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VIA EMAIL AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**Re: Board's Review of the Ontario Power Authority's Integrated Power System Plan – EB-2006-0207
VECC's Comments on Board Staff Discussion Paper**

As Counsel for VECC (Vulnerable Energy Consumers Coalition), I am writing to provide our comments regarding the Board Staff's September 8th, 2006 Discussion Paper on the Review of the Ontario Power Authority's Integrated Power System Plan and Procurement Processes. For ease of reference, the comments are organized according to the specific sections of the Staff Paper.

IPSP – Section I (Introduction)

- Given that the Staff Paper is dealing with the approach the OEB will take in reviewing these matters, it would be useful if the introduction specifically highlighted what the Act required of the OEB when reviewing the OPA's integrated power system plan and procurement processes for electricity supply.
- With respect to the integrated power system plan, VECC notes that the Act sets out specific matters (section 25.30 (4)) that the Board's review is to consider, namely to:
 - a) Ensure it complies with any directive issued by the Minister,
 - b) Ensure it is economically prudent, and

- c) Ensure it is cost effective

IPSP – Section II (Principles Guiding Review and Implementation of the IPSP)

- With respect to the Supply Mix Directive discussion on pages 3-6, it is VECC’s view that the conservation and renewable energy targets set out by the Minister are minimums that the Plan must achieve. Plans that include peak reduction through conservation or new renewable energy capacity installations in excess of the respective targets would also be compliant with the Supply Mix Directive. Similarly, with respect to nuclear, it is VECC’s view that the Directive sets out maximum amount of nuclear capacity that can be included in the Plan to meet base load requirements.

These points are important, for they illustrate that there are likely to be a number of possible portfolios of supply options (i.e., combinations of conservation, renewable energy, nuclear, and other generation options) that meet the Directive. One of the objectives of the OEB review will therefore be to ensure that the “portfolio” proposed by the OPA is the preferred plan when judged on the basis of economic prudence, cost effectiveness and any other criteria that are brought to bear by the Directive.

- As noted in the Staff Paper (page 6), the Supply Mix Directive includes a requirement that the IPSP comply with the IPSP Regulation (Regulation 424/04). This brings into play in the OEB review the long list of consideration set out in section 2 (1) of the Regulation. In VECC’s view one of the more critical requirements is the first one which requires the OPA to “consult with consumers, distributors, generators, transmitters and other persons who have an interest in the electricity industry in order to ensure that their priorities and views are considered in the development of the plan”. This means that in presenting the plan for approval by the OEB, the OPA must be able to:
 - a) Demonstrate that it has consulted effectively with the required groups,
 - b) What the priorities and views are of these groups, and
 - c) How these priorities have been reflected in the decision criteria used to select the preferred Plan.

VECC sees this requirement as meaning that the views and priorities of stakeholders become criteria, along with “economically prudent” and “cost-effective” that must be considered by the OPA and the OEB in determining the appropriateness of the Plan. On a practical note, all stakeholders will not have the same priorities and indeed priorities may conflict. What the OEB should expect the OPA to provide is:

- a) An indication of the priorities and views of the various parties consulted,
- b) The resulting list of “additional” objectives that the Plan should be expected to meet based on the stakeholder views, and
- c) A demonstration of how the preferred Plan best meets these objectives when compared to the possible alternatives.

