

Valerie J. Katarey
Business Leader, Corporate Services
National Energy Board
444 Seventh Avenue SW
Calgary, Alberta
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March 31, 2004

Dear Miss Katarey,

Through this letter, Brascan Power, Hydro-Québec Production, Manitoba Hydro, Ontario Power Generation Inc. and Powerex Corp are formally requesting that the NEB review its Cost Recovery Methodology for the electricity industry.

Due to the changes that have occurred and continue to occur in the Canadian electricity industry, we have concluded that the current Cost Recovery Methodology needs to be reformed in order to better allocate the costs of the NEB's electricity programs and services to the beneficiaries of those programs and services. In the past, the owners of international and designated inter-provincial power lines were typically the same as, or affiliated with, the major parties that exported power from Canada. Furthermore, the costs and benefits from those activities, including NEB costs, were in effect consolidated within the respective provincial utilities.

However, this is no longer true in many cases. The separation of the transmission function from generation, distribution and marketing and the expansion of the number of participants in the marketplace means that benefits arising from international and designated inter-provincial power lines are disbursed more widely and to different constituencies than the parties that are engaged in exporting power. Unfortunately, it is only the exporters that currently bear the full burden of the cost of the NEB programs and services.

In addition, in the last few years Canadian exportations of electricity have slowly decreased up to a point where we can foresee, in the near future, our country may be a net importer of electricity. Therefore, if exporters were to continue to pay for the Board's costs, such costs could be a significant proportion of the cost of exporting and could put exporters at a significant competitive disadvantage as compared to domestic U.S. suppliers of electricity.

Our endeavour with the NEB is based on its enabling law, its Cost Recovery Regulations and the External Charging Policy of the Treasury Board of Canada Secretariat.

We suggest broad principles to be used as guidelines to replace the actual NEB Cost Recovery Regulations. Under these guidelines, the entities operating or constructing international or inter-provincial power lines and electricity exporters will take part in sharing the NEB cost attributed to the electricity industry. This cost sharing could be divided along the following lines for greater equity and clarity:

- (i) **A product or service provided by the NEB to identifiable recipients; in this case, the recipient will assume all the costs;**

- (ii) **A product or service enjoyed by the electricity industry as a whole, activities of the Board directly related to the administration of the Board and on activities indirectly related to the responsibility of the Board shall be assigned or apportioned within the electric industry as determined under the NEB process being initiated herein.**

With the proposed review, the actualised Cost Recovery Methodology will reflect the nature of the Canadian electricity industry and the mandate of the National Energy Board to promote economic efficiency in the Canadian public interest in the regulation of energy development and trade.

Yours truly,

Sylvain Gignac, *Hydro-Québec Production*
Barry Green, *Ontario Power Generation Inc*
Kelly Hunter, *Manitoba Hydro*
Mike MacDougall, *Powerex*
Daniel St-Onge, *Brascan Power*

Cc Hans Konow, CEA