

New Issues in Regulatory Treatment of Transmission Requirements

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The Challenge

- The current transmission regulatory structure was designed for an unbundled price driven approach to infrastructure development.
- The abandonment of price as a driver has left a vacuum for how infrastructure should be driven.
- The IPSP addresses, but does not fully fill this vacuum.

How things were supposed to work

- The current regulatory structure for transmission was developed in anticipation of market opening.
- The key components of regulation under this model:
 - unbundling of transmission and generation
 - allocation of embedded infrastructure costs to tx
 - allocation of commodity costs (including congestion) to commodity.

Unbundled Model

- Transmission is like a pipeline: economics based on basis point differential.
- Sally Hunt, *Making Competition Work in Electricity*:
 - “...the central feature in evaluating a new line is quite simple: it is economic to build a line if the value of the additional power transported is greater than the cost of the line. The value of transporting the power is the cost difference between generating at A and generating at B.”

Unbundled Model

- Transmission expansion could be carried out in a number of ways:
 - market-based mechanism - transmission rights
 - centralized planning through transmitter with regulatory approval
 - combination of two (where beneficiaries pay for expansion)

Abandonment of Market Model

- Unbundled transmission expansion model based on two assumptions about the electricity commodity:
 - price fidelity; and
 - resource differentiation by reference to performance, not environmental factors
- The continued relevance of both assumptions questionable, but the model remained unchanged.

How the Supply Mix Changed Everything

- Whether intentional or not, electricity resource components took on inherent value, not economic value.
- Conservation and renewable power are inherently good and coal is inherently bad.
- New approach challenges premises of transmission expansion, but was not accompanied by new policy approach.

Transmission and the New Model

- Ontario not alone, but it is more complicated.
- Other jurisdictions (California and Texas) have established processes to identify and approve “enabler lines”.
- Key issues are:
 - resource designations
 - cost control mechanisms
 - transmitter selection and oversight

Enabler Lines

- Ontario has the same issues plus:
 - unclear regulatory mandates between government agencies
 - prolonged regulatory review of both IPSP (filed in August, 2007), and enabler development policy (commenced in December, 2007)
 - additional regulatory and legal requirements (EA, LTC, and First Nations and Metis Peoples Consultation)

Can Regulatory Policy Keep Pace?

- Time-lines for development work for enabler lines identified in IPSP will have to be largely completed by the time that the OEB completes review of first IPSP.
- Result is that work will have to be carried out in advance - some preliminary, but incomplete policy direction likely to be provided.

Policy by Improvisation

- Applicant driven initiatives with policy explicitly or implicitly set out within it.
- Will have to some incorporate, or at least not frustrate, other major grid policy developments:
 - smart grid (in particular storage issues)
 - changes to procurement structures
 - ?

Role of IPSP

- In light of many players and policy makers, expectations of specific resource initiatives were not well informed.
- Can provide direction, guidance, methodologies - not a resource work plan.
- Review process will benefit from experience.

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