- The Staff Paper suggests (page 6) that economic prudence “balances the economic and financial risks and benefits of alternative means of achieving the goals set out in the IPSP Directives”. VECC agrees. However, in VECC’s view, when considering economic/financial risks and benefits the OEB must look beyond the risks and benefits associated with Plan as it is designed to meet the “expected” load/supply resource balance. It must also consider the robustness of the Plan in terms of its ability to respond to changing circumstances (e.g., higher/lower load growth, significant attrition in number of successful participants in procurement processes actually bringing their facilities on-line, lower/higher CDM response, etc.). To this end, the “Plan” provided by OPA should include not only plans as to how any expected deficiency in the load/supply resource balance will be met but also contingency plans (as discussed on page 23) that demonstrate how the Plan would respond to changes in the expected load/resource balance. Consideration of economic prudence would then focus on the contingency plans as well as the “expected” Plan.
- The Staff Paper suggests (page 6) that cost effectiveness refers to “comparison of alternative investments or initiatives in terms of costs and tangible benefits”. However, the Paper goes on to say that “the IPSP may not necessarily be the “least cost solution, since a higher cost solution may have incremental benefits”. VECC agrees with this perspective. Furthermore, VECC does not believe that “cost effective” necessarily means least cost and, in this regard, would point the Board to a recent Decision by the British Columbia Utilities Commission where it concluded that:

“The principal distinction between cost-effective and least-cost is the scope of the considerations that are relevant. In the context of this Decision, most cost-effective includes considerations of project characteristics such as reliability, timing, location as well as cost or price, in the case of an EPA (Energy Purchase Agreement). ... Least-cost is taken to only include cost or price considerations. Safety, reliability and other impacts are relevant factors, along with the cost to ratepayers and the impact on the financial capability of the utility”. (BCUC Decision Regarding the Vancouver Island Generation Project, September 8, 2003, page 77)

As a result, VECC does not agree with the proposition that cost effectiveness can be measured in terms of \$/kW or \$/kWh; however, “cost” can.
- VECC also agrees with the perspective set out on page 7 of the Paper that the tests of economic prudence and cost effectiveness (along with any other objectives established for the IPSP) should be applied in two related ways:

- First, in the determination as to whether the specific goals set out in the IPSP Directive (e.g., the conservation targets and renewable energy targets) are satisfied in a way that best meets the objectives of IPSP, and
 - Second, in the determination that the IPSP as a whole best meets these same objectives.
- In VECC's view there is likely to be some tension between the obligation of the Board to satisfy the objectives set out for it in both section 25.30 (4) of the Electricity Act and section 1 (2) of the Ontario Energy Board Act. However, this is not unexpected. Frequently decision makers have to manage competing and, sometimes, conflicting objectives. VECC agrees with the sentiment expressed on page 8 of the Staff Paper that a key element of regulatory streamlining is to avoid duplication and ensure that issues that need to be considered by the Board are only reviewed once.

As the Paper suggests issues that have been adequately reviewed (including canvas of stakeholder views) during the IPSP review do not need to be reviewed when specific IPSP projects come forward for review on a case-by-case basis as part of the Board's other statutory functions. However, VECC cautions that this principle must not lead to the situation where the Board is expected to make decisions impacting on electricity consumers based on inadequate information. Rather, if insufficient information is available at the time of the IPSP review to consider specific issue that can be later considered on a case by case basis, then an early determination should be made to that effect and the matter put off until adequate information is available. Key to this will be development of clear guidelines as to types of information required to support the decision making processes of the Board.

- VECC agrees with the point raised in the Staff Paper that “for the IPSP to be meaningful, it is necessary that there be accountability for its implementation”. In VECC's view, a proposed “action plan” should accompany the IPSP submitted by the OPA. This action plan would identify the key steps that need to be taken, particularly over the next 3 years, to implement the proposed IPSP; identify the party/parties accountable for each and the timelines involved. Following approval of the IPSP by the OEB, progress in terms of the implementation of the IPSP could then be monitored and measured against this action plan. The action plan also ensures that all parties involved in the implementation of the IPSP to clearly understand their responsibilities and accountabilities. Overall, this action plan is conceptually similar to the “implementation schedule” discussed on page 22 of the Staff Paper, but likely broader in terms of what it includes.

