

**IN THE MATTER OF a process initiated by the
Ontario Energy Board to review the regulatory
process for the consideration of the Integrated
Power System Plan of the Ontario Power
Authority.**

SUBMISSIONS ON STAFF DISCUSSION PAPER

FROM THE

SCHOOL ENERGY COALITION

General

1. The School Energy Coalition (“SEC”) believes that the Staff Discussion Paper (the “Paper”) is an exceptional analysis of the issues and considerations raised by the Board’s mandate to review and approve the Integrated Power System Plan (“IPSP”) and the procurement processes of the Ontario Power Authority (“OPA”). It correctly identifies all or most of the key issues, and proposes both decision-making criteria and filing guidelines for the IPSP that are appropriate in the circumstances. The following comments on the Paper, while in some cases critical, should not be read as detracting from our view that this is very thorough and well thought out.
2. The last time an integrated resource plan for electricity was reviewed in Ontario was in 1990-1993, when Ontario Hydro’s Demand/Supply Plan was considered by a joint panel of the Ontario Energy Board and the Environmental Assessment Board. The process was lengthy and expensive, and as a result came in for a significant amount of criticism. However, it is also true that it was considering a plan to spend more than \$200 billion (which at that time was a lot of money), and at a cost of about \$60 million the public process demonstrated that the plan was not viable. Considerable ratepayer risk and excess cost was avoided by a thorough process.
3. In the view of SEC, the Board must be willing to devote both the time and the resources to a thorough review of the initial IPSP proffered by OPA. While it is true that a) the Supply Mix Directive and the IPSP Regulation provide valuable guidance to the IPSP parameters, and b) the introduction of a mandated three-year review cycle means that mid-course corrections are more transparent and easier to implement, it is also true that too many shortcuts in this initial review may be penny wise and pound foolish. In our view, a thorough review of the first IPSP, even if it is lengthy and expensive, is the firm foundation on which future demand/supply planning decisions can be made wisely and efficiently. Thankfully, the Paper appears to have adopted the same underlying approach, in which getting it right is just as important as regulatory efficiency.

4. The following comments respond to specific components of the Paper.

Principles Guiding Review and Implementation of the IPSP

5. We believe that the following three principles, while implicit in the Paper and described in a number of places throughout, should be established expressly as key components of the IPSP:
 - a. Economics, environmental impacts, and risks have to be balanced each with the other, not only with respect to each option or initiative within each goal, but also with respect to each goal relative to the others (to the extent that the Supply Mix Directive allows for flexibility), and with respect to the IPSP as a whole. The Board should ask OPA to make these balancing judgments explicit in the plan.
 - b. Structural tradeoffs (public vs. private ownership, different methods of procurement, different choices for delivery mechanisms of conservation, etc.) should be made explicitly and include an analysis of the pros and cons of each option.
 - c. The IPSP has to include a clear identification of possible scenarios, together with the signals that the expected scenario is not actually unfolding as predicted (or milestones within the expected scenario to affirm its continued validity), decision points and available options when those signals are seen, and risk management strategies to ensure that a change in scenario does not entail unreasonable costs to ratepayers or to the economy as a whole.
6. Page 4. In the achievement of conservation and other demand-related targets, the IPSP should specifically integrate assumptions about the impact of smart meter implementation in Ontario. This is one area in which scenario analysis is critical, since there is significant uncertainty about the rollout and impact of smart meters, at least as those things relate to the Near Term Plan.
7. Page 5 and 18. We believe the Paper should make clear that the Supply Mix Directive does not establish 14,000 MW as the nuclear level. This level is a limit (ie. ceiling) rather than a target or a floor. Further, it is clear that the Supply Mix Directive does not require that all baseload be served by nuclear, only that some be so served. It is therefore clear that, subject to the upper limit, it is the responsibility of the OPA in developing the IPSP to optimize the amount of nuclear (just as it optimizes other generation sources) by balancing the various economic and non-economic impacts and risks. The Board should affirm this goal.
8. Page 5. While we have commented separately that economic, environmental, and risk tradeoffs must be expressly addressed, the coal phaseout is perhaps the best example of that. The IPSP should identify with precision the costs and benefits associated with a specific pace and strategy of phaseout, so that the Board and ultimately the public is able to assess the real life cost of the environmental benefits being attained.
9. Page 6. The distinction between economic prudence and cost effectiveness is not clear, and perhaps could be described in more detail. In a complex hearing such as this, equivocations on

key terms going into the process get magnified along the way and can become real impediments to efficient review of the issues.

