

June 30, 2009

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street  
Suite 2700  
Toronto, ON M4P 1E4

*Via RESS and by courier*

Dear Ms. Walli:

**Re: EB-2009-0077 Proposed Amendments to the Distribution System Code re Connection Cost Responsibility for Renewable Distributed Generation**

The Electricity Distributors Association (EDA) is the voice of Ontario's electricity distributors. The EDA has consulted with its members on the proposed Distribution System Code (DSC) amendments to change the cost responsibility policy for renewable generation connecting to distribution systems, and the following comments summarize their input.

The EDA understands that the proposed amendments to the Distribution System Code (DSC) regarding cost responsibility for renewable generation connection are intended to assist in the following goals:

- ensure costs are allocated in a manner that protects ratepayers,
- promote the connection of renewable resources and
- encourage generators to select sites that are economically efficient.

In addition, the EDA recognizes that the proposed amendments are only one part of the many initiatives the OEB is taking to facilitate the timely connection of renewable generation in Ontario.

Overview of Proposed Amendments

The current cost responsibility for connection of generators is to have the generator fund all the incremental costs for connection, which includes the dedicated connection assets and any other incremental costs triggered by the connection. The proposed amendments clarify that renewable generators would continue to be responsible for the cost of dedicated connection facilities to the distributor's main distribution system, but other incremental costs will be subdivided and each part treated differently.

These other incremental costs for renewable generation connections will be classified into expansion costs, renewable enabling improvements, and upstream costs of the host distributor or transmitter. The upstream costs will continue to be the responsibility of the connecting generator. The expansion costs will be funded by the distributor up to a cap with the generator paying any expansion costs above the cap. The renewable enabling improvements will be funded by the distributor.

Expansions include rebuilding lines from single-phase to three-phase, rebuilding lines with a larger conductor size, rebuilding or overbuilding an existing line to provide an additional circuit, or infrastructure upgrades to increase voltage. With respect to renewable generation connections, the proposed amendments require distributors to fund these expansion costs up to a cap of \$90,000/MW. This cap is based on a review of existing connections and is set at the lower end of typical connection costs so that projects with low connection costs relative to their size pay very little and projects with higher connection costs relative to their size pay substantially more. This approach would encourage generators to select sites that are economically efficient.

Renewable enabling improvements are defined as investments made by a distributor to enhance the technical ability of a distribution system to accommodate increased levels of renewable generation, which include modifications or additions to manage and control 2-way power flows or to protect electrical equipment, voltage regulating equipment and equipment to protect against islanding. The proposals require distributors to fund all the renewable enabling improvements. Previously these costs were classified as enhancements; however, the proposed amendments revise the definition of enhancements to exclude renewable enabling improvements.

Enhancements are defined as modification to the main distribution system to improve system operating characteristics such as reliability or power quality or to relieve system capacity constraints resulting, for example, from general load growth. The proposed amendments include a change unrelated to renewable generation, namely a proposal to have distributors fund all enhancement costs and no longer seek capital contributions from new developments for average system enhancement costs. The Board believes this change would reflect their view that enhancements are expected to benefit most distribution customers.

#### EDA Comments of Proposed Amendments

The EDA canvassed its members on the proposed amendments through a joint meeting of the EDA's Regulatory Council and Finance Council held on June 25, 2009.

In general, the proposed amendments to facilitate renewable generation are supported by EDA members. However, a significant concern raised was the question of access to capital for all the potential renewable generation connection costs previously paid by generators and now funded by distributors. The EDA recognizes that the issue of capital recovery is being discussed in the consultation on the regulatory treatment of infrastructure investments, and initiatives for capital cost recovery may assist in improving access to capital. The issue of access to capital is being raised by the EDA, in this submission, to make the OEB aware that further revisions to the

proposed amendments may be required, if the capital cost recovery initiative does not adequately address capital access issues for distributors.

Looking forward, distributors foresee significant challenges in meeting competing priorities for capital. Distributors believe that a rigid, absolute priority on system expansions for renewable generation connections and enabling renewable improvements could result in a situation where there may be a need to divert capital from other essential priority projects to ensure the renewable generation connections are completed. A result of potential forced re-prioritization of this nature could include delays to on-going asset management plans and replacements, delays to upgrades to customer care systems and delays to smart grid initiatives. Capital can be sometimes diverted from existing priorities for a limited time without significant impact, but distributors also have other legitimate mandates, such as maintaining standards of reliability, and these other priorities cannot be unaddressed for long.

Distributors also noted that they need to maintain an adequate debt to equity ratio to ensure access to debt capital at reasonable costs. Once the debt to equity ratio is beyond acceptable parameters, capital costs rise significantly and financial institutions can limit the ability for distributors to borrow. Further, distributors are limited in their ability to raise equity to maintain a reasonable ratio due to municipal shareholders being prevented from injecting equity, leaving distributors' only means of raising equity as retaining any earnings generated.

Because distributors can foresee possible situations where the demands for additional capital may be beyond their ability to provide, distributors believe consideration should be given to addressing this potential situation through the code amendments being considered. For example, distributors believe consideration should be given to allowing distributors to hold a renewable generation project in reserve if the distributor is constrained in raising the capital required for the project. In addition, projects should be held in reserve if they will cause capital to be diverted from other higher priority investments (such as system reliability) to an extent that the overall distribution system will be negatively impacted. Allowing distributors to schedule projects, using a reserve project mechanism, when and if needed, will help distributors manage their capital spending priorities.

As a related matter, the Board's proposed amendments would also eliminate Section B1 (d) of DSC Appendix B (the per kilowatt enhancement cost estimate from the capital costs of the discounted cash flow model for the offer to connect economic evaluation). This per kilowatt enhancement cost estimate is based on historical three to five year rolling average of actual enhancement costs incurred in system expansions. It has been used for several years as a method to allocate system capacity enhancement expenditures in a manner that avoided the potential for over or under allocating these costs to specific expansion projects. The economic evaluation model is used to determine to what extent costs will be recovered through distribution rates to the load customers in a new development, and which costs need to be paid by the developer upfront through a capital contribution. This approach ensures existing customers do not subsidize the costs for new customers.

This OEB proposal would represent a significant change from existing practice by having distributors fund these system expansion costs rather than developers. This will impact the cost

allocation between existing load customers and new developments. EDA members noted that this change could be more substantial for some distributors than the proposals that facilitate renewable generation. Many distributors have already filed their rates and are raising concerns about when this substantial change should be implemented, if it does go forward. These enhancement costs can be considerable and distributors were concerned about the impact on their capital requirements. In addition, distributors had questions about the assumption that all these system enhancements are of benefit to most customers. As a result, the EDA believes this change should not be included as part of the amendments to facilitate renewable generation and that the issue regarding enhancement costs for new developments warrants separate review.

Additionally, EDA members also had one question of clarification. “Renewable enabling improvements” are defined, in the materials issued by the Board, to include provisions against islanding (transfer trip or equivalent) to the main distribution system to accommodate the connection of renewable generation. EDA members wanted assurances that this definition does not include any transfer trip equipment required at the renewable generation facility.

Yours truly,

“Original signed”

Maurice Tucci  
Policy Director, Distribution & Regulation