

# **Review of Ontario Power Authority's Integrated Power System Plan and Procurement Processes**

## **Comments of the Independent Electricity System Operator on Ontario Energy Board Staff Discussion Paper**

### **Introduction**

1. The IESO appreciates the opportunity to participate in the Ontario Energy Board's (the "Board") consultation process to establish principles and filing guidelines that will be adopted by the Board in its review and approval of the Ontario Power Authority's (the "OPA") Integrated Power System Plan ( the "IPSP" or "plan") and procurement processes.

2. The IESO considers itself an essential partner in the IPSP processes, including development of the plan and the Board's subsequent review and approval. The IESO and the OPA have signed a Memorandum of Understanding committing both parties to maintain a cooperative and mutually supportive relationship in fulfilling their respective objects under the *Electricity Act, 1998* and Minister of Energy directives regarding development and approval of the IPSP, and development of proposals and plans for retirement of the fleet of coal-fired generation plants. Our aim is to maximize efficient use of our respective processes and capabilities. IESO and OPA facilitation activities include:

- establishment of jointly accepted standards, criteria and assessment methodology;
- documentation of standards, criteria and methodology that will be given authority through existing market manuals;
- assessment of resource and transmission adequacy;
- identification and assessment of reliability and market impacts of proposed new or modified connection to the IESO-connection grid;
- establishment of acceptable connection arrangements;
- establishment of a joint demand forecast covering all time frames;
- development of integration requirements for intermittent, energy limited and base load facilities;

- development of proposals and plans for retirement of coal fired fleet pursuant to the Minister of Energy Directive; and
- establishment of service level agreement for recovery of IESO costs.

3. In addition, the IESO has an obligation to ensure that the planned system is operable. In this regard, the IESO will ensure that planned scenarios are evaluated for operability, including:

- system security;
- system re-preparation;
- integration of gas (e.g., required characteristics);
- integration of intermittent facilities (e.g., system requirements);
- integration of base load facilities (e.g., required characteristics);
- critical infrastructure considerations; and
- management of energy limited resources.

4. The IESO is committed to assisting with the development and successful completion and ongoing administration of the IPSP. Furthermore, we view the IPSP as an important tool to guide demand response, conservation, generation and transmission investment decisions, enabling the IESO to continue to meet its reliability maintenance obligations and responsibilities established by legislation, the IESO's license issued by the Board, and Market Rules.

### **General Comments and Observations**

5. The IESO believes that the IPSP should complement and support ongoing evolution of the competitive market, consistent with the provisions set out in the enabling legislation and regulations. In this regard, the IPSP and the options and proposals considered within it should not adversely impact the wholesale electricity market. For example, the procurement contracts should be designed and administered to ensure that the financial incentives created in the payment streams do not induce participants to operate or offer their facilities in the real-time dispatch in a manner that would not be consistent with efficient dispatch.

6. Furthermore, the IPSP should expect, and therefore allow for competitive market-based investments when establishing the strategy for the acquisition of resource (i.e., the plan should not rely solely on the OPA's procurement processes), particularly over the mid-term to long-term time horizon. To do otherwise would preclude the possibility of the transition to market-based investments. These principles, among other important considerations, should also underpin and guide the development and approval of the OPA's procurement processes.

7. We observe that the legislation, regulations and the proposed filing guidelines provides little flexibility to enable review and approval of anything less than the entire IPSP. The IPSP is required to be reviewed and approved by the Board or referred back to the OPA for consideration. On the other hand the Board can review the OPA's procurement processes and any proposed amendments, and approve the processes or refer all or part of them back with comments for further consideration and resubmission to the Board. It may be desirable to have the same level of flexibility for review and approval of the IPSP or specific projects identified in the IPSP. This would provide the Board with greater flexibility in ensuring that projects or activities that are more time sensitive can be given greater priority with respect to review and approval in relation to their need and required in service dates.