10. Page 7. We do not agree that there are separate economic prudence and cost effectiveness tests for plan components and for the overall IPSP itself. In our view, the IPSP is tested once, as an overall plan. Within each individual component of the plan, it may or may not be true that the options selected are the most cost-effective. However, they must cause the overall plan to be as efficient as possible.
11. Page 8. The Paper notes that gas pipeline issues are not part of the IPSP, and we agree. However, in our view the IPSP should include express analysis of the costs and risks associated with gas supply, including transmission, and with gas price volatility, to the extent that the IPSP relies on gas-fired generation or electricity to gas fuel switching as future demand and supply options.
12. Page 9. We believe that the Issues List for the first IPSP proceeding should include a review of the best approach to mid-term reporting – frequency, filing requirements, review, etc. The best opportunity to consider ongoing updating is when the plan itself is being considered.

IPSP Filing Guidelines

13. Page 10 and 13. Staff has proposed in the Paper that there be a form of integration of regulatory processes between the IPSP and individual project approvals. In principle, we agree that this is a good idea, because it allows the Board to determine many project-specific issues in the appropriate, wider context. However, it is not clear to us that a one-size-fits-all approach will work here. Instead, we propose that OPA be invited, in the IPSP, to propose with respect to each project in the Near Term Plan the regulatory approval process the project will undergo if approved within the IPSP. The regulatory proposal would, of course, have to comply with applicable law and with the regulations of the OEB, but could for example identify those issues which would be dealt with in the IPSP, versus those issues that would be left to a leave to construct or other project-specific approval. It could also propose time frames for application and approval, in keeping with the needed in-service dates. The proposal could also contemplate particular consultative processes or other approaches to ensure transparency and review of all relevant issues.
14. Page 11 and 24. The Paper refers a number of times to consultative processes to be carried out by OPA. We note that the Board is not giving OPA any guidance on this, ie. dealing with issues such as access to information and funding. We think that, given the experience of the Board in managing consultative processes, it is worthwhile for the Board to provide such guidance to OPA.
15. Page 11. The Paper in several areas talks about demand projections, and the effects of conservation activities on those projections, but it does not explicitly require that the IPSP include projections of commodity and fuel prices, and analysis of price elasticities and the impact of price on the IPSP itself. We believe those components should be required.

16. Page 11. The supply/demand forecast will inevitably involve a relatively complex system model, either one currently used by OPA or a new one developed for the purpose. It will be critical to public review of the IPSP that stakeholders have access to that model and to the inputs OPA is using, as early as possible in the process. The Board should mandate this access as part of its initial guidance of OPA.
17. Page 12. It would be useful if the impact of conservation on load forecasts is disaggregated into:
 - a. Conservation driven by natural responses to environmental concerns and/or price signals;
 - b. Conservation mandated by regulatory or government action, such as tighter building codes, etc.;
 - c. Conservation motivated by market intervention on the part of the OPA; and
 - d. Conservation motivated by market intervention on the part of other energy industry players, such as government, utilities, etc.
18. Page 12. The assumptions surrounding existing facilities should, in our view, include an ongoing cost/benefit analysis of the operate/refurbish/close judgment for each facility, and within that an express review of the environmental impacts associated with each such choice.
19. Page 13. In addition to the factors described in the Paper, and to the general issues raised by us in paragraph 5 above, all of which should be considered for each component of the IPSP, it is in our view important in the context of the Near Term Plan to identify with precision the extent to which any option limits future flexibility in planning. For example, if an option uses up available transmission in an area, thus making other options prohibitively expensive because of incremental transmission costs, that sort of impact must be identified and justified.
20. Page 14. In dealing with conservation measures, to what extent is the Board expecting that OPA will use or be guided by the TRC Test? If this is predetermined (for or against), the Board should make this clear. If, on the other hand, it is an issue to be determined in the first IPSP review, that should also be stated.
21. Page 15. The Board does not include as one of the criteria for review of the conservation plan the balancing of conservation initiatives between customer groups. Since all rate classes pay for conservation, it is common to ensure that all rate classes have a reasonable opportunity to participate in funded conservation programs. This is a longstanding principle that has been approved many times by the Board, but it periodically comes into question again (recently, in the Gas DSM Framework case, and in the Ottawa Hydro amendment application). It would be better to make it clear prior to the filing of the IPSP.
22. Page 17. With respect to renewable energy resources, the method of procurement is going to be a critical element and should be stated in the plan. However, the level of dispatchability of the resource is an issue in all generation sources, not just renewables. Just as load has a “load shape”, with probabilities associated with it, so too any supply (or demand management that

