

1.1 Section E – Facilitating Implementation of IPSP: - Regulatory Consistency and Streamlining¹

- ❖ Hydro One is fully supportive of the Board's Staff recognition for regulatory streamlining and that opportunities to do so will be sought in relation to the projects associated with the IPSP.

¹ Board Staff Discussion paper, September 8, 2006, Section F, pages 7 and 8

- ❖ In this respect Hydro One applauds the approach that “...issues that are adequately addressed in the context of the IPSP will not be subject to substantive re-examination by the Board at a later date...” It will be advantageous if Board Staff could clarify what is meant by the phrases “adequately” and “substantive re-examination” since these may have the potential to cause uncertainty and lack of clarity with respect to what approvals will be required in other proceedings where the issues addressed as part of the IPSP may re-surface.
- ❖ Board Staff rightly note that potential for streamlining is greatest in relation to approvals associated with transmission system investments and that the matter of need and costs will be examined as part of the IPSP and not revisited in other proceeding unless there are material deviations from the plan details. In this respect the phrase “adequate level of detail” carries a lot of weight and is crucial to determining whether or not these matters could be subject to review in other proceedings outside the IPSP. Therefore, it would be helpful if Staff could clarify what is meant by the phrase and whether there may be suitable qualifiers that could be included to eliminate any potential uncertainty as to how these will be treated in other non-IPSP proceedings.
- ❖ Board Staff note that since there are no franchises for electricity transmission in Ontario any potential transmission developer may bring forward transmission initiatives involving “greenfield” projects. For example, would a proposal to build a third North-South line from Barrie to Sudbury adjacent to existing right-of-way be considered a “greenfield” project? In as much as Hydro One respects the Board’s desire to open the door for other transmission developers to participate in the expansion of the transmission infrastructure in Ontario there needs to be clarity as to what is meant by “greenfield” projects and what will be the accountabilities and responsibilities of the third party transmission developers.
 - It needs to be recognised at the outset that to date there has been sufficient confusion with respect to accountabilities and responsibilities of the parties involved in transmission investment that has thwarted much needed investment in the transmission infrastructure. The accountability for determining and defending need for transmission is a prime example. Therefore the invitation to bring on board other transmission developers to participate in Ontario brings with it the need to clearly identify who does what to ensure that the approvals process is not bogged down again.
 - The accountabilities and responsibilities of transmitters encompass more than just the construction of transmission infrastructure. The operation and maintenance of facilities, participation in the IESO-controlled grid, connecting new customers and regulatory obligations are some of the aspects of being a transmitter that cannot be ignored.
 - Transmission network and local area (commonly used) assets are operated, maintained, and repaired based on decisions that consider all neighboring (and

system) assets as one. Thus, operation requires consideration of system security, potential risks of health and safety, etc due to outages. Maintenance and repairs are carried out by considering the loading on other equipment due to outage of one or more pieces of equipment for repairs and maintenance. In general, therefore, there is much need to coordinate these matters. We believe that there would be an increased in complexities to coordinate these matters with the introduction of more transmitters; and there would be corresponding increase in overall cost to the industry.

- If third party transmitters are to become a practical approach in the development of “Greenfield” transmission projects what are the accountabilities placed on Hydro One and other existing transmitters to provide information, standards, procedures, system diagrams etc. Will existing transmitters be given “equal treatment” so these can compete on a level playing field with the third party transmitters?
- There may be an issue of cherry picking of transmission projects by third party transmitters once the IPSP identifies the transmission projects and related costs. Availability of this information could lead to a situation where an efficient and effective design for a specific project from an incumbent transmitter (e.g. Hydro One) may be disadvantaged by a third party transmitter’s proposal that under cuts the incumbent transmitter’s proposal in the interest of gaining advantage to entry. How would this issue be addressed by the Board? How would the Board address the situation if no entity bid to construct the transmission project?

