ONTARIO POWER AUTHORITY

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OPA's 2014 Revenue Requirement Submission update

As described in the March newsletter, the OPA's 2014 Revenue Requirement Submission was filed with the Ontario Energy Board ("Board" or "OEB") on March 6 for review and approval. The OPA has a planned operating budget of $60.3 million, which is a reduction of nearly 6% from its Board-approved 2011 operating budget, and has requested a usage fee of $0.439/MWh, which is a 20.3% decrease from the OPA's 2010-2013 Board-approved fee.

The Board's Letter of Direction was received on March 26, requiring the OPA to publish the Notice of Application in The Globe and Mail and Le Droit newspapers. Publication took place on April 11, 2014 informing interested parties of the upcoming proceeding and instructing them to participate by filing letters of comment or intervention requests to the Board. Subsequently, the OPA received a total of eight interventions: Association of Major Power Consumers in Ontario ("AMPCO"), the Building Owners and Managers Association, Greater Toronto ("BOMA"), Canadian Manufacturers & Exporters ("CME"), Energy Probe Research Foundation ("Energy Probe"), the Independent Electricity System Operator ("IESO"), School Energy Coalition ("SEC") and Shell Energy North America (Canada) Inc. ("Shell Energy") all filed requests for intervention.

At the time of filing, the OPA indicated to the Board that it may need to file supplemental evidence relating to the registration fees it proposes to charge for its Large Renewable Procurement ("LRP") prior to the interrogatory phase of the proceeding. The OPA also provided the Board with a proposed draft issues list in order to establish the scope of the proceeding (required before the interrogatory phase), and indicated its preference that the Board's review of the 2014 RRS be through a written hearing process.

On May 6, the Board issued Procedural Order No. 1 ("PO1") which included the List of Intervenors and the Proposed Issues List. PO1 established May 16 as the date by which intervenors and Board staff may make submissions on the Proposed Issues List, and May 27 as the date the OPA may file reply submissions. The OPA received submissions from BOMA, CME, Energy Probe and VECC. All parties encouraged the Board to proceed by way of an oral hearing, except VECC who said "[w]e think this matter is better determined once the interrogatory phase of the application is complete. Should the Board determine a settlement conference is appropriate the outcome of that process will likely inform parties as to the most efficient way to proceed." In its reply submissions the OPA agreed with VECC and restated its preference for a written hearing.

The submissions of BOMA and CME also requested that the Board include certain additional issues. The OPA's response is that it believes all of the additional issues are subsumed within those already on the Proposed Issues List, preferring that the Final Issues List be worded broadly, as currently proposed, allowing specific questions to be asked under these more open issues.

On May 16, 2014 the OPA was able to file its updated evidence with respect to the registration fees. An update can include any relevant new material, and corrections or updates to the prefiled evidence since the time of filing. The OPA's update package therefore also included its 2013 Annual Report including audited financial information, and additional directives received from the Minister since March 6.

The OPA's LRP evidence requested approval of a new fee as the proposed LRP RFQ submission fee does not fall within the Board approved registration fees structure. Since the OPA RFQ is expected to be finalized by July 2014, the OPA is also seeking interim approval of the proposed LRP RFQ submission fee before the Board issues a final decision which is expected sometime in late July or August.

The proposed RFQ submission fee is the sum of:

- The greater of: (a) $2,000 for the first (or only, if only one renewable fuel is proposed) proposed renewable fuel submitted; or (b) $1.00 per kW of estimated contract capacity for all large renewable project(s) to a maximum amount of $30,000; plus
- $2,000 for each additional renewable fuel proposed; plus
- GST[1] on the total of (a) and (b) above.

The LRP RFQ submission fee would be a mandatory charge to all applicants, and each applicant would be permitted to make only one submission that would include and encompass all of their proposed projects for the LRP.

