Remarks of Robert van Beers, COO, Tonbridge Power Inc.
FERC Technical Conference, October 14, 2008

Mr. Chairman, Commissioners, ladies and gentlemen:

Thank you for inviting me to this Technical Conference. It is exciting to be part of an innovative wave of developments in transmission and I hope that sharing Tonbridge Power's experiences will be helpful in shaping policy and responding to the energy needs to today and tomorrow.

As a small, publicly traded merchant transmission company, Tonbridge Power is building the Montana-Alberta tie line (MATL), a $195 M, 203 mile, 230 kV single-circuit transmission line with a 300 MW bi-directional path rating that will provide the first direct interconnection between the Alberta and Montana power grids.

We are undertaking this as a merchant without subsidy, without the certainty of ratepayer cost recovery and without public ownership. If great hope rests on the belief that the merchant model will solve America's transmission development backlog then there is a lot of work to do. Our experience so far has been that merchant finance and project development is extraordinarily difficult.

If the financial market events of the last few days do nothing else they at least underscore the need to manage risk better, particular in capital-intensive businesses. While I will address regulatory, industry and landowner issues in my remarks, each finds its clearest expression in the willingness of shareholders and lenders to invest in transmission. Although enormous pools of capital are potentially available for this sector, investment is constrained by the risks and uncertainties imposed on developers such as Tonbridge Power.

I would like to offer three areas for examination, namely:

1. The lack of appetite for financing development;
2. NIMBYism; and
3. Regulatory complacency

WATERPARK PLACE, 20 BAY STREET, SUITE 1100, TORONTO, ONTARIO M5J 2N8
OFFICE: 416-850-2150, FAX: 416-850-1985

1. Lack of Appetite for Development Finance

The development (that is, pre-revenue) timeline of our MATL line is now double what it was when Tonbridge auctioned the MATL held the initial Open Season in 2005. Nonetheless, as we now expect this project to be in service late in 2009 or early 2010, we will have accomplished in five years what often takes the traditional industry much longer.

Time is a terrible waster of resources. It saps the commitment of generators, politicians and financiers and it adds enormous cost. We must find faster ways to complete projects.

Development costs can be reduced by focusing regulation on those things that matter. This will require an exercise of judgment on the part of regulators, and a willingness to approve projects before every conceivable aspect has been studied from every angle to every possible stakeholder's complete satisfaction. That is not how business decisions are made.

Development costs are particularly hard to meet in the face of regulatory uncertainty. Equity investors demand returns in the mid to high teens. Each regulatory delay punishes the investor for backing the project - and increases investors' concern with systemic risk in transmission. This is particularly so when the delays are unanticipated.

If a commercial transmission industry is to develop, clearer hurdles for permitting approval will need to be established at the outset, a balance between industry and public interests will need to be articulated, and regulators will need to be incented to get their job done rather than be caught in their own processes.

As Tonbridge Power moves on to undertake its second and third projects we will need to rely on the financial support of those most dependent on our success; that is our shippers. We expect to enter into development agreements with anchor shippers to finance much of the up-front development in exchange for certain access to transmission capacity. The FERC could help by permitting the pre-sale of a material portion of the capacity at a known price and term, with the remainder of the capacity to be auctioned in line with standard Open Season rules ensuring transparency, fairness and competition. Without the ability to obtain support from anchor shippers development is simply too expensive to finance commercially.

2. NIMBYism and an Entrenched Industry

As a merchant transmission developer we experienced NIMBYism both from landowners and from the industry. While we believe we have succeeded in getting the industry to tolerate our existence, some of the landowners are taking a bit longer to get there.

The industry is hostile to merchants. I believe that it sees no gain from accommodating or supporting us and much complexity, uncertainty and risk from being engaged. I don't know how this gets changed in the west but one of the key sticking points in the MATL example was reliability.

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Let me explain: as an intertie MATL could potentially download all the reliability issues associated with the variability of connected wind generation to NorthWestern Energy, the Balancing Authority in Montana. Northwestern was rightly terrified at the prospect of accommodating 600 MW of new wind that they didn't control.

Resolving reliability shouldn't be a tussle between wires companies; it requires a power market in which all participants are held accountable for imbalances. In the absence of price signals for imbalance, our shippers were eventually forced to solve this entirely in-house. While this is surely not the most efficient route to a solution it was the only practical one in the circumstances. The lack of power market development hugely hinders merchant transmission development in the west.

Alberta is perhaps one of the world's most well-endowed energy jurisdictions yet it is the northbound flows on our line which have the most value. Why? Because southbound flows find no market for spot sales and no clear price discovery except through more distant markets in the Pacific Northwest. The west needs better power markets and more transmission.

I was not surprised by landowner NIMBYism but I was surprised how little support for transmission development or land assembly was available from regulators. Political support was enormously welcome but it always depends on very local circumstances and is time-bounded and individual-dependent. If the FERC believes, as we do, that bringing renewables to market and increasing the competitiveness of power markets will require new transmission then landowners need to appreciate that opposition to specific projects, while perhaps understandable, does not afford them unconstrained licence to add delays, cost and appeal cost to each and every project. The balance between rights and responsibilities needs to be re-set.

Perhaps in a perfect world transmission would have recourse to the FERC as a federal certificate authority. If such a role is not politically or constitutionally achievable, then the next best thing will have to do: active involvement on the part of the FERC in ensuring that transmission developers do not stand alone in their struggle to get routes approved.

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3. Regulatory Inefficiency

Commercial development of transmission hinges on identifying market niches, defining them economically and completing projects on time and on budget. As a merchant Tonbridge needs to build more efficiently and more rapidly than utilities can but the regulatory delays our project faced greatly increased the difficulty of achieving this.

Regulatory costs are both in their composition and in their predictability the single largest impediment to a robust merchant transmission sector. Regulation is also unnecessarily inflexible. For example, we needed to obtain multiple permits for the cross-border MATL line but, with regulatory delays and financing needs coinciding with the expiration of initial permits how could we keep the project going? Doing so required enormous energy, ingenuity, nimbleness and cost – all of which would be better invested in building transmission rather than performing a juggling act that serves neither customers, investors nor the public.

Thank you kindly. I hope my remarks have been of interest and I look forward to participating in the panel discussion.

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