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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 Draft Report of the Board**

As Counsel for VECC (Vulnerable Energy Consumers Coalition), I am writing to provide our comments regarding the Board's November 16th, 2006 Draft Report on the Review of, and Filing Guidelines Applicable to, the Ontario Power Authority's Integrated Power System Plan and Procurement Processes. The comments are divided into two parts. The first part provides VECC's comments on the Draft Report overall. The second part specifically addresses the issues raised by the Board regarding the treatment of environmental externalities.

1. General Comments

- VECC is pleased to note that the Draft Report of the Board reflects a number of the points raised in its September 29th, 2006 comments regarding the Board Staff initial Discussion Paper on this matter.
- The following material will not repeat the balance of the comments offered in VECC's earlier correspondence but will highlight a couple of the more critical ones that VECC believes should be reflected in the filing guidelines and as well as raise some additional points that have come to VECC's attention.

Principles Guiding Review and Implementation of the IPSP

- VECC notes that in Section III of the Draft Report (IPSP Filing Guidelines) the OPA is required to identify the criteria used in evaluating, selecting and prioritizing conservation initiatives (page 16) and is also required to identify the criteria used to evaluate, select and prioritize generation resource initiatives (page 17). Similarly, the evaluation of the preferred plan (page 23) requires a comparison with the “lowest cost plan” using a number of criteria.

These criteria should be similar and based on a common set of economic, environmental and social evaluation criteria. As VECC noted in its original comments, one of the key elements missing from the Staff Paper was a requirement that the OPA clearly set out the planning objectives/criteria that guided the IPSP development process. Also, while it will not be possible or practical to monetize all of the environmental or social criteria, the filing should include proposals as to how each evaluation criteria will be measured. This element is still missing from the current draft of the Board Report and, in VECC’s view, needs to be addressed in the OPA’s IPSP filing.

- VECC is pleased that the Draft Report now recognizes (pages 4 & 5) that the conservation and renewable energy targets set out in the Supply Mix Directive are “minimums” and that the final IPSP could include more of each. However, the Draft Report does not (similarly) recognize that the 14,000 MW of nuclear capacity is a “maximum” and that the final IPSP could include less. In addition, VECC is concerned that, with respect to the use of conservation and renewable energy resources, the Draft Report does not require the OPA to demonstrate why greater quantities of renewable energy and conservation than required by the Supply Mix Directive should not be included in the IPSP.
- In addition, VECC believes there is some ambiguity associated with the wording of the Supply Mix Directive regarding nuclear. One interpretation would be that nuclear is to be the “preferred” resource option for meeting base-load electricity requirements up to a maximum of 14,000 MW. The second is that nuclear is to be restricted to meeting base-load requirements up to a maximum of 14,000 MW. The difference between the two is that the first interpretation precludes the use of other options to meet base-load requirements until the 14,000 MW limit is reached. In VECC’s view, unless further clarification is available, the second and somewhat more flexible interpretation should be adopted by the Board. VECC notes that this does not preclude the final IPSP using 14,000 MW of nuclear for base-load purposes, it just requires that the OPA demonstrate that this is the most appropriate way to meet base-load electricity requirements given the planning objectives.

- Similarly, there is some ambiguity regarding the wording of the Supply Mix Directive regarding natural gas in that it is not clear that it is to be limited solely to applications that allow for high efficiency and high value use of the fuel. This interpretation is critical when considering issues such as the replacement of coal-fired generation as required by the Supply Mix Directive. Again, this is an area where, subject to further clarification, a broader interpretation should be taken regarding the possible applications of natural gas-based generation.
- In its original comments, VECC raised the need for OPA to provide an Action Plan that not only identified the steps that would be required to implement the final IPSP but also identify the party/parties accountable for each and the timelines involved. VECC continues to believe that this is critical component of the final IPSP is to be successfully translated into action.

IPSP Filing Guidelines

- Earlier the Draft Report has acknowledged (page 7) that the OPA will be required to make trade-offs in preparing the IPSP and to consider non-quantitative, non-financial or non-economic factors. As a result, VECC continues to believe that the evaluation of OPA's preferred plan, as discussed on pages 22-23, must address more than just why the preferred plan is appropriate if not the "least cost" plan. To the extent that the preferred Plan does not optimize OPA's other planning objectives, the OPA should be required to "justify the selection of the preferred plan". In short, if there is more than one possible plan (i.e., portfolio of future CDM and generation options) that would satisfy the Supply Mix Directives and the IPSP Regulation then it should be incumbent upon the OPA to justify its Preferred Plan.

2. Environmental Externalities

How Should Environmental Externalities Be Considered

- As noted above, the evaluation criteria used for the IPSP should include economic, environmental and social factors. Within this context, there are two ways in which environmental externalities come into play and should be considered in the review of the OPA's preferred Plan.
- The first is from an economic (or cost) perspective. In VECC's view, it is reasonable for the economic evaluation of various conservation and generation options as well as the economic evaluation alternative "plans" to include the "cost" environmental externalities where there is a reasonable expectation that over the planning period such costs will emerge as "real costs" for proponents of conservation, generation or transmission resources. One example of this could be the inclusion of GHG-related costs later in planning horizon. In such cases, the OPA should clearly document its

assumptions regarding such costs and, given the uncertainty involved, test the sensitivity of the results of the any economic evaluations to a reasonable range of timelines and costs for environmental externalities.

- The consideration of environmental externalities will also come into play when evaluating alternative plans based on environmental considerations. Within this context, it is important that the OPA clearly delineate the environmental externalities it is proposing to include in its evaluation criteria and the measurement criteria associated with each (Note: In some cases the measurement criteria may not be a “cost” but rather some other measure of environmental damage or risk.). The environmental factors considered when evaluating alternative plans should be similar to those used for purposes of individual project evaluation, although the measurement criteria used may not be as precise.

What Changes Should Be Made to the Report

- There are three key changes required to the Report. The first has already been discussed above and requires the inclusion of section which identifies OPA’s proposed evaluation criteria. This would include the environmental externalities that OPA has considered in its evaluation of the Preferred Plan and the measurement criteria used for each.
- The second change is a need to recognize, in the discussion on pages 28-29, that not all environmental externalities can be effectively “costed”. In some cases, other measures of impact of the environmental externalities may have to be included. For example, if land use was to be included as an “externality” then the measure may involve looking at the amount of land (i.e., square kilometers) impacted.
- Finally, environmental costs should only be internalized to the extent they are likely to represent real costs to proponents and developers. It is important to maintain a distinction between economic evaluation criteria and environmental evaluation criteria.

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,



Michael Buonaguro
Counsel for VECC