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January 5, 2009

Via email: info@powerauthority.on.ca
Ontario Power Authority
Suite 1600
120 Adelaide Street West
Toronto, ON
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Dear Sir/Madam:

Re: Power Purchase from Quebec *and*
Natural Gas Power Plant for Nanticoke

The CAE Alliance is, as you are aware, an Intervenor with the Ontario Energy Board in respect of the Board's review of the IPSP. We have also made a number of submissions to the OPA regarding the power plan over the past few years during its development.

Attached is an article from the Globe and Mail, online version, in regards to a power agreement between Quebec and the New England states. Could you kindly advise us why the Ontario Power Authority chose not to seek such a contract when planning for the Ontario power needs? It would seem that 1,200 MW of renewable, available, intermediate power - accessible as a result of transmission infrastructure upgrades - fits all of the requirements of the Ontario criteria. Surely the cost would be comparable to what Ontarians will be paying for less than reliable resources like wind and solar.

On a second issue, would the OPA kindly advise whether there is a contract between the OPA and CPV Canada for a 1,200 MW power plant proposed for the Nanticoke area. The Proponent indicates that it has developed this project in consultation with the OPA. However, this plant would appear to be outside of the geographical areas that the OPA has considered in the IPSP and would not be suitable for baseload needs as confirmed in the IPSP. Further, this contravenes the power procurement provisions of open, fair, and competitive process as is set out in the procurement policy now before the Ontario Energy Board.

We look forward to your insight into these matters.

Yours truly,

Carol Chudy, Co-Chair, CAE Alliance
cc Mr. John Yakabuski, PC Energy Critic; Mr. Peter Tabuns, NDP Energy Critic; Hon George
Smitherman, Minister of Energy

Globe and Mail KONRAD YAKABUSKI December 30, 2008

MONTREAL -- For decades, Canadian politicians of all stripes have caressed the dream of an east-west electric transmission grid that would unite the country the way the railway once did.

But while the politicians here continue to dream, Americans are moving aggressively to lock up a secure supply of "clean" Canadian electricity for decades to come.

Hydro-Québec is negotiating with two New England customers to sign its first new long-term export contract in two decades.

Such a deal would bind the provincially owned utility to sell to U.S. buyers for at least 20 years beginning in 2014, leaving it with less electricity to peddle to power-starved Ontario.

Northeast Utilities Inc. and **NSTAR Inc.** are seeking approval from the U.S. Federal Energy Regulatory Commission (FERC) to build a \$700-million (U.S.) transmission line from a substation near Sherbrooke, Que., to southern New Hampshire where it would join the New England grid. The transmission line would carry 1,200 megawatts of Quebec power to hungry urban markets such as Boston.

The 250- to 350-kilometre line would boost the amount of power that Hydro-Québec can currently export to New England by more than 50 per cent.

"This generation can provide a competitively priced, reliable supply of large quantities of energy from a resource that does not burn fossil fuels, does not expand the requirement to import oil or natural gas, and is a low greenhouse-gas-emitting source of energy," Northeast and NSTAR say in their Dec. 12 FERC filing.

"At the same time, New England is a favourable market from Hydro-Québec's perspective because of the region's long-term need for power and high forecast market prices."

New England has consistently posted among the continent's highest electricity prices in recent years. Hydro-Québec has been a major supplier, mostly selling into the grid - known as ISO New England - on an hourly spot basis. The spot price soared to more than \$200 per megawatt-hour (MW/h) during a June heat wave, compared to averaging about a third of that during the fall months.

"Power still has extreme [price] volatility that stems from the fact that there is inelastic supply," explained George Hopley, a commodities analyst at Barclays Capital in New York. "And demand can go from nothing at night to soaring in late afternoon when people turn on the air conditioning."

Exports have been disproportionately responsible for Hydro-Québec's profits, since the utility sells electricity within its home province at rates far below market prices. The utility currently sells almost no power to Ontario.

Sales to New England accounted for about \$750-million (Canadian) of Hydro-Québec's \$1.3-billion in export revenue in the first 10 months of 2008, according to National Energy Board statistics. The utility received an average price of about \$88 per MW/h for the power, or more than twice the amount it charges large industrial users of electricity in Quebec. The loonie's recent slide has made exports even more lucrative.

Hydro-Québec's decision to enter into negotiations on a long-term sales contract with Northeast and NSTAR signals a strategic shift. Since the deregulation of the U.S. electricity market more than a decade ago, Hydro-Québec has preferred to export on a spot basis to get the highest rate, rather than lock into a fixed-price deal for several years.

But with more than 2,000 MW of new hydro capacity already or soon to be under construction at a cost of about \$14-billion - and an additional 2,000 MW on top of that promised by Premier Jean Charest - the utility is jumping on New England's eagerness to pay a premium for green power. It may also want to secure a long-term contract before Newfoundland can seek a buyer for power from its proposed 2,800-MW development on the lower Churchill River.

So far, Hydro-Québec has been silent about the project - which only came to light through the U.S. companies' FERC filing - and a spokesperson for the provincial utility yesterday deferred a request for details until after Jan. 5.

Boston-based NSTAR and Northeast, which is headquartered in Connecticut, are particularly keen to do a deal with Hydro-Québec to meet emissions reduction targets set by the Regional Greenhouse Gas Initiative (RGGI). The 10 states belonging to the RGGI have agreed to reduce emissions from the power sector by 10 per cent by 2018.

"RGGI is a big driver behind this [transmission] project," Northeast spokeswoman Sandra Ahearn said, noting that the 1,200 MW from Hydro-Québec would allow New England utilities fulfill a third of their RGGI requirements.

New York is also part of RGGI and it, too, has its eyes on Hydro-Québec's power supply. Last month, New York Power Authority chief Richard Kessel and state Governor David Paterson met Mr. Charest in Montreal to discuss a potential long-term deal with Hydro-Québec for at least 1,000 MW.

"Clearly, they have excess hydropower in Canada. We'd be crazy not to get it, because New England will get it," Mr. Kessel later told media in his home state.

If it doesn't move soon, Ontario risks being left out in the cold. Analysts suggest a new 1,200-MW interprovincial transmission line set to open in 2010 could end up being used to transport Hydro-Québec power through Ontario to New York - a process known in the electricity industry as "wheeling" - rather than to provide Ontario with energy from Quebec.

Indeed, the Ontario Power Authority has made no provisions for electricity from Quebec as part of its "integrated power system plan" for between now and 2025. Rather, Ontario intends to feed its voracious energy appetite by increasing internal supply sources, including costly new nuclear power stations.

(emphasis added)