supplants supply) has a “supply shape” with probabilities associated with it. Thus, the “intermittent nature of the generation resource” should be listed as a criterion in all components of the plan. For every technology, dispatchability should be identified, together with any measures to enhance dispatchability or load following capabilities.

23. Page 18. The nuclear component of the IPSP should include express consideration of environmental impacts.
24. Page 18. We believe that the IPSP should include a program, proposed by OPA, to seek out gas generation opportunities. In the first IPSP, it may be that many of those opportunities have not yet been tracked down, but if OPA has a comprehensive plan for identifying them, they can be included in the longer term mix.
25. Page 21. The longer term plan should identify specific impacts of the long-term choices on the Near Term Plan. For example, if the IPSP includes in the long term a new nuclear station in eastern Ontario, and as a result near term alternatives in eastern Ontario are transmission constrained, this should be set out expressly in the plan, and justified.
26. Page 22. We do not agree that the lowest NPV plan is the standard against which the preferred plan should be tested. Rather, the IPSP should identify the lowest cost plan on a probabilistic basis, taking into account key sensitivities in the calculation of future electricity commodity costs, and should assess the preferred plan against that standard. This will allow the Board to identify the value of tradeoffs for environmental benefits, for risk minimization, and for other non-financial benefits of the preferred plan.
27. Page 23. A sensitivity analysis should be provided for both the preferred plan and the lowest cost plan.
28. Page 27. The Paper contemplates measurement of environmental impacts. That has long been a desirable goal, but past attempts to achieve it have met with many challenges. If Staff is proposing the monetization of environmental externalities, this should be set forth explicitly. If not, some guidance from the Board as to the methods to be used to quantify the environmental impacts in order to make planning decisions would be very useful.

Procurement Processes

29. Page 29. In our view, the criteria for an effective procurement process are similar to those for generation and conservation options. This means, for example, that it is not correct to limit them to the “economically prudent and cost effective” category. Environmental impacts, risks, and integration into the entire IPSP are all relevant factors that should be given weight. A perfect example is the Standard Offer Program, which addresses barriers to market entry by renewable generators through a more prescriptive, less competitive approach. It is at least arguable that the Standard Offer Program is not the most cost effective way of procuring generation (even renewables), but it has long term value because it expands the number of players in the renewable generation market, and thus makes more renewable generation expertise, and more

potential competitors for renewable opportunities, available in Ontario for the future benefits those factors will create.

30. Page 29. For much the same reason, we do not believe that the Board should make an a priori judgment that it favours “the sole use of competitive procurement processes”. The Board’s mind should be open to appropriate balancing of various procurement methods.
31. Page 29. We do not agree that financial risks cannot be borne by consumers. It may well be good policy to allow less financially strong companies to enter the generation market, in order to help develop a domestic generation industry. In addition, it may be more financially prudent to allow higher risk generation, but extract a price discount to compensate the ratepayers for the incremental risk. These options should not be ruled out at the outset.
32. Page 32. For the same reason, we do not believe that bid security should be a pre-established criterion for all procurement.

Conclusion

33. We appreciate the opportunity to provide our comments on this Staff Discussion Paper, and hope that our input is of value.

Respectfully submitted on behalf of the School Energy Coalition this 29th day of September, 2006.

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Per: _____
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