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Ontario Energy Board  
2300 Yonge Street  
P.O. Box 2319  
Suite 2700  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli  
Board Secretary

Dear Ms. Walli:

**Re: Transmission Connection Cost Responsibility Review**  
**Board File No.: EB-2008-0003**

## **Introduction**

This letter is written on behalf of Great Lakes Power Limited. ("GLPL") in the above noted matter.

The Board recently posted a letter from Hydro One Networks Inc. ("Hydro One") dated May 26, 2008. That letter makes several comments that highlight areas for more discussion. GLPL welcomes discussion in these areas and is pleased to provide its views. The key topics that GLPL believes should be addressed are:

- The definition of "enabler lines";
- The process for approving development work on enabler lines; and
- The selection of transmitters to carry out development work.

## **Definition of "Enabler Lines"**

The definition of an enabler line should be informed by the underlying rationale for these lines. From a regulatory perspective, enabler lines refer to lines that require different regulatory treatment because the current method of allocating transmission enhancement costs to generators is inefficient. It is inefficient because the scale of the optimal transmission enhancement is not

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aligned with the scale of a particular generation development. As the California ISO Market Surveillance Committee noted, “the total amount of potential renewable resources at a given location can significantly exceed the typical scale of a single renewable generation project”.<sup>1</sup>

Accordingly, the definition of “enabler lines” should follow this rationale so that a line may be characterized as an enabler line where the scale of the line is determined by the economic supply resources of an area to which a transmission line is to be constructed, and not by a single generation project.

It does not appear that this definition conflicts with what is put forward by Hydro One in its May 26 letter.

### **Process for Approving Development Work**

Because of the different lead times for transmission and generation, enabler transmission lines require development prior to the final determination of which potential generation projects (or clusters of projects) will be in-service. It is therefore necessary to coordinate the development of generation projects and the development of transmission projects.

The development of generation projects will be carried out by the Ontario Power Authority (the “OPA”). The OPA has been directed by the Government of Ontario to procure over 2500 MW of renewable generation (2000 MW under the August 27 Renewable Procurement Directive and 500 MW under the December 20 Ontario Power Generation Directive). This, combined with the renewable resources to be acquired under the Renewable Energy Standard Offer Program (“RESOP”) Directive, is sufficient to acquire all of the wind and hydro electric resources identified in the IPSP at least to the period ending 2015. The procurements aimed at acquiring these resources have already commenced.

The development of transmission projects will be under the supervision of the OEB. The OEB grants leave to construct transmission lines and approves the recovery of transmission rates from transmission customers.

It will therefore be necessary for the OEB to coordinate its approval of transmission development work with the OPA’s procurement of generation resources.

GLPL suggests that the most effective way for the OEB to do this is to entertain applications from transmitters who have credible and developed plans to carry out development work for transmission facilities that would facilitate the development of OPA procurement initiatives. These applications are similar to leave to construct applications, but will be filed earlier in the transmission development process. The key goal for the OEB is to determine the level of project detail it should expect from a transmitter in this “leave to develop” type of application. Although the level of project detail will be less than for a leave to construct application, it should be sufficient to demonstrate that the project is credible and that its development should be

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<sup>1</sup> Final Opinion on “Alternative Treatment of New Transmission for Interconnection of Renewable Generation”, October 6, 2006, at p. 1.

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contributed to by ratepayers. GLPL submits that a transmitter who is seeking approval for “leave to develop” should be required to demonstrate that it has a credible plan to develop the facility; examples of this could include a requirement to demonstrate that:

- Its proposal facilitates and is consistent with an OPA procurement of resources;
- Its proposal is supported by necessary land rights;
- Its proposal contains a series of realistic development time lines and financial commitment by the transmitter;
- The transmitter has the demonstrated financial wherewithal to support the financial commitment required through development to construction;
- The transmitter has the financial strength to support the equity requirement of the project;
- The transmitter is prepared to deposit a security fee at a value of, for example, 0.1% of the project cost to a maximum of \$1 million; and
- The project will be designed, constructed and operated in compliance with all relevant acts, regulations and codes.

If the OEB approves the application, a transmitter may recover costs incurred in accordance with the OEB’s approval in its rate base, subject to prudence.

This approach is consistent with the OEB’s treatment of prior review of applications for approval of costs related to upstream gas transportation and supply contracts discussed in the Natural Gas Forum Report.<sup>2</sup>

A crucial component of this approach is that it remains applicant driven. A transmitter who identifies an opportunity to facilitate OPA resource procurements is in the best position to scope the proposed application. It is not practical for the OEB to launch a proceeding on its own that would be able to provide a meaningful factual or project specific context for an application. Further, given that the OEB will have to review proponent proposals, and how these proposals facilitate an OPA procurement, it should remain neutral as to different proposals so that it can provide a balanced review.

