

Bill Rupert
Board Member
Ontario Energy Board

SPEECH

Hydro One International Grid Conference

June 14, 2006

Check Against Delivery

Thank you Peter.

Let me first of all convey the regrets of our Chair, Howard Wetston, who unfortunately was not able to be here.

On Howard's behalf, I want to thank you very much for the opportunity to speak to you today about the Ontario Energy Board's role in electricity transmission.

Those of you from outside Ontario have been here a few days and will have seen and heard that Ontario is a heavy consumer of electricity. Ontario is Canada's most populous province and accounts for some 40 per cent of Canada's GDP – with major bases of manufacturing, services, and electricity intensive resource industries such as mining and forestry.

Here, as elsewhere in the world, individuals and our economy depend on an efficient and reliable electricity supply. The OEB's mandate in electricity is very clear: to protect the interests of consumers with respect to prices, and the adequacy, reliability, and quality of electricity service, and to promote economic efficiency in the sector.

I want to provide you with the regulator's perspective on transmission. I will talk about the OEB's formal roles, and how our regulatory processes are evolving to ensure our responsibilities are met in an efficient and streamlined manner.

As the economic regulator of electricity and natural gas in Ontario, the OEB interacts with the transmission sector in several ways.

First, all transmitters in Ontario – that is, entities that operate lines at voltages greater than 50 kv – require an OEB licence. There currently are six licensed transmitters in the province including the largest, Hydro One Networks.

The OEB sets transmission rates payable by all consumers that are directly connected to the grid, generally local distribution companies and large industrial loads. We actually set unique rates for each transmitter. Those rates are blended into a single rate that is charged to consumers so that end-use transmission rates are the same across the entire province.

The Board has not adjusted transmission rates very often since we took on the responsibility for transmission in 1998. Later this year, Hydro One will appear for its first rate hearing since 1999. The OEB has, with the help of many stakeholders, been preparing for this for quite some time.

The OEB's Transmission System Code, or TSC, provides the framework for regulating transmitters' relationships with customers, particularly in the area of connections. The TSC also addresses standards for the operation, maintenance,

management and expansion of transmission systems. We completed a major overhaul of the TSC last year that resulted in greater regulatory clarity and certainty, and in prohibitions against transmitter practices that might discourage conservation, demand management and distributed generation initiatives.

Ontario needs major investments in new electricity generation infrastructure and these must be accompanied by transmission expansions to ensure that the power can reach our consumers. As well, there are enhancements needed to the transmission grid that will improve the reliability and efficiency of the electricity sector in Ontario. We have not seen a significant investment in this type of infrastructure in some time and the scale of investment ahead of us is unprecedented.

There are four ways the Board can get involved with transmission investments, whether they are connection-related or network investments.

First the Board looks at capital expenditure plans in the course of a transmission rates case. Grid investments are expected to occupy a prominent place in the upcoming Hydro One rates case I just mentioned.

The second way we get involved in grid investment is through so-called leave to construct applications. No one can construct, expand or reinforce a transmission line longer than two kilometres without obtaining an order from the Board.

Since 1998, when the OEB acquired a mandate to oversee transmission, the Board has dealt with several leave to construct applications for transmission investments. But when you exclude the projects to connect new generators or new loads, we have considered only about half a dozen applications that involved “grid deepening” investments.

In some cases, we considered evidence that attempted to quantify the economic benefits of these projects, but no standardized approach to cost-benefit analysis of transmission expansions emerged from past Board reviews.

One of the most recent cases, involving reinforcement of the grid in the Niagara region, highlighted the lack of a standard approach to quantifying the benefits of a project. That particular case spurred us last year to begin developing new filing guidelines for transmission investments that would set out the kinds of analyses of benefits the Board would consider.

The third way we can get involved is through licence conditions that allow the OEB to require transmitters and distributors to expand or reinforce transmission or distribution systems. We have not used that power very often but it was a feature of a creative solution the Board and various stakeholders developed last year in York Region.

In this rapidly growing suburban area north of Toronto, the transmitter faced considerable public opposition to an initial proposal to construct new transmission...so much so that a formal application to build the transmission line never came to the Board.

Instead, the transmitter, the Board, the Ontario Power Authority or OPA, local government and other stakeholders had to work together to find compromise solutions involving a new transformer station, new distribution lines, conservation and demand management. The Board's ability to direct investment in distribution was, I think, a key ingredient in forging a solution.

The fourth way we can - or I should say will - get involved is the review of the OPA's Integrated Power System Plan, or IPSP, for the province. I'll return in a moment to the Board's role in the IPSP.

In addition to our active regulation of transmission, there is at least one other way in which the OEB keeps an eye on transmission – the Market Surveillance Panel or MSP.

Last year, the MSP became an OEB panel, supported by a special staff group at the Independent Electricity System Operator or IESO. The MSP monitors the IESO-administered markets for participant conduct, exercise and abuse of market power, and also keeps its eye on market design issues.

