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February 6, 2008

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

Dear Ms. Walli:

Re: Cost Responsibility Policies for Connection to Electricity Transmission System, Board File No. EB-2008-0003

Pursuant to your letter of January 4, 2008, AMPCO offers the attached comments on the specific discussion issues raised, as well as the perspective of its members on the principles we believe should apply to policy development in the subject area.

Many AMPCO members are directly connected to the Ontario transmission system and are keenly aware of their reliance on transmission service as well as the cost they bear for its provision. In addition, non-transmission connected AMPCO members recognize that a large portion of the delivery charges they pay are for the transmission system. In this context, AMPCO is strongly supportive of the Board's initiative to review policy on transmission cost responsibility and intends to participate in this consultation to the extent resources are available.

We trust you will find this input constructive to the consultation process and we look forward to participating.

Sincerely yours,

Adam White
President

Copies:
John Lemay, AMPCO chair
Wayne Clark

Review of Cost Responsibility Policies for Connection to Electricity Transmission System (EB-2008-0003)

1 Introduction

AMPCO's comments are organized into three general areas: Scope, Principles and Implementation Issues.

The discussion on scope conveys what AMPCO understands of the subject areas for this consultation, as well as how any policy outcome of this consultation may influence other files, especially EB-2007-0707, Integrated Power System Plan and Procurement Process (IPSP).

AMPCO believes a principled approach to policy development tends to produce outcomes that are both fair and economically efficient. Also, since sound principles tend to endure, this approach also leads to policies that provide stakeholders with the confidence they need to make investment decisions.

The discussion of implementation issues addresses the practical challenges and opportunities related to implementation of government policy directives with respect to the overall supply mix for Ontario, as they pertain to the cost responsibility issue.

Scope

1.1 Transmission Supply Code

It appears the technical scope of this review is largely focused on Section 6 of the Transmission System Code, especially those clauses that involve responsibility for cost.

In general, Section 6 seems to be more concerned with load customers, although several clauses address generator customers specifically or together with loads. Section 6 should be reviewed to ensure it adequately addresses all the types of generation envisaged for transmission connection in Ontario.

1.2 Interface with Distribution Supply Code

As this is a transmission connection cost responsibility review, it does not specifically address the Distribution System Code. However, and especially now that the Board has indicated it intends to proceed with a similar review of the Distribution System Code following this proceeding, this review naturally should consider the implications of outcomes in the transmission context for the subsequent distribution review.

The Board may also wish to consider whether it may be timely to consider if the boundary between distribution and transmission should remain at 50 kV or be revised. As with generation, distribution and transmission technology is always evolving, to the point the 115kV assets might be better designated as distribution. We raise this issue because, at a practical level, many of the potential future sources of renewable energy may be most economically connected via 115kV lines.

1.3 Interaction with Board Review of IPSP and Procurement Process (EB-2007-0707)

We support the Board's position that cost responsibility for connections are properly dealt with in this consultation rather than the IPSP hearing.

However, a key determination the Board must make in the IPSP hearing is the economic prudence of its component plans. AMPCO submits that a test of economic prudence for the plans within the IPSP must not only include the cost of transmission connections, but also the manner in which these costs are to be recovered. If costs are to be recovered in a manner that does not also incent the best possible use of the assets, then economic prudence may be in question.

In light of the above, we suggest that, while the scope of the review is correct, the Board may wish to periodically examine the effects of the possible policy outcome on the IPSP review process.

2 Principles

The theory and practice of economic regulation rests on basic principles.

2.1 Cost Causality

Cost causality embodies basic principles of fairness and economic efficiency. Those that cause costs should be held responsible for them and should not be allowed to shift the burden to others that do not directly receive the benefits of the investments involved. The Transmission System Code clearly embodies this principle in clause 6.1.9, which states in part that "A transmitter's connection procedures cannot unjustly discriminate among customers".

Linking cost with causality promotes economic efficiency. If the party causing the cost must include it in its investment decision process, then that cost will directly influence decisions and the asset investment will be optimized. Without this link, investment decisions may be made without due regard to all costs, since the cost will be borne mainly by parties other than the decision maker.

2.2 Transparency

While not directly part of the Energy Board's objectives, transparency is also important to efficient regulation. Whichever way is found to ensure that new generation resources get connected, customers should be able to transparently see the full cost of these resources.

2.3 Used and Useful

Another well-established concept in rate regulation is to test whether an asset is "used and useful" when considering whether (or perhaps how) the costs of that asset are to be recovered from consumers. The obvious implication of a "build-it-and-they-will-come" approach to investments in transmission or distribution for the purpose of enabling geographically dispersed and yet-to-be-commissioned generation assets is the implicit proposition that customers begin paying, and potentially end up paying entirely, for assets that are neither used nor useful. The current IPSP adopts a somewhat prescient tone in this regard, seeming to suggest that it matters little the order in which transmission or distribution assets are built (and the timing or manner in which these costs consequently are recovered from customers), on the premise that the entire portfolio of new generation proposed in the plan is all to be built anyway.

