

Ontario Energy Board

Transmission Connection Cost Responsibility Review
Initial Stakeholder Meeting

Submissions of
Ontario Power Authority

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Cost Responsibility for Generation Connections

1. *What are the implications of the Board's current transmission cost responsibility policies for the rational and optimal development of generation resources in Ontario?*

The IPSP has identified clusters of potential wind resources that, based on the OPA's analysis, are appropriate to access in order to meet the Government's renewable resources targets in an economically prudent and cost effective manner.

The Board's cost responsibility policies are specified in section 6.3 of the Transmission System Code ("TSC"). Generally, the provisions of the TSC provide that a capital contribution will be required in almost all cases where a transmitter is enhancing its equipment to accommodate the needs of a line connection. Under these circumstances, transmission facilities built to serve generation connections would not be considered network assets and the costs would be borne by the generator. These costs could be significant, particularly considering the fact that significant renewable generation comprises clusters of small projects located in remote areas with no access to transmission facilities. In order to develop these resources, dedicated radial transmission lines will need to be constructed to connect these resources to the grid.

This poses a potential impediment to the development of renewable resources that have been identified within the IPSP to meet the Supply Mix Directive requirements of 15,700 MW by 2025. In the absence of changes to the current regulatory treatment, these clusters of wind resources may not be developed, necessitating the development of higher cost renewable resources.

2. *Directionally, what changes to the Board's current transmission cost responsibility policies could be considered, and what are the implications of those changes for: a) the development of generation resources in Ontario? b) applicable ratepayer groups? c) the manner in which the different transmission cost pools (line connection, transformation connection and network) are defined?*

As discussed in the IPSP evidence at Exhibit E-2-2, the OPA proposes that the existing regulatory framework should be adapted to accord with the *Electricity Act's* and the Directive's renewable objectives. It is anticipated that the current consultation process will elicit sufficient points of view to develop a framework that will facilitate the attainment of government policy objectives while being mindful of ratepayer impact.

3. *Are there particular considerations that should be taken into account in relation to: a) generation resources using renewable sources? b) the region or location in which the generation facilities are to be situated? c) other specific circumstances?*

The OPA notes the FERC's comments in approving a proposal by the California Independent System Operator (the "CAISO") to enable the development of renewable resources. In its declaratory order of April 19, 2007, the FERC stated:

Location-constrained resources present unique challenges that are not faced by other resources and that are not adequately addressed in the Commission's current interconnection policies. These resources tend to have an immobile fuel source, are small in size relative to the necessary interconnection facilities, tend to come on-line incrementally over time, and are often remotely located from loads. Location constrained resources therefore have a limited ability to minimize their interconnection costs and, moreover, these factors can, in certain circumstances, impede the development of these resources altogether.

4. *Are there circumstances not covered, or not adequately covered, by the Board's current transmission connection cost responsibility policies? If so, what regulatory treatment might be appropriate in those circumstances, and why?*

The OPA feels that the Board's current regulatory treatment for connection facilities does not contemplate the unique circumstances presented by these remote renewable resources:

- Government policy requires development of these renewable resources;
- Renewable resources are not situated in areas served by the current transmission system;
- Potential renewable resources are generally small in scale; and
- Transmission costs to access such sites are significant.

Current regulatory treatment accommodates generation close to the existing system, for which the connection costs can be expected to be recovered through revenues over a reasonable period of time. The expectation that connection costs can be borne by the renewable generator in these unique circumstances is unreasonable and is a potential impediment to the development of renewable resources required to meet the government's objectives.

The OPA proposes that consideration should be given to an alternative regulatory treatment for enabler lines that would allow them to be considered network assets, and that the costs – at least the initial costs – should be socialized.

5. *What best practices or innovative approaches are emerging in other jurisdictions in relation to cost responsibility for generation connections? What are the forces driving those practices or approaches?*

The IPSP evidence at Exhibit E-2-2, Attachment 2 outlines the treatment of similar enabler lines in both California and Texas, both of which have faced similar challenges in developing renewable resources. In presenting these examples, the OPA is mindful of the fact that circumstances and the regulatory framework differ in each jurisdiction. It is likely inappropriate

to adopt either of these models in Ontario without modifications to account for Ontario's unique context.

California has a Renewable Portfolio Standard requiring 20% of the state's electricity to be generated by renewable resources by 2010, rising to 33% by 2020. California has identified similar hurdles to development to those experienced in Ontario.

In order to address these obstacles, the CAISO proposed a third category of transmission facilities to assist in enabling the development of renewable resources, which would have the following characteristics:

- The transmission project is not otherwise eligible for rate treatment that allows costs to be incorporated into the Transmission Access Charge (the "TAC");
- The transmission project would permit wholesale transmission access to an area not currently accessible where there is significant energy resource that is not transportable;
- The transmission project will be turned over to the CAISO's operational control;
- The transmission project is designed to serve multiple power plants in areas where the energy resources are non-transportable;
- The transmission project is evaluated within a prudent grid planning process involving the CAISO, affected utilities and stakeholders;
- The transmission project would not increase the annual revenue requirement (TAC rates) by more than 5% annually over a 10-year period; and
- The transmission project would be able to demonstrate adequate commercial interest among multiple generation developers.