Many of the MSP's past semi-annual reports have provided interesting insights and analysis of transmission-related issues such as:

- The frequency and location of congestion, and the resulting impact on congestion payments that are borne by all electricity consumers,
- The need for a transmission planning framework that will better enable congestion-reducing transmission investments and
- The Michigan inertia and the installation of the phase shifters.

The MSP's latest semi-annual report is being released today or tomorrow and is likely to contain additional transmission-related observations.

One of the key themes I want to stress today is our efforts to rationalize and streamline the mechanisms the Board uses to review transmission investments.

We are moving forward in a world of major transmission investment involving multiple stakeholders with various accountabilities – transmitters, OPA, The Independent Electricity System Operator or the IESO, government, consumer groups and other intervenors, and the OEB. Therefore, it is hardly surprising that there are concerns about the potential for overlap and duplication, and for increased regulatory risk.

We at the OEB are very conscious of these concerns and have been working for some time with other agencies in the sector to avoid such overlap as we carry out our transmission investment oversight processes.

This regulatory risk question has arisen at least once before. Back in 2003, the Market Surveillance Panel issued a report urging that the processes for overseeing transmission investment be improved to better enable projects that would reduce congestion on the grid and thereby increase the efficiency of the electricity market.

The OEB responded by leading an effort to review and improve the transmission investment oversight process. One key recommendation in the draft report that followed this effort was that, on application, the Board should decide on the rate treatment of facilities expenditures as part of the leave to construct approval process. As a result, projects that are given leave to construct would also have their planned expenditures approved for rate base within the scope of a single proceeding.

The report of this working group was prepared in a pre-IPSP world and has been left in draft. But we are picking up some of the key concepts as we look at our processes to deal with transmission investments in the future.

As I mentioned earlier, the OEB began a review of its transmission filing requirements last year after the Niagara reinforcement case. This review was soon “up-scoped” into a process to generate filing requirements for future reviews of transmission investments, including the IPSP and transmission projects arising out of the IPSP.

Some uncertainties around the timing and the nature of the first Integrated Power System Plan, and issues of sequencing as between the plan itself and individual transmission projects, mean that we are not yet in a position to finalize draft filing guidelines for the IPSP or individual projects.

That brings me to the IPSP.

You will have seen in this morning’s papers that the provincial government has announced its decision on the future electricity supply mix for Ontario. The OPA will act under this direction to develop a new long term electricity plan for the province – the IPSP – and will bring it before the Board for review and approval. The costs are major, the timelines long, and the sense of urgency about renewing supply, acute.

Against this backdrop, the OEB is charged with reviewing and approving the IPSP. The OEB is required to ensure the IPSP complies with any directive issued by the Minister of Energy and that the plan is economically prudent and cost effective. By legislation, we will be renewing an IPSP, or an updated IPSP, every 3 years.

At the heart of our work on the IPSP and other initiatives is our objective to ensure efficiency: efficiency of our regulatory processes, and efficiency of the investments made by transmitters.

A few moments ago, I listed the various ways that the OEB can “touch” a planned transmission project. Our goal is to ensure that even if a given transmission project is reviewed by the OEB in more than one proceeding, a given question about that project will be reviewed once, and only once.

Thus, for example, if a transmission project is considered by the Board first in the context of an IPSP review, the need for the project would be assessed at that stage. The question of need would not be revisited again in any subsequent proceeding.

If a project and its estimated cost is reviewed within the context of the IPSP and the need is established, then there should be no question of the inclusion in rate base of the project’s planned cost. So at a later date when a transmitter’s rates, capital budget, and the prudence of its spending on capital projects are reviewed, only the variance between the project’s cost as indicated in the IPSP, and its actual cost as reviewed within a later rates case, would be at issue.

This approach does depend on a sufficient level of information being provided to the OEB to permit appropriate review of transmission elements of the new power system plan.

Similarly, when the justification for a future project has been established in either an IPSP review or a rates case capital budget review, this matter will not be at issue in a subsequent leave to construct proceeding.

We believe this philosophy – where a given question is determined once, and only once – will provide transmission investors with a greater sense of regulatory certainty while ensuring that our regulatory responsibilities as set out in legislation are met.

As I’m sure you know, the review and approval of major transmission projects involves many other players besides the transmitter and the regulator. In Ontario, various levels of government, the OPA, the IESO, and sometimes other regulatory bodies, are involved. At the OEB, we have been working hard, and will continue to work hard, to coordinate – whenever it is possible – our processes with the activities of the other players to increase the efficiency of the overall process.

As an economic regulator, our interest – indeed, one of our legislatively-mandated objectives – is to promote economic efficiency and cost effectiveness in transmission and other parts of the electricity sector. At the OEB, we are always mindful that we must do our work as efficiently as possible if we are to sit in judgement on the

economic efficiency of the entities we regulate. So, we will continue to look at ways to improve and streamline our processes. I want to assure you that we are fully engaged in figuring out how to do both an effective and efficient job in the new world of integrated system plans and major infrastructure renewal.

Thank you.