

September 27, 2006

BY COURIER (5 COPIES) AND EMAIL

Ms. Kristen Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4
Fax: (416) 440-7656
Email: boardsec@oeb.gov.on.ca

Dear Ms. Walli:

**Re: Pollution Probe – Written Submissions on Staff Discussion Paper
EB-2006-0207 – Approach to Review of OPA’s IPSP and Procurement
Processes**

Pollution Probe congratulates Board staff on their excellent *Discussion Paper*, and Pollution Probe’s submissions are limited to what we believe are minor changes that will further increase the precision and/or specificity of the *Discussion Paper*. If our submissions are adopted by the Board, we believe that they will lead to an improved filing from the OPA and hence a shorter OEB review process.

I. Evaluation of Relative Economic Costs and Risks of Competing Generation Options

Board staff correctly notes on pages 6 and 7 of the *Discussion Paper* that there is a need for an accurate and full assessment of the relative costs and risks of alternative electricity generation options:

Economic prudence balances the economic and financial risks and benefits of alternative means of achieving the goals set out in IPSP Directives. Cost effectiveness refers to comparison of alternative investments or initiatives in terms of costs and tangible benefits. In other words, the cost effectiveness of alternative investments will be compared on a \$/kW or \$/kWh basis.

...

In making these assessments, the Board will require an understanding of the total cost implications of the IPSP, including the short- and long-term financial impact of IPSP initiatives on electricity system costs and provincial electricity prices and rates. The Board will also require an understanding of the financial and other risks associated with IPSP initiatives. ...

The capital market's required rate of return for an electricity generation project is a function of its risk which, in turn, is a function of the project's size and fuel type amongst other factors. Pollution Probe therefore submits that:

Submission 1: The IPSP's Filing Guidelines for generation resources should explicitly require the calculation of the Levelized Unit Energy Cost (LUEC) for each generation alternative using its fuel and size-specific risk-adjusted cost of capital.

In addition, generation resources located on the customer's side of the meter will provide significant cost savings to Ontario's electricity system (e.g. lower transmission, distribution and transformer capital costs and lower transmission, distribution and transformer electricity commodity losses). The required reserve margins for small-scale, distributed resources located on the customer's side of the meter will also be lower than those for large-scale merchant power plants. Pollution Probe thus also submits that:

Submission 2: The IPSP's Filing Guidelines should explicitly require the calculation of the LUEC savings of generation resources located on the customer's side of the meter in terms of reduced transmission, distribution and transformer capital costs, reduced electricity commodity losses and lower required reserve margins.

II. The Least Cost Plan

According to page 22 of the *Discussion Paper*:

It is expected that the OPA will identify a single preferred IPSP, ... To the extent that the preferred plan is not the plan with the lowest identified cost of all plans modeled, the OPA will be required to justify the selection of the preferred plan over the plan with the lowest identified cost. ...

Pollution Probe submits that a major component of the least cost plan to meet Ontario's electricity needs must be the elimination of the status quo subsidies for electricity generation and consumption and a move to full (marginal) cost pricing for electricity. Pollution Probe accordingly submits that:

Submission 3: The IPSP's Filing Guidelines should explicitly require that the OPA's least cost plan include the elimination of the status quo subsidies for electricity generation and consumption and a move to full (marginal) cost pricing for electricity.

III. Procurement Process

According to page 29 of the *Discussion Paper*:

... The procurement processes must be designed to maximize the likelihood of obtaining the required supply, capacity or resource on an economically prudent, cost effective and timely basis. They must also be designed to minimize at the outset, and/or reduce over time, the financial risks and obligations of electricity consumers. Among other things, electricity consumers should not bear the financial risk of non-performance by the counterparty.

Pollution Probe fully supports the proposal that the procurement process should minimize the risks and obligations of consumers. However, these benefits to consumers should *not* be achieved by transferring the risk and obligations to taxpayers (i.e. *generators* should bear these risks and/or obligations). Furthermore, neither consumers nor taxpayers should be responsible for a generator's capital cost overruns. Pollution Probe accordingly submits that:

Submission 4: The first paragraph of section B.1 on page 29 of the *Discussion Paper* should be modified to the following:

“... They must also be designed to minimize at the outset, and/or reduce over time, the financial risks and obligations of electricity consumers *and/or taxpayers*. Among other things electricity consumers *and/or taxpayers* should not bear the financial risk of non-performance *and/or capital cost overruns* by the counterparty.”

IV. Costs

Pollution Probe's respectful requests 100% of its reasonably incurred costs for participating in this proceeding. As the Board is aware, Pollution Probe is a registered charity that has no pecuniary interest in the outcome of this proceeding, and its membership includes thousands of electricity consumers.

Yours truly,



Basil Alexander

BA/ba/jg

cc: Miriam Heinz, Regulatory Affairs Coordinator, Ontario Power Authority, by email to miriam.heinz@powerauthority.on.ca