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Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, Ontario
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Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2006-0207 Board Review of the Ontario Power Authority's Integrated Power System Plan and Procurement Process

Waterloo North Hydro Inc. (WNH) appreciates the opportunity to provide comments on the Staff Proposal on the Draft Report on the Ontario Power Authority's (OPA) Integrated Power System Plan (IPSP).

General

WNH feels there is a very high reliance on micro to mid scale generation in this proposal. As a large part of the encouraged generation, is intermittent and/or self scheduled load displacement generation, adequacy of load following generation capability will be critical to the supply adequacy in this province. This also creates an issue of rate design for recovery of distribution revenues lost to conservation and load displacement programs. While the LRAM model has not moved through the processes of the OEB to date, it and other instruments such as standby rates will be critical to recovering distribution investment to support the load and generation.

WNH has the following specific comments:

Part ONE I A. Overview of the IPSP

As described in section 25.30(1) of the Act, the IPSP is a plan "to assist, through the effective management of electricity supply, transmission, capacity and demand," the achievement by the Government of Ontario of certain goals and to encompass other matters prescribed in regulations. The goals relate specifically to the adequacy and reliability of electricity supply, including electricity supply from alternative energy sources and renewable energy sources, and to demand management.
In developing the IPSP, the OPA must follow directives issued to the OPA by the Minister of Energy in relation to the IPSP (the "IPSP Directives") and is required to

Part ONE I A. Overview of the IPSP - continued

comply with the Integrated Power System Plan Regulation, O. Reg. 424/04 (the "IPSP Regulation"). IPSP Directives set out the goals to be achieved during the period covered by the IPSP. The IPSP Regulation sets out matters that the OPA is required to (i) identify, (ii) identify and develop, or (iii) consider in preparing the IPSP, as well as matters that must be included in the IPSP.

The above clause, sections B and C of Part I and sections B. and C. of Part II seem to preclude further regulations or supply directives being issued by the Minister of Energy to reflect the changing energy environment in the Province. While the current regulations and directives are critical as a policy framework and a starting point, we do not feel this document provides for changes to the energy environment in this Province as the energy market moves forward by codifying to current documents only. The rules for review by the OEB of the IPSP should be broad enough to allow the OPA to respond to the changing energy landscape in the Province.

Part II. D. Economic Prudence and Cost Effectiveness of the IPSP

Economic prudence requires that the IPSP be sufficiently resilient to ensure that the plan's goals, including goals for adequacy, reliability, renewable energy sources and conservation and demand management, can be achieved in the face of circumstances that turn out differently than assumed in the plan. An economically prudent plan will be able to adapt to different contingencies without causing major changes in overall costs.

In the narrowest sense, a cost effective power system plan achieves the goals of the plan at the lowest overall cost as measured on a $/kW or $/kWh basis. However, the OPA will be required to make trade-offs in preparing the IPSP and to consider or address non-quantitative, non-financial or non-economic factors (such as some of the factors outlined in the IPSP Regulation). As such, the Board accepts that the IPSP may be cost-effective and economically prudent even if it is not the "least cost" solution. Nonetheless, to the extent that the OPA proposes something other than the "least cost" solution, the onus will be on the OPA to satisfy the Board that this is justified based on relevant considerations other than those of cost or price.

In making these assessments, the Board will require an understanding of the economic and financial cost implications of the IPSP, including the short- and long-term financial impact of IPSP initiatives on electricity system costs and how these might affect provincial electricity prices and rates. The Board will also require an understanding of the financial and other risks associated with IPSP initiatives. Section III.E addresses filing guidelines related to the evaluation of the IPSP as a whole when considered against the "least-cost" solution.

In addition, as indicated above, it will be necessary to determine whether the goals set out in IPSP Directives have been satisfied in an economically prudent and cost effective manner.