The OPA is asking for a higher fee for the LRP because of an engagement process that resulted in a number of stakeholders requesting that the LRP RFQ submission fee be increased from the $10,000 maximum in the current Board-approved fees, in order to discourage applications from non-committed parties. The OPA considered this stakeholder feedback, and determined that an increased fee as proposed above was reasonable and appropriate for the LRP RFQ process. The OPA also believes that a higher registration fee is appropriate because its registration fees assist in covering a portion of the costs associated with processing and reviewing submissions. These costs are expected to be higher for the LRP than when reviewing a standard offer application (e.g. the FIT program), as the non-standard nature of the submissions adds complexity and may require the assistance of external consultants for a portion of the review.

The OPA does not expect the higher LRP RFQ submission fee to act as a barrier to smaller LRP projects, as under the proposed fee the cost to a project of 10 MW or less will not exceed the maximum $10,000 applicants would be required to pay under the OPA's currently approved registration fees. The proposed LRP RFQ submission fee structure will therefore continue to enable applications from smaller project portfolios, while still setting more suitable requirements for larger-scale applications.

The OPA also adjusted its evidence to reflect that "Registration fees will not be recognized until the associated procurement processes have been completed" from Registration fees will not be recognized as income for accounting purposes until the associated projects have reached commercial operation and, accordingly, the income from such fees will be reflected in future revenue requirement submissions by the OPA.

Next Steps

The OPA is expecting Procedural Order No. 2 which will contain the Board's Final Issues List and establish the dates for when interrogatories on the OPA's evidence are to be filed and for when the OPA's responses are required. Stay tuned

1 For clarification GST is used in this case as the technically correct term according to the Excise Tax Act (R.S.C., 1985, c. E-15) - PART IX GOODS AND SERVICES TAX, and means the same as HST for Ontario.

for further updates. The OPA's 2014 RRS application and evidence may be accessed here: http://www.powerauthority.on.ca/regulatory-affairs/2014-revenue-requirement-submission

OPA files second East-West Tie need update report with OEB

On May 5, the OPA filed with the Ontario Energy Board its second need update report for the East-West Tie ("E-W Tie") expansion project, titled, "Assessment of the Rationale for the East-West Tie Expansion: Second Update Report". The OPA's need update was required because the Board, in its E-W Tie transmitter designation decision, ordered the OPA to produce two need update reports: one in the early stages of NextBridge's (the designated transmitter) development schedule, and one at the mid-point. The OPA committed to providing these need update reports to the Board by October 8, 2013 and May 5, 2014. A summary of the October 8, 2013 report can be found in the October 2013 edition of the OPA's EmpowerLines newsletter.

The May 5 need update report builds upon and updates the OPA's original June 2011 Report on the E-W Tie project, as well as the OPA's first need update report filed in October 2013. The report first provides an updated conservation and demand forecast for the Northwest. It reflects changes since October 2013 and identifies major drivers for future electricity demand. It then provides analysis on current and future internal and external resources that supply the Northwest, and provides an update on Northwest capacity and energy supply needs. The report then presents an updated analysis of two alternatives that would form the backbone of an integrated plan for reliable electricity supply to the Northwest: a case with no E-W Tie expansion, in which gas generation addresses the incremental Northwest supply needs; and the E-W Tie expansion with additional resources as needed to address remaining supply gaps. It concludes that the E-W Tie expansion project continues to be the OPA's recommended alternative to maintain a reliable and cost effective supply of electricity to the Northwest for the long term.

Changes that are highlighted in the May 5 report include: a more moderate outlook for electricity demand growth in the Northwest, with assessments of higher and lower demand scenarios; increased capability of the existing E-W Tie; and refinements to the cost assumptions for gas-fired generation in the Northwest.

Under the Reference assumptions, the E-W Tie expansion results in a net benefit of approximately $220 million when compared with a no-expansion alternative. Based on the sensitivities tested, the E-W Tie expansion ranges from a net benefit of over $700 million to a net cost of approximately $350 million, associated with the Low demand forecast.

The OPA is working with NextBridge to develop a Leave to Construct application for the project. NextBridge is expected to file its Leave to Construct application, along with evidence from the OPA regarding the need for the project, with the Board in January 2015.

A copy of the May 5 need update report can be found here: http://www.powerauthority.on.ca/sites/default/files/page/OPA_UpdateReport_EWT_20140505.pdf

OEB issues Decision and Rate Order for Union 2014 rates

On May 12, the Ontario Energy Board issued its Decision and Rate Order in Union Gas Limited's ("Union") 2014 rates proceeding.