We take issue with this approach. First, there's no basis in the theory or practice of regulation to support the notion that customers should pay all or any of the costs of an asset that is not used or useful. Such an approach would open the way to any number of abuses. Second, advance approvals of these assets in such a way that they are de-linked from the purpose for which they are intended would virtually indemnify investors in these assets, would reward imprudence and would unnecessarily and unreasonably limit the Board's statutory responsibilities and powers to protect the interests of consumers and to approve just and reasonable rates based on economic prudence and cost-effectiveness.

2.4 Transmission/Distribution System Code Consistency

Any principle the Board establishes with respect to transmission connection cost responsibility will inevitably be put forward as precedent for similar circumstances on the distribution system. In distribution, the issue of cost responsibility related to distributed generation (both renewable and otherwise) runs parallel to the transmission connection cost responsibility issue.

While there are clear issues that would arise if some transmission customers were relieved of connection cost responsibility, the discrimination problem would be more severe on the distribution system. This is because 96 percent of Ontario transmission assets are owned by one transmitter, while the largest distributor serves no more than 25 percent of Ontario's retail customers. Since different distributors have greatly different opportunities for distributed generation in their service territories, any discriminatory policies with respect to connection cost would have different effects on customers of different distributors.

However the Board proceeds with policy for transmission connection cost responsibility, it should also consider how transmission policy may set precedent for distribution.

3 Implementation Issues

3.1 Renewable Resources and Enabler Lines

On the surface, the IPSP directives have a problem in the application of the Transmission System Code, especially as it affects the development of renewable energy resources in Ontario. The issue is most apparent where the IPSP proposes construction of so-called enabler lines to serve renewable generation in northern Ontario. Because these lines will require substantial investments in advance of the construction of the generation they will serve, this investment requirement may be an impediment to the development of these resources.

If development of these distant renewable resources were contingent on the outcome of traditional investment decision processes, it is doubtful they would be built, regardless of transmission cost factors. However, since the government has specifically directed the OPA to secure renewable resources, the OPA has effectively been ordered to either make or facilitate the necessary investments in both transmission and generation.

In this light, it should be possible for the OPA to facilitate investments in transmission connections in ways that do not simply shift the burden of cost to other transmission customers.

One alternative would be to amend the Transmission System Code so that enabler lines (and potentially other transmission connections) would be built without capital contributions. Since these lines will be radial to the 500kV and 230kV grid, they functionally will not be part of the Ontario network asset. They will become part

of the line and transformation pools. These asset pools are paid for by specific users, which comprise subsets of Ontario consumers. Relieving one group of customers from the obligation to make capital contributions for their connections would thus discriminate among customers. For example, customers using the transformation pool would be paying for part of the transformation associated with renewable resources, whereas customers using only network or line connection assets would not. Among large industrial users, this would produce a discriminatory result and provide some companies an unfair cost advantage over their competitors.

Economic efficiency would also be reduced if any group of connection customers were offered free access to the transmission system. Without having to consider a large portion of the project cost in its planning and decision making, other costs could be minimized without regard to effect on connection cost.

There is another risk that would arise over time if the Transmission System Code were altered in a way that removed the connection cost responsibility for any group of customers. Transmission System Code changes could survive the IPSP projects they were designed to facilitate, continuing to incent uneconomic decision-making and provide discriminatory access after the requirements of the IPSP directives had been met.

At a more detailed level, the issue of low capacity factor for wind and energy limited hydroelectric energy will need to be addressed at some point. If the renewable resources pay (or have paid for them) capital contributions for the lines that serve them, their remaining cost will be for the operation and maintenance of the connection assets. Because renewable resources usually have low capacity factors, these generators could pay too little for the use of their asset pools.

3.2 Transmission Connection Procedures

The recent proceeding of the Board considering transmission connection procedures (EB-2006-0189/EB-2006-0200) produced a result which was seen as unsatisfactory by Hydro One and most intervenors. The heart of the matter appears to have been how strict the interpretation of the user pay principle should be, with the Board panel choosing a strict interpretation and leaving the issue to be potentially addressed by a Transmission System Code amendment process.

AMPCO members are customers for whom the user pay principle has been applied strictly, so naturally our tendency is to support this treatment for all changes to connection asset pools. However, it is recognized that occasions arise when practical and materiality concerns need to be considered. This seems to happen when multiple customers have load increases that drive a requirement for a non-network system upgrade (reinforcement) in advance of existing transmitter plans. Securing capital contributions for multiple customers before a project can proceed may be difficult, although there are mechanisms for managing this issue. Practically, if it is reasonable to expect the reinforcement investment to be quickly recovered through increased access charges, then the effect on other pool users of not requiring a capital contribution is largely mitigated. It may be reasonable to introduce some measured flexibility into the capital contribution rules.

In terms of process, we suggest it may be most efficient to first address the specific issues related to the IPSP and OPA and then review how proposed solutions may alter the Transmission System Code with respect to capital contribution requirements for all parties.

Prepared by:

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