1.2 Section F – Implementation of IPSP Initiatives²

- ❖ Board Staff suggest that one way to ensure accountability for implementation of IPSP related projects is through imposition of licence conditions. This is a concern in that an IPSP identified transmission project may not turn out to be the most efficient or effective way of expanding the transmission infrastructure. This would suggest that there may be instances where the OPA and the transmitters do not agree on the preferred transmission project that the OPA chooses to be part of the IPSP. In that instance there should be an alternative mechanism to resolve the issue if need be post-IPSP without the recourse to licence compliance treatment.
- ❖ Board Staff suggest that the OPA should monitor the implementation of the IPSP. The concern here is that the OPA will likely rely on transmitters to provide it with information that would enable it to perform this monitoring function. Generally transmitters have the responsibility to provide a project schedule to the OEB which clearly identifies the milestones and timelines of events involved in bringing the project to service. In this way the OEB oversees the implementation of transmission projects. The addition of OPA into this monitoring loop could add to the

² Ibid, Section G, pages 8 and 9.

transmitter's burden in terms of additional reporting requirements. Therefore, the desire to have the OPA oversee the implementation of transmission projects should be implemented in such a way as not to increase the transmitter's regulatory reporting burden.

1.3 Alternatives to OPA Procurement

- ❖ The OPA has the accountability to develop procurement processes for managing electricity supply, capacity and demand in accordance with its approved IPSP. Does this accountability include procurement of transmission capacity?
- ❖ Given that the Board is contemplating the introduction of "Greenfield" projects managed by other than existing transmitters, will the OPA have to give due consideration to merchant transmission proposals and will this require the OPA to enter into procurement contracts with merchant transmitters for transmission resources?

2 Specific Comments

The comments provided below are specific to the various sections contained in Part III – IPSP Filing Guidelines – of the Staff discussion paper.³

- ❖ One comment that applies to all sections in Part III of the Staff paper pertains to the concept of splitting the IPSP into a Near-term Plan, which looks out three years from the issuance of the plan, and the remainder of the plan which looks beyond the initial three-year period. It should be noted that particularly in the case of the first IPSP the Near-term Plan may not include details for some of the transmission projects as the lead time to bring these into fruition is longer than three years. Therefore, from a transmission perspective it probably makes sense to think of the IPSP in totality.

2.1 Demand Forecast⁴

- ❖ Hydro One supports the detailed load forecast information requirements stipulated in the Staff's document. This information is important to enable all stakeholders, including Hydro One, to understand the assumptions made in respect of the demand forecasts and forecasting models that the OPA will use to ensure clarity of feedback that can be provided to the OPA. However, Hydro One notes that the detailed demand forecast must be extended to account for the period beyond the Near-term because it has to have the necessary level of detail for the purpose of establishing need for the generation and transmission projects which tend to have longer lead

³ Board Staff Discussion paper, September 8, 2006, Part III, pages 10-27.

⁴ Ibid, Section B, pages 11 and 12.

times, e.g. the load forecast should be compatible with projects going into service in 2011, 2012 and 2013.

- ❖ The document states that Board Staff expect the OPA to “...describe how and why its forecasts might differ from other published forecasts, such as those prepared by the IESO...”⁵ In reality, there will not be many other organizations in Ontario, including the IESO, that regularly prepare and publish a 20-year demand forecast. Therefore, it would be more helpful to request the OPA to demonstrate comparisons based on actuals and forecasts of key economic drivers used in its provincial and regional forecasting models. An example of such drivers may be GDP, fuel prices, population, housing and industry changes.
- ❖ The Staff proposal envisages that the OPA will identify transmission capacity in order to perform the assessments in respect of demand and supply forecasts. It should be clarified as to who has the responsibility to provide the data on transmission capacity that would enable the OPA to do the required assessments. Transmission capacity is not a static number and is a function of many interrelated conditions pertaining to time of year, demand and supply levels and outage of generation and transmission facilities. In order to ensure that the OPA can readily perform its accountability it would be helpful if Staff could clarify which entities will assist the OPA in providing transmission capacity related information.
- ❖ Similarly, the OPA is required to provide information in relation to transmission system reliability/adequacy requirements and information pertaining to the remaining operating life of existing transmission facilities in support of its selection of the preferred IPSP. This information does not reside naturally within the OPA and will have to be obtained from the IESO and the transmitters. It would be helpful if Staff could clarify which entities would be responsible for providing what information to the OPA to enable it to complete its assessments.

