

National Energy
Board



Office national
de l'énergie

***National Energy Board
Cost Recovery Regulations
for the Electricity Industry***

Overview of Electricity Program

2 June 2005
Hotel Queen Elizabeth, Montreal

Canada



Electricity Program

- ◆ **What do we do?**
- ◆ **Why do we do it?**
- ◆ **How?**
- ◆ **Context for cost recovery options**



Electricity Mandate

- ◆ **National Energy Board Act (NEB Act)**
 - **Construction and operation of international power lines**
 - **Electricity exports**
 - **Advisory Function**
- ◆ **Canadian Environmental Assessment Act (CEA Act)**



Electricity Mandate (cont'd)

- ◆ **Canadian Security Act**
 - outcome of 9/11
 - recent changes to **NEB Act**



Electricity Regulation – Some History

- ◆ **Canadian Electricity Policy (1988)**
 - In response to industry restructuring
- ◆ **NEB Act revised in 1990**
 - removed prescriptive tests to demonstrate that exports are surplus to domestic needs
 - main criteria for applicant to demonstrate:
 - * effect on other provinces
 - * impact on the environment
 - * fair market access for Canadian consumers
 - no export hearings since 1990
 - Board “shall ... issue” a permit for an ^{Canada} international power line without public



Electricity Regulation – Some History (cont'd)

- ◆ With some exceptions ... “the Board shall, on application to it and without holding a public hearing, issue a permit authorizing the exportation of electricity.” (s. 119.03)
- ◆ With some exceptions ... “ The Board shall, on application to it and without holding a public hearing, issue a permit authorizing the construction and operation of an international power line.” (s. 58.11)



Electricity Regulatory Duties

- ◆ **International Power Lines**
 - **Authorization - may involve a public hearing**
 - **Project monitoring post approval**
 - * monitoring is more extensive in the event of “election”
- ◆ **Electricity Exports**
 - **Authorization - permits / licences**
 - **Monthly returns**
 - **Compliance with permits / licences**
- ◆ **Ongoing regulatory work**
 - **Pre-application meetings; regulatory issues**



Electricity Regulatory Duties (cont'd)

- ◆ **Evolving responsibilities for IPLs**
 - **Ongoing operations and safety**
 - **Reliability**
 - * including implementation of Canada-U.S. Blackout Task force recommendations
 - * federal/provincial/territorial reliability subcommittee
 - **Security**



Processing Applications

◆ Electricity Exports

- * 45 days after posting in Canada Gazette
- * plus ... internal processing
- * typically 60 - 75 days total, if no interventions
- * 10 - 12 applications per year

◆ International Power Lines (IPLs)

- * timing is nominally similar to exports
- * however, typically take longer
- * 4 applications over past 4 years (3 hearings)



Market Monitoring

- ◆ **Restructuring of energy markets, and less prescriptive regulation has led to increased need for monitoring**
- ◆ **In deciding energy exports, the NEB needs to consider ... Are markets working?**
 - **Electricity ... Do Canadians have fair market access?**
 - **Similar criteria for natural gas and oil exports**



Market Monitoring (cont'd)

- ◆ **An important aspect of Goal 3: Canadians derive the benefits of economic efficiency**
 - **Strategy: Promote understanding of energy markets**
 - **Measure: Evidence that Canadian energy and transportation markets are working well.**
- ◆ **A near-term objective: inform policy makers**



Market Monitoring (cont'd)

- ◆ **Monitoring provides information to stakeholders, including the general public, and allows Canadians to benefit from economic efficiency**
- ◆ **Market monitoring ensures the Board has the necessary information to make effective decisions in the public interest**
- ◆ **Multi-commodity/convergence issues**
 - **E.g., oil sands implications for natural gas and electric transmission**



Energy Market Assessments

- ◆ **The Board has undertaken 4 electricity market assessments since early 2001**
- ◆ **2 more over the next nine months... based in part on a website survey last fall**
- ◆ **Analyses include broad consultation with stakeholders**



Cost Recovery

- ◆ **Historically the electricity industry consisted primarily of vertically-integrated utilities (VIUs), usually Crown corporations**
- ◆ **Costs were (and still are) recovered on the basis of export volumes**