Costs associated with this third category would be treated in the following manner:

- Costs for approved facilities would be rolled into the TAC;
- Generators would pay the pro-rata share of their costs of the transmission facility going forward, thereby removing those cost components from the TAC;
- The cost of the unsubscribed portion of the facility would continue to be recovered through the TAC until all capacity was taken up and paid for on a going forward basis.

CAISO's proposal was supported by all parties in the proceeding and was accepted by the FERC without alteration. CAISO is currently conducting consultations with interested parties to develop appropriate transmission tariffs for this new third category of transmission facility.

An alternative approach has been adopted in Texas, which has had legislated renewable portfolio goals since 1999. With an installed renewable capacity of 5,240 as at the end of 2007, Texas is one of the leading jurisdictions in the United States with respect to installed and planned renewable energy resources. The approach adopted in Texas was established to address the "chicken and egg" situation, wherein transmission facilities can't be known to be required in the absence of generation facilities, but generation facilities cannot go forward in the absence of transmission.

The State Legislature enacted legislation in 2005 allowing for the creation of Competitive Renewable Energy Zones (“CREZ”). Under this legislation, the Public Utility Commission of Texas (“PUCT”) has the authority to identify areas that have renewable resource potential and to determine whether there is a need for transmission facilities to enable its development. The intended effect of this legislation is to:

- Ensure the development of sufficient transmission infrastructure to facilitate the renewable resource targets;
- Address the timing lag issues between transmission and generation development; and
- Remove regulatory duplication by determining the question of need at CREZ proceedings and not revisiting that question in particular transmission resource development proceedings relating to the CREZ.

Renewable generation developers are responsible for providing a financial commitment as part of the CREZ designation process. Upon completion of the renewable generation facilities, deposits are returned to the developer.

The Public Utility Regulatory Act (PURA) exempts transmission ordered as a result of CREZ designation from having to prove that it is used or useful. Utilities are assured cost recovery from ratepayers for these facilities.

Cost Responsibility for Load Connections

1. *What are the implications of the Board’s current transmission cost responsibility policies for: a) the rational and optimal development of transmission systems or distribution systems to accommodate specific customer needs and load growth or to maintain reliability? b) transmitter planning practices?*

As noted above, the provisions of section 6.3 of the TSC provide that the costs attributed to new or upgraded facilities to meet the needs of load customers or generators should be allocated to the specific load customer or generator causing these costs. An exception to this rule is provided through section 6.3.6, which provides assurance that customers will not be required to pay costs beyond those for which they are responsible, which would otherwise be incurred by the transmitter to accommodate normal growth on its system. A transmitter’s long term plans to meet reasonably anticipated load growth and maintain the reliability and integrity of the transmission system should address the need for new or upgraded line connection facilities to LDCs.

The Board in EB-2006-0189/0200 stated at page 22 of its decision that the principle underlying section 6.3.6:

is that the system should grow and be reinforced and enhanced in a planned and cost effective manner. This means that the transmitter needs to develop, in concert with other responsible agencies, an orderly and “right-sized” approach to system growth and reinforcement.

The OPA agrees with this principle. However, the OPA respectfully is of the view that this principle is undermined by the uncertainty created by the distinction which the Board creates between “customer driven versus system needs plans”. The distinction creates a disincentive for an LDC to communicate its supply needs to the transmitter for fear of triggering a requirement that the LDC must pay for an upgrade, and this is not good for effective planning.

2. *Directionally, what changes to the Board’s current transmission cost responsibility policies could be considered, and what are the implications of those changes for: a) the development of transmission and distribution systems in Ontario? b) applicable ratepayer groups? c) the manner in which different transmission cost pools (line connection, transformation connection and network) are defined?*

The OPA believes that changes to the Code arising from this process must recognize that LDCs and other directly-connected transmission customers are fundamentally different types of customers. An LDC’s load growth is primarily driven by the broad based economic growth within the community it is obligated to serve. Thus, the load growth of many different LDC customers is contributing to the overall load growth of the LDC. It is appropriate to plan for this load growth and it is appropriate for the cost of connection facilities, the need for which arises from the general growth in a community, to be socialized. An alternative approach is likely to result in circumstances where sub-optimal choices from an overall system perspective are made in order to insulate the customers of a small LDC from the rate impact of a potentially very significant capital contribution. Transmission investment is “lumpy” by nature, and the costs to provide optimum transmission solutions would not be affordable for incremental load. It is expected that, through this consultation process, interested parties will be able to develop a socialization solution and/or appropriate changes to the Code that are acceptable to all involved. Socialization of these costs recognizes that there may be benefits provided by these facilities, such as security of supply, to other users of the transmission system as well as the impact of a potentially significant capital contribution that the LDC may not be in a position to finance.

3. *What best practices or innovative approaches are emerging in other jurisdictions in relation to cost responsibility for load connections? What are the forces driving those practices or approaches?*

Socialization occurs in many jurisdictions to a certain extent, and there is a great variation in design of the various schemes, which have all been developed within their own context. The situation in Ontario, which consists of a large number of small LDCs, presents a set of unique circumstances to be considered in developing appropriate policies in this area.