This is not to challenge that the OEB has the legal authority to order a transmitter to implement transmission requirements identified in an IPSP.<sup>3</sup> But it should be borne in mind that there is nothing new about this type of authority. The OEB has always had the power to direct transmitters and distributors to expand or reinforce their facilities.<sup>4</sup> However, the Board has only exercised this power in exceptional circumstances where it appeared that a proponent was not prepared to come forward.<sup>5</sup> As a result, it has been the OEB’s practice to treat transmission

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<sup>2</sup> In that report, the OEB stated, “Given the importance of security of supply and to provide greater clarity in the marketplace, the Board will offer utilities the opportunity to apply for pre-approval of long-term supply and/or transportation contracts.” (Natural Gas Forum Report, March 30, 2005 at p. 73).

<sup>3</sup> See Ontario Energy Board Act, 1998, s. 70(1) (l).

<sup>4</sup> See Ontario Energy Board Act, 1998, s. 70(1) (j).

<sup>5</sup> This power has only been exercised once, in the Application commenced by the Board to determine whether to order Hydro One and others to install facilities in York Region: RP-2005-0315. That proceeding, commenced in 2005, is still ongoing.

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enhancements as applicant driven, and the OEB only intervenes and forces an application where it appears that a proponent will not do so. GLPL submits that this practice should continue.

Hydro One proposes a different approach. Under the Hydro One approach, the OPA determines the need for transmission facilities both in and “between” IPSPs. GLPL has three major concerns with this approach.

First, the OPA does not have an open transparent process that can approve the construction of facilities and the recovery of costs from transmission rate payers. This is an area of OEB’s responsibility and process.

Second, as indicated, the IPSP is not the instrument that creates the need for the renewable facilities to be installed, at least until 2016. These procurements are currently being pursued under Procurement Directives outside of the IPSP.

Third, this approach imposes an enormous regulatory burden and time lag on developing transmission options. The IPSP is a complex and lengthy proceeding. It operates at a strategic planning level. It identifies a number of options to be developed and considered. For example, for each identified enabler line, the IPSP identifies several supply and transmission options that will require further development and consideration. It does not seek to choose between them. The preferred supply options will be determined through procurements. The OPA does not have a process to choose a preferred transmission option.

The IPSP hearing is not a good forum to finalize either the supply or transmission options. It will either provide insufficient direction with respect to development work or, if it is to provide sufficient direction (including contributions on credible development projects, with land rights, time frames, financial commitments, etc.), the IPSP proceeding will require a level of detailed evidence in the application that will distract from its main purpose.

### **The Selection of a Transmitter**

A transmitter, and a transmission option should be determined on the basis of merit, without any presumptive advantages for incumbent providers.

The current regulatory framework reflects this approach by the lack of statutory franchises granted to transmitters. The OEB has also confirmed this approach. According to the Board:<sup>6</sup>

“As there are no exclusive franchises for electricity transmission in Ontario, any major new ‘greenfield’ transmission initiatives identified in the approved IPSP may bring forward more than one potential transmission developer, subject to existing land use rights and rights arising from the ownership of existing transmission infrastructure. It may therefore be necessary for the Board to

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<sup>6</sup> Report of the Ontario Energy Board on the Review of, and Filing Guidelines Applicable to, the Ontario Power Authority’s Integrated Power System Plan and Procurement Process, at p. 11.

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ultimately determine who should provide transmission infrastructure and service in such cases.”

As a result, it would be inappropriate to circumvent this policy through various contrivances that would give an advantage to incumbent providers. Thus, for example, if the OEB were to assume that, a transmitter would be a presumptive developer on an enabler line connected to that transmitter’s network, then that would be contrary to the current policy.

Further, Hydro One’s suggestion in its May 26 letter that enabler lines can only be “radial enabling facilities” is imposing a restriction that is not justified under current policy or by a principled rationale for enabler lines. Further, Hydro One’s letter states that the “operation of radial enabling lines, if constructed by others, be coordinated (through agreements) with the transmitter to whose assets these facilities are connected”.

Hydro One provides no specific rationale for this restriction. This approach suggests that it is not possible to coordinate the operation of looped facilities and that the operation of radial facilities are within its supervisory authority. What this approach fails to appreciate is that there are already looped facilities connected to Hydro One’s network and that is the IESO, and not Hydro One, that has the authority to “enter into agreements with transmitters giving the IESO authority to direct the operation of their transmission system”.<sup>7</sup> Accordingly, these restrictions are inappropriate.

### Conclusion

GLPL appreciates the opportunity to comment on these matters and commends the Board for its proactive approach to addressing this issue. GLPL hopes that these comments have been of assistance, and looks forward to continuing to participate on this matter.

Sincerely,



George Yegh

GV:MAB

c: Jeff Rosenthal (Great Lakes Power)  
Peter Bettle (Great Lakes Power)

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<sup>7</sup> *Electricity Act, 1998*, at s. 5(10)(a).