The above section refers to economic parameters for costs that will be highly dynamic. WNH feels the move to less centrally dispatched generation with more intermittent and self scheduled generation will increase the need for more load following generation at a

Part II. D. Economic Prudence and Cost Effectiveness of the IPSP - Continued

higher per unit cost of output. As the basis for setting payments, this may be difficult to quantify. Specific payments for capacity will likely be required to incent generators to construct facilities with operational characteristics to meet this changing dynamic. WNH feels it will be difficult to use traditional measures for determination of prudence such as $/kW or $/kWh as the level of generation will be highly dependent of levels of intermittent and self generation brought on line. The impact on end rates for customers may be even more difficult to define.

Part II. E. Pre-IPSP Projects

The economic prudence or cost effectiveness of specific generation or conservation projects that were the subject of governmental procurement or OPA procurement prescribed by Ministerial directive issued prior to the date of approval of the IPSP (for example, the OPA's York region demand response process or the existing Standard Offer Program) will not be assessed as part of the IPSP review process, even if these projects are included in the IPSP.
To the extent that the need for and costs associated with a transmission project are examined in the course of the review of a transmitter's capital budget in a rates proceeding or in the course of a leave to construct proceeding that is pending prior to approval of the IPSP, these issues will not be assessed a second time as part of the IPSP review process even if the project is included in the IPSP.

WNH feels the above decision excluding duplicate review of existing plans is prudent. While the above section specifically notes York Region, the status of Region of Waterloo and Guelph transmission re-enforcement is unclear. WNH feels the supply study completed to date demonstrates the immediate need for certain facilities and should avoid moving through a second process further delaying critical needs for this area such as right of way protection.

F. Facilitating Implementation of the IPSP: Regulatory Consistency and Streamlining

Section 1(2) of the Ontario Energy Board Act, 1998 (the "OEB Act") states that the Board must facilitate the implementation of an approved IPSP when it exercises and performs its statutory duties. This obligation is a driving force in favour of regulatory streamlining in relation to those of the Board's statutory duties that may overlap with matters considered by the Board in its review of the IPSP.
Streamlining, in this context, does not mean that applicable regulatory approvals will necessarily be avoided. Rather, requiring that a detailed rationale for electricity projects be provided in the IPSP can result in the creation of an analysis that can be relied upon by an electricity project proponent in addressing the scope of subsequent regulatory review.
Regulatory streamlining opportunities will therefore be sought in relation to projects that are examined as part of the Board's review of the IPSP, and the IPSP review proceeding will be used to address as many issues as is feasible in relation to proposed projects that would otherwise be reviewed on a case-by-case basis as part of another of the Board's statutory functions. In other words, issues that are

F. Facilitating Implementation of the IPSP: Regulatory Consistency and Streamlining - continued

adequately addressed in the context of the IPSP will not be subject to re-examination by the Board at a later date. Parties with an interest in those issues must therefore ensure that their positions are brought forward during the IPSP proceeding. As noted below, it is expected that the OPA will use its consultation process to foster a greater and more widespread understanding of this approach. The potential for streamlining is greatest in relation to the Board's regulatory approvals associated with transmission system investments. Traditionally, these include a review of transmission investment costs (as part of a transmitter's capital budget in a rates proceeding) and the Board's approval of applications for leave to construct transmission facilities. To the extent that the need for and costs associated with a project are assessed by the Board in the context of the IPSP, those issues will not thereafter be revisited except in relation to any material deviations. If the likelihood of obtaining the benefits of the streamlined approach to transmission system investments noted above were to be maximized, the rationale for a project would need to be at a level of detail at least equal to that which would be required to satisfy the requirements of the Board's review of a transmitter's capital budget in a rates proceeding or the Board's approval of an application for leave to construct transmission facilities.

WNH concurs with this effort to avoid duplication and looks forward to the OEB achieving results in this area.