2.2 Resource Planning - Conservation & Demand Management⁶

- ❖ The documents states that the IPSP will “assume” a long list of methods will be employed by the government in its pursuit of CDM activities.⁷ However, the IPSP must also state the assumptions made around the level of activity, the costs & benefits and what is assumed to be achieved. There must be sufficient detail to compare these to CDM & supply alternatives.
- ❖ There is a significant disjoint between the government’s contention that they are shutting down the coal plants for environmental and health reasons and the fact that these aspects are assigned no value in the Total Resource Cost Test which is supposed

⁵ Ibid

⁶ Ibid, Part III, Section C, pages 13-16

⁷ Ibid, Part II, Section B, page 4

to govern how much and what CDM is carried out. This should be reconciled in the discussion of costs and benefits of the various options.

- ❖ CDM needs to look at incremental costs in many instances as opposed to full cost – often there are incremental costs to energy efficiency, environmental protections, etc. – only the incremental costs should be compared with the benefit achieved, rather than the full cost when the “base” solution is being undertaken for other reasons.
- ❖ The basis for “lowest identified cost” needs to be determined and disclosed. Is this purely a “cash out of pocket” consideration or is there value placed on environment, health, safety, and the like?
- ❖ The role of LDCs is unclear, especially where the document discusses competitive vs. non-competitive procurement – where LDCs fit into the scheme of things and what their role is intended to be in the various initiatives needs to be disclosed.
- ❖ It would be helpful if Staff could clarify what information pertaining to transmission resource alternatives would be required in the OPA’s evaluations of conservation alternatives and who would be accountable for providing that information.

2.3 *Resource Planning - Generation*⁸

- ❖ In respect of the various generation alternatives that OPA will be required to consider as part of its evaluation of resources for the IPSP, transmission considerations will be an integral part.
- ❖ The Staff proposal requires the OPA to identify for each generation resource initiative the location and proximity to existing transmission lines and the cost of the attributable transmission investments to incorporate the generation supply. How will this information be provided? For example will it be the transmitters which will be required to determine the necessary connection requirements? Given that not all cost information may be available for any specific generation incorporation project what degree of precision is required in respect of the costs?
- ❖ The OPA is also required to estimate the impact of resource on transmission constraints and congestion costs. How will that be achieved and which entity will be required to provide what information to the OPA? This needs to be clearly identified so that there are no barriers to information flow that would imperil the timing of OPA’s assessments and issuance of the IPSP.
- ❖ The OPA is required to perform an assessment of the impact of generation resources on affected transmission customers. How will this be achieved and what role are transmitters required to perform to assist the OPA in its tasks? It is important to note that impact assessments do not just focus on costs. The impact on performance

⁸ Ibid, pages 16-18

(Service Quality Indicators, Power Quality) and system losses are some of the key issues that are also examined in an impact assessment. Will these be included in the OPA's impact assessment?

- ❖ The OPA is required to perform an assessment of the economic and financial risks of the generation resource projects. Will this assessment require transmission impacts to be included and in particular the risks associated with obtaining EA approvals? What level of information would be required to support this activity?
- ❖ There is no mention in the document of any assessments that may entail generation resources that are connected to the distribution systems? If these generation projects are indeed part of the IPSP which entity would have the accountability for assessing the impacts of these resources on the distribution infrastructure? How would that information be provided to the OPA and by whom?