### **IPSP Filing Guidelines**

**A. We support the Board in its effort to align and streamline the regulatory review and approval processes to facilitate timely implementation of projects/initiatives reviewed in the IPSP.**

8. The IESO commends the Board on its effort to align and streamline the overall regulatory review and approval processes, including those requiring the Board's subsequent leave to construct and rate impact assessment in respect of projects/initiatives that may emanate from the IPSP. It is critical that these processes be aligned and executed efficiently, while permitting a reasonable level of participation by impacted stakeholders and fulfilling the regulatory

screens or tests that are required of the Board by legislation, regulations and Minister's Directive. In addition, we encourage the Board to lay out a transparent process for obtaining public input, including prescribing specific guidelines regarding the form of public notification that will be required of the OPA and/or project proponent(s) to ensure that impacted stakeholders and other interested parties are given adequate opportunity to comment on relevant matters which are of interest to them.

**B. The standard for the review and approval of “need” should be made clear and established ahead of time.**

9. Consistent with our comments regarding the desirability of allowing for greater flexibility in its review of the IPSP, the IESO submits that the Board should consider segmenting the review and approval of the “need” for resources that are identified in IPSP in accordance with their required in-service dates. Accordingly, the filing guidelines should be prescribed and aligned to facilitate review and approval of the need for specific projects within the IPSP in accordance with their priority and required in-service dates. For example, the planning horizons and the review and approval of the “need” for these resource could be segmented in terms of:

- **Near-term**—projects/initiatives which are required to be in service within 3-5 years. That is, the projects are required to be implemented and commissioned within this time-frame;
- **Mid-term**—projects/initiatives which require advance planning and engineering expenditures. These projects are required to be in service within 5-10 years; consequently, advance planning and engineering expenditures are needed to maintain viable options and flexibility to ensure that their respective in service dates can be met; and
- **Long-term**—projects/initiatives which will be adopted in the IPSP for longer term planning purpose. These projects will be adopted as part of the twenty

year IPSP; however they are not required to be in service for at least 10 years.

10. Essentially, these demarcations could help the Board define the standard upon which review and approval of “need” will be weighed. This will enable the Board to prescribe more precisely the level of information and details that are required to facilitate review and approval of the “need” for specific projects/initiatives and the overall IPSP on the whole. This could also help to focus priorities and provide more flexibility for assessing and establishing different degrees of commitment in accordance with the availability of information and acceptable risks. In addition, we believe this will help the OPA in its consideration and management of longer term risks and uncertainties in the course of development and implementation of the IPSP. On the whole, it would be helpful if the Board could provide further guidance about the level or degree of information that will be expected to be provided in demonstrating the need in each category.

**C. Not all resources approved under the IPSP should be automatically sourced through the OPA’s procurement processes.**

11. It would appear that the filing guidelines are being developed in such a way that would lead to the automatic procurement of the resources identified the IPSP through the OPA’s procurement processes (e.g., Section C and D pertaining to the acquisition of conservation, generation and transmission resources for the period covered by the near-term and the period beyond the near-term, respectively.) In our view, not all roads should automatically lead to or through the OPA’s procurement processes, regardless of whether the resources are required in the near or longer-term. The IPSP should be flexible enough to allow for adoption and deployment of the most prudent and cost-effective investment vehicle to facilitate development of projects approved under the plan. While the OPA’s procurement processes will be important vehicles to facilitate investments, particularly over the near-term, there may be other cost effective

alternative investment vehicles that could be adopted. For example, in some cases the current cost of service model may be suitable for developing new or modified transmission expansion facilities. In certain other instances (e.g., interconnections), the merchant model may be a more suitable transmission investment vehicle<sup>1</sup>. The IESO endorses the development of new approaches to transmission facilities development and operation in Ontario. In view of that, the IESO encourages the Board to adopt a policy which will consider and support new approaches for developing and operating transmission facilities identified in the plan, including the merchant approach. Where necessary, the IESO is prepared to support appropriate developments or enhancements to the Ontario Market Rules to accommodate these new transmission expansion facilities and to ensure that their operation is in accordance with the market rules.

12. In addition, as discussed earlier the IPSP should expect, and therefore allow for, competitive market-based investments when establishing the strategy for acquiring resources that are identified in the plan. As such, we believe that the filing guidelines should be designed to enable the OPA to effectively illustrate how the procurement contracts could be transitioned so that compensation would be made entirely through market revenues where these revenues are sufficient to attract needed investments. Furthermore, we recommend that, as part of the long-term strategy and plan, conservation targets are made to be achieved whenever possible through price responsiveness. This may be best induced by progressively exposing consumers to market prices.