IPSP – Section III A & B (IPSP Filing Guidelines - General)

- One of the key elements missing from the Staff Paper’s discussion of general expectations is the need for the OPA filing to include an Planning Process and Planning Objectives section that clearly sets out:
 - a) The planning process used to develop the proposed IPSP
 - b) The planning objectives that guided the process (including a distinction between mandatory requirements such a meeting the Government goals articulated in the Supply Mix Directive and decision criteria requirements such as cost and environmental considerations). This portion of the filing would also address stakeholder priorities and how they are reflected in the planning objectives.
 - c) The attributes or measurement criteria used to assess the extent to which alternative potential IPSP’s met the planning objectives. For example, in the case of “cost” the attribute would likely be Net Present Value based on certain discount rate(s), time horizon and scope of cost considerations. Similarly, in the case of capacity reliability the attribute would likely be some form of Reserve Margin.
 - d) The monitoring process for the next three years.
 - e) The process for updates to the IPSP expected every three years.

- VECC agrees with the need to distinguish (page 10) between the Near-Term and Beyond the Near-Term. In VECC’s view the Near-Term should be a period that goes sufficiently far out to allow for the identification of all actions that must be initiated in the three years following the approval of the IPSP. For example if actions must be taken in the next 3 years to ensure adequate supply in 2015, then the Near-Term must be defined as including the period out to 2015. At this point, it may not be possible to assign a “date” the Near-Term. What the Board should do is establish the principle and require that the Near-Term used by the OPA in its proposed IPSP satisfy the principle.

- Below are a number of specific observations regarding the expectations the Staff Paper sets out (pages 11-12) for the OPA in terms of Demand and Supply Forecasts and Adequacy Assessments:
 - Net load growth is only affected by “increases/decreases in system reliability margins” to the extent that concerns about reliability influence consumers’ decisions to choose electricity consuming products/processes. However, increases/decreases in reliability margins will impact on the amount of supply required to adequately meet a given load forecast and therefore directly affect any adequacy assessment (Points (i) and (iv) on page 11).
 - It is not immediately clear what is meant by “separately identify the impact of conservation on the forecasts” (Load Forecast Point (vi) on page 12). Is the requirement referring to the level of “natural conservation” built into the load forecast or to the five types of CDM programs for achieving the 1350 MW target by 2010? As well as the level of natural conservation built into

- the forecast it is critical that the assumptions associated with it (e.g., code changes, fuel price differentials and electricity price levels) are clearly documented. This documentation is important if parties are to assess the reasonableness of the load forecast. It is also important in order to ensure the “conservation plans” included in the IPSP are incremental to what will be achieved naturally.
- Ideally there should be some probability associated with the range of load forecasts provided (Load Forecast Point (v) on page 12) in order to allow parties to understand the robustness and the risks associated with the IPSP.
 - Presumably the alternatives considered in the IPSP will include any major investments in existing facilities that would be required to refurbish or extend their service lives beyond what is currently expected to be achieved through normal maintenance and capital refurbishment. Therefore, the assumptions about the remaining operating lives of existing facilities (Preferred Plan Point (v) on page 12) should reflect normal maintenance and capital refurbishment spending. Furthermore, it is assumed that existing facilities include both existing generation and transmission facilities.

IPSP – Section III C (IPSP Filing Guidelines – Resource Acquisition: The Near Term Plan)

- VECC does not agree with the literal suggestion (page 13) that “the OPA will consider and present, where applicable, the smallest number of alternatives consistent with conveying to the Board the major concepts available to meet the same objectives as those that are met by the preferred option”. Rather VECC sees the process working as follows:
 - a) OPA identifies the various resource options open to it and identifies the key attributes associated with each in terms of cost, environmental impacts, level of market development, lead time required, qualification as “renewable” and any other factors that are relevant to the planning process given the planning objectives.
 - b) Screening based on these key attributes produces a shorter list of those to be considered in the Near-Term Plan.
 - c) Portfolios of resource options are developed that meet all the mandatory requirements (e.g., Government targets, reliability criteria, etc). At this stage the portfolios should be developed to illustrate the key choices and trade-offs involved between the various resource options.
 - d) The OPA would identify its preferred portfolio which would then become the proposed IPSP.
 - e) The OPA would explain the rationale for its selection of the proposed IPSP based on the planning objectives and present an evaluation of it and the alternatives using the attributes or measurement criteria for each objective.