Union filed its 2014 rates application with the Board on October 31, 2013, seeking an order or orders approving rates for the distribution, transmission and storage of natural gas, effective January 1, 2014. The 2014 rates application is based on Union's 2014-2018 Incentive Rate Mechanism ("IRM") framework, which was approved by the Board in October 2013.

IESO-N-0042597

The OPA intervened in this hearing and has an interest in the potential impact of this hearing on electricity prices for Ontario ratepayers. The OPA did not participate in the Settlement Agreement process for this hearing.

Union filed a Settlement Agreement and Draft Rate Order with the Board on April 24, 2014. Union and interested parties reached a settlement on all issues with the exception of three issues:

1. Parkway Delivery Obligation;
2. Allocation of Kirkwall Metering Costs; and
3. Leamington Line Project.

In its Decision, the Board wrote, "The Board accepts the Settlement Agreement and Draft Rate Order, and commends Union and the participating stakeholders for their efforts in coming to an agreement that the Board considers to be in the public interest."

Union continues to request extensions from the Board to file the Settlement Agreement on the Parkway Delivery Obligation issue, an issue that does not impact Union's 2014 rates, as Union continues to discuss the issue with interested parties.

As for the two remaining issues (Allocation of Kirkwall Metering Costs and the Leamington Line Project), the Board determined that it will hear these two issues orally. The Board will also hear the Parkway Delivery Obligation issue in the event that a settlement is not reached among the parties.

The Board's detailed Decision and Rate Order can be accessed here: http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/437619/view/

Supply to Essex County Transmission Reinforcement (SECTR)

In January 2014, the OPA filed evidence in support of Hydro One's Leave to Construct application to the Ontario Energy Board for the Supply to Essex County Transmission Reinforcement Project ("SECTR").

Hydro One has proposed this project to reinforce transmission supply in this part of South-Western Ontario to meet load growth caused by expansion in the agribusiness sector, primarily from new greenhouses. This project has been contemplated for many years, with regional planning activities associated with the 2007 IPSP identifying a need for investment. While the economic downturn starting in 2008 reduced demand growth and paused development of this project, strengthening economic prospects brought the need for this project back to the forefront. This project was referenced in the 2013 LTEP with respect to the Windsor-Essex regional plan.

The OPA works with transmitters through planning processes to address system requirements. The OPA provides evidence in support of the development of transmission projects through the Board's Leave to Construct application process. As part of its contribution, the OPA provides analysis of the electricity system need and how the proposed project will address this need. It also examines alternatives to the proposed project.

The SECTR application is of particular interest because it is the first application of the "beneficiary pays" principle for cost allocation. Previously, the Board applied a "trigger pays" principle, which assigned the full cost of transmission project upgrades to the customer whose requirements necessitated the investment. As a result of changes to the Transmission System Code, the Board now uses a beneficiary pays principle. In this example, the OPA has recommended that 22.5% of the project costs be assigned to the provincial transmission pool, while the remaining costs will be paid by the load customers. This percentage was developed by comparing the costs of pursuing two separate projects to provide the system and customer load benefits, rather than addressing them through a single project. The cost of the project to provide the required system improvements, which would be paid for by the provincial transmission pool, would total 22.5% of the combined total cost of the two projects. Addressing the system and customer needs in two projects would be more expensive than pursuing them through the SECTR project. As a result, the OPA has recommended the integrated SECTR project as the more cost-effective solution, and recommended that the transmission pool be responsible for 22.5% of the costs of this project.

The Board's decision in this case will help sector participants to understand how it will apply the beneficiary pays principle in the future.

Link to the OPA's evidence:

EB-2013-0421 Hydro One Networks' Inc. Section 92 - Leave to Construct Transmission Facilities (Supply to Essex County Transmission Reinforcement ("SECTR") Project)

Exhibit B-1-5 (OPA Need & Alternatives Evidence)

Exhibit B-4-4 (OPA Cost Responsibility Evidence)

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