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<sup>1</sup> Merchant transmission refers to transmission investments made by independent transmission companies or private and institutional investors, as opposed to the traditional regulated cost of service mode where a target return on equity would be established by the Board.

**D. The OPA should not be positioned as the project proponent, except in those situations that may require it to undertake certain activities to facilitate load management, conservation and energy efficiency goals and objectives consistent with the requirements of the enabling legislation and regulations.**

13. We observe that, in some instances the filing guidelines prescribe or request detailed information that normally would be required of a project proponent (e.g., section 4, part ii –iv, page 20). In our view, this level of detailed information should be provided and supported by the project proponent if and where it may be necessary to justify need.

14. It would not be prudent for the OPA to also act as the project proponent. The OPA's role should be limited, for the most part, to developing and obtaining Board approval of the IPSP, including identifying and supporting the need for the overall plan and specific resources identified in the IPSP, as well as the procurement of resources identified in the plan where the OPA's procurement process is the best vehicle. For example, we would not expect the OPA to provide in-depth project information such as: "...detail routing or general siting information" for transmission projects, and "...description of each phase of the project together with a year-by-year time schedule until the planned in service date" as are currently contemplated in the proposed filing guidelines. However, there may be some exceptions where the OPA can be reasonably expected to be the proponent, and therefore required to provide detailed project plan and cost information, including schedule and planned in service dates. These exceptions would include situations where the OPA may be required to undertake activities to facilitate load management and promote conservation and efficient use of electricity consistent with the requirements of the legislation, regulations and the Minister's Directives.

15. The development and defence of detailed project plans relating to, for example, transmission facilities where the need will be reviewed and approved under the IPSP, should be left up to the project proponents, including any subsequent requests for leave of the Board to construct which may be required.

Where a proponent's project plan is sufficiently advanced or where additional detailed project information is required by the Board in relation to a project that is subject to review under the IPSP, the Board may consider it appropriate to combine and hear the OPA's and proponent's evidence together in order to effect an efficient and joint outcome in this regard (e.g., for discretionary new or modified transmission expansion proposal or where the facility is required to facilitate implementation of a directive of the Minister or the Board). Section 9.1 of the *Statutory Powers Procedure Act* and section 21(5) of the *Ontario Energy Board Act, 1998* enables the Board to (e.g., for discretionary new or modified transmission expansion proposal or where the facility is required to facilitate implementation of a directive of the Minister or the Board) combine two or more proceedings or any part of them, or hear two or more proceedings at the same time. This may provide the Board with an effective forum in which to gather information that it requires to render timely and informed decisions, especially for addressing priority matters.

## **Procurement Processes**

### **E. The procurement processes should be positioned as a transitional bridge towards adoption of competitive market-based tools to facilitate development of resources.**

16. As discussed earlier, we submit that not all IPSP-derived resources should be automatically sourced through the OPA's procurement process. The IPSP and the procurement processes should be flexible enough to allow for the adoption and deployment of cost-effective alternatives to the procurement processes. The procurement processes should not be the sole means that will be used to promote investments in demand response, conservation, generation and transmission development. In particular, competitive market based options should also be given consideration to facilitate development or acquisition of resources. In addition, the procurement processes should be positioned as a transitional bridge towards the deployment and adoption of more competitive market-based tools for sourcing resources, consistent with the spirit of the

provisions prescribed by the legislation, regulations and the Minister's Directive. These principles, among other considerations, should underpin and guide the development and facilitation of the IPSP and procurement processes.

## **Conclusions**

17. The IESO appreciates the opportunity to participate in the Board's consultation process, and more specifically to comment on proposed key principles it believes should be adopted by the Board in its deliberation and approval of the IPSP and procurement processes. In summary, the IESO submits that:

- (a) the Board should make every effort to align and streamline the regulatory review and approval processes to facilitate timely implementation of projects/initiatives reviewed in the IPSP;
- (b) a transparent standard for the review and approval of "need" should be established ahead of time;
- (c) not all resources approved under the IPSP should be automatically sourced through the OPA's procurement processes;
- (d) the OPA should not be positioned as the project proponent, except in situations requiring it to undertake certain activities to facilitate load management, conservation and energy efficiency goals and objectives consistent with the requirements of the enabling legislation and regulations; and
- (e) the procurement processes should be positioned as a transitional bridge towards the adoption of competitive market-based tools to facilitate the development of resources.

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