- f) The OPA would identify any contingency plans that also require action over the next three years in order to mitigate risks or uncertainties associated with the proposed IPSP.

A key element of this process is the identification of resource options at step (a). If this step is not perceived as being comprehensive in terms of the available options and fair in terms of its assessment of their relative merits, then not only will the balance of the process “bog down” but the Board will have no assurance that the proposed IPSP is the best approach.

- When indicating the cost of the various options (see page 14), particularly resource acquisitions, the OPA will have to clearly set out any assumptions regarding how risk is to be shared between the OPA (and ultimately the consumers of the Province) and the party supplying the resource. For example, in the case of generation acquisitions who will bear the risk of future changes in environmental regulation?
- In the discussion regarding generation resources reference is made (page 16) to evaluation criteria. As mentioned earlier, VECC sees the need for the OPA to identify a common set of evaluation criteria that would apply to all resource options – generation, conservation and transmission. Admittedly some of the criteria may be more relevant to certain options but there should be a common set of evaluation criteria.
- Below are a number of specific observations regarding the expectations the Staff Paper sets out for Near-Term Generation proposals:
 - The assessment of Conservation Resource initiatives must consider the level of “incentive payments” that will be required to obtain the anticipated conservation savings associated with the initiative. While such payments are not part of the “economic cost” of conservation they will have a direct impact on consumers’ electricity rates. VECC agrees with the proposition on page 22 of the Staff Paper that rate impacts are a relevant consideration and a relevant planning criterion. Furthermore, in VECC’s view, rate impacts (both overall and year to year) are distinctly different from costs which are typically measured in terms of NPV (i.e., lowest NPV does not necessarily produce the lowest rate impacts).
 - The Staff Paper seems to imply (Generation Resources-General Points (i) to (x) on pages 16 & 17) that generation resource acquisition will be done by type of generation. This may not be practical. The Plan will likely identify the need for new resources within certain timeframes and for certain locations. However, it may be impractical for the OPA to identify the specific generation projects that will meet the incremental needs in a specific location for a specific year. For example, if the generation resources are to be acquired through some form of Call/Tendering Process, all the OPA can do at this point is identify the expectations of the tendering process in terms of total capacity to be acquired, the types of

- generation that would be eligible, the any location requirements, etc. It would not be in a position to say what the specific size and fuel sources for each of the successful tenders will be. Indeed, if the procurement process was too specific in terms of such requirements, then there would be a very limited number of eligible participants and the process would likely be ineffective in terms of ensuring consumer protection with respect to price.
- It would be more appropriate for the OPA to identify the required operating characteristics of the generation resource requirements (e.g., must it dispatchable, can it be intermittent, etc. ?) rather than its capacity factor (Generation Resources-General Point (i) on page 16)
 - In VECC's view some of the issues and requirements set out for Generation Resources (both the general and the type specific ones) could be developed (on generic level) as part of step (a) of the IPSP development process suggested above. However, as discussed earlier, project specific data may not be available until the procurement processes have been completed.
 - Similarly, with Transmission Resources (pages 19-21), it is unlikely that the OPA's IPSP will be able to provide the level of specificity outlined in the Staff Paper when it comes to transmission initiatives associated with generation resource initiatives. Until future procurement processes have been completed, the location, size and operating characteristics of future generation initiatives will not be known and, therefore, sufficient information will not be available to indicate precisely what new transmission facilities are required and their associated investment. Indeed, a proper procurement process will need to ensure that the evaluation of alternative "tenders" includes not only the price of the generation but also any associated transmission (and distribution) incorporation costs and network upgrades. Representative numbers can be used for planning purposes in developing the IPSP. However, the Staff Paper appears to be requiring a level of detail that (again) will not be available until the procurement processes have been completed.