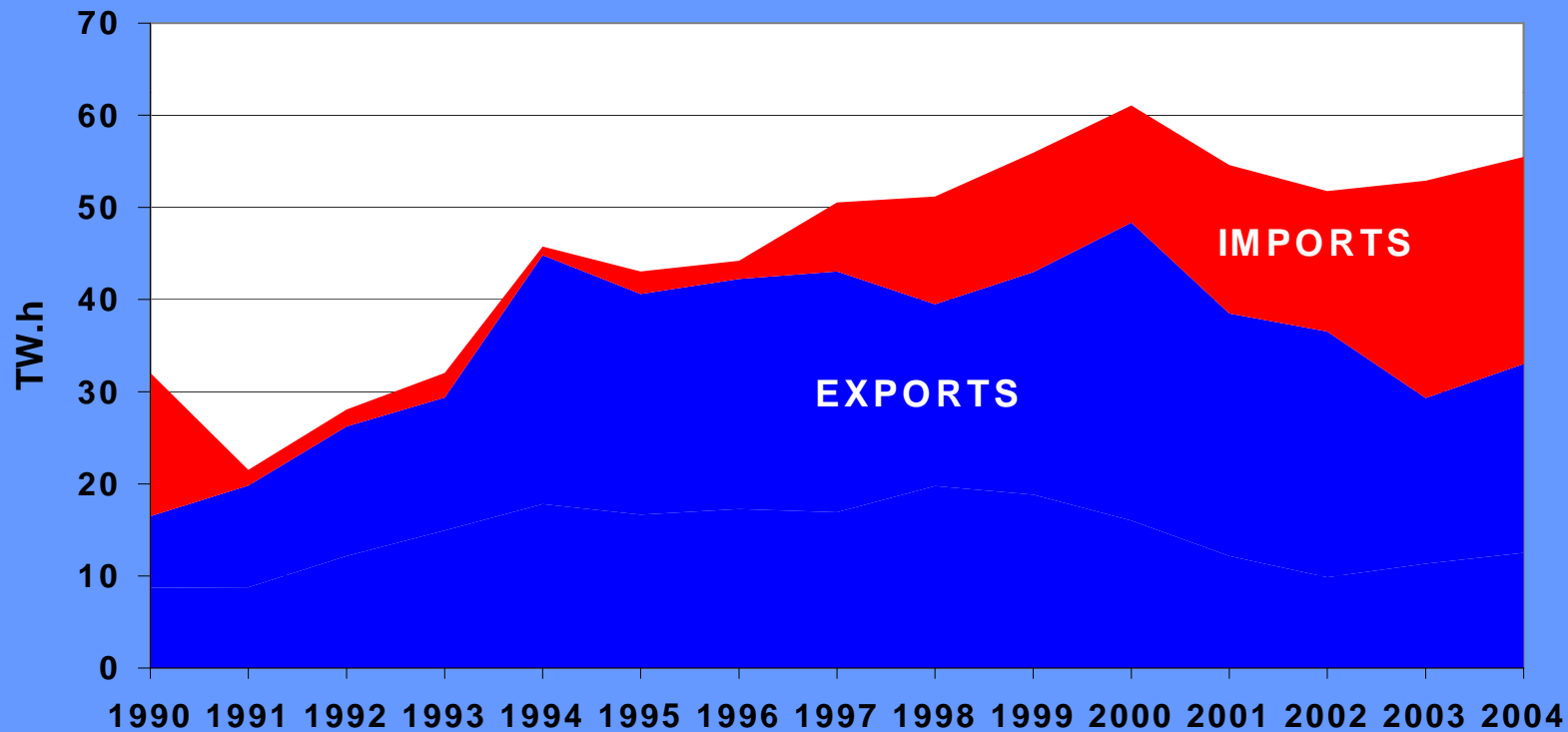


Changes to Electricity Industry

- ◆ **Restructuring**
 - **FERC Order 888 (1996)**
 - **VIUs have been “unbundled,” based on functions**
 - **More players, such as marketers**
- ◆ **International trade has increased since 1996 (see chart)**
 - **Exports have decreased; imports have increased**



Canadian International Trade in Electricity (Exports + Imports)





Observations

- ◆ **Cost recovery has been reallocated from VIUs to their exporting entities, and to new marketers**
- ◆ **The cost recovery base (exports) has been declining in recent years**
- ◆ **Imports have been increasing, but are not included in the cost recovery base**
- ◆ **IPLs are not included in the cost recovery base**



Observations (cont'd)

- ◆ Some application costs are not recoverable or cannot be recovered from those who caused them (e.g., IPL facilities applications)
- ◆ Parties that derive “reliability benefits” from IPLs are not included in the cost recovery base ... should they be?

Implication

Change to cost allocation mechanism may be warranted ... options to be addressed this afternoon.