Part III 1. General

… Further discussion is warranted in relation to proposals for obtaining a resource using a process other than a contract-based procurement mechanism, such as a proposal to obtain demand response by means of an auction or a series of auctions. Specifically, the costs associated with using a process other than a contract-based mechanism can be more diverse than those associated with a contract-based procurement process, and these should be identified and quantified. For example, there may be costs associated with:

i. the development of and compliance with new or additional legal or regulatory requirements (such as market rules, licences, codes, etc.);
ii. the need for new infrastructure if the mechanism cannot be supported by existing infrastructure or new infrastructure that is known to be required for other purposes *(such as wholesale market settlement systems and distribution customer information and billing systems);*
iii. the stranded costs associated with the mechanism if it cannot be accommodated by existing infrastructure or new infrastructure that is known to be required for other purposes; and
iv. the need for existing and potential market participants to acquire new skills or resources.

Part III 1. General - Continued

WNH notes billing system changes requiring changes in billing determinants and potentially metering systems be provided with sufficient notice to achieve the design, testing and implementation needs of the parties impacted. The costs associated with these changes must be reflected in the analysis of prudence for the implementation of the far reaching changes to billing systems.

3. Generation Resources

a) *General*

… **ix. the level of dispatchability of the generation resource, and any measures for enhancing dispatchability, mitigating intermittency or load following capabilities;**

WNH views this as a critical issue for the reliability of supply given the current direction of supply options in this Province. Off peak intermittency or self scheduled generation has a significant impact on the amount of low cost baseload generation that can be supported.

d) *Gas-fired generation resources*

Paragraph 3 of section 2(1) of the IPSP Regulation requires the OPA to identify opportunities to use natural gas in high efficiency and high value applications in electricity generation. These applications appear to be the same as, or at least a subset of, the applications that allow high efficiency and high value use of natural gas that the OPA is required to pursue under the terms of the Supply Mix Directive. Accordingly, the opportunities must be realistic from a physical and commercial perspective. In order to evaluate whether the requirements of this element of the IPSP Regulation and the Supply Mix Directive have been met, the OPA will be required to identify:
i. the criteria that it has used to determine whether an application is high efficiency and high value;
ii. the economic potential for such generation, above what may be included in contracts listed in the *Prescribed Contracts re Sections 78.3 and 78.4 of the Act Regulation*, O. Reg. 578/05; and
iii. any barriers to the pursuit of those applications, as well as the means by which those barriers can be eliminated.

WNH notes the OPA' IPSP should examine the opportunity costs of using a premium supply-limited fuel for generation. The impacts of this fuel use for generation on other uses such as home heating and industrial uses both in rates and availability should be noted in the OPA's IPSP.

PART TWO II B 1. General

"…It is expected that competitive procurement processes will be used in the normal course, and that non-competitive procurement processes will be used on an exceptional basis (for example, in cases of urgency). To the extent that the OPA anticipates that it may need to use a non-competitive process in circumstances where a competitive one was initially intended, the criteria for doing so must be clearly identified.

PART TWO II B 1. General -continued

Because standard offer processes can carry the risk of higher consumer prices and less than optimal deployment of resources, mechanisms must be in place to minimize that risk.
The Act requires that the OPA's procurement processes provide for simpler processes for electricity supply or capacity to be generated using alternative or renewable resources where the supply or capacity or generation facility or unit satisfies the prescribed conditions. Therefore, the OPA will need to demonstrate how its procurement processes for such resources are simpler than procurement processes for other resources to the extent that the necessary conditions have been prescribed and are met.

WNH notes Standard Offer Program will have an impact on consumer costs for energy. The IPSP should include a review of any deployment strategy involving a mix of energy suppliers to provide the greatest societal benefit from cost and energy security perspective.

If there are any questions, please contact myself, Gerry Hilhorst, at 519-888-5550, ghilhorst@wnhydro.com.

WNH appreciates the opportunity to comment on the Staff's Proposal.

Yours truly,

Original Signed By

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