



**uniongas**

A Spectra Energy Company

July 7, 2009

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON  
M4P 1E4

Re: The Regulatory Treatment of Infrastructure Investment for Ontario's Electricity Transmitters and Distributors (EB-2009-0152)

Dear Ms. Walli:

On June 10, 2009, the Ontario Energy Board ("OEB" or "the Board") initiated a consultative process to help it determine more innovative approaches to cost recovery for electricity infrastructure projects.

In its letter initiating the consultative process, the Board refers to an April 3, 2009 statement by the Chair of the OEB confirming the Board's commitment to creating conditions that will foster timely and appropriate investment in electricity distribution and transmission infrastructure while ensuring that the interests of ratepayers continue to be protected. As noted in a second statement released on June 1, 2009 the Chair highlighted more innovative approaches to cost recovery, primarily in relation to infrastructure investments relating to the accommodation of renewable generation and smart grid development, as one of these conditions.

Presently, the Ontario energy sector as a whole is experiencing very real and significant challenges. Such challenges include the common need to replace aging infrastructure, maintain Ontario's business competitiveness and, develop an environmentally sustainable energy system. Union Gas ("Union") is supportive of the Staff Discussion Paper (dated June 5, 2009) as its overall intent is to create a regulatory framework that will help attract infrastructure investment in Ontario.

Although natural gas distributors are not specifically referenced by the Board in its communications to date, it is Union's view that, the many of the issues identified in the discussion paper for review and comment also apply to natural gas utilities. Natural gas-fired generation ("GFG") is integral to the inclusion of renewables into the Ontario electricity generation portfolio. Union believes the regulatory framework and cost recovery mechanisms identified in the discussion paper should apply to other rate-

regulated entities, including natural gas utilities, for relatively large non-routine capital expenditures incurred to facilitate and support the Province's electricity energy policy.

### **Infrastructure Investment in Ontario**

As stated on page 1 of the Discussion Paper, the Green Energy and Green Economy Act, 2009 makes it clear that the "connection of renewable energy generation facilities and the development of a "smart grid" are policy matters of priority for the Government." GFG does, and will continue to play a key role in facilitating the connection of renewable energy generation facilities as well as in the development and implementation of the smart grid. Natural gas, as a dispatchable fuel, allows Ontario to add renewable sources of energy such as wind and solar while at the same time, maintaining system reliability. Renewable sources of energy do not produce a significant amount of electricity when, for example, wind and sunlight levels are low. In these instances, GFG facilities can be called upon to produce electricity to "fill in the gaps".

The costs to provide natural gas service to a generation facility can be significant and largely depends on the location of the facility. The locations of new GFG facilities are chosen based on their close proximity to electricity transmission facilities. While this selection criteria reduces the cost of tying the GFG into the transmission facility, it may increase the costs of natural gas service to the GFG facility. For example, the length of pipe required to connect the GFG to the gas distribution system and the type of land in which construction is taking place (i.e. urban vs. rural) will cause overall project costs to vary significantly. In recent years, Union has invested capital in GFG projects, with each ranging between \$5 million to \$23 million. Costs for future planned GFG projects are significantly higher due to their proposed locations in more urban areas. As the investments costs increase, the acquisition of capital for these projects may become more difficult.

Similarly, Union may need to invest in future combined heat and power ("CHP") projects as a result of Government sponsored OPA programs. Union is also reviewing the feasibility of biogas. The costs to connect a CHP plant or a biogas facility to Union's transmission and distribution system could be significant depending on the location of the facility.

While the projects referenced above would provide societal benefits, an incentive mechanism may be required to make the connection of the facility to Union's system financially feasible.

### **Treatment of Infrastructure Investment - Alternative Mechanisms**

Staff's discussion paper identifies seven "incentives" as noted in the Federal Energy Regulatory Commission Order 679 which include: the ROE adder, allowing CWIP in rate base prior to the asset coming into service, the hypothetical capital structure, accelerated

depreciation, recovery of costs of abandoned facilities, deferred cost recovery and single-issue ratemaking.

As stated on page 5 of the discussion paper, Ontario's electricity rate-regulated companies, particularly distributors and transmitters, are directing significant capital towards infrastructure investments. As noted above, this reality is also consistent with the natural gas industry.

Realizing the nature of these investments, Union agrees with the introduction of incentives to further help drive infrastructure investment. However, with respect to "alternative mechanisms" Union agrees with Staff in that it is premature at this time to attempt to more definitively identify which other types of investments may qualify for an alternative mechanism and which will not. Union also agrees with the fact investments may have more than one driver.

As stated on page 15 of the discussion paper, Union agrees with Staff in that adopting a "case-by-case approach to the review and approval of applications for one or more alternative mechanisms to encourage appropriate investment provides the most effective way of balancing the unique challenges and the particular circumstances of an application with the public interest."

### **Conclusion**

Union supports the Board's shift to incentive based mechanisms for both natural gas and electricity utilities. The incentives addressed in the discussion paper will not only help utilities operate more efficiently but will also support infrastructure investment (i.e. expansion, reinforcement, etc.).

Union has invested millions of dollars to support the Province's electricity energy policy and will likely need to invest more capital in the near future to continue that support. Union believes that for these large non-routine capital expenditures, the framework and mechanisms identified in the Board's discussion paper should apply to other rate-regulated entities, specifically natural gas distributors.

Please contact me should you have any questions regarding this submission.

Yours truly,

*[original signed by]*

Chris Ripley  
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