IPSP – Section III E (IPSP Filing Guidelines – Evaluation of Preferred Plan)

- The evaluation of the preferred Plan should go beyond simply contrasting it with the lowest cost alternative. Cost is an important planning criteria but it is not the only one. As discussed earlier, the IPSP filing should clearly set out the planning criteria used by the OPA. The OPA should be required to defend its choice for the preferred Plan against all of these criteria not just cost.
- As noted earlier, VECC considers rate impacts to be key issues distinct from cost and therefore supports their consideration in the evaluation of the preferred Plan (page 22).

IPSP – Section III F (IPSP Filing Guidelines – Satisfying Requirements of the IPSP Regulation)

- Safety, environmental protection and environmental sustainability should all be included as planning criteria. This will allow them to all be “considered” in the development of the Plan.
- Conservation and supply alternatives will not, in themselves, reduce reliance on OPA procurement processes (page 25). Procurement processes are a delivery mechanism not a resource alternative.
- VECC anticipates that the IPSP will be able to demonstrate the need for new transmission and generation initiatives. However, the level of detail available from the IPSP may be insufficient, in many cases, to support the selection of one transmission route over another or the choice of one specific configuration of line voltages and stations over another. Therefore, it may be impractical for the OPA to meet all of the expectations set out on page 27 of the Staff Paper.

Procurement Processes – Section II (Principles Guiding Review of Procurement Processes)

- With respect to the procurement processes, as the Staff Paper notes (page 29); the Act does not provide the same degree of direct guidance to the Board. However, the Act does set out (section 25.31 (1) & (2)) specific requirements to guide the OPA in developing its procurement process:
 - a) The procurement processes should be appropriate for managing electricity supply, capacity and demand in accordance with the OPA’s approved IPSP,
 - b) The procurement processes must provide for simpler procurement processes for electricity supply or capacity to be generated using alternative energy sources or renewable energy sources, or both, where the supply or capacity or generation facility or unit satisfies the prescribed conditions.

Absent further direction from the Government, it is VECC’s view that these same considerations along with the planning criteria adopted for the IPSP should guide the Board’s review.

- As noted in the Staff Paper (page 29), the Board will not be mandating that the OPA adopt certain procurement processes. In contrast, the expectation should be that the OPA will identify the procurement process it intends to use and, in each case, delineate the approach that will be taken in sufficient detail that the OEB can undertake an effective review.
- One missing element from the list of requirements for a procurement process (pages 29-30) is the need for transparency and some level of public

disclosure of results of process. A required element of each procurement process should be a statement as to what information will be released publicly upon completion of the process.

Summary of Key Points Raised

- OPA's IPSP filing should include a section dealing with the Planning Process and Planning Objectives.
- The Planning Objectives used by OPA in developing the IPSP should reflect the views and priorities of stakeholders as well as the requirements under the Act, the Supply Mix Directive and IPSP Regulation.
- "Cost-effective" requires the consideration of factors beyond simply what alternative is least cost.
- Rate impacts are a valid planning objective distinct from least cost.
- A portfolio approach should be used in developing alternative plans and evaluating the preferred IPSP.
- The preferred IPSP should be evaluated against all the planning objectives not just cost.
- Contingency plans and Action plans should be considered key components of the IPSP filing.
- The OPA may not be able to provide the project-level detail for future transmission and generation initiatives that the Staff Paper appears to be requiring. As a result, it may be impractical for the Board to totally avoid project specific reviews while fulfilling its other statutory functions. What the Board can ensure is that issues are only addressed once.
- Procurement processes submitted to the Board by OPA for approval should provide for adequate public disclosure of the results of the process.

VECC appreciates the opportunity to comment. If there are any questions or clarification is required please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Yours truly,



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