EB-2009-0077

RE: Alternative cost sharing mechanism to build distribution and transmission lines for FIT Projects.

Xeneca is a developer of renewable energy projects. In considering the dialogue that has transpired over the past several weeks, I believe that a straight forward and fair solution that allows developers to build their lines is the missing piece of the puzzle to making FIT a success.

I believe this solution has not been discussed, in large part, because the vested interests of the various parties are preventing collaborative solutions, and, the technical challenges distract attention from the primary objective.

I have taken the opportunity to discuss this problem with others who have expertise in the industry have devised what we believe is a relatively simple solution. In summary, the developer builds and finances the construction of the connection line to meet the requirements of the utility. However, following construction the utility purchases the line when the generating facility attains commercial operation. The utility then charges a generator specific rate or fee that allows the utility to recovers all costs (purchase, finance and ongoing operation and maintenance) from the generator. This rate would be reduced if other users connect to the line. I believe this approach could be integrated into the current policies and programs under consideration.

The benefits of this approach are:

- The developers control the development process (timing, resource expenditure) and assume all development and construction risk.

- The utility assumes the distribution/transmission line it desires – no argument on technical issues – with the resources to finance the necessary debt.

- The process leverages the Utility's access to relatively low-cost long-term debt and it is able to pass along those benefits to the ratepayers.

- The Developer needs to control the development process to manage cost and risk to permit access to the best terms for development and construction financing. Also, Developers tend to have lower overhead and can reduce the capital cost of construction.

- Utility needs to purchase the line at the developer's cost of installation so it provides a financial incentive for the utility to ensure the project is not "over-designed" or "gold-plated".

- The build up of the transmission and distribution system can be easily integrated in the current process of enabling lines.

- This expansion of the distribution system is leveraged from the prices paid by the Ontario Power Authority thereby (i) avoiding further increases in rates and (ii) precluding the development of uneconomic projects.

I believe this is approach is preferable to having the agencies attempt to pick winners and losers and the current proposed solution which us not well suited to waterpower development in Northern Ontario.

Below and attached is a more detailed outline of how this could be made to work leverage from my deputation to GEA.

Thank you for your kind consideration.

Yours very truly,

Sign electronically
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Extracted section of Xeneca Power Development Inc.'s Deputation (written submission) concerning Bill 150 Green Energy Act:

GEA encourages distributors and transmitters to enhance the ability to connect renewable generating facilities. It also makes provision for passing along the incremental cost of such connections to consumers. Finally, GEA provides authority for the Minister to direct investment by distributors and transmitters to enable connection of renewable generating facilities.

However, there is concern that the lack of utility resources (human and capital) and incentives will continue to inhibit generator connection. Also, the timing and approval of the interconnection must work for the developer, the permitting authorities and the OPA.

Xeneca respectfully proposes the following which will work with the current system:

- Developer requests utility or agency to provide a plan to connect the Project in a timely manner and to quote a cost to complete this task. Utility must deliver the

connection plan in a timely manner and must include estimates of future maintenance costs by the utility if it assumes the line. Utility may charge a fee to complete this task. This leverages the current CIA process.

- Developer may proceed, at its cost, with connection similar to the current Connection Cost Recovery Agreement. Connection must be built to utility standards and within an agreed timeframe.

- Utility will purchase the interconnection assets from the Developer at net-book value and assume future maintenance costs and liabilities.

- Developer will pay the utility a rate or Line-Use-Fee based regulatory principles, including:

    - Amortized capital cost of the interconnection to the utility over the life of the renewable energy generating facility. (60+ years for waterpower, 20 years wind, solar and biomass).

    - Financing and Maintenance costs incurred by the utility.

    - Reasonable guarantees to complete the payments to the utility should the power plant cease operations during the repayment period.

This proposal has the advantage of building upon the current interconnection process and reduces upward pressure on consumer rates by permitting the private sector to take on the risk and costs during development of building the interconnection to the electricity system, but then accessing and leveraging the utility's low cost of capital during operations. Further, generators would pay a reasonable rate, reducing the need for additional contributions by the consumer. Instead, the costs are paid indirectly through FIT.

The process is also cost-neutral to the Crown and the utilities:

- Costs and risks prior to commercial operation are borne by the Developer and not the ratepayer.

- Utility will purchase the line at cost and assume all maintenance and liability; these costs are then passed on to the Developer as a Line-Use-Fee.

The proposed process would allow the developer's economics to determine the priority of development rather than having agencies choosing the winners and losers. Also, it would facilitate the construction of new lines thereby expanding the utility's asset base and would provide additional economic and social benefits to mining, forestry, recreational users and First Nation communities.

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