2.4 *Resource Planning - Transmission*⁹

- ❖ On the matter of costs directly attributable to transmission investments that would be required to incorporate and deliver energy from new generation resources how will OPA obtain this information and what level of accuracy of costs is expected for this purpose? What are the components of costs that have to be included for his purpose?
- ❖ The OPA is required to provide details of the transmission resource initiatives that include length of line, route and siting information and estimate of total project costs broken down by network and line connection categories. There are a number of issues which cause concern because of the lack of clarity, namely:
 - What will be the process for obtaining this information?
 - Will similar information on other transmission alternatives to the transmission resource initiatives also have to be provided?
 - Given that the timing of this information is likely to be before any consideration is given to EA assessments for the projects what level of information pertaining to route and siting data is required?
 - Will this information, once provided in respect of the IPSP, be used as a given in future EA approvals processes?
- ❖ The Board Staff proposal includes detailed requests for costs and schedules to be provided on a year-by-year basis until the planned in-service. Also, the proposal includes a detailed breakdown of costs into OM&A and decommissioning categories for monitoring post construction with point and range estimates. These requests are impractical. The level of detail sought is not available in year-by-year (annual) breakdown. Further, this level of information is not required today and therefore the request imposes an additional reporting burden on transmitters.
- ❖ The matter of accuracy of costs to be used in the IPSP raises some concerns.

⁹ Ibid, pages 19-21

- To date the OPA has been requesting “study type estimates” for assessment of transmission projects. Given the large number of projects and options that may be involved in the preparation of the plan, and the limited time for providing this information, the study estimates cannot be accurate in terms of reflecting costs incurred.
 - Also, at the time of preparation of these estimates there will be little or no cost information on associated property costs or environmental related costs (route selection, mitigation measures, etc.) and so this will further require some assumptions that will lower the accuracy of the study estimates.
 - Therefore, it is clearly evident that the OPA has to establish what the acceptable level (accuracy) of costs is in the context of the IPSP, since the intent of the IPSP approval is to establish in one forum the need for and the project costs, with which intent Hydro One fully agrees. There should be no recourse at a later date to revisit the matter of costs in a different proceeding, as this would defeat the purpose of streamlining the approval process that is being proposed in the approval of the IPSP.
- ❖ As noted in earlier comments, the concept of Near-term Plan may create problems with respect to quality of information with respect to transmission resource initiatives, particularly for the first IPSP, given that the majority of transmission projects contemplated in this IPSP are likely to have in-service dates significantly beyond the Near-term period.
 - ❖ It is unclear what the Near-term plan is meant to achieve in respect of providing transmission related approvals. For example, if the IPSP is set to cover the years 2008, 2009 and 2010, the transmission projects currently planned to come into service in those years will have approvals prior to IPSP, i.e. in 2007 and 2008. That is so because approvals for transmission projects take time and the in-service date typically occurs three or more years after approval has been granted. Therefore, there is no benefit to having approvals for the Near-term projects in the IPSP. The IPSP needs to address approvals for transmission projects that come into service beyond the time period, namely in-service years 2011, 2012 etc.

2.5 Resource Planning – Other Consideration

Plan Evaluation & Environmental Considerations

- ❖ The OPA will be expected to provide an implementation schedule for the single preferred IPSP that will articulate when and how the key initiatives will be undertaken. This will require in-service dates for transmission projects prior to having in place the necessary EA approvals. How is OPA expected to deal with the uncertainty not only in the in-service dates but the likely costs of the transmission projects given that this type of information will need to be dealt with at a low level of

accuracy? Moreover, once the IPSP has been approved including the in-service dates and project costs, what are the mechanisms that are available to transmitters to recover costs if the in-service dates and costs turn out to be different from what has been approved in the IPSP?

- ❖ The OPA is required to provide an estimate of the impact of the plan on transmission revenue requirement. Will that be done for all of the transmitters in the province with the view of estimating the impact of the plan on the provincial transmission rates or will it be done individually for each affected transmitter? How will the revenue requirement levels be established for each transmitter, over what period of time, and who will have accountability for providing this information? Will the revenue requirements identified in the plan have a recognized standing with respect to future reviews of transmitters' revenue requirements?

- ❖ In the same vein, the OPA's evaluations have to take into consideration environmental impacts of the plan. What is the level of detail required for these assessments given that these will take place before any EA studies have been completed for the potential projects, e.g. routes, siting? Is there an expectation that these assessments can be used as qualified input in the future EA approvals for the transmission projects that are part of the IPSP so as to minimize potential for overlap and delay? If that is the case, is the expectation that the proposal will be deemed acceptable by the Ministry of Environment to meet the "sound rationale" which the Board indicates